

Affordable Housing Policy

November 2016

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Published by Inner West Council
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This document was amended on 28 March 2017.

Table of Contents

Contents

1 PART A: Rationale for Use of Strong Planning Intervention to Create Affordable Housing	4
1.1 Overview.....	4
1.2 What is Affordable Housing?.....	4
1.3 Why does affordable housing matter?	5
1.4 Gentrification and Social Exclusion.....	6
1.5 Current Lack of Affordable Housing.....	7
1.6 Likely Future Lack of Housing Affordability.....	8
1.7 Rationale for Capturing Land Value Increment through Relevant Planning Mechanisms.....	9
1.8 Key Considerations in Land Value Capture	10
1.9 Council’s Obligations, Opportunities and Constraints under Relevant Legislation.....	11
1.10 Reasonableness and Feasibility of Mechanisms	12
2 PART B: HOUSING POLICY	14
2.1 Housing Goal.....	14
2.2 Affordable Housing Definition	14
2.3 Target Groups	15
2.4 Priority Strategies	15
2.5 Pursue Planning Controls that Support Existing and New Supplies of Affordable Housing.....	16
2.6 Partnerships to Increase Affordable Housing.....	20
2.7 SEPP Affordable Rental Housing	21
2.8 Research and Monitoring.....	21
2.9 Key Performance Indicators	21
2.10 Administration	23
Appendix A: Marginal Uplift from Increased Height and/or Density	24
Overview	24
Modelling (Additional Saleable Floor Area)	24

1 PART A: Rationale for Use of Strong Planning Intervention to Create Affordable Housing

1.1 Overview

Part A of this document sets out background information that provides a context to Council's *Affordable Housing Policy*, set out in Part B below. It sets out a definition and benchmarks for affordable housing in accordance with relevant legislation, and summarises research and analysis from JSA's (2016) *Affordable Housing Background Paper*, which provide a clear rationale for this policy. The reader is also referred to JSA's (2016) *Position Paper: Best Practice in Value Capture* for further rationale. The Policy is also informed by the former Marrickville Council's (2015) *Marrickville Housing Profile*, and the former Leichhardt Council's (2011) *Affordable Housing Strategy*, and *Strategic Action Plan*.

The evidence indicates that there is clear justification for Inner West Council to actively seek to increase the supply of affordable housing through its planning instruments and policies. This is related to the large, disproportionate and growing number of local people in housing stress; the displacement of historical populations through ongoing gentrification and non-replacement of affordable housing lost; current and projected levels of unmet need for affordable housing including for very low, low and moderate income households together with other more vulnerable groups; and the amount of unearned land increment (land value uplift) created through the operation of Council's planning and approvals processes, some of which may reasonably be contributed to affordable housing as key infrastructure or a public purpose under a voluntary planning agreement or other legal mechanism.

Due to the failure of the market to provide affordable housing for very low and low income households, and for many moderate income households, this Policy principally focuses on **strong interventions through the planning system and the direct creation of affordable housing on public land through development and management partnerships** as these are virtually the only way to create affordable housing in most areas of Inner West Council area.

Council notes that proposals to amend or exceed planning controls under a planning agreement will need to demonstrate that they have merit in their own right, prior to considering any contribution for a public purpose including affordable housing.

1.2 What is Affordable Housing?

Housing is generally considered to be 'affordable' when households that are renting or purchasing are able to meet their housing costs and still have sufficient income to pay for other basic needs such as food, clothing, transport, medical care and education.

‘Affordable housing’ has a statutory definition under the *NSW Environmental Planning and Assessment Act 1979 (NSW)*, being housing for very low, low or moderate income households, where ‘very low-income’ households as those on less than 50% of median household income; ‘low-income’ households’ as those on 50-80% of median household income, and ‘moderate-income’ households as those on 80-120% of median household income for Sydney SD.¹

As a commonly used rule of thumb, housing is considered to be affordable where households pay no more than 30% of their gross household income on their rent or mortgage payments. This is often regarded as the point at which such households are at risk of having insufficient income to meet other living costs, and deemed to be in ‘housing stress’. Those paying more than 50% of gross income are regarded as being in ‘severe housing stress’.

The following table provides benchmarks that are used in this policy when referring to ‘affordable housing’, in 2016 dollars, and are consistent with relevant NSW legislation. These vales should be indexed quarterly.

Table 1.1: Affordable Housing Income and Cost Benchmarks

	Very low-income household	Low-income household	Moderate-income household
Income Benchmark	<50% of Gross Median H/H Income for Greater Sydney	50-80% of Gross Median H/H Income for Greater Sydney	80%-120% of Gross Median H/H Income for Greater Sydney
Income Range (2)	<\$783 per week	\$784-\$1,253 per week	\$1,253-\$1,879 per week
Affordable Rental Benchmarks (3)	<\$235 per week	\$236-\$376 per week	\$377-\$564 per week
Affordable Purchase Benchmarks (4)	<\$228,000	\$228,001-\$364,000	\$364,001-\$545,000

Source: JSA 2016, based on data from ABS (2011) Census indexed to March Quarter 2016 dollars

- (1) All values reported are in March Quarter 2016 dollars
- (2) Total weekly household income
- (3) Calculated as 30% of total household income
- (4) Calculated using ANZ Loan Repayment Calculator, using 4 January 2016 interest rate (5.37%) and assuming a 20% deposit for a 30 year ANZ Standard Variable Home Loan and 30% of total household income as repayments.

1.3 Why does affordable housing matter?

There is a common misconception that ‘affordable housing’ refers only to social (public or community) housing. However, many current and future residents facing affordability problems in the Inner West Council area are likely to fall outside the eligibility criteria for such housing.

¹ As defined in *State Environmental Planning Policy No 70 (Affordable Housing)*

This includes a young person seeking to live near where they grew up, a recently separated or divorced person with children for whom conventional home ownership may no longer be economically viable, households dependent on one (or even two) low or median waged, or an older person on a reduced retirement income.

Lack of affordable housing not only affects the quality of life of individual families, who may be sacrificing basic necessities to pay for their housing. It also has a serious impact on employment growth and economic development. The loss of young families and workers in lower paid essential service jobs can adversely affect local economies, and is contributing to labour shortages in some areas of metropolitan Sydney.

This can contribute to a lack of labour supply among very low to moderate income earners who are essential to various services including childcare, aged services, health care, tourism, hospitality and emergency services, but whose wage increasingly does not allow them to access rental or purchase housing close to where they work. Affordably priced housing is thus an important form of community infrastructure that supports community wellbeing and social and economic sustainability, including a diverse labour market and economy, and strong and inclusive communities. Despite this, the most compelling need for affordable housing remains with very and low income renters.

Finally, the location of affordable housing is a key issue in terms of social equity and sustainability. Providing for a mix of affordable housing for different target groups in well-located areas provides for social mix and reduces the potential stigma that can be associated with such accommodation. Locating such housing close to transport and services also provides for the needs of key groups including those with a disability and the frail aged, reduces car dependency and the cost of transport, which can be a significant impost on very low, low and moderate income households² and on the environment.

1.4 Gentrification and Social Exclusion

The ongoing loss and non-replacement of affordable housing through gentrification and redevelopment, and the current and projected degree of unmet housing need in the Inner West Council area provides a strong rationale for intervention in the housing market through the planning system.

The analysis of key socio-economic indicators provides clear evidence of significant demographic change, rapid gentrification and displacement and exclusion of more disadvantaged and vulnerable people from the Inner West Council area over at least the past decade in the former Marrickville and Ashfield LGAs, and for at least two decades in the case of Leichhardt LGA; and the failure of the market to provide for the needs of very low, low and moderate income workers and other more vulnerable groups in an increasingly expensive housing market.

² See for example Gleeson, B. and Randolph, B. (2002) 'Social disadvantage and planning in the Sydney Context', in *Urban Policy and Research Vol. 20(1) pp101-107*; and Kellett, J. Morrissey, J. and Karuppanan, S. 2012. 'The Impact of Location on Housing Affordability', *Presentation to 6th Australasian Housing Researchers Conference*, 8-10 February 2012, Adelaide, South Australia.

The more recent gentrification of areas like Sydenham-Tempe-St Peters, Ashfield and Dulwich Hill-Lewisham, and the longer-term displacement of more disadvantaged people from areas like Newtown, Petersham and Balmain, are particularly evident from the research that supports this Policy. The loss of very low income households in the Inner West LGA was four times greater than that for Greater Sydney from 2001-11, with the former Leichhardt LGA experiencing the greatest proportional losses of lower income households. Overall, the former Marrickville LGA has experienced the most rapid gentrification in recent years, although the former Leichhardt is the most 'gentrified' in terms of income, education and occupational status of its residents, having experienced major social change over a far longer timeframe. The ongoing loss of lower income and younger workers on very low to moderate incomes is an issue across the LGA.

The very high rate of housing stress among very low and low income households is also a key consideration, in particular the increasing rates of housing stress over the past decade among low and moderate income households in suburbs that were once more affordable. Together with mobility data, which shows the movement of lower income households and lower status workers out of the LGA in search of more affordable housing, the high rate of homelessness and the relatively low rate of social housing (3.5% in the Inner West LGA compared with 5% for Greater Sydney), provides a compelling rationale for intervening in the market to create affordable housing through the planning system.

1.5 Current Lack of Affordable Housing

The market is not providing affordable housing for the vast majority of very low, low and moderate income households who need it in the Inner West Council area, and is not replacing existing stock of housing that is affordable to these groups as it is lost through gentrification and redevelopment.

Virtually no strata products (the lowest cost form of accommodation) are affordable for **purchase** through the market for very low, low and moderate income households anywhere in the LGA. At best, some small strata products in cheaper areas *may* be affordable to the very top of the moderate income band. No houses or two or three bedroom strata dwellings are affordable to any very low, low or moderate income households, so that families with children are entirely excluded from affordable purchase in the LGA.

The vast majority of households needing **affordable rental housing** in the LGA are also excluded from affordable rental through the market. The only affordable option for very low income households are lower amenity boarding house rooms in a few suburbs; while low income renters can only affordably rent a studio or one bedroom apartment in a few suburbs. Moderate income renters can affordably rent a two bedroom apartment in *some* suburbs, and so are somewhat better catered for, but again family households with children are excluded from larger housing options.

Given that the cost of new build products are likely to reflect the third quartile of existing products, and that there have been significant increases in housing cost in real terms in recent years, it is likely that housing will become even more unaffordable in the LGA in the future.

The evidence indicates that the vast majority of those needing affordable purchase and rental housing in the LGA are unlikely to have their needs met through the market without strong planning intervention to create affordable housing.

1.6 Likely Future Lack of Housing Affordability

Section 3.3 of Council's *Affordable Housing Background Report* (JSA 2016) provides an analysis of how likely it is that the market *could* provide affordable housing in the future, and what planning interventions through the market would most likely be effective in this regard.

Importantly, the analysis indicates that it is unlikely that any separate house will be affordable in the Inner West Council area in the future, and in any case, there are limited development opportunities for such products, with the best predictor of the price of strata dwellings being the strata area from the linear regression analysis (see Table 3.2 in Council's *Affordable Housing Background Report* (JSA 2016) for detailed analysis).

However, even under more optimistic scenarios (in particular, reduced strata area, parking and one bathroom), modelling indicates that, even with planning intervention to encourage or mandate such dwellings, all **very low income and low income households** are likely to be excluded from affordable purchase in the Inner West LGA in the future. Given recent real increases in rents, and the relationship between rates of return on purchase costs and rents charged, the situation for very low, low and moderate income renters is expected to worsen in the future.

Moderate income households would have somewhat more choice in relation to the affordability of studio and smaller one bedroom apartments, and boarding house accommodation, but again most of this income group including moderate income families would be excluded from affordable purchase in the future.

Nonetheless, **specifying a proportion of minimum sized studio, one bedroom and two bedroom apartments without parking in multi dwelling housing and apartment developments** is likely to provide affordable purchase accommodation in some suburbs, and will provide lower cost purchase accommodation in other areas. As around 60% of privately occupied apartments enter the private rental market,³ such stock is likely to add to the stock of affordable and lower cost rental accommodation.

Stronger intervention through the planning system in the form of mechanisms to capture an equitable share of land value uplift, as well as the direct creation of affordable housing on public land through development partnerships, is likely to be required to achieve affordability for the vast majority of relevant target groups, in particular all very low and low income households, and moderate income family households.

³ ABS census 2011 and JSA calculation.

1.7 Rationale for Capturing Land Value Increment through Relevant Planning Mechanisms

As noted, there is clear justification for Council to actively seek to increase the supply of affordable housing through its planning powers based on housing need, loss and non-replacement of affordable housing, and the failure of the market to provide such housing in the local housing market context.

Increased competition for land and housing resources through household formation, demographic change and in-migration of wealthier groups will continue to exacerbate affordable housing need in the future. As with the need for other infrastructure and public amenities and services arising from re/development, continued pressure will lead to increased housing stress and displacement of very low, low and moderate income workers and residents in the future.

An opportunity to create affordable housing exists through the proper use of Council's planning powers under the NSW *Environmental Planning and Assessment Act 1979* (the Act). In particular, the capture of a reasonable and equitable share of land value uplift created through the planning and development approval process is justified in the local housing market context.

A relevant definition of land value capture is provided by Taylor (2016) in the NSW planning context, that is,

In the broadest terms, [land] value capture in relation to urban land development involves a planning authority, such as local council in NSW, capturing for the community benefit some of the land value increase accruing to a parcel of land from planning activities of the authority which increase the development potential of the land and hence its value.⁴

Two broad approaches to land value capture are relevant to this policy, these being, 'approaches intended to **recover the cost of infrastructure investments** and broader approaches intended to capture some **share of the unearned increment** in private land values [emphasis added], with the first exemplified by s94 approaches that seek to internalise the costs or impacts of the development; and the second found in mechanisms such as voluntary planning agreements under s93F of the Act, and variations to controls under clause 4.6 applications, which seek to capture a reasonable share of uplift.

It is important to note that land value capture arising from government planning actions, and in the way in which it is implemented in this policy, is not a form of taxation. Rather, the fundamental purpose of value capture is to *clawback*, or to gain a reasonable share, of the increased land value on the basis of a legitimate claim by the planning authority to share the '*unearned increment*' of land value uplift that results from its planning actions for use by the

⁴ Taylor, L. 2016. 'Value Capture through Voluntary Planning Agreements Part 1, in *In Focus*, Lindsay Taylor Lawyers.

community as a public purpose.⁵ Depending on the relative scarcity of land, and considerations of amenity around the land rezoned, the increase in value may be greater or lesser.

While, in a free market, economics would predict that the profit would be a ‘normal profit’ (generally considered as 10%⁶), the supply of residential land does not operate within a free market. Supply is essentially rationed, firstly, by the planning process, and secondly, by the timed release of land by developers to maximise profit. As a result, the actual profit may be well in excess of normal levels of profit or private benefit, and must be calculated within each local market or submarket context.

1.8 Key Considerations in Land Value Capture

Key considerations for implementing value capture schemes, which could be considered as best practice in the development of this policy,⁷ include the following:

- **Justification** – where the planning authority has or will increased the value of land through its actions, and the community is entitled to a share of the resulting uplift;
- **Entitlement** – the proper objective of which is to identifying the *unearned increment* in land value uplift resulting from any planning proposal and to decide the community’s legitimate claim to a share of it;
- **Calculation** - how the land value increase should be calculated for value capture purposes, noting that a residual land value analysis should generally apply;
- **Development feasibility** – that the implementation of value capture should not adversely impact on development feasibility by denying the developer a reasonable share of development profit;

⁵ Taylor, L. 2016. ‘Value Capture through Voluntary Planning Agreements Part 1, in *In Focus*, Lindsay Taylor Lawyers.

⁶ JSA has taken ‘normal profit’ as 10%, with this based on *ABS 5676.0 Business Indicators, Australia, Table 22: Business gross operating profits/sales ratio, Current prices*. This table shows average profit for Construction over the last five years as 9%. By way of further comparison, the 2015 annual report for Mirvac, a property development company, shows profit of \$628 million (after interest and before taxation) for a total asset base of \$6,462 million, a return on investment of 9.7%. They have thus based their calculation on likely average profit in the construction industry, whereas 15-20% may be a desired profit margin, or may include additional contingencies, perhaps including some of the contingencies that JSA had included in the build rate, which is quite conservative. The proposed 50/50 split of residual land value would appear to be more than enough to allow for such developer risk and contingencies.

⁷ Taylor, L. 2016. ‘Value Capture through Voluntary Planning Agreements Part 2, in *In Focus*, Lindsay Taylor Lawyers.

- **Timing** - in consideration of reasonableness and equity, the value capture requirement should apply to land that is subject to a proposal for a rezoning or variation to planning controls where that application is received after the Policy is approved by Council. For applications that have been made or are under consideration prior to the Policy's approval, this Policy will provide guidance as to the quantum of affordable housing contribution that is considered to be appropriate.

1.9 Council's Obligations, Opportunities and Constraints under Relevant Legislation

Appendix A of Council's *Best Practice in Value Capture Position Paper* (JSA 2016) sets out a review of the legislative obligations, opportunities and constraints for local government in the creation of affordable housing through the planning system.

As noted, Council has an obligation to actively engage with affordable housing, including in accordance with Object 5(a)(viii) of the *Environmental Planning and Assessment Act 1979 (NSW)* – 'the maintenance and provision of affordable housing.'

There are two main mechanisms that can legitimately be used to capture a reasonable proportion of uplift from planning actions in the NSW planning context.

- Council can legally enter into **voluntary planning agreements** that include the dedication of land free of cost, the payment of a monetary contribution, or provision of any other material public benefit, or any combination of these, to be used for or applied towards a public purpose, including 'affordable housing' under s93F of the Act, noting that nexus requirements do not apply. Such planning agreements can be made, for example, with respect to the capture of a reasonable share of additional land value that has resulted from a proposal to rezone or otherwise vary planning controls that would normally apply to a site or within a precinct under planning proposals and applications for clause 4.6 variations.

The use of this mechanism would require a transparent policy including method of calculation, areas to which it applies, collection and accountability mechanisms, etc, and would also likely need to be set out in detail in amendments to Council's existing Planning Agreements Policy, noting that such proposals would need to demonstrate merit in their own right;

- Alternately, or in addition, Council can seek State Government approval for Council (or the State Government) to levy a contribution toward affordable housing under s94F of the Act where there is a major up-zoning or rezoning under the LEP, given the

demonstrated need for affordable housing in the LGA. The use of this mechanism would require ministerial approval for either:

- An amendment to SEPP 70 (Affordable Housing), as well as relevant amendments to Council's LEP, which would need to set out the geographic areas of inclusion, the quantum and basis of calculations, etc, like those in City of Sydney and Willoughby LEPs (noting that this has now been supported in the GSC's *Central District Plan*); or
- The development of a special contributions plan by the State Government like that developed in relation to the *Redfern Waterloo Authority Affordable Housing Contributions Plan 2006*. This would require legislative support, noting that such support is provided in the case of Redfern Waterloo under s30 of the *Redfern-Waterloo Authority Act 2004* (see Appendix A of *Council's Affordable Housing Background Report* (JSA 2016) for detail).

1.10 Reasonableness and Feasibility of Mechanisms

The evidence provided in background reports to this Policy indicates that Council is justified in seeking to capture a share of unearned land value uplift arising from the planning and development approvals process in the LGA; and that it is reasonable to do so due to the nature and severity of unmet affordable housing need arising from ongoing gentrification and redevelopment, and the failure of the market to replace such housing or to provide for the needs of most very low, low and moderate income households.

Evidence reported in Section 4 of the *Affordable Housing Background Paper* (JSA 2016), and Section 7 of the *Position Paper: Best Practice in Value Capture* (JSA 2016) also indicates that the implementation of value capture through the method of calculation described in this policy will not adversely impact on development feasibility, and takes into account normal development profit.

The modelling provides evidence of significant value uplift associated with redevelopment of existing industrial land and housing for higher density development throughout the LGA, including value uplift associated with up-zoning of the three relevant precincts within the Sydenham to Bankstown Urban Renewal Corridor and precincts within the Parramatta Road Urban Transformation Area. It also provides evidence of significant uplift associated with variations to planning controls within a number of areas of the LGA.

As such, the Policy provides for a 15% Affordable Housing Contribution within new release areas, brownfield and infill sites, and major private and public redevelopments, including on State Government land and in State urban renewal projects, including precincts within the Parramatta Rd Urban Transformation Area and the Sydenham to Bankstown Urban Renewal Corridor that are within the Inner West Council area. The Policy will apply to such land that is subject to rezoning or amendment to planning controls that provide for increased density.

Further, the Policy will apply to proposed developments comprised of 20 or more dwellings or that have a Gross Floor Area of 1,700m² or greater across the LGA.

Modelling and research indicates that the most likely areas that will experience redevelopment will be older industrial areas and areas of lower quality commercial development, and that developments will be generally be able to sustain a 15% levy without adversely affecting redevelopment. However, economic modelling also shows that some types of redevelopment may be adversely affected by a 15% levy, for example, mid-rise development on smaller lots. Therefore, a threshold of 20 units, or 1,700m² Gross Floor Area⁸ has been selected as a development that is of sufficient scale to generally avoid such development disincentives.⁹

Further, although a minority of precincts modelled may face redevelopment constraints currently, the rapid increase in land values in recent years indicates that areas that are not as feasible are likely to become so within a reasonable timeframe.

These findings provide a strong justification for value capture associated with incentive-based or voluntary planning agreement approaches in association with redevelopment, as well as for mandatory contributions or inclusionary zoning across the LGA, including in urban renewal precincts. Further analysis provided at Section 8 of *Position Paper: Best Practice in Value Capture* (JSA 2016) and Section 5 of the *Background Paper* (JSA 2016) also indicates that development feasibility will generally not be affected by the implementation of this Policy.

⁸ 20 average size units would equate to around 1,700m² Gross Floor Area.

⁹ See Table 7.1 and Section 8 of JSA (2016) Value Capture Position Paper, Inner West Council.

2 PART B: HOUSING POLICY

2.1 Housing Goal

The overarching goal of Council's Affordable Housing Policy is:

To facilitate the provision of affordable housing options within the Inner West Council area to meet the needs of very low, low and moderate income households so as to promote diversity, equity, liveability and sustainability.

2.2 Affordable Housing Definition

In accordance with the statutory definition under the *NSW Environmental Planning and Assessment Act 1979 (NSW)*, Table 2-1 provides benchmarks that are used in this policy when referring to 'affordable housing'. These will be indexed quarterly and as Census data becomes available.

Table 2.1: Affordable Housing Income and Cost Benchmarks

	Very low-income household	Low-income household	Moderate-income household
Income Benchmark	<50% of Gross Median H/H Income for Greater Sydney	50-80% of Gross Median H/H Income for Greater Sydney	80%-120% of Gross Median H/H Income for Greater Sydney
Income Range (2)	<\$783 per week	\$784-\$1,253 per week	\$1,253-\$1,879 per week
Affordable Rental Benchmarks (3)	<\$235 per week	\$236-\$376 per week	\$377-\$564 per week
Affordable Purchase Benchmarks (4)	<\$228,000	\$228,001-\$364,000	\$364,001-\$545,000

Source: JSA 2016, based on data from ABS (2011) Census indexed to March Quarter 2016 dollars

- (1) All values reported are in March Quarter 2016 dollars
- (2) Total weekly household income
- (3) Calculated as 30% of total household income
- (4) Calculated using ANZ Loan Repayment Calculator, using 4 January 2016 interest rate (5.37%) and assuming a 20% deposit for a 30 year ANZ Standard Variable Home Loan and 30% of total household income as repayments.

2.3 Target Groups

Council is committed to protecting and increasing the supply of housing stock that can be affordably rented or purchased by very low, low, and moderate income households, including target groups identified as having particular housing needs in the Inner West Council area. These include:

- Very low and low income renting households;
- Very low, low and moderate income workers, including shift workers;
- Asset poor older people, including long-term residents of the LGA;
- Young people, including those with a social or economic association with the LGA;
- Lower income families including sole parent families and those totally priced out of the housing market;
- People with special housing or access needs, including people with a disability, frail aged people, those at risk of homelessness, Aboriginal and Torres Strait Islanders and people from culturally and linguistically diverse communities.

2.4 Priority Strategies

Constituent councils of Inner West Council have set out a range of affordable housing priority strategies to ensure that the LGA provides affordable housing options to meet the needs of the community.¹⁰ Broadly, these include:

- 1. To research and develop strategies to increase affordable housing supply;**
- 2. To encourage the provision of affordable, adaptable and diverse housing for very low, low and moderate income households, including those with special housing and access needs;**
- 3. To pursue planning controls that support existing and new supplies of affordable housing;**
- 4. To advocate for, and build partnerships to increase, affordable and liveable housing;**
5. To resist the loss of affordable housing and encourage the retention of existing affordable housing to maintain the socio-economic diversity within the LGA;
6. To support people living in residential care and boarding houses and ensure boarding houses provide clean and healthy living environments;

¹⁰ Based on a range of strategies from constituent councils including (the former) *Marrickville Council's Community Strategic Plan*; and Part 4 of - (the former) *Leichhardt Council's Affordable Housing Strategy Action Plan 2008*.

7. To raise awareness of affordable housing needs and issues to facilitate action.

Although each of these priority strategies is important, the focus of this Policy is on Priority **Strategies 1 to 4** due to evidence that suggests that these will be by far the most effective strategies in the local housing market context.

2.5 Pursue Planning Controls that Support Existing and New Supplies of Affordable Housing

2.5.1 Market Delivery of Affordable Housing

Noting the evidence that the strata area of apartments is a relevant factor in cost, and in affordability for *some* of the target groups, for developments of ten or more apartments, Council will require 5% of apartments to be delivered as studio apartments with total strata area (including parking) less than 36 square metres, 5% of apartments to be delivered as one bedroom apartments with total strata area (including parking) less than 51 square metres, and 5% of apartments to be delivered as two bedroom apartments with total strata area (including parking) less than 71 square metres, with calculated numbers of apartments rounded up to the nearest whole number.¹¹

Council will also facilitate the provision of lower cost and more affordable dwellings through ensuring that its planning controls do not unreasonably constrain the supply of genuinely affordable housing, including through provisions that encourage the development of larger, higher cost dwellings, constraints on lower cost housing types such as appropriately located secondary dwellings and other dwellings that can make a demonstrated contribution to affordable housing.

2.5.2 Sharing Land Value Uplift for Affordable Rental Housing

Achieving an Equitable Share of Land Value Uplift

Noting the evidence from the research that very little affordable housing will, in reality, be provided through the market in most areas of the LGA, Council will seek to gain an equitable share of the land value uplift resulting from its planning actions, including major rezonings and variations to planning controls that would otherwise apply to a site or precinct, for the benefit of the community as Affordable Rental Housing.

Council will use mechanisms available to it, including voluntary planning agreements under s93F of the *Environmental Planning and Assessment Act 1979 (NSW)*.

In accordance with key directions in the Greater Sydney Commission's *Central District Plan*, Council will seek amendments to *SEPP 70 — Affordable Housing (Revised Schemes)*, and make

¹¹ NOTE: These sizes will preclude provision of car parking as part of the strata area and limit apartments to one bathroom.

relevant amendments to its LEP, to enable the levying of Mandatory Development Contributions to create Affordable Rental Housing in perpetuity.¹²

Regardless of the mechanism used, Council will seek to apply equitable, reasonable, transparent and feasible contributions to affordable housing within the local housing market context.

In entering into such land value uplift sharing arrangements, Council will apply the following principles:

- **Justification** – where the planning authority has or will increased the value of land through its actions, and the community is entitled to a share of the resulting uplift;
- **Entitlement** – the proper objective of which is to identifying the *unearned increment* in land value uplift resulting from any planning proposal and to decide the community's legitimate claim to a share of it;
- **Calculation** - how the land value increase should be calculated for value capture purposes, noting that a residual land value analysis should generally apply;
- **Development feasibility** – that the implementation of value capture should not adversely impact on development feasibility by denying the developer a reasonable share of development profit;
- **Timing** - in consideration of reasonableness and equity, the value capture requirement should apply to land that is subject to a proposal for a rezoning or variation to planning controls where that application is received after the Policy is approved by Council. For applications that have been made or are under consideration prior to the Policy's approval, this Policy will provide guidance as to the quantum of affordable housing contribution that is considered to be appropriate.

Voluntary Planning Agreements under 93F of the Act

Proposals to which this Provision Applies

When considering planning actions that result in an increase in residential and/or commercial floor area, Council will seek an equitable share of the land value uplift through a planning agreement under s93F of the Act.

Planning agreements will be classified as either:

¹² See Greater Sydney Commission (2016) *Central District Plan*, p 103, which states that, 'In relevant areas, we will support councils and the Department of Planning and Environment in amending SEPP 70 — Affordable Housing (Revised Schemes). The application of the target identified in this draft District Plan should not prejudice negotiations to secure affordable housing in other locations where this target is not applicable'.

- **Marginal Planning Agreements**, that is, a planning agreement made in relation to variations to existing controls, for example, a proposal for additional height or FSR under clause 4.6 of the LEP or ‘density bonus’ schemes; or
- **Major Planning Agreements**, that is, a planning agreement made in the case of a proposed rezoning or amendment to planning controls that will allow for additional density within a site or precinct. Mandatory Contributions will apply to all new release areas, brownfield and infill sites, and major private and public redevelopments, including on State Government land and in State urban renewal projects, including precincts within the Parramatta Rd Urban Transformation Area and the Sydenham to Bankstown Urban Renewal Corridor that are within the Inner West Council area. The Policy will apply to proposed developments comprised of 20 or more dwellings or that have a Gross Floor Area of 1,700m² or greater.

Method of Calculation

Marginal Planning Agreements

In the case of Marginal Planning Agreements, marginal gross floor area will be taken as the additional gross floor area available to the developer as a result of the planning action, compared to the area available without the planning action. Land is excluded from the calculation as the land value is assumed to be amortised within the existing planning controls.

The Council share of land value uplift will be taken as a share of the marginal gross floor area as shown as LVC% in Table A1 of Appendix A of this *Study* for the appropriate postcode area (see also Sections 7.2.2 and 8 of Council’s *Value Capture Position Paper*, and Sections 4.2, 4.3 and 5 of Council’s *Affordable Housing Policy: Background Paper* for method of calculation and underlying assumptions).

Generally, where a Marginal Planning Agreement results in an increase in saleable floor area, land value capture of 21% to 34% of the **additional** saleable floor area obtained as a result of the Planning Agreement is warranted with regard to the evidence in the supporting studies.

Major Planning Agreements

In the interest of consistency and transparency, Council will apply a consistent share of land value uplift across the Inner West LGA to create Affordable Rental Housing in perpetuity.

In the case of Major Planning Agreements, the Council share of land value uplift will be taken as 15% of Gross Floor Area of the development for developments with a Gross Floor Area of 1,700m² or greater, or where a development results in 20 or more dwellings. The rate of contributions reflects the relatively high land value uplift associated with inner city renewal areas amid rapid gentrification.

The rationale for this share of land value uplift is set out in Appendix B to this *Policy*, supported by assumptions and calculations set out in Section 7.2.2 and Table 7.1 of Council’s *Value Capture*

Position Paper, and Section 4.2 and Table 4.1 of Council's *Affordable Housing Policy Background Paper*.

An assessment of likely impact on development feasibility on a precinct by precinct basis is also provided at Section 8 of the *Value Capture Paper*, and Section 5 of the *Background Paper*.

Mandatory Affordable Housing Contributions

In accordance with key directions in the Greater Sydney Commission's *Central District Plan*, Council will seek amendments to *SEPP 70 — Affordable Housing (Revised Schemes)*, and make relevant amendments to its LEP, to enable the levying of Mandatory Affordable Housing Contributions to create Affordable Rental Housing in perpetuity.¹³

Mandatory Affordable Housing Contributions will apply in the case of a proposed rezoning or amendment to planning controls that will allow for additional density within a site or precinct. Mandatory Contributions will apply to all new release areas, brownfield and infill sites, and major private and public redevelopments, including on State Government land and in State urban renewal projects, including precincts within the Parramatta Rd Urban Transformation Area and the Sydenham to Bankstown Urban Renewal Corridor that are within the Inner West Council area.

For the Mandatory Affordable Housing Contributions, Council's share of land value uplift will be taken as 15% of Gross Floor Area of the development for developments with a Gross Floor Area of 1,700m² or greater, or where a development results in 20 or more dwellings. The rate of contributions reflects the relatively high land value uplift associated with inner city renewal areas amid rapid gentrification.

The rationale for this share of land value uplift is set out in Appendix B to this *Policy*, supported by assumptions and calculations set out in Section 7.2.2 and Table 7.1 of Council's *Value Capture Position Paper*, and Section 4.2 and Table 4.1 of Council's *Affordable Housing Policy Background Paper*, and summarised in Section 1.10 above.

An assessment of likely impact on development feasibility on a precinct by precinct basis is also provided at Section 8 of the *Value Capture Paper*, and Section 5 of the *Affordable Housing Policy Background Paper*.

In addition, Council has determined that The Bays urban renewal precinct will be subject to a 30% Affordable Housing Contribution, subject to further feasibility analysis.

¹³ See Greater Sydney Commission (2016) *Central District Plan*, p 103, which states that, 'In relevant areas, we will support councils and the Department of Planning and Environment in amending SEPP 70 — Affordable Housing (Revised Schemes). The application of the target identified in this draft District Plan should not prejudice negotiations to secure affordable housing in other locations where this target is not applicable'.

Form of contributions

Contributions made under a Planning Agreement or as a Mandatory Affordable Housing Levy may be made in the form of apartments or a cash contributions, or a combination of the two. Council will determine the form of the contribution to be made.

Where the share of land value uplift is provided as apartments, Council will determine the size and number of bedrooms in accordance with its strategic priorities, and seek a mix of dwellings sizes and bedroom numbers. Title to apartments will be transferred to Council in perpetuity.

Where the share of land value uplift is provided as a cash contribution, Council will based the quantum of the contribution on the assessed market value of the floor area using recent sales data or as assessed by a property valuer designated by Council.

The contribution will be used to create Affordable Rental Housing in perpetuity, with the principal target groups being very low and low income renting households whose needs cannot be met through the market.

Review process

Council will review the outcomes of its Affordable Rental Housing mechanisms regularly, with the first review to be undertaken within two years of the Policy's adoption.

Management

Affordable Rental Housing created will be managed by a registered Community Housing Provider.

2.6 Partnerships to Increase Affordable Housing

Council will seek to enter into affordable housing development and management partnerships with a relevant Community Housing Providers and/or the private sector to ensure:

- The most effective and efficient use of resources created through planning mechanisms noted above;
- Opportunities for the efficient use of any resources redeployed by Council (e.g. lots or housing dedicated to affordable housing from Council owned or other public land);
- Protection of stock in perpetuity for affordable rental housing to meet the needs of the local community, and in particularly those identified as primary target groups for affordable housing in Council's studies.

Council will ensure the proper management of affordable housing resources created through entering into an MOU or other legal agreement with an appropriate Community Housing Provider (CHP).

2.7 SEPP Affordable Rental Housing

Council will support appropriate applications for infill affordable housing, secondary dwellings and boarding houses under *SEPP (Affordable Rental Housing) 2009*.

With regard to the character test in the SEPP, Council will advise applicants on relevant locational and design considerations to inform appropriate developments so as to facilitate locationally appropriate developments.

Council will develop guidelines to support the development of well-designed, affordable and appropriately designed boarding houses, including related to security of tenure, affordable rents, high quality management and design, and inclusive communities.

Council will rigorously apply the provisions of the SEPP that seek to protect the remaining supply of affordable housing in the LGA, and implement a social impact assessment process that supports such retention.

2.8 Research and Monitoring

Inner West Council is committed to ongoing research into housing needs and issues in its local community, which will continue to form the basis of local housing policy formulation and implementation.

Council understands the need for ongoing monitoring and evaluation of the effects of its policies on local housing needs and issues, and is committed to ongoing monitoring and evaluation against the KPIs set out below.

This will include the monitoring of employment trends by sector within the local economy.

Allocations to Council's affordable housing dwellings will be informed by this research regarding the LGA's employment sectors and needs. As well, applicants will need to be permanently employed in the LGA or, if permanently employed elsewhere, have a family connection with the local area. In addition, rent for Council's affordable housing dwellings will be calculated in accordance with the State Environmental Planning Policy (Affordable Rental Housing) 2009.

Council will regularly update the research that provides the evidence base for this Policy.

2.9 Key Performance Indicators

Council has identified indicators and targets with respect to Affordable Housing in the Inner West Council Area. These are set out in the table below.

Table 2.2: Affordable Housing Indicators and Target

Indicator	Target	Data Source
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Indicator	Target	Data Source
Households in the lowest 40% of income distribution ¹⁴ in housing stress ¹⁵ as a proportion of all households in the lowest 40% of income distribution	10% maximum by 2031	ABS Census data
Rental housing stock that is affordable to very low, low and moderate income households as a proportion of all housing stock in the Inner West Council area	7.5% by 2031	NSW Centre for Affordable Housing. Local Government Housing Kit Database
Purchase housing stock that is affordable to very low, low and moderate income households as a proportion of all housing stock in the Inner West Council area	7.5% by 2031	NSW Centre for Affordable Housing. Local Government Housing Kit Database
Median house rental price	For monitoring	NSW Rent and Sales Report
Median apartment rental price	For monitoring	NSW Rent and Sales Report
Median house purchase price	For monitoring	NSW Rent and Sales Report
Median apartment purchase price	For monitoring	NSW Rent and Sales Report
Changing employment needs of the local economy	For monitoring	ABS Census data
The supply of social housing stock (public, community, co-operative and Aboriginal housing) as a proportion of all housing stock in the Inner West Council area	7.5% by 2031	NSW Centre for Affordable Housing Local Government Housing Kit Database
Retention of affordable housing stock through implementation of SEPPARH and SIA Policy	Successful actions to retain stock	Council records
The supply of dwellings in the Inner West Council's affordable housing portfolio	Part of the 7.5% affordable housing target	Council data
Increase in the number of people living in boarding houses in the Inner West Council area	Part of the 7.5% affordable housing target	ABS Census data
Monitoring of the outcomes of the statutory review of the NSW Residential	Ongoing	NSW Tenants' Union

¹⁴ Gross household income

¹⁵ Paying more than 30% of gross household income on housing

Indicator	Target	Data Source
Tenancies Act 2010		
Boarding house residents have the same tenure and rights as tenants have under the NSW Residential Tenancies Act 2010	To be determined	
Boarding house tenants have adequate standard of accommodation and support	To be determined	
Decrease in the number of households experiencing homelessness	To be determined	ABS Census data

Source: Derived from (the former) Marrickville Council (2015) *Marrickville Housing Profile*

2.10 Administration

Council will ensure any rental income or value capture proposals will be incorporated in Council's Long Term Financial Plan. An Affordable Housing Action Plan will provide the basis to deliver key outcomes of this policy.

Appendix A: Marginal Uplift from Increased Height and/or Density

Overview

In many cases, developers will offer to enter into a voluntary planning agreement that allows for additional saleable Gross Floor Area through LEP clause 4.6 variations related to height or FSR. Where such variations are found to have merit in their own right, and so warrant approval, Council may wish to capture some of the associated value uplift. Assessment may be made on a case by case with value uplift estimated by land valuers and quantity surveyors or can be assessed on a proportional basis using averages. An assessment on a proportional basis using averages is set out below.

The analysis is conducted on a marginal basis, that is only the additional costs and additional value are considered. As such the purchase cost of the land, site costs and the like are ignored.

Where a Voluntary Planning Agreement results in an increase in saleable floor area, land value capture of 21% to 34% of the *additional* saleable floor area obtained as a result of the Voluntary Planning Agreement is warranted.

Modelling (Additional Saleable Floor Area)

The modelling below assesses the marginal value uplift and hence value capture from additional saleable floor area as a proportion of floor area, represented as apartments where value uplift in excess of a normal profit of 10% is shared 50:50 with the developer and a public purpose. The land value capture is shown as a proportion of saleable floor area to allow for universal application.

The modelling uses assumptions as set out in Section 7.2.2 of Council's *Value Capture Position Paper*,¹⁶ and Section 4.2 of Council's *Affordable Housing Policy Background Paper*.¹⁷

¹⁶

¹⁷

Table A1: Potential Marginal uplift for Selected Post Codes

Marginal uplift (\$',000,000)

Suburb	Construction cost per floor	sale price	Uplift	Uplift %	LVC %
2042 (Enmore/Newtown)	\$1.67m	\$3.18m	\$1.50m	90%	21%
2044 (St Peters/ Sydenham/ Tempe)	\$1.67m	\$3.48m	\$1.81m	108%	24%
2048 (Stanmore)	\$1.67m	\$3.15m	\$1.47m	88%	21%
2049 (Lewisham/Petersham)	\$1.67m	\$3.53m	\$1.85m	111%	24%
2050 (Camperdown)	\$1.67m	\$3.59m	\$1.92m	115%	24%
2203 (Dulwich Hill)	\$1.67m	\$3.30m	\$1.63m	98%	22%
2204 (Marrickville)	\$1.67m	\$3.20m	\$1.53m	92%	21%
2038 (Annandale)	\$1.67m	\$3.20m	\$1.53m	92%	21%
2131 (Ashfield)	\$1.67m	\$3.66m	\$1.99m	119%	25%
2041 (Balmain, Balmain East, Birchgrove)	\$1.67m	\$3.40m	\$1.73m	104%	23%
2132 (Croydon)	\$1.67m	\$2.99m	\$1.32m	79%	19%
2045 (Haberfield)	\$1.67m	\$3.96m	\$2.29m	137%	27%
2040 (Leichhardt, Lilyfield)	\$1.67m	\$4.29m	\$2.62m	157%	29%
2039 (Rozelle)	\$1.67m	\$5.58m	\$3.90m	234%	34%
2130 (Summer Hill)	\$1.67m	\$3.58m	\$1.90m	114%	24%

Source: JSA (2016) derived from sources set out in Section 7 of JSA (2016) *Position Paper: Best Practice in Value Capture*, Inner West Council