Fishermans Bend Urban Renewal Area: Options for Delivery of Affordable Housing

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This report has been prepared for

Places Victoria

by

JUDITH STUBBS & ASSOCIATES

The Old Post Office
231 Princes Hwy, Bulli NSW 2516

Ph: 02 4283 7300

Fax: 02 4283 7399

info@judithstubbs.com.au

www.judithstubbs.com.au

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This Report has been prepared by:

Dr Judith Stubbs BSW PhD MPIA

Mr John Storer BEng (Civil) Grad Dip (Econ)

Mr Tim Storer, BEng (Civil)(Hons)

Ms Denise McConnachie BSc (Psych)(Hons)

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Executive Summary

What will Fishermans Bend look like?

There are two futures for Fishermans Bend Urban Renewal Area.

In one, Fishermans Bend is home to higher income singles and couples who can afford the high price of an apartment there. Low and moderate income families will join the exodus from inner Melbourne to outer urban areas an hour's commute away from family, friends and employment.

In the second future, Fishermans Bend is a vibrant, mixed community where people of diverse ages, incomes, family types and occupations live. They can walk to work or catch public transport and can choose whether or not they own a car, a major cost saving for such families.

The choice of future will depend on whether government actively seeks to create affordable housing in the area.

Fact 1: 99%[1] of very low, low and moderate income renters and purchasers will be excluded from Fishermans Bend if there is no intervention.[2]

Fact 2: Very low, low and moderate income households make up 60% of households in Greater Melbourne (that is, households earning up to 120% of gross median household income).

Fact 3: Over 90% of people who work in commercial and industrial areas in inner Melbourne commute from outer suburbs

Why does it matter?

Anyone in the community could need affordable housing.

Without it, families are forced to sacrifice basic necessities like transport, heating, medication, clothing or even food. They have to move from areas where they have strong attachments and have contributed to the social fabric over many years.[3]

Tom and Anna are a young couple with two children. They work full time, Tom as a labourer and Anna as a clerical assistant. The children are cared for by Anna's mother during the day. They earn around $75,000 each year and pay 44% of their income for mortgage payments on their two bedroom apartment in FBURA. They have a disposable income of $545 per week, $175 less than similar households spend on necessities. To make ends meet, Tom services their car, their furniture is old and they eat cheaply. The car is quite old and they cannot afford to repair it or buy another. They would like to sell it, but, while Anna walks to work, there is no public transport running to Tom's workplace. They never eat out, and, since buying the apartment, they spend their holidays at home. They have no savings. Anna's mother has recently fallen ill and can no longer look after the children. They cannot afford child care, and are planning to sell up, find other work and relocate to the western suburbs.

[1] Refer tables 5-3, 7-11 and 7-15, the market will meet 1.3% of demand for affordable housing.
[2] Very low, low and moderate income households earn up to 50%, 80% and 120% of gross median household income respectively.

[3] All case studies are hypothetical but based on data including current housing costs, actual earnings, taxation rates, ABS household expenditure survey, tax benefits and Centrelink payments.

When commuting becomes too expensive or too hard on family life, they often change jobs. The economy loses skilled workers and there are fewer families and older people in the community, and the quality of community life drops for everyone.

Fact 4: One third of low and moderate households in Greater Melbourne (almost 300,000 households) are in housing stress, or at risk of after housing poverty.

Fact 5: In City of Melbourne housing stress is extremely high (42% of low and moderate households, mainly low income renters).

Bob is aged in his eighties and lives alone in a bedsit in Inner Melbourne. The unit is at the lower end of the market, and he pays $230 per week in rent. While his wife was alive they received a substantially higher pension, but now that he is living alone he is struggling with the cost of living. He pays 50% of his income in rent, leaving him with a disposable weekly income of $235 per week. This is just enough to cover essentials, such as groceries, clothing and footwear, purchase and maintenance of furniture and medical expenses. Being quite old and frail, Bob requires help with some day-to-day activities, such as grocery shopping. However, some weeks he struggles to pay for the cost of transport to the supermarket, as well as to other activities that help him to keep socially connected. Bob's family have been trying to convince him to go to a nursing home. However, a sense of independence is very important to Bob, though lately he has been beginning to feel quite overwhelmed with maintaining an independent lifestyle on his current income.

But what can government do?

To a large extent, the future of Fishermans Bend will depend on whether government actively seeks to create affordable housing in the area. It can do this through the planning system at little cost to government.

For example, it can require that Fishermans Bend include a proportion of genuinely affordable housing, created through a range of mechanisms that are used elsewhere in Australia and overseas.

Fact 6: Government has a stated objective to promote affordable housing. The SPPF has an objective 'to deliver more affordable housing close to jobs, transport and services'. A purpose of Places Victoria is to 'promote affordable housing… in the urban renewal projects' (cl 7(1)) under the Urban Renewal Authority Act 2003, and has special powers in this regard. A range of mechanisms are possible under existing legislation and policy, though some would need relatively straightforward amendments to the SPPF and/or local planning schemes.

The fact that all of these planning mechanisms are likely to be economically feasible and equitable means that government can take quite strong action in Fishermans Bend.

Based on current data, levels of potential developer profit in Fishermans Bend are likely to be relatively high due to lower land values and Capital City Zoning, especially when there is planning certainty and provision of transport infrastructure. Some of this profit can be taken for affordable housing (in addition to conventional developer contributions) without necessarily adversely affecting development decisions.

Alternatively, or in addition, if a scheme overlay constrains the height of apartment buildings beyond the current Capital City Zoning, there may be an opportunity to offer height or density bonuses in exchange for a contribution of 50% of additional profit toward the construction of affordable housing in perpetuity, should the developer chose to take up this incentive.

In addition, if government adds a subsidy in the form of land or funding, more low and moderate income families will be able to live in Fishermans Bend, especially where funds raised through the planning system or land contributions are leveraged to create additional housing.

Fact 7: Use of public land in FBURA for leveraging affordable housing can add affordable dwellings with no funding cost to government. Possible land includes car parking areas, green space and council depots.[4]

Why should government act to create affordable housing in FBURA?

Government action is the only way that low and moderate income families will be able to live in Fishermans Bend.

Very little social housing for very low income renters has been provided in Docklands, Southbank or Melbourne CBD over the past decade, despite major growth in dwelling supply. And virtually none of the stock created is affordable to low and moderate income families either.

There is a narrow 'window of opportunity' to capture benefit for use as affordable housing, or to acquire land at lower market prices. Any action in the future to create affordable housing in FBURA will be far more expensive for government.

Fact 8: Given the early stage in the life of this project, there are still likely to be major opportunities to create affordable housing through a development contribution or levy on the uplift or additional development profit.

Jenna and Cameron are a young couple with one child. Cameron works full time in retail, and Jenna stacks shelves at a local supermarket five nights a week while Cameron cares for the baby. They earn $50,000 per year and pay 49% of their income on mortgage payments for their one bedroom apartment in FBURA, leaving them $510 per week. They cannot afford to own a car so they walk or use public transport. Jenna finds it scary walking home alone late at nights, but a taxi is out of the question. They would like to have another child, but it is quite crowded in their apartment and they really need something larger. If they rent in Hobson Bay rather than buying a place, Cameron can keep his job and they can make ends meet, but Jenna will need to find local work. They are not happy with this option, as they see owning an apartment as 'getting ahead'. Cameron is looking for work in the western suburbs, and he and Jenna spend the weekends looking at house sale advertisements.

What are the options to create affordable housing in FBURA?

Four broad options have been investigated for government to consider and develop further.

[4] Refer table 7-7 for preliminary assessment.

Different options have been tested and modelled to make sure that a wide range of families can be accommodated in Fishermans Bend in the future.

The ability to include these groups always involves some form of benefit capture or housing levy on development and the use of various leveraging opportunities. Options modelled are cost neutral to government however use of public land could provide additional leveraging opportunities.

It is strongly preferred that affordable housing be created in perpetuity. Shared equity means that the first owner will not sell the home for a 'windfall profit'. Ownership or management of discount market rental properties by a community housing provider means they will be retained as affordable rental. This will also increase leveraging opportunities on funds raised through planning mechanisms or the use of government land.

If 20% affordable housing were to be provided for in Fishermans Bend then 8,000 of the proposed 40,000 dwellings to be created could be rented or purchased by very low, low and moderate income households. The target groups making up the 8,000 dwellings (or 20% of dwellings) are set out in Table 2-5, with this table based on current housing stress data for Greater Melbourne. Using this target and breakdown, the following four options explore the delivery of affordable housing to different mixes of target groups at minimal cost to government using a range of methods, including market delivery, mandated dwelling size, assisted purchase (shared equity), discount market rent and social housing. In each case, the model is fully funded by a developer levy with the levy increasing as affordable housing is provided to more difficult to house groups.

In a business as usual model, there is no levy and affordable housing will be provided to 1.3% of the affordable housing target group,[5] with those housed being half of moderate income renters[6] and 10% of smaller moderate income purchasers[7] in studio and one bedroom apartments. All low and very low income and all family households are excluded.

In an intermediate affordable housing model, a levy of 3.6% of saleable floor area is required to fund the model and 44% of the target group is accommodated. Those housed include all moderate income households; all smaller low income purchasers and renters; half of low income family purchasers; and 40% of low income family renters.[8]

In a pragmatic mixed model, a levy of 5.0% of saleable floor area is required to fund the model and 56% of the target group is accommodated. Those housed are all moderate income households including family households; all smaller low income purchasers and renters; half of low income family purchasers; 40% of low income family renters; [9] and all very low income renters, with social housing provided at levels for greater Melbourne.

[5] That is, 1.3% of the households as set out in table 2-5.
[6] That is, the households will have incomes in the top half of the moderate income household band.
[7] That is, the households will have incomes in the top 10% of the moderate income household band.
[8] That is, the households will have incomes in the top 40% of the low income household band.
[9] That is, the households will have incomes in the top 40% of the low income household band.

In an aspirational model, a levy of 9.0% of saleable floor area is required to fund the model and 80% of the target group is accommodated. Those housed are from all groups with the exclusion of half of low income family renters[10] and half of very low income purchasers. [11] Social housing is provided at rates commensurate with demand for affordable housing by very low income households in Greater Melbourne.

[10] That is, those low income family households provided for will have incomes in the top 50% of the low income household band.

[11] That is, those very low income purchasers housed will have incomes in the top 50% of the low income household band.

Options for the delivery of Affordable Housing in Fishermans Bend[12]

	Option 1: 'Business as Usual' Model	Option 2: 'Aspirational Affordable Housing' Model	Option 3: 'Pragmatic' Mixed Model	Option 4: Intermediate Affordable Housing Model
Description	Market delivery without planning intervention to create affordable housing	20% of total dwellings (potentially 8,000) including market delivery, mandating size/type, discount market rent, assisted purchase & social housing, assuming housing need for Greater Melbourne, and 30% of income for housing stress	Per Option 2, but social housing at Greater Melbourne average (3.1%), and 'mixed' housing stress thresholds (30%, 35% and 40% of income for different groups)[13]	Per Option 3, but excluding social housing due to the high subsidies required
% of target groups accommodated[14]	1.3%	80%[15]	56%	44%
Target groups likely to be housed in FBURA	Small moderate income renting and purchasing households in studio and 1 b/r dwellings	At least 50% of each target group is accommodated	All moderate income households At least 40% of low income households Very low income renting households, though with reduced quantum of social housing	All moderate income households At least 40% of low income households
Target groups still ***excluded*** from FBURA	All family households, and all very low & low income households	Lower 50% of low income family renters, and lower 50% of very low income purchasers	Very low income purchasers; lower 50-60% of low income family households	Very low income renters and purchasers; lower 50-60% of low income family households
Housing subsidy assumptions	No subsidies assumed	Minimum discount market rent to allow access for all target groups; minimum purchaser equity share to	Minimum discount market rent of 70%; minimum equity share for purchaser of 50%	Minimum discount market rent of 70%; minimum equity share for purchaser of 50%

[12] Modelling assumes a range of delivery mechanisms, with some affordable housing provided by the market, some by mandating size and type of dwelling, some via discount market rent and assisted purchase or shared equity schemes and some by provision of social housing (rent based on 25% of income).

[13] All very low income households: 30%; All family renting households: 30%; Low and moderate income small renting households: 35%; Low and moderate family purchasing households: 35%; Low and moderate small purchasing households: 40%.

[14] Target groups are set out in table 2-5.

[15] That is, there would still be 20% of total stock 'affordable' to households from target groups, but some target groups will be excluded as it is not possible to provide the depth of subsidy required.

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	Option 1: 'Business as Usual' Model	Option 2: 'Aspirational Affordable Housing' Model	Option 3: 'Pragmatic' Mixed Model	Option 4: Intermediate Affordable Housing Model
		allow access for all target groups		
Broad delivery methods considered (% of all housing in FBURA, that is % of 40,000 dwellings)	Minimal in terms of target groups without other intervention	Market delivery (0.3%); Mandated dwelling size (3.8%);[16] Assisted purchase (6.5%); Discount market rent (2.7%); Social housing (6.8%)	Market delivery (1.5%); Mandated dwelling size (6.6%); Assisted purchase (5.2%); Discount market rent (3.6%); Social housing (3.1%)	Market delivery (1.8%); Mandated dwelling size (7.8%); Assisted purchase (6.2%); Discount market rent (4.2%)
Levy required[17]	Nil	9% of saleable floor area	5.0% of saleable floor area	3.6% of saleable floor area
Cost to business	Nil	Based on current data, levy likely to be able to be accommodated without significantly reducing expected levels of developer profit from land values and development potential	Based on current data, levy likely to be able to be accommodated without significantly reducing expected levels of developer profit from land values and development potential	Based on current data, levy likely to be able to be accommodated without significantly reducing expected levels of developer profit from land values and development potential
Cost to government	Nil	If funding is by a developer levy and delivery by a community housing provider, then cost to government will be minimal and will be the cost of administration. The levy could be reduced by use of public land for development and some or all funding of social housing by government.	If funding is by a levy and delivery by a community housing provider, then cost to government will be minimal and will be the cost of administration. The levy could be reduced by use of public land for development and some or all funding of social housing by government.	If funding is by a levy and delivery by a community housing provider, then cost to government will be minimal and will be the cost of administration. The levy could be reduced by use of public land for development.

[16] Modelling based on 50:50 studios and one bedroom apartments; and 70:30 two bedroom and three bedroom apartments to provide an appropriate mix of dwellings. Refer tables 7-15, 16 and 17 for details.
[17] The levy will be a cost to developers in terms of reduced profit.

Part A: OPTIONS PAPER

1 Background

1.1 Aim of the Options Paper

This *Options Paper* has two broad aims:

- To provide legal, economically feasible, politically acceptable and sustainable options for the delivery of affordable housing to meet projected need for relevant target groups in Fishermans Bend Urban Renewal Area (FBURA).
- To provide a strong evidence base for the future development of an Affordable Housing Strategy to meet identified affordable housing need in FBURA.

1.2 Background to development of *Options Paper*

The Fishermans Bend Urban Redevelopment Area (FBURA) is the largest urban renewal project yet to be embraced by an Australian government. With an area of 244 hectares, it is nearly twice the size of the site redeveloped through the Docklands project (140 hectares). Three of its four precincts (Wirraway, Sandridge and Montague Precincts) fall within the City of Port Phillip Council area, while Lorimer Precinct is part of the City of Melbourne. Montague Precinct is subject to a complementary structure planning process being undertaken by the City of Port Phillip.

Land in the FBURA is mainly in private ownership, and has a range of existing uses in accordance with previous zoning including light industry, warehousing, utilities and logistics related business, and some residential and commercial uses. There is relatively small amount of land in public ownership, with sites owned by City of Port Phillip and state and federal government authorities. Whilst most is constrained by existing uses, there is the potential for redevelopment or intensification of public land as renewal proceeds and land values increase.

The Minister of Planning declared FBURA a site of State Significance and rezoned it to 'Capital City Zone' in mid-2012, with related amendments made to local planning schemes. This opens up significant opportunities to facilitate medium to high density mixed use development and to provide growth to Melbourne's CBD over many decades. Under the most recent thinking by Government, it is expected to provide around 40,000 dwellings and at least as many jobs over the next 40 years.[18]

Places Victoria has been given the responsibility by the Minister for Planning to coordinate the preparation of a *Strategic Framework Plan* for the FBURA by 30 June 2013. Places Victoria has indicated that affordable housing will be a critical component of

[18] Presentation by Places Victoria, 13 May 2013

the FBURA development[19] and has thus commissioned the preparation of this *Affordable Housing Delivery Options Paper*. The development of affordable housing for low and moderate income families in particular is also understood to be an objective of the Minister.[20]

There is a 'window of opportunity' to create affordable housing through a range of mechanisms, described later. This includes mechanisms to capture a reasonable proportion of uplift or additional profit that will arise from the provision of key transport and other infrastructure and from increased development certainty that will accompany the detailing of structure plans and planning controls for FBURA in the future. Although FBURA is close to the CBD, connectivity is poor,[21] and land values and thus development profit are likely to increase significantly with improved public transport, pedestrian and cycling connectivity through the precincts; and details on the relevant planning framework are yet to be released.

In line with the objectives of the study, this *Options Paper* seeks to present politically acceptable, legal, economically feasible and sustainable affordable housing options to meet the needs of relevant target groups within FBURA. These have been developed within the context of the local housing market and regulatory environment.

Affordable housing options presented have been developed in consultation with Places Victoria staff, and with relevant government and community stakeholders through two stakeholder workshops, discussions and workshops with relevant Places Victoria staff, as well as follow up interviews with staff and external stakeholders. It is hoped that the preferred affordable housing options will thus have a high degree of political acceptability and 'buy-in' beyond the life of the current project, and that they are able to produce practical outcomes that can be implemented over the life of the development.

It is also understood that this *Options Paper* may form the basis of an Affordable Housing Strategy in the future, which would further develop the preferred options proposed in this Paper.

1.3 The Study Area

A number of geographic scales have been used for the purpose of demographic and housing market analysis.

For the purpose of benchmarking and understanding the wider context, the following have been used:

- Greater Melbourne;
- The Local Government Areas (LGAs) within which the FBURA precincts are located (City of Melbourne and City of Port Phillip); and

[19] Review of internal working documents, May 2013
[20] Presentation by Places Victoria, 13 May 2013
[21] Presentation by Places Victoria, 13 May 2013

- Adjoining LGAs to the west (Maribyrnong and Hobsons Bay), which generally have quite different characteristics.

For the purpose of understanding what FBURA may 'look like' under different market assumptions, the following small areas (Statistical Areas Level 2 (SA2s), which are roughly equivalent to suburbs) have been used:

- Nearby urban renewal or urban intensification areas (Docklands SA2, South Bank SA2 and Melbourne SA2);
- Other areas in close proximity (South Melbourne SA2 and Port Melbourne SA2).

For the purpose of understanding patterns of mobility including migration and commuting:

- Key nearby employment centres (Port Melbourne Industrial Area SA2, West Melbourne SA2, Melbourne CBD SA2);
- The main LGAs from which commuters and in-migrants are coming (considering all LGAs in Victoria ranked (see Appendices C and E).

These areas are shown in the following maps, and in more detail in relevant appendices.

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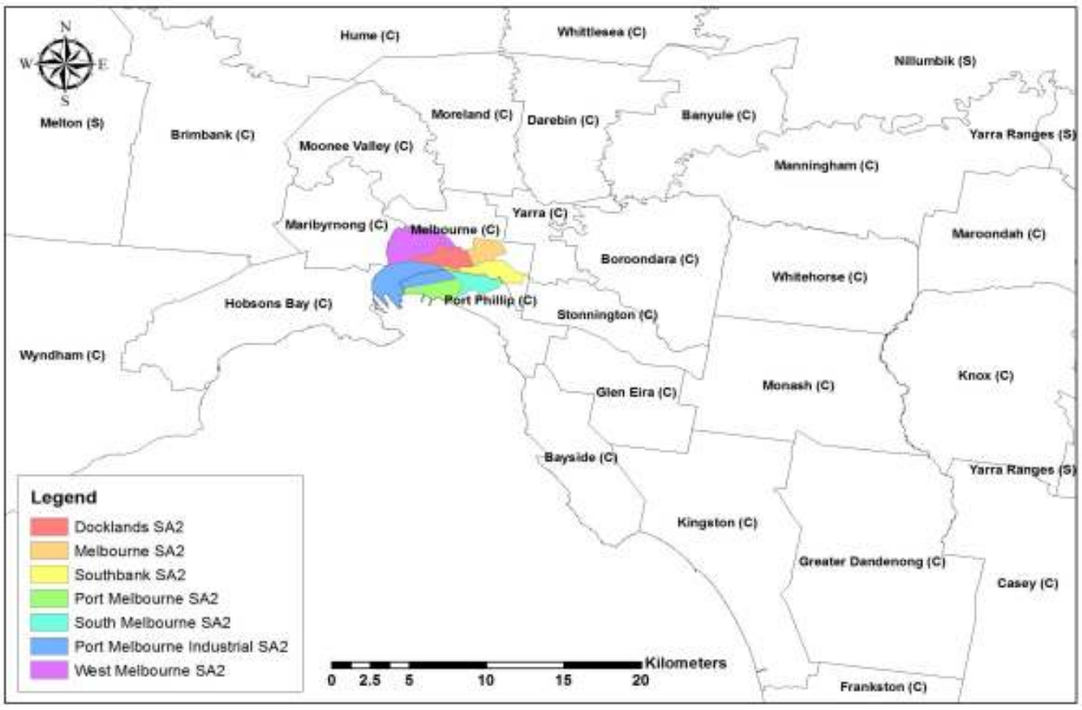
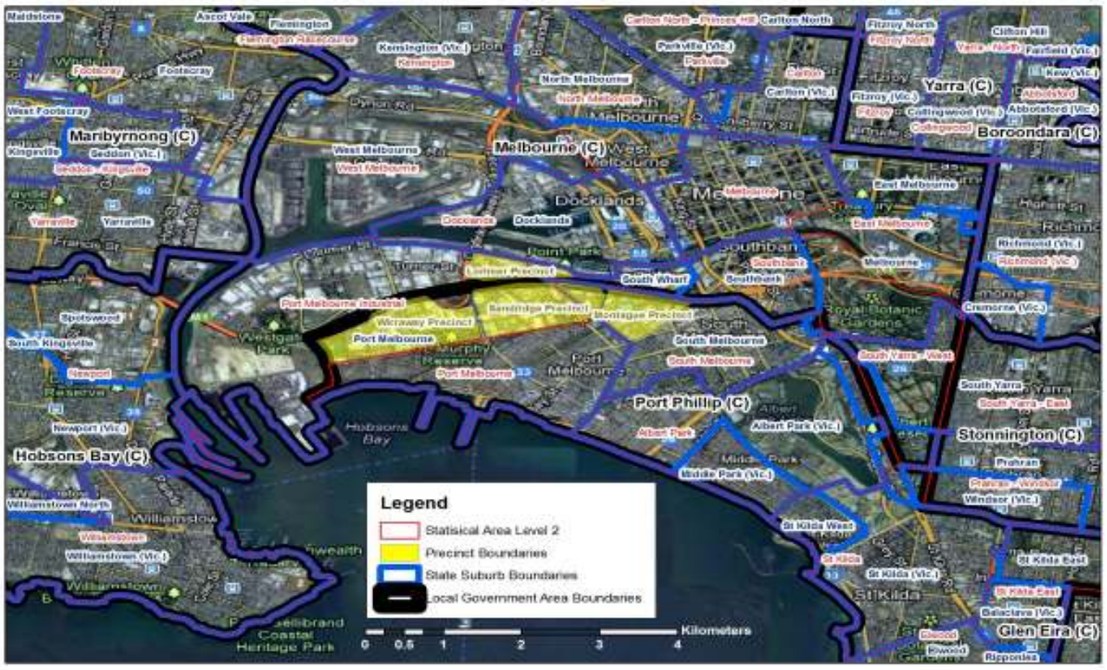


Map 1-1: Relevant Statistical Area 2 for demographic and market analysis

Source: JSA 2013, using data from ABS Census of Population and Housing 2011



Map 1-2: State Suburbs, Statistical Area 2 and LGAs for demographic and market analysis

Source: JSA 2013, using data from ABS Census of Population and Housing 2011

1.4 Format of the Options Paper

The *Options Paper* is divided into four sections for ease of reading whilst preserving the evidence base of options presented:

- An **Executive Summary** that sets out the rationale and broad options for the development of affordable housing in FBURA;
- **Part A: Options Paper** that sets out an overview of the evidence for affordable housing options proposed, including proposed definitions and targets, rationale for government's engagement with affordable housing in FBURA, and the evidence-based options proposed for delivery and funding of affordable housing;
- **Part B: Evidence Base for Affordable Housing Options,** which provides more detailed evidence including an overview of the policy and regulatory context, key demographic and housing market trends in relevant areas, analysis of the affordable housing context for key target groups and of market and non-market mechanisms and strategies likely to positively affect affordability in the housing market context, detailed modelling of delivery options, and the likely costs and benefits of such mechanisms and strategies;
- **Part C: Appendices** that provided detailed data on the demographic and housing market context in relevant areas.

2 Affordable Housing in the Greater Melbourne Context: a rationale for intervention

2.1 Overview

This section first sets out definitions and benchmarks for affordability used in the *Options Paper,* the range of housing products that are likely to be affordable or lower cost in the Melbourne metropolitan context, and key principles that frame planning for affordable housing.

It then provides an overview of the rationale for intervention in the market to create affordable housing in FBURA. This includes requirements to consider affordable housing in relevant legislation and policy; the quantum and nature of affordable housing need in Greater Melbourne and relevant local areas; the likely exclusion of the vast majority of those who need affordable housing from FBURA without active planning intervention (including all very low and low income households, and all very low, low and moderate income families); and the fact that affordable housing is a matter of social and economic sustainability and thus a matter in the public interest.

JSA's economic analysis indicates that strong intervention is likely to be required if *any* low income households and any families with children are to be housed affordably in FBURA. Importantly, the creation of affordable housing through the planning system and other subsidies is likely to be economically feasible give likely uplift in land values and profit opportunities from development potential and liberal controls under the Capital City Zone, and the future provision of transport infrastructure and development certainty, and to a lesser extent, leveraging opportunities through use of public land, discount market rent and shared equity approaches. Direct public funding from DHS would be beneficial, but is uncertain in the current funding and policy climate if FBURA is not prioritised for public investment.

These matters are summarised below, and looked at in more detail in *Part B: Background Paper* and related Appendices.

2.2 What is 'Affordable Housing'?

2.2.1 Definition

Though often used synonymously, 'affordable' housing is different to 'low cost' housing.[22]

[22] The income benchmarks for very low, low and moderate income households used in this report differ from those used by the City of Melbourne in their report *Future Living,* although the overall ranges are generally consistent. City of Melbourne's middle income earners are similar to low and moderate income households as defined in this report, and City of Melbourne's low income households are similar to very low income households as defined in this report.

'Affordable' housing is benchmarked against the relevant household *income* to ensure that a very low, low or moderate income household does not fall into 'housing stress', and can thus meet the cost of other essentials such as food, transport, medical expenses and clothing. In contrast, 'low cost' housing is compared with other *dwellings*, and generally denotes a dwelling that can be purchased or rented for less than other dwellings within an area due to savings related to construction materials or methods, amenity, size or development standards.

The following definition is used when referring to 'affordable housing' in this *Paper:*

> *Housing for a range of very low, low and moderate income households that is appropriate to their needs and priced so that they can meet other essential living costs.*[23]

Whilst 'affordability' considerations include design, locational and service based factors, such as proximity to employment and transport, it is generally accepted[24] as a broad 'rule of thumb' that,

> *Housing is 'affordable' when a very low-, low- or moderate-income household pays no more than 30% of its gross household income on rental or mortgage payments, according to relevant benchmarks.*

'Housing stress'[25] is said to occur where a household is paying more than this amount on rent or mortgage payments, and 'severe housing stress' where it is paying 50% or more of gross household income on housing. Although there are various critiques of this measure,[26] it remains a useful yardstick for comparing costs across groups and areas, and in understanding the nature and extent of affordable housing need.

In contrast, 'low cost' housing is defined for the purpose of this *Paper* as:

> *Housing that can be purchased or rented for less than other dwellings within an area due to savings related to construction materials or methods, amenity, size or development standards.*

'Low cost' housing is sometimes, though not always, 'affordable'. For example, in an expensive local market such as those surrounding FBURA, even a small, lower amenity strata dwelling or apartment will be 'unaffordable' to most of the relevant target groups.

There is no statutory definition of 'affordable housing' in Victoria as there is in some other state jurisdictions.[27] However, definitions adopted by Federal and Victorian State

[23] In accordance with good practice, and with Places Victoria (2012) *Project Afford: Leading the Innovative Delivery of More Affordable Infill Housing for Victorians, p. 2.*

[24] See for example Yates, J. 2007. *Housing Affordability and Financial Stress*, AHURI Sydney University, who notes that, often 'housing stress' is defined by the 30-40 rule, that is, that a low income household (in the lowest 40% of household income) will pay no more than 30% of its gross income on housing costs. This broad rule of thumb is often extended to the low to moderate income groups as defined under NSW State Environmental Planning Policy No 70 (Affordable Housing).

[25] See for example Yates, J. 2007. *Housing Affordability and Financial Stress*, AHURI Sydney University.

[26] See for example Flood, J. 2012. 'Housing Stress: Keep or discard? *Presentation to 6th Australasian Housing Researchers Conference,* 8-10 February 2012, Adelaide, South Australia

[27] For Example, the Environmental Planning and Assessment Act 1979 (NSW) defines 'Affordable Housing' and establishes benchmarks for 'very low', 'low', and 'moderate income' households in Environmental Planning Policy No 70 (Affordable Housing). These are consistent with relevant research and literature, and these benchmarks have been adopted for the purpose of this Options Paper.,

Planning, Local Government and Housing Ministers in 2005 for low and moderate income households,[28] and recent discussion papers by Places Victoria, [29] propose an approach consistent with other states in this regard, and with assumptions in this *Options Paper.*

However, a finer distinction between 'very low' and 'low' income households is also made in this *Paper* as there is generally a significant difference between the capacity of such households to pay for housing without compromising access to other essential needs, and in terms of the types of products that can be affordably purchased or rented.

It is strongly preferred that **affordable housing be created in perpetuity** (for example, where affordable rental housing is owned and managed by a public authority or **community housing provider**, and affordable ownership is through shared equity is otherwise covenanted so that it the first owner does not sell the home for a 'windfall profit'.

2.2.2 Aspirational benchmarks

In accordance with definitions above, the following table provides relevant benchmarks that are used to assess whether rent or purchase costs are affordable in the Greater Melbourne context.

Table 2-1: Relevant Affordable Housing Benchmarks for Greater Melbourne (1)

	Very low-income household	Low-income household	Moderate-income household
Income Benchmark	<50% of Gross Median H/H Income for Greater Melbourne	50-80% of Gross Median H/H Income for Greater Melbourne	80%-120% of Gross Median H/H Income for Greater Melbourne
Weekly Income Range (Annual household income) (2)	<$682 p/wk ($0-$35,000 pa)	$683-$1,089 p/wk ($35,000-$57,000 pa)	$1,090-$1,634 p/wk ($57,000-$85,000 pa)
Affordable Rental Benchmarks (3)	<$204	$205-$326	$327-$490
Affordable Purchase Benchmarks (4)	<$177,500	$177,500 - $283,750	$283,750 - $426,250

Source: JSA 2012, based on data from ABS (2011) Census indexed to December 2012 dollars (TABLE NOTES FOOTNOTED)[30]

[28] See reference in Places Victoria (2012) *Project Afford: Leading the Innovative Delivery of More Affordable Infill Housing for Victorians, p. 2, where 'Low Income' is defined as households that earn up to 80% of gross median household income for Melbourne metropolitan area; and 'Moderate Income' is defined as households that earn between 80 and 120% of gross median household income for the Melbourne metropolitan area.*

[29] See, for example Places, Victoria (2013) FBURA Draft Affordable Housing Discussion Paper, which contains proposed definitions and benchmarks for 'Affordable Rental Housing' as '*housing that is made available for rent for those households on low and moderate incomes who are unable to afford to rent on the open market*', and 'Affordable Purchase Housing as '*housing that is made available to purchase for those households on moderate incomes who are restricted in their ability to purchase on the open market',* with relevant benchmarks proposed as in accordance with definitions adopted by Federal and Victorian State Planning, Local Government and Housing Ministers in 2005.

[30] (1) All values reported are in December 2012 dollars, and assumes that household will pay no more than 30% in rent or mortgage repayments; (2) Gross weekly household income; (3) Calculated as 30% of gross household income; (4) Assumes a current interest rate of 6.25% assuming a 20% deposit for a 30 year ANZ Standard Variable Home Loan.

2.2.3 Benchmarks used for sensitivity analysis

A number of critiques have been made of 'housing stress' measures, particularly when applied to moderate income households, and in accounting for locational or other factors that may affect the relative cost of living between different households.[31] It is also evident that this approach leaves a very low income household with much less disposable income after housing payments than a moderate income household (less than half that of a moderate income household). While this may be partially offset by the progressive nature of our taxation system and of a range of welfare payments, a very low income household paying 30% of income on housing will still be in a worse position than a moderate income household paying 30% of household income on housing.

There are other circumstances where the 30% may be somewhat low compared with other households on the same income (what may be termed 'lateral equity' considerations). A low or moderate income household may pay more than 30% on housing compared to another similar household, but may offset this cost by reduced transport costs such as not owning a car and walking to work or commuting by public transport due a favourable inner city location, for example.

A moderate income household entering the housing purchase market may also be prepared to tolerate initially high levels of housing stress in order to enter the housing market in expectation of real increases in future income and the effect of inflation on loan repayments, though the relative earning capacity over time will vary according to qualifications, occupational status or life stage, and an improvement in debt-to-equity ratios is not guaranteed. Further, a small household on a low income is generally likely to have lower cost of living than, for example, a family of four on the same income.

For these reasons, additional benchmarks have been used in modelling and to assess sensitivity. These are:

- All very low income households: 30%
- All family renting households: 30%
- Low and moderate income small renting households: 35%
- Low and moderate family purchasing households: 35%
- Low and moderate small purchasing households: 40%

A range of 'housing stress' values are also considered (35% and 40% across all income groups) to test the sensitivity of findings. However, options explored below ultimately focus on **two broad housing stress scenarios**, that is, the widely accepted 30% across all income groups as an aspirational target, as well as a 'mixed housing stress' benchmark as set out above.

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

However, the case studies in Section 2.5.6 below also highlight the fact that a change in life circumstances for households paying substantially more than 30% on housing costs can have serious consequences on quality of life. JSA's sensitivity analysis also indicates that there is limited practical utility in terms of reducing subsidies or increasing viability of scenarios modelled when housing stress thresholds are varied from the accepted 30%.[32] For these reasons, **caution should be applied** when considering thresholds above the 30% housing stress benchmarks in public policy prescriptions.

2.3 What are the types of 'Affordable Housing'?

'Affordable housing' **products** include the full range of housing for various target groups, from special needs accommodation such as group homes, boarding houses and social (community and public) rental housing for those most disadvantaged in the housing market, to 'key worker' or 'intermediate' rental housing, and assisted purchase such as shared equity, self-build and community land trusts for households who still need some assistance to enter the home ownership market.

Social housing and special needs accommodation generally requires 'deep subsidies' to be affordable, and rent is tied to a proportion of income (generally no more than 25% for a very low or low-income renting household). Affordable housing for moderate income households, including groups such as key workers, is generally offered at a discounted rent (typically around 70-80% of market rent); or as subsidised purchase, shared equity and the like for low to moderate income purchasers (generally a 50-70% equity share for the purchaser). The latter group generally do not need such large subsidies for their housing to be 'affordable' compared with people who would normally qualify for social rental housing, though in an expensive inner city market such subsidies are likely to more significant.

A particularly difficult group are low income smaller and family households, who often 'fall through the cracks' of the housing system. These households are generally ineligible for social housing due to stringent income thresholds, but often require deeper subsidies than are available through market rent, shared equity and the like, particularly in an expensive market.

Apart from smaller dwellings, which may be affordable for a small minority of relevant target groups, rental and purchase for very low, low and moderate income households generally requires some subsidy from government, development profit, and/or the community. Increasingly, a mix of income groups will be accommodated in the same affordable housing development, along with housing provided on the open market, as part of 'mixed tenure' developments. Mixed use /mixed tenure developments in well-located areas like FBURA also provide for diverse uses that benefit residents, enliven the urban environment and provide for sustainable communities.

Table 2-2: Types of Affordable Rental Housing

AFFORDABLE RENTAL ACCOMMODATION	
Social Rental	Rental housing provided through the public or community sector where

[32] See Section 7 below.

AFFORDABLE RENTAL ACCOMMODATION	
Housing: • General	rental costs are generally no more than 25-30% of gross household income. Social renters are generally on very low-incomes and will often have other special needs. Stringent eligibility criteria (including income and asset tests) generally apply. Social housing is required if any very low income small or family households are to live affordably in FBURA.
• Public Housing	Social housing owned and/or managed by a public authority.
• Community Housing	Social housing owned and/or managed by a Registered Community Housing Provider (CHP). Much of the growth in social housing is likely to be achieved through such providers in the future, either through stock transfers, government funding or their own entrepreneurial activities. There are a number of active providers in the area, including Port Phillip Housing Association ltd, Housing Choices Australia, Community Housing Limited, South Port Community Housing Group Inc, and St Kilda Community Housing Ltd.
• Special needs accommodation	Housing for target groups including aged persons, Aboriginal or TSI people, people with disabilities, youth and homeless people. May be provided as conventional rental housing, sometimes with support agreements with service providers, or as supported group homes, managed communities or other forms of supported accommodation.
• Boarding Houses	Generally multiple single occupants with their own rooms and sometimes with en suite or other private amenities, shared or communal facilities, on site management and house rules. This is generally provided in one building, though it may be configured in multiple facilities. Often provided through the market as private lodging or boarding houses, lower cost private hotels, student accommodation, etc.
Co-Operative Housing	Housing owned and/or managed by a tenant co-operative on a not-for-profit basis. May be provided within one complex, or as dispersed dwellings. Often formed on the basis of some common need or issues, e.g. women's, disability, Aboriginal or student co-operative. Common Equity Housing Ltd is an active provider in Greater Melbourne.
Discount Market Rental Housing in perpetuity	Sometime referred to as 'key worker' or 'intermediate' housing - an effective rental subsidy is provided on the market rental that would otherwise apply (generally discounted by 20-30%). Often most appropriate for moderate-income households, but may also make rental affordable to low-income households, depending on the local market. Generally owned and/or managed by a Registered Community Housing Provider (CHP). Such housing has been developed, for example, using the National Rental Affordability Scheme (NRAS) to increase viability. Discount market rent (sometimes with quite deep subsidies) is the main way that a low income renter (and most low to moderate income renting families) would be able to live affordably in FBURA.
Time limited Discount Market Rental Housing	An offset is provided to the developer (e.g. additional density, taxation rebate or other subsidy) to provide rental accommodation at typically 80% of market rent to moderate income households for a limited period, typically 10 years. The actual or effective subsidy offsets additional financing costs to the developer, whilst there is an opportunity for additional profit or capital gain at the end of the period for which it must remain 'affordable housing'. Such housing has been developed, for example, using the National Rental Affordability Scheme (NRAS) and/or in NSW under SEPP (Affordable Rental Housing) 2009.

Source: JSA 2011 derived from various sources

The following table provides an overview of the types of **affordable purchase products** most relevant to this context.

Table 2-3: Types of Affordable Purchase Housing

AFFORDABLE PURCHASE ACCOMMODATION	
Rent-To-Buy Products	Rent-to-buy schemes are typically a form of vendor finance, where a purchaser may pay a small deposit and more than market rent, with the balance going towards paying off the home. Ownership remains with the vendor until the transaction is complete.[33] Other schemes operated by public or community sector housing providers have provided for all or a portion of rent normally paid to go toward building up equity in the home. This has included sale to sitting tenants.
Shared-Equity Products	The cost of purchase is shared with an equity partner (preferably a public or a community-housing provider). Housing is kept 'affordable' in perpetuity through contractual arrangements (e.g. secured through a deed of sale and/or covenant against title) that provides for buy-back by the equity partner at an appropriate share of equity and capital gain when the low- to moderate-income purchaser wants to sell. The share is then sold to another purchaser who needs affordable housing. Some states including WA have a more developed sector than Victoria, and the minimum equity share for the purchaser is normally 70% in WA (though other schemes provide for a 50% equity share or lower, noting that a share lower than 50% may be disadvantageous to the purchaser and of low efficiency to the CHP). Share equity arrangements can be entered into over a house and land package, apartment, or under a Community Land Trust arrangement (see below), and are one of the main ways that a low income purchaser would be able to enter home ownership in FBURA.
Property Covenants	Similar to shared-equity in that the title is covenanted to ensure either resale to the sponsoring agency at an affordable price, or sale to others at an affordable price, thereby ensuring that a 'windfall' profit is not gained by the first subsidised purchaser.
Community Land Trusts	The land is generally owned by an organisation, such as a community housing provider or government authority (or vested in a housing trust, or similar). The land is leased to the occupier who purchases, constructs or leases a dwelling on the land. There are sometimes additional opportunities for the occupier to contribute sweat equity to the construction of dwellings, particularly in lower density development. The CLT may apply to a congregate site, or more commonly to dispersed dwellings, and could apply to low or higher density development. Alternatively, the land might be sold at a lower price, with a covenant requiring sale back to the sponsoring organisation. The effect of such arrangements is to keep the purchase and repayments cost lower than would be the case if the full cost of land were included, and to maintain the housing as affordable housing in perpetuity. There are various possible approaches to CLTs,[34] and this would be an option for development on council or other public land in FBURA.
Assisted Purchase	Where there is some other mechanism that provides support or assistance to enter the home purchase market. This is more advanced in some states than in NSW. For example, the WA Department of Housing's *Keystart* program provides low deposit loans to low to moderate income purchasers to purchase 100% of a property. Other approaches involve support for the prospective buyer to bridge the deposit gap through provisions of low interest deposits, or provision of finance on a sliding scale for interest or repayments.

[33] Consumer protection agencies, such as NSW Fair Trading, publish warnings against such schemes where they are operated privately (as distinct from schemes offered by a social housing provider).

[34] See for example Crabtree, Blunden et al (2013) *The Australian Community Land Trust Manual,* UWS and UNSW.

AFFORDABLE PURCHASE ACCOMMODATION	
MARKET HOUSING	
'Low Cost Housing'	Dwellings provided through the market that can be purchased or rented for less than other dwellings due to savings related to construction materials or methods, amenity, size or development standards. This may be considered as 'affordable' to low- or moderate-income households, *provided* it meets the income and housing cost benchmarks set out in **Table 2-1** above.

Source: JSA 2011, derived from various sources.

2.4 What principles should apply to 'Affordable Housing'?

JSA's considers that affordable housing mechanisms and strategies should be:

- **Legal** - the proposed provisions, mechanisms, strategies and policies need to be considered within the legal planning framework for the relevant jurisdiction, considering both the constraints but also the opportunities for innovation and creativity within these state, regional and local frameworks;
- **Affordable** – the housing created must be genuinely affordable according to relevant benchmarks for very low, low and moderate income earners, and include a critical review of the groups for whom various types of housing, locations, etc are likely to be 'affordable', differences between 'low cost' and 'affordable' housing and the like;
- **Feasible** – a thorough market analysis is critical to understanding which of the range of possible mechanisms and strategies to create affordable housing is appropriate within the particular local context, and localities or sub-markets within the local area;
- **Appropriate** – the needs of different target groups or sub-markets must be well-understood and provided for in the planning and provision of affordable housing, in terms of appropriate housing type, tenure, design, configuration, location, and price;
- **Reasonable** – proposed provisions, mechanisms, strategies and policies need to consider the views of a range of government, community and industry stakeholders and aim to provide reasonably acceptable solutions for a range of stakeholders wherever possible;
- **Equitable** – proposed mechanisms and strategies will consider the needs of a wide range of groups including those with special needs, and will aim to ensure that the proposals do not have unintended social or economic impacts on marginal groups such as low to moderate income first home buyers and renters through, for example, transferring the cost of decisions to such groups inadvertently by increasing the cost of otherwise affordable land or housing;
- **Sustainable** – evaluation of appropriate sites and localities for affordable housing, and planning for housing type, design and location will include a range of key considerations including whole of life costs, accessibility to key transport, services and facilities, reduction of car dependency, preservation of ecological or agriculturally valuable land, and other relevant environmental, heritage or social constraints.

2.5 Why would Victorian State Government support the creation of 'affordable housing' in FBURA?

2.5.1 Affordable Housing is a Policy Objective

Legislative support for affordable housing

There appears to be explicit support in Victoria for the creation of affordable housing associated with principal planning legislation and within the Act through which Places Victoria is constituted. Read literally, the legislation would appear to place relevant authorities under an obligation to facilitate affordable housing through the plan making and development assessment process so as to further the objectives of legislation and related policy. Affordable housing is thus a matter in the public interest. [35]

Whilst the *Planning and Environment Act 1987 (Vic)* is silent on the matter of 'affordable housing' and on specific mechanisms for its creation, the State Planning Policy Framework (SPPF) contained within the Victorian Planning Provisions (VPP), and reflected in local planning schemes, includes an objective 'to deliver more affordable housing closer to jobs, transport and services'.[36] Key strategies include:

> *…encouraging a significant proportion of new development, including development at activity centres and strategic redevelopment sites to be affordable for households on low to moderate incomes;* and
>
> *[Increasing] the supply of well-located affordable housing by:*
>
> *Facilitating a mix of private, affordable and social housing in activity centres and strategic redevelopment sites.*

Further, a responsible authority may also consider any *'significant social and economic effects'* arising from development applications,[37] and may enter into planning agreements in relation to a development or rezoning application,[38] including providing for the conditions subject to which the land may be developed,[39] and any matter intended to achieve or advance the objectives of planning in Victoria or the objectives of the planning scheme or any amendment.[40] There would appear to be scope to include affordable housing as a relevant consideration in impact assessment and a matter that furthers the objectives of the Act in the making of planning agreements in this regard.

Further, the *Urban Renewal Authority Victoria Act 2003 (Vic)* has, as a function of the Authority,

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[35] See for example *Carstens v Pittwater Council* (1999) 111 LGERA 1, 25; and *BGP Properties Pty Ltd v Lake Macquarie City Council* (2004) 138 LGERA 237 at [113].
[36] *Clause 16.01-5 Housing Affordability*
[37] Under *s60(1A)(a)* of the *Planning and Environment Act 1987 (Vic)*
[38] Under *s173(1)*of the *Planning and Environment Act 1987 (Vic)* a responsible authority may enter into an agreement with an owner of land in the area covered by a planning scheme for which it is a responsible authority.
[39] Under *s174(2)(b)* of the *Planning and Environment Act 1987 (Vic)*
[40] Under *s174(2)(c)(i) and (ii)* of the *Planning and Environment Act 1987 (Vic)*

cl 7(1) to promote affordable housing and housing diversity in relation to the urban renewal projects,

though no specific mechanisms are set out to achieve this.

There would thus appear to be explicit legislative support for the facilitation of affordable housing through the planning and approvals process. Indeed, it could be argued that it is a requirement in the plan making and development assessment process to actively encourage affordable housing, noting also that relevant case law in other jurisdictions has found that it is in the public interest to give effect to the objectives of relevant legislation. [41]

Importantly, there are no explicit barriers or limitations to the creation of affordable housing through the Victorian planning system as there are in other jurisdictions,[42] which gives considerable scope to such considerations. Like other jurisdictions, however, any mechanism that requires support through an amendment to legislation or policy (generally the SPPF and/or relevant provisions of a local planning scheme) would require ministerial approval. Likewise, a specific state or local policy could be made with respect to affordable housing, with such a policy again able to be considered by an authority in the planning and assessment process.[43]

However, 'affordable housing' is not explicitly mentioned as a form of 'community infrastructure' or 'works, services and facilities' under Part 3B, s46 of the *Act,* although neither does it appear to be explicitly *excluded*,[44] and a liberal interpretation possible as it is in other jurisdictions.[45] [46] This definition could be extended or made clear through an

[41] *Carstens v Pittwater Council* (1999) 111 LGERA 1, 25; and *BGP Properties Pty Ltd v Lake Macquarie City Council* (2004) 138 LGERA 237 at [113].

[42] For example, in NSW, *SEPP 70 Affordable Housing (Revised Schemes) (SEPP 70)* amends relevant local and regional environmental planning instruments to enable the levying of development contributions to provide for affordable housing. However, the provisions of s94F and s94G are operationalised and limited in practice by *SEPP 70,* which applies to a very limited number of housing schemes including Ultimo-Pyrmont, Willoughby and Green Square, and to only three council areas – Sydney, Leichhardt and Willoughby Councils. This would appear to preclude other councils from imposing a mandatory levy, at least under s94F and s94G, although some councils have done so unchallenged.

[43] Under the *Act*, a responsible authority must consider: *60(1)(a) The relevant planning scheme;* …and may consider *60(1A)(g) any other strategic plan, policy statement, code or guideline which has been adopted by a Minister, government department, public authority or municipal council;*

[44] Advice for Victorian Government Solicitor on developing a Contributions Plan for Low Cost Housing by City of Melbourne, letter dated 30 June 1997 raises issues related to its proper consideration as a form of 'community infrastructure' or 'works and services'.

[45] The ability to make voluntary planning agreements, including in relation to 'affordable housing' as a 'public purpose' under s 93F of the Environmental Planning and Assessment Act 1979 (NSW)

[46] There is be scope under more recent provisions of the *Environmental Planning and Assessment Act 1979 (NSW)* to levy a contribution for affordable housing where nexus between the development or class of development and increased demand for affordable housing (as a form of 'special infrastructure)' is demonstrated, and where there is reasonableness in the assessment of the level of contribution levied. This includes contributions to 'affordable housing' in 'special contributions areas', and outside of them, at the discretion of the Minister (noting that Warnervale Town Centre is listed as a *Special Contributions Area* in Schedule 5A). This includes the provision, extension and augmentation of (or the recoupment of the cost of providing, extending or augmenting) public amenities or public services, affordable housing and transport or other infrastructure relating to land; and the funding of recurrent expenditure in relation to the above, or any studies or other support required (*s94ED*). Such contributions are not limited to land within a 'special contributions area', although such contributions are not to be required unless the provision of infrastructure 'arises as a result of the development or class of development of which the development forms part' (*s94EE(2)(c))*. Reasonable discretion also appears to be provided for in *s94EE(3)*, which states that, despite the limitations of other provisions, 'the Minister may…determine the level and nature

amendment to Part 3B of the *Act,* in general or specifically in relation to FBURA, or in the relevant SPPF. There are also likely to be competing demands on levies or contributions collected, although JSA's assessment of uplift and other research reviewed[47] indicates that this is not likely to be prohibitive to development. A levy in addition to conventional development contributions is possible in relation specifically to FBURA.

Further, the *Urban Renewal Authority Victoria Act 2003 (Vic), No 59 of 2003* provides a number of powers that may be interpreted in a way that could provide opportunities for Places Victoria to improve the delivery of affordable housing and a socially sustainable community in FBURA, acting alone or in partnership with others. It includes the levying of fees and charges, potentially for the purpose of affordable housing; acquiring land; and entering into joint ventures to create affordable housing to fulfil its purpose under the *Act.* The following table sets out the potential role of Places Victoria which would appear to be in accord with statutory provisions.

Despite possible constraints in relation to development contributions in the principal planning *Act,* this may open up opportunities for the levying of fees and charges for affordable housing as a 'service' under the *Urban Renewal Authority Victoria Act 2003 (Vic).* Interestingly, advice received by City of Melbourne is that low cost housing could properly be regarded as a form of 'works, services and facilities' under the *Planning and Environment Act 1987 (Vic),* with this construction also relevant under *the Urban Renewal Authority Victoria Act 2003 (Vic).*

of development contributions in the form of a levy of a percentage of the proposed cost of carrying out development or any class of development'. Further, the Minister will determine what part (if any) a development contribution will be 'for the provision of infrastructure by a council' (*s94EE(3A*)). It is noted that, in determining the level and nature of contributions, the Minister will, as far as practicable make the contribution 'reasonable with regard to the cost' of infrastructure in relation to the development (*s94EE(2)(a)).*

[47] Biruu Australia(2008), *Advice on the Issues of the Inner Region Affordable Housing Overlay;* and SGS Economics and Planning (2007) *An Affordable Housing Overlay in the VPP – Implementation Model for Melbourne's Inner Urban Region.*

Table 2-4 Potential Affordable Housing Mechanisms and Strategies under the *Urban Renewal Authority Victoria Act 2003 (Vic)*

Places Victoria could:	Relevant clause in the Act
Acquire land through purchase, consolidation, transfer, or otherwise that could then be developed for mixed use and include a minimum % of affordable housing	Part 2 Division 2 part 7 Functions (1) (a); 8 Powers of the Authority
Enter into a joint venture that will develop an innovative urban model of housing providing outcomes that are economically feasible and that contribute to sustaining a socially mixed environment	Part 2, 12 , Authority to enter into joint ventures etc
Establish an Affordable Housing Trust to collect and manage funds that could then be applied to the delivery of affordable housing, or contribute to an already established Trust (e.g. COPP)	Part 2, 12 , Authority to enter into joint ventures etc
Carry out a model development that demonstrates best practice in the delivery of housing diversity. The model would provide a mixed model of housing delivering a desired percentage of affordable housing whilst retaining economic feasibility.	Part 2 Division 2 part 7 Functions (1) (d)
Provide a consultancy service to developers who may have an interest in providing socially and economically sustainable housing	Part 2: Division 2 part 7 Functions (1) (d), (e), (f), (g)
Enter into a reciprocal arrangement with public authorities that may hold assets in FBURA to apply these assets towards innovative housing that will promote social sustainability	Part 2: 13 Reciprocal arrangements with public sector agencies
Acquire land from public authorities (including any unalienated land) and contribute this to an Affordable Housing Trust (see above) to develop model affordable housing projects	Part 2: 14 Grant of Land to the authority Part 3: Division2 – Obtaining land
Raise funds through charges on the owners, occupiers, or licensees of properties in the project area for the supply of services provided by or by agreement with the Authority where the service is the affordable housing that is needed to protect the social sustainability of the FBURA(subject to the recommendation of the Minister and approval of the Treasurer.	Part 3 -Subdivision 2 – General charges - 51F
Exempt a private development from duties, taxes, fees or charges in exchange for the delivery of an agreed percentage of dwellings as affordable housing	Part 3 Division 6 – Other Powers; 52 – exemption from duty, rates taxes or charges
Use the powers provided by the Act over transport corridors to consider the use of closed or removed roads, or the airspace over rail transport corridors, to provide opportunities for affordable housing	Part 3 Division 6 – Other Powers, 53 Transport Facilities; 54 Closing roads

Source: JSA derived from various sources and the *Urban Renewal Authority Victoria Act 2003*

Some of the mechanisms and strategies noted above are also open to other authorities, particularly in relation to use of public land for affordable housing, entering into JVs, establishment of relevant administrative mechanisms including land or housing trusts

and the like, and other mechanisms such as levy fees and charges with the approval of the Minister.

To a large extent, then, the engagement of the planning system with the creation of affordable housing is possible, and implementation and/or approval of mechanisms that have not been used to date in Victoria are mainly a matter of political will.

A range of mechanisms are arguably open to Victorian state and local government authorities to create affordable housing in 'strategic redevelopment sites' like FBURA to further the objectives of legislation and policy. These include 'inclusionary approaches' (requiring a specified proportion of affordable housing in specified areas or zones) through structure plans or similar, with relevant support through local planning schemes and/or SPPF amendments where necessary.

A mix of mechanisms could be used to achieve affordable housing targets in FBURA, including encouraging or mandating affordable housing 'types' through the market, voluntary and incentive-based mechanisms, special affordable housing levies where such are equitable and economically feasible, and direct funding or subsidy by government. Specific mechanisms are outlined and assessed in Section 3 below.

Support by Relevant Local Authorities for Affordable Housing

Reflecting the requirements of legislation and policy, the local planning schemes of the two relevant local government authorities for Fishermans Bend, City of Melbourne and City of Port Phillip, both embody the *State Planning Policy Framework* objectives and strategies supporting affordable housing,[48] cited above. The Minister for Planning is the Responsible Authority for planning permit applications which are more than four storeys, more than 60 dwellings, over 10,000 square metres in floor space or have a development value of more than $10 million. This means that the Minister for Planning will approve most of the large developments in Fishermans Bend (and in the Montague Precinct). It has also introduced a new Development Contributions Plan Overlay to the Fishermans Bend Urban Renewal Area.[49] However, the two local authorities remain active partners in the process.

Each authority has demonstrated strong support for affordable housing. City of Port Phillip has a long track-record in the promotion of affordable housing including through the use and effective leveraging of its own resources for the creation of substantial affordable rental housing in perpetuity, and is nationally recognised as a leader in this regard. It has a robust housing strategy and priorities regarding affordable housing. [50] It notes the projected increase in lone person households, predominance of young adults,

[48] See for example City of Port Phillip Municipal Strategic Statement, cl 16 Housing, in particular cl 16.01.5 Housing Affordability

[49] See http://www.portphillip.vic.gov.au/amendment-c102.htm

[50] City of Port Phillip, *Housing Strategy 2007-2017* sets out Council's vision for housing in the municipality as, '*To direct residential growth to locations which offer the greatest access to shops, public transport and other services, and provide housing diversity by facilitating the development of affordable, accessible and suitable housing which meets the needs of all current and future residents, including the disadvantaged and those who are unable to adequately access the private housing market*'.

increasing unaffordability for low to moderate income households and families with children and need for special forms of accommodation like rooming houses, to be key housing issues.

City of Melbourne has recently released a Discussion Paper, *Future Living,*[51] which indicates a strong commitment to sustainable development, including the development of affordable housing, to address very high levels of housing stress and promote a diverse social mix and labour force in the City in accordance with priorities set out in City of Melbourne's *Municipal Strategic Statement.*

These councils have also worked successfully with other inner Melbourne municipalities to develop an *Inner Melbourne Action Plan* and *Inner Melbourne Housing Statement*. Each has supported a range of related research and proposals to create affordable housing through the planning and approvals process, although relevant proposals have yet to be approved for inclusion in relevant local planning schemes and/or policies.[52]

The inclusion of specific mechanisms within local planning schemes and associated strategic statements and local policies would strengthen engagement with affordable housing through the planning system and remove any legal ambiguity. These are also likely to be required to support the development of affordable housing targets, KPIs and mechanisms in a structure plan or similar for FBURA.

As outlined in Section 3.3 below, this could involve amendments to cl 16.01.5 of LPSs to provide for a clearer definition of 'affordable housing' in terms of target groups, benchmarks and dwellings types; and the development of an affordable housing overlay specifically for FBURA, for example, in a Schedule to the Capital City Zone,[53] supported by a local policy, that sets out specific requirements for affordable housing in relation to any FSR/ height bonuses or incentives, mandating of dwellings types or controls, and an affordable housing contributions or levy in addition to conventional development contributions, etc). It could also specify land to be reserved for affordable housing partnerships.

Support for Affordable Housing in Regional Strategic Plans

In 2012, the Ministerial Advisory Committee for the Melbourne Metropolitan Planning Strategy prepared a *Discussion Paper,* **Melbourne*, let's talk about the future*** to inform the development of a new Metropolitan Planning Strategy to be released later in 2013.

Whist the increasing attractiveness and liveability of Melbourne is positive, the *Discussion Paper* notes as a downside the 'chronic problem of housing stress for low and moderate income households' and that 'The inner suburbs [are] out of reach to many renters and

[51] City of Melbourne (2013), Chapter 4: Housing Affordability
[52] Workshop with staff of City of Melbourne and City of Port Phillip, 23 May 2013
[53] For example, as provided for in cl 41 of City of Port Phillip LPS, which notes that, 'If an overlay is shown on the planning scheme map, the provisions of the overlay apply in addition to the provisions of the zone and any other provision of this scheme. Because a permit can be granted does not im
ply that a permit should or will be granted. The responsible authority must decide whether the proposal will produce acceptable outcomes in terms of the State Planning Policy Framework, the Local Planning Policy
Framework, the purpose and decision guide lines of the overlay and any of the other decision guidelines in Clause 65'.

all but the wealthiest first home buyers'. As such, a 'business as usual' approach is no longer appropriate.

The critical needs of lower income lone person renting households[54] and the growing need of low to moderate income households with children for affordable housing,[55] including close to key employment centres where employment opportunities are more plentiful and cost of transport will be reduced, are highlighted. This need to be addressed if Melbourne is to avoid becoming 'two cities'[56] in terms of polarisation of income and opportunity.

Under ***Principle 4: Strong Communities***, the *Discussion Paper*[57] *notes that,*

> *The lack of affordable housing available for low-paid to moderately-paid workers becomes an economic problem when firms find it difficult to secure workers because of local labour shortages.*[58]

Mechanisms for addressing issues related to 'affordable living' are set out in the *Discussion Paper* and include encouraging new affordable housing with planning scheme controls or incentives, securing dedicated social housing and preserving or offsetting the loss of existing low-cost housing.

Though affordable housing is not specifically mentioned, this sentiment is also reflected in the recently released economic strategy, *Securing Victoria's Economy,*[59] in relation to the need to secure Victoria's economic future through a diverse and skilled labour force and timely provision of appropriate social and physical infrastructure. The ability to accommodate the necessary range of workers near key employment centres will be important in this regard.

Support for Affordable Housing by Places Victoria

As well as a specific objective related to affordable housing in urban renewal legislation and other provisions that could support affordable housing outlined above, the creation of affordable housing for a diverse range of income, age, household and occupational groups supports the overarching ***FBURA Strategic Objectives*** that are proposed to guide the Strategic Framework.

The inclusion of affordable housing to meet diverse needs in a strategic inner city location supports objectives related to social diversity, and economic and environmental sustainability, through locating housing for key groups who would otherwise be excluded close to key employment nodes. It enhances Melbourne's competitive advantage through accommodating and supporting a diverse labour force, as well as a diverse and vibrant social mix (Strategic Directions 1, 3, 6, 9 and 10).

[54] Victorian State Government (2012) *Discussion Paper,* Melbourne*, let's talk about the future,* pgs. 35-36, noting that across Melbourne, just 0.3 per cent of one bedroom dwellings let in the March 2012 quarter were affordable (ie. no more than 30 per cent of gross income spent on rent) to a single person on Centrelink payments..

[55] Victorian State Government (2012) *Discussion Paper,* Melbourne*, let's talk about the future,* pgs. 35-36.

[56] Victorian State Government (2012) *Discussion Paper,* Melbourne*, let's talk about the future,* p. 26.
[57] Victorian State Government (2012) *Discussion Paper,* Melbourne*, let's talk about the future,* pgs. 36-38.

[58] Victorian State Government (2012) *Discussion Paper,* Melbourne*, let's talk about the future,* p. 36.

[59] Department of Premier and Cabinet (2013)

Other Places Victoria internal working documents reviewed also indicate support for the inclusion of affordable housing for diverse groups including low and moderate income families, and younger and older smaller households, as part of a sustainable and inclusive community in the new FBURA.

The funding environment will not result in sufficient affordable housing

It is widely acknowledged that there is major shortfall in affordable housing in most cities and many regional and rural communities across Australia. [60] Arguably, the most severe and lasting impacts are experienced by very low and low income households in unaffordable private rental, who do not gain the benefits that accrue to home purchasers, including long-term capital gains and a decreasing debt to household income ratio over time,[61] and for whom social rental is increasingly inaccessible.

Since coming to power in 2007, the Federal Government has introduced a range of measures that have arguably opened up the most significant opportunities for expansion of affordable and social housing supply for around two decades.[62] In contrast to the previous Government, which focused increasingly on demand-side measures such as Commonwealth Rental Assistance to private renters and on first homebuyer subsidies, new policy and funding initiatives have often focused on stimulating the supply of affordable housing in particular through subsidies, incentives and grants (for example, the *National Rental Affordability Scheme (NRAS), Housing Affordability Fund (HAF)* and *Building Better Regional Cities (BBRC)*.

There have also been a range of more recent state government initiatives to support maintenance and growth of social and affordable housing, many of these focussed on growing affordable housing through increased community housing sector capacity to deliver and manage such housing. These include increased funding for Community Housing Providers (CHPs), transfer of social housing stock to CHPs, including some with title, and regulatory support to increase their professionalism and capacity.

There has also been an increased emphasis on partnerships that can make the most efficient use of Federal and State Government funding and resources, including between State and local government, the private sector and CHPs. The rationale for such partnerships is to increase affordable housing constructed through leveraging State and Federal funding including through access to Council or other publicly-owned land, access to resources created through the planning system, or through the accumulated funds or the borrowing capacity against equity of larger CHPs.

There are some key differences between the community housing sector and state housing authorities that provide potential financial and partnerships advantages. Whereas the Department of Human Services is not eligible to receive Commonwealth

[60] Darcy, M. and Stubbs, J. 2005. 'Housing and Contemporary Social Work Practice', in Alston, M. & McKinnon, J. (eds) *Social Work Fields of Practice,* Oxford University Press, UK.
[61] Burke, T. and Hulse, K. 2010. 'The Institutional Structure of Housing and the Sub-prime Crisis: An Australian Case Study', in *Housing Studies, Vol. 2. No. 6, 821-838, November 2010*
[62] See for example Stilwell, F. and Primrose, D. 2010. 'Economic Stimulus and Restructuring: Infrastructure, Green Jobs ad Spatial Impacts', in *Urban Policy and Research, Vol. 28, No. 1, 5-25, March 2010*

Rental Assistance payment,[63] CHPs are able to receive 100% of CRA paid to tenants as part of rent calculation which often enables CHPs to operate at or above breakeven point and potentially generate an operating surplus. Their ability to enter into debt against equity financing arrangements, from which State Government is generally precluded, is also an advantage in entering into development partnerships. There is also an expectation that CHPs will leverage (raise finance against) stock transferred from State Government to them.

A number of CHPs are active in inner Melbourne including Port Phillip Housing Association Ltd, South Port Community Housing Group Inc, St Kilda Community Housing Ltd, Housing Choices Australia and Community Housing Limited. Common Equity Housing Ltd is an active housing cooperative in Greater Melbourne.

A significant slowdown in the economy in 2009 also prompted a range of Federal Government actions to stimulate growth. The social housing system was a major beneficiary of government expenditure over the past few years under Nation Building (economic stimulus), which provided some growth in absolute terms in a sector that has been declining relative to need for some decades. However, post-stimulus, the supply of such housing still falls far short of the current and projected need for affordable housing. Further, many low and moderate income households currently in housing stress would not be eligible for social housing, and those very low income households that *are* eligible generally face a waiting time of many years.

More recent opportunities for growth under initiatives like Nation Building and BBRC, have largely been allocated, and it is unlikely that there will be substantial new direct funding available for social housing in the near future. Importantly, recent initiatives to stimulate supply such as NRAS and leveraging against the transfer of title to social housing stock tend to favour the 'upper end' of the spectrum of affordable housing need (moderate income households like 'key workers') due to the need for such projects to be financially viable under debt-financing arrangements. NRAS applied to private sector developments are often not genuinely affordable to relevant target groups.

Very low and low income renting and purchasing households, and all family households, remain highly problematic groups for whom to achieve affordable outcomes, especially in the absence of direct funding and significant subsidies for such groups.

Given the extent of unmet affordable housing need in Greater Melbourne, and the policy and funding environment described above, the creation of affordable housing for very low, low and moderate income households through the planning system becomes crucial.[64] Direct creation of such housing through Federal-State government funding, revenue raising measures such as planning incentives and affordable housing contributions to capture benefit created through the planning and development process, and affordable housing development and management partnerships with CHPS are needed as a 'suite of interventions' to create affordable housing.

[63] Rental supplements to low income tenants
[64] Gurran, N. and Whitehead, C. 2011. 'Planning and Affordable Housing in Australia and the UK: A Comparative Perspective', in *Housing Studies, Vol. 26, Nos. 7-8, 1193-1214*

2.5.2 Extent and Nature of Affordable Housing Need

The extent and nature of housing stress in Greater Melbourne and areas close to FBURA provides a compelling reason to create affordable housing for relevant target groups in Greater Melbourne, and particularly in well-located areas close to transport, service and employment nodes like FBURA.

Almost 300,000 very low, low and moderate income renting and purchasing households were in housing stress in Greater Melbourne in 2011. This was 32% of such households, a major increase from 26% of households in 2006.

Affordable housing need by this measure is most serious for privately renting households, who make up the majority of those in housing stress, with the majority of these being on very low incomes, as shown in the following graph.

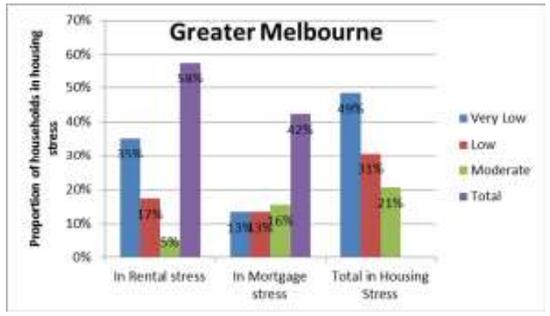


Figure 2-1: Housing Stress by Income and Tenure – Greater Melbourne (All households)

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder)

Importantly, almost 80% of very low income purchasing and renting households and almost 60% of low income purchasing and renting households were in housing stress, with a significant but lesser proportion of moderate households in this situation, as shown below.

Figure 2-2: Housing Stress among Relevant Target Groups – Greater Melbourne (Renting and Purchasing Households)

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder)

The level of housing stress for **City of Melbourne**, in which most of the existing redevelopment and urban intensification areas are located, was particularly high (42% compared with 31% for Greater Melbourne). More than 85% of those in housing stress in City of Melbourne were renters, mainly on very low and low incomes.

Like City of Melbourne, housing stress in **City of Port Phillip** is particularly serious for renters, with 78% of those in housing stress being renting households (85% of these are very low and low income households). Although housing stress overall is lower than City of Melbourne, this appears to be largely due to displacement of very low and low income households from City of Port Phillip, so that renting and purchasing households tend to be on higher incomes (and thus not considered to be in housing stress).

Overall, the vast majority of very low and low income renters and purchasers were in housing stress in areas close to FBURA. The situation is also very difficult for moderate income purchasing households with children, who generally face high rates of housing stress and are therefore excluded from rental and purchase in these markets due to the size of home they need.

Current rates of housing stress, particularly among very low and low income renters in City of Melbourne, make displacement of such households increasingly likely in the housing market context, and accommodation of such renting and purchasing households in FBURA and other inner ring suburbs generally is far less likely in the future.

Implications for Potential Affordable Housing Targets

Based on the housing stress analysis reported in more detail in Part B of the report and Appendices A and B, a target of **20% affordable housing** as defined for relevant target groups would be justified if the objective is to enable such groups to be included in future FBURA redevelopment areas. This is much lower than current housing stress levels for all of the areas examined, and is thus a conservative estimate of likely future affordable housing demand in FBURA in order to provide opportunities for a broad residential mix in future residential development. It also compensates for any over-estimate that may arise in applying a 30% of gross income benchmark to moderate income households.

Assuming 40,000 dwellings are ultimately constructed in the four FBURA precincts, this would be 8,000 affordable rental and purchase dwellings catering for a mix of different income, age, occupational and household types.

A number of scenarios are canvassed in Section 5 of Part B. We have used the housing stress breakdown of **Greater Melbourne** as the 'base case' from which to estimate the breakdown of income and household types that should be targeted by an FBURA Affordable Housing Strategy. It is premised on the assumption that the Victorian government seeks to include the broad range of households likely to need affordable housing in the metropolitan area, and that they will thus seek to provide for such social inclusion and diversity.

The following table provides a breakdown of the quantum and nature of affordable housing that would be required under this scenario. There would be a reasonable balance between renting and purchasing households (though more rental would be required) and between the need for smaller and larger dwellings, though, as noted, far greater housing stress (including severe housing stress) is experienced by very low and low income

households (particularly renters). Almost 80% of affordable dwellings are required by very low and low income households overall.

Table 2-5 Potential Affordable Housing Targets based on Gtr Melbourne Housing Stress

TOTAL DWELLINGS	RENTAL/PURCHASE BREAKDOWN	DWELLING SIZE BREAKDOWN[65]	HOUSEHOLD INCOME BREAKDOWN
Total 8,000 Dwellings	Rental 55% 4,400 Dwellings	Smaller Dwellings 27.5% 2,200 Dwellings	Very Low Income 18.5% 1,500 Dwellings
			Low Income 7% 600 Dwellings
			Moderate Income 2% 100 Dwellings
		Larger Dwellings 27.5% 2,200 Dwellings	Very Low Income 14.5% 1,200 Dwellings
			Low Income 9% 700 Dwellings
			Moderate Income 3% 300 Dwellings
	Purchase 45% 3,600 Dwellings	Smaller Dwellings 17.5% 1,400 Dwellings	Very Low Income 5.5% 400 Dwellings
			Low Income 6% 500 Dwellings
			Moderate Income 6.5% 500 Dwellings
		Larger Dwellings 27.5% 2,200 Dwellings	Very Low Income 7.5% 600 Dwellings
			Low Income 9% 700 Dwellings
			Moderate Income 11% 900 Dwellings

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder)

[65] Smaller dwellings are those suitable for single person and couple households (typically studio and one bedroom), larger dwellings are those suitable for other households (typically two bedroom and greater).

2.5.3 Likely exclusion of key target groups from FBURA based on the evidence

Overview

On current market trends, virtually all very low, low and moderate income households would be excluded from affordably renting or purchasing a home in FBURA in the future. This would include all family households with children, and all very low and low income smaller households (single people and couples). Around one-half of moderate income households would also be excluded on current trends in relevant 'proxy' markets. It is noted that JSA's assessment of social exclusion is relatively insensitive to the threshold of housing stress assumed (30%, 35% or 40%).

It is likely that FBURA will be an expensive market, with price points and rents resembling those in nearby areas of urban redevelopment or intensification. As such, 'diversity' will not equate to 'affordability' for most of the relevant target groups in this context, though there is likely to be benefit for *some* from mandating some smaller product with minimal inclusions (for example, one bathroom, no parking, etc).

Levels of social housing in Greater Melbourne are lower than the national average, and there has been a decline in the proportion of such stock in inner Melbourne, which has historically had an above average supply. Importantly, very little of the new stock being constructed in Docklands, Southbank and around Melbourne CBD is social housing, so that the significant decline in stock levels relative to growing need is likely to worsen in well-located inner city areas without active intervention to create such stock in FBURA.

It is clear that the market will not provide for the vast majority of target groups in need of affordable housing in the Greater Melbourne context, and that strong intervention will be needed by government to create opportunities for low income households and families to live in FBURA.

An expensive local housing market

In the two decades to 2011, the population of Greater Melbourne grew from 3.02 million to more than 4 million residents, a growth of 33% over 20 years, comparable to growth in City of Port Phillip and double that experienced by Hobsons Bay and Maribyrnong LGAs to the west. Over the same period, the population of City of Melbourne tripled, largely due to the construction of high rise apartments in major renewal areas and urban intensification close to the CBD.

Though still not as expensive as Sydney, the rate of dwelling price increase in Greater Melbourne was much higher than for other eastern states between 2003 and 2009. However, it did not match the growth of some capital cities that were affected by the resources boom (for example, Perth and Darwin).

The local market context for FBURA is quite unique. Relevant 'proxy' markets (including Southbank, Docklands and Melbourne SA2s) were far more expensive than Greater Melbourne averages for comparable rental and purchase products despite a relatively flat housing market during in past few years, with significant real growth in median purchase and rental costs between 2001 and 2010.

House purchase prices in City of Melbourne and City of Port Phillip are 60% and 90% more expensive respectively than Greater Melbourne; with similar, though less extreme, trends for apartments (10% and 25% more expensive respectively). Prices in 'proxy' suburbs near FBURA are typically higher than City of Melbourne, and much higher that Greater Melbourne averages for all housing types and sizes.

Similar trends are evident for rental prices, though apartments are much more expensive to rent in City of Melbourne, with a median two bedroom apartment being 40% more expensive than in Greater Melbourne as a whole (comparatively, a median two bedroom unit in City of Port Phillip is 25% more expensive, despite its higher purchase). This is likely partly influenced by the considerable number of new apartments recently constructed in City of Melbourne, although house rental is more expensive in City of Port Philip. Proxy suburbs close to FBURA are more expensive than relevant LGAs for 1 and 2 bedroom apartments and, like purchase prices, are well above Greater Melbourne rents.

Social housing not keeping pace with dwelling increase

Levels of social (public and community) housing across Greater Melbourne have historically been below national levels of supply (3.1% of households for Greater Melbourne in 2011 compared with 4.8% for Australia), and have been falling over the past decade (from 3.4% in 2001).

Levels of social housing in City of Melbourne and Port Phillip have been historically higher than Greater Melbourne due to large government land holdings and major construction programs from the 1950s in inner ring areas. However, they have fallen considerably in the past decade from 11.8% to 7.1% in City of Melbourne and 6.1% to 5.3% of households in City of Port Phillip.

Importantly, very little of the new stock being constructed in Docklands, Melbourne and Southbank SA2s is social housing, so that the trend for significantly declining levels of stock compared with increasing population and demand is likely to continue in well-located inner city areas without active creation of such stock in urban renewal areas.

Table 2-6: Changes in Social Housing Supply in Proxy SA2s 2001-2011

Social Housing		2001	2006	2011
Docklands (SA2)	Number	0	6	60
Docklands (SA2)	% of occupied private dwellings	0.0%	0.3%	2.2%
Melbourne (SA2)	Number	133	108	150
Melbourne (SA2)	% of occupied private dwellings	3.5%	1.7%	1.6%
Southbank (SA2)	Number	3	7	10
Southbank (SA2)	% of occupied private dwellings	0.2%	0.2%	0.2%

Source: JSA 2013, using data from ABS Census of Population and Housing 2001, 2006, 2011 (Time Series Profile, Place of Enumeration)

Mobility trends indicate a need to encourage social inclusion

Overall, there is a reasonable difference between the areas from which people have recently moved to live in urban renewal or intensification near FBURA, and the areas from which commuters are coming to work in Port Melbourne Industrial Area SA2 (which includes FBURA precincts and industrial areas to the north), with the former moving largely from LGAs with higher educational and income status to the east and immediate north of the Yarra River, and the latter commuting from LGAs to the west and from City of Port Phillip.

Commuting trends into Melbourne CBD, Docklands and Southbank, on the other hand, are more reflective of migration trends into these areas, likely reflecting the nature of jobs and the educational status of residents in different areas of Greater Melbourne. Regardless of some locational divisions, commuters in general are drawn from a wide area across Greater Melbourne, and the vast majority commute relatively long distances from a wide catchment.

Table 2-7: Total commuters by selected SA2s and LGAs

Area	People who live and work in the area	People who commute into the area	People who commute out of the area
Docklands SA2	605	31,407	2,562
Melbourne SA2	4,378	181,543	4,693
Southbank SA2	1,003	32,945	5,501
Port Melbourne SA2	926	2,844	6,947
South Melbourne SA2	822	20,176	4,152
Melbourne (C)	27,913	331,772	17,718
Port Phillip (C)	11,843	52,013	39,442

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Work)

Interestingly, the vast majority of those who work in nearby industrial areas commute from LGAs outside of City of Melbourne and City of Port Phillip, likely due to the different occupational and educational profile of the latter areas compared with localities in western Melbourne, from where people mainly commute. Whilst over 17,000 workers commute into Port Melbourne Industrial, only 10% live in either City of Melbourne or City of Port Phillip.

Despite domestic migration patterns, by far the highest in-migration into proxy urban renewal or intensification areas in absolute terms came from **overseas migration.** Around 55% of total in-migration came from overseas (principally China, elsewhere in Asia and the Indian subcontinent), whilst 32% came from elsewhere in Greater Melbourne and Victoria and 13% came from interstate. Such in-migration from overseas and interstate is likely to continue to be a key driver of demand in FBURA in the future.

Although it is possible that some industrial uses will move from FBURA precincts in the future, large industrial uses are likely to remain into the foreseeable future in large industrial precincts to the north and west, and redevelopment will be a gradual process over some decades. Further, higher value commercial, retail and ETMs that replace some more traditional industrial uses are still likely to require a diverse labour market, and there is evidence of an underrepresentation of some key workers such as clerical and administrative workers already. Actively opening up opportunities for diverse income and occupational groups will be important in order to ensure economic sustainability and social inclusion in FBURA, particularly as existing lower value stock continues to be redeveloped in inner Melbourne.

Most target groups excluded from FBURA on current trends

Despite a significant increase in medium and particularly high density stock in inner Melbourne, such diversity has not led to affordable or relatively low cost housing in relevant proxy markets. As such, diversity is not likely to be synonymous with 'affordability' in the FBURA market context.

An analysis by JSA of all properties sold in 2012/13 in surrounding proxy markets and a 2013 snapshot of all new rentals indicates that almost all of the relevant target groups for affordable housing will be excluded from FBURA on the basis of affordability using medians to represent new stock constructed in FBURA.

Those who are likely to be excluded from FBURA based on current market trends are:

- **All** very low and low income renters and purchasers ('small' households of lone persons and couples as well as 'family' households with children);
- **All** moderate income renting and purchasing 'family' households;
- **90%** of 'small' moderate income purchasing households; and
- **Half** of 'small' moderate income renting households.

This is of concern if the objective is to provide for a socially inclusive community within FBURA with regard to income and family type.

House **purchase** in all areas examined is far more expensive than any households in the target group (including moderate income families) are able to afford without putting them into severe housing stress (note that only four houses sold in the past 12 months were affordable to moderate income households). Even a first quartile apartment is not affordable to low income households, while first quartile one-bedroom apartments are affordable only to one-third of moderate income households. This clearly excludes purchase by moderate income families (for whom two-bedroom apartments are well out of reach), as well as many small moderate income households.

Rental of separate houses in surrounding markets is similarly unaffordable to relevant target groups. Again, even first quartile apartments are unaffordable to very low or low income households, and median priced product would generally place them in severe housing stress. Whilst 55% of moderate income households could affordable rent a one-bedroom apartment, again all moderate income renting families are excluded based on affordability.

This is looked at in detail in Part B of the report.

2.5.4 Strong Market Intervention is Effective and Economically Feasible

Market provision of affordable housing possible but limited

It is possible that some additional affordable dwellings could be provided by the market based on the linear regression analysis (LRA) conducted by JSA. However, this would benefit only a relatively *narrow range of relevant target groups*, and would be mainly confined to smaller apartments.

In terms of **purchasing households**, the LRA indicates that:

- 70% of the variation in price is attributable to **size of the dwelling**, controlling for relevant factors such as location, dwelling type and amenity ($7,400 per m^2).
- Alternatively, on average, each bedroom adds $197,000, each additional bathroom adds $167,000 and each parking space adds $81,000 to the purchase price of an apartment in surrounding proxy markets. This likely reflects the general amenity of the apartment as well as specific inclusions.
- There was a locational 'discount' for development in South Melbourne SA2 of $68,000 per apartment on average, though there was found to be no statistically significant difference in other proxy markets based on location.

There is thus a demonstrable utility in providing for smaller apartments to be built through the market, via incentives or mandatory provisions, and reducing other relevant controls to reduce cost, in particular the requirement for parking spaces. However, this would most likely be limited to making studio apartments (35m^2) affordable to small low and moderate income purchasing households, and 50m^2 one-bedroom apartments affordable to small moderate income purchasing households. A 70m^2 two-bedroom apartment would be affordable to perhaps 2% of moderate income households, so that around 13% of affordable housing need could be met through mandating such provision, and all very low income, most low income and virtually all moderate income purchasers would be excluded.

Relevantly, **motor vehicle ownership** in relevant proxy markets is very low compared with the Greater Melbourne average, with 30% of households in Southbank and Docklands SA2s and 70% in Melbourne SA2 owning no motor vehicle, compared with only 10% for Greater Melbourne. As well as locational factors, income also influences levels of motor vehicle ownership; very low and low income households are far less likely to own a motor vehicle, and moderate income households in local proxy markets have half the level of motor vehicle ownership on average, compared with Greater Melbourne.

In terms of **rental accommodation,** the LRA again indicates that size, or alternately inclusions, account for most of the variation in cost rather than locational factors in local proxy markets. Each additional bedroom was found to add $170 per week, each additional bathroom was found to add $284 per week and each parking space was found to add $124 per week on average, though again there are likely to be amenity factors at play.

Again, there are likely to be affordability benefits from the provision of smaller dwellings, to the extent that they are purchased by **investors**; 35m^2 studio apartments are likely to be affordable to small low and moderate income renters, and 50m^2 apartments are likely to be affordable to around 50% of low income renters. Again, most households in rental stress in the current market would be excluded from affordable rental, including all very low, low and half of moderate income families, with only 6% of total need being met by the market (see Sections 6 and 7 below).

As such, whilst there is practical utility in intervening in the market to ensure the delivery of smaller product with no or maximum parking, around 19% of total affordable housing need would be met by housing provided by the market through mandating smaller dwellings, and most of those in housing stress would be excluded from FBURA.

It is thus likely that **stronger intervention** through the planning system, and the direct funding or provision of affordable housing for key target groups would be required *if* the aim is to provide for a socially inclusive community in the future FBURA.

Economic Analysis Supports a Range of Mechanisms and Strategies

Section 3.1 below sets out and assesses the range of mechanisms and strategies available to create affordable housing in FBURA. These include incentive based provisions (relaxation of controls, dedication of affordable housing through planning agreements and the like); mandatory mechanisms (such as specifying dwelling size and type, requiring a floor space levy where there is sufficient uplift, or requiring a development contribution); and direct funding or subsidies (provision of government land, DHS funding with leveraging opportunities, etc). As discussed later, a suite of these mechanisms are likely to be required *if* the aim is to provide for a socially inclusive community in the future FBURA.

It is positive that these mechanisms are also economically feasible in the local market context, and are likely to be effective in providing affordable housing to most target groups. This is due to the likely uplift in land values with the provision of key transport infrastructure and planning certainty in FBURA; profit opportunities from liberal controls (mainly related to height) under the Capital City Zone; and to a lesser extent, leveraging opportunities through use of public land, discount market rent and shared equity approaches. Direct public funding from DHS would be beneficial, but is uncertain in the current funding and policy climate if FBURA is not prioritised for public investment.

There is considerable opportunity for developer profit from the construction of multi-storey apartments within FBURA. JSA preliminary estimates suggest levels of profit associated with construction of multi-storey apartments, using current land values, of 60-90%. The cost to construct additional floor area is around $4,000 per square metre, while the sale price is over $7,000 per square metre, a profit of about 75%, so that it is in the interests of developers to build as high as possible. The profit margin on balconies and garages is much higher because of the lower construction cost, but with the same sale price.

By comparison, normal rates of profit are 10%. Consequently, based on our estimates, levies could be introduced to reduce profits to 10% without affecting the decision of developers to proceed with projects. The upper limit of such levies (based on our

estimates) would be of the order of 35% of saleable floor space. Consequently, there is strong evidence for levies of 10% of saleable floor space to be sustainable.

There are opportunities to leverage levies provided by developers in two areas. The first is through discount market rent and shared equity purchase schemes, and the second is through development on government land.

Discount market rent and shared equity purchase schemes provide leverage opportunities as only part of each dwelling is subsidised. For example, if a 70% owner equity share is adopted, each dwelling levied will provide three shared equity dwellings. Similarly, the rental income from discount market rent dwellings means that two rental dwellings can be provided for each dwelling levied.

If affordable housing projects are developed on government land, the cost of construction is less than the cost of purchase on the market. Consequently, three dwellings can be constructed for the cost of purchasing two dwellings on the market. Opportunities are limited by the supply of available land within FBURA. We have identified sites with the potential to provide 1,500 dwellings (although this could be increased by building higher than the ten stories modelled). Development of these sites will reduce levies by about 6%. (See also Sections 6 and 7 of Part B below).

2.5.5 'Affordable Housing' could affect anyone in the community

Overview

Given the findings of this research, it is likely that the need for affordable housing could affect *anyone* in the community at some stage in their lives. This could be a young adult who wants to live near where they grew up or work, a low paid worker who cannot afford to run a car and needs to live close to their employment, an aging parent who needs to move closer to their family, or someone who has had an unexpected change in life circumstances such as an accident, illness or divorce, or even a loss of family support providing free childcare.

Importantly, the proposed target groups for affordable housing make up 60% of people in the community (a moderate income household being one that earns up to 120% of the median household income for Greater Melbourne).

The case studies provided in this *Options Paper* indicate that, even if a very low, low or moderate income household were able to secure a home in FBURA, this would likely be accompanied by considerable economic hardship. This would become severe for many if their life circumstances were to alter, even slightly. Many ordinary people are likely to be living precariously, and to be at considerable risk of displacement. The case studies also indicate the difficulty that a very low, low and moderate income household at different life stages would have living *anywhere* in inner Melbourne if they were excluded from FBURA in the future.

The lack of affordable housing to rent or buy thus not only affects the quality of life of individual families, who are often 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 many areas of Australia.

Hypothetical Case Studies

Overview

Even if a very low, low or moderate income household were able to secure a home in FBURA, this would likely be accompanied by considerable economic hardship, which would become severe for many if their life circumstances were to alter, for some even slightly.

The first three of the following case studies, based on relevant data in the body of this *Paper*, illustrate the impact that lack of affordable housing would likely have on different types of families in the future FBURA. The next three case studies provided look at this in the context of inner Melbourne more generally, illustrating the difficulty that very low, low and moderate income households would have living anywhere in inner Melbourne if they were excluded from FBURA due to affordability issues.

It is noted that, although the names and scenarios are 'hypothetical', they are based on real calculations of the award wage rates or other payments (Centrelink, CRA, Family Tax Benefit, etc) of such family; the likely housing costs associated with dwelling types based on JSA's analysis of proxy markets reported in Section 6 and 7 of the Paper; and on a conservative assessment of average household costs from the ABS Household Expenditure Survey. These case studies therefore represent 'real families' in such situations.

Tom and Anna (a 'Moderate Income Household') – FBURA

Tom and Anna are a young couple in their early thirties and were brought up in Port Melbourne. They have two preschool children, Mark and Susie. They both work full time for the council under a modern award, Tom as a labourer and Anna as a clerical assistant. The children are cared for by Anna's mother at their apartment during the day. Between them, and with some overtime, Tom and Anna earn around $75,000 each year, placing them in the upper 35% of moderate income households and in the top 45% of all households. After tax, they take home $1,120 per week. They also receive family tax benefit of $65 per week. They have a loan on their two bedroom apartment in FBURA which costs them $640 per week[66] in repayments (44% of their gross income) leaving them with a disposable income of $545 per week. A typical household in their income range spends $720 per week[67] on necessities.[68] To bridge the gap of $175 per week, Anna buys clothes at op shops, Tom services their car, their furniture is old and they eat cheaply. The car is quite old and they cannot afford to repair it or buy another. They would like to sell it, but, while Anna walks to work, there is no public transport running to

[66] Median price from quartile sales data.
[67] ABS Household expenditure survey (includes $170 vehicle operating costs).
[68] Figure includes rates, insurance, repairs, domestic fuel and power, food and non-alcoholic beverages, clothing and footwear, household furnishings and equipment, household services and operation, medical care and health expenses, personal care, miscellaneous goods and transport costs. The figure excludes alcoholic beverages, tobacco products and recreation.

Tom's workplace. They never eat out, and, since buying the apartment, they spend their holidays at home. They have no savings.

Anna's mother has recently become ill and has said she will not be able to look after the children. Anna has investigated childcare and the cheapest option, family day care, will cost $220 per week after rebates. A child care centre is out of the question. There is no family day care available within walking distance and they have discussed Tom cycling to work so she can use the car.

They have looked at selling, but their options are limited. They will lose money on sale, and while purchase of a cheap apartment in another area will save them $120 per week, their transport costs will increase. If they rent their apartment out, there will be a shortfall of $80 per week, and if they move into a one bedroom apartment at a rent of $425 per week (29% of their gross income), they will still be $85 a week worse off after childcare costs. They can move further from the inner city and rent a two bedroom apartment for $300 (20% of their gross income), but the saving will be offset by commuting costs. They are both currently looking for work in the western suburbs and are planning to relocate.

Jenna and Cameron (a 'Low Income Household') – FBURA

Jenna and Cameron are a young couple in their late twenties and were both brought up in South Melbourne. They have one child, Damien. Cameron works full time in retail, and Jenna works part time stacking shelves at a local supermarket five nights a week while Cameron cares for the baby. They earn $50,000 per year, placing them in the top 30% of low income households and in the bottom 35% of all households. After tax they take home $900 per week. In addition, they receive a family tax benefit of $76 per week.

They are currently paying off a one bedroom apartment in FBURA with weekly mortgage payments of $468 (49% of their gross income) leaving them $510 per week. A typical family in their income range pays $409 per week[69] for home ownership costs and necessities.[70]

They cannot afford to own a car so they walk or use public transport, with fares costing them around $40 per week, leaving them with $60 per week in discretionary income. Jenna finds it scary walking home alone late at nights, but a taxi is out of the question. She usually walks fast and increases her walking time by avoiding areas around clubs and hotels. She is usually home by midnight, and tries to get a nap through the day to catch up on her sleep.

They would like to have another child, but it is quite crowded in their apartment and they really need something larger. They are used to saving, but if they save everything they

[69] ABS Household expenditure survey

[70] Figure includes rates, insurance, repairs, domestic fuel and power, food and non-alcoholic beverages, clothing and footwear, household furnishings and equipment, household services and operation, medical care and health expenses, personal care and miscellaneous goods. The figure excludes alcoholic beverages, tobacco products, recreation and transport costs.

can, they save $3,000 per year. At that rate it will take them 50 years to be able to purchase a two bedroom apartment in FBURA.

Their options for housing are limited and all involve relocation. They can sell their apartment and purchase a rundown house in the western suburbs for about the same mortgage repayments, though this will mean that they will need to buy a car and find work locally, as they cannot afford to commute. If they rent in the western suburbs rather than buying a place, Cameron can keep his job and they can make ends meet, but Jenna will need to find local work. They are not happy with this option, as they see owning an apartment as 'getting ahead' and don't want to be long term private renters.

Cameron is currently looking for work in the western suburbs, and he and Jenna spend the weekends looking at house sale advertisements.

Arthur and Denise (a 'Low / Very-Low Income Household') – FBURA

Arthur and Denise are a retired couple in their mid-70's who have always lived in the South Melbourne area. They both remarried after divorce, and with child care and child support costs, were never able to save a deposit to purchase a home together. Prior to retirement, they comfortably rented a two bedroom apartment in FBURA for $560 per week. Between them, they had $180,000 in superannuation at retirement.[71]

They had taken a pension drawing down their super over 20 years, returning an annual income of $9,000 or $110 and $63 per week respectively.[72] They were also entitled to an aged pension of $288 and $305 per week respectively and Commonwealth Rental Assistance of $58 per week, giving a weekly income of $824, and placing them around the middle of the low income band.

A typical household on their income spends $260 per week on necessities,[73] so they moved to a studio apartment in FBURA with a rent of $425 per week (52% of gross household income) and sold their car to reduce costs. This gave them $90 per week left over for fares and entertainment such as a coffee when they went for a walk. In addition, they saved $2,500 per year, enabling them to have occasional short holidays.

Arthur recently became ill and entered a nursing home. As a result, Denise's pension was increased to $404.40 per week, however total household income decreased with the loss of Arthur's income. With her super and Commonwealth Rental Assistance, this gave her a weekly income of $531 per week, placing her in the bottom 20% of incomes and towards the top of the very low income range. She can no longer live in the area, as the rent for the studio will be 80% of her gross household income, leaving her $106 per week for living expenses, and she is considering taking her remaining superannuation as a lump sum and purchasing an onsite caravan in a rural area. This will be hard for her, as her friends all live in South Melbourne. She has placed her name on the public housing waiting list, but is not eligible for the priority list because of her superannuation.

[71] Median combined balance for ages 65-69, ABS 4125.0.

[72] Assumes rate of return equivalent to inflation.

[73] Figure includes domestic fuel and power, food and non-alcoholic beverages, clothing and footwear, household furnishings and equipment, household services and operation, medical care and health expenses, personal care and miscellaneous goods. The figure excludes home ownership costs, alcoholic beverages, tobacco products, recreation and transport costs.

Alternatively, if they had bought a median studio apartment using their superannuation as a deposit, their weekly income would have been $609 (in the top of the very low income band), with mortgage payments of $301[74] (49% of gross household income) and necessities of $320, consuming all their income, and with a weekly shortfall of $12. Denise would have been unable to maintain the mortgage payments on her income of $404 per week (75% of income), as this would leave her $103 per week, and she would have to pay rates and strata levies as well as taking her living expenses from this amount.

Vivien and James (a 'Moderate Income Household') – Inner Melbourne

Vivien and James have been married for four years and have two young children. Vivien works full-time as a primary school teacher at a public school in Inner Melbourne and earns a weekly salary of about $1,300 (about $1,000 per week after tax),[75] while James is the full-time carer of their children. This places them in the middle of the moderate household income band for Greater Melbourne. They rent a cheaper two-bedroom unit in the Inner City, which costs them $400 per week[76] (approximately 30% of the family's gross household income), so that Vivien can be close to work. Lately, James and Vivien have been considering selling their car, since the running costs (an average of $180 per week) combined with rental payments and the costs of other essentials[77] leave them with very little money to spend on other things that many families take for granted, for example toys for their children, eating out on occasion and the odd bottle of wine. However, they have friends and family who live in outer suburbs of Melbourne, in areas which are quite difficult to reach by public transport, and Vivien's parents live two hours' drive away in Shepparton.

Vivien and James have been considering buying a unit in Inner Melbourne. However, even a cheaper two-bedroom unit will cost them between $400,000 and $450,000.[78] They will need to save up at least a 5% deposit (around $20,000), which will be hard for them given their disposable income. If they do manage to save up enough for a deposit they will be spending around $600 per week in mortgage repayments,[79] leaving them with just $400 per week to spend on essentials, a very small amount for a couple with two young children.

[74] Including costs of home ownership
[75] Victorian Department of Education and Early Childhood Development – Pay Rate for Accomplished Teacher (Level A-4), effective from 1 January 2012.
[76] Victorian Department of Human Services, Rental Report Data Tables, September Quarter 2012.
[77] ABS Household Expenditure Survey 2009-10 – Household with Third Quintile Gross Weekly Household Income for Victoria (average $1,333 per week):

- Groceries: an average of $140 per week.
- Clothing and footwear: $45 per week.
- Household furnishings and equipment: $45 per week.
- Household services and operation: $60 per week.
- Domestic power and fuel: $40 per week.
- Medical expenses: $50 per week.
- Personal care: $20 per week.

[78] JSA calculations, based on median sale prices published by the Victorian Department of Sustainability and Environment (September Quarter 2012) and data from RPData, properties sold in Docklands, Port Melbourne, South Melbourne and Southbank between 20 April 2012 and 19 April 2013.
[79] Calculated by JSA using www.infochoice.com.au 'Home Loan Calculator'.

Alistair and Kate (a 'Low Income Household') – Inner Melbourne

Alistair and Kate live together in a two-bedroom unit in Inner Melbourne. Kate has just had a child, and cares for her full-time while Alistair works as an administrative assistant in the CBD. The unit is at the cheaper end of the market, and they pay $400 per week in rent.[80] Alistair receives a salary of $45,000 per year,[81] which after tax and rental payments (approximately 45% of the family's gross household income) gives the family a weekly disposable income of $400. This places them in the middle of the low household income band for Greater Melbourne. Kate and Alistair do not own a car, since their weekly disposable income is used to pay for other expenses, such as groceries, clothing and footwear, domestic power and fuel, and medical expenses.[82] They cannot afford to go away for holidays, and rarely eat out. They have considered moving to one of the cheaper outer suburbs of Melbourne, but this would mean the Alistair would have to commute to work rather than walking as he currently does (with the added expense that this entails), as well as the fact that most of their friends live in the city.

Alistair and Kate are planning to have more children, and will need a bigger unit when the one that they are currently renting starts to become cramped. However, even at the cheaper end of the market a three-bedroom unit in the city will cost them over $550 per week,[83] which will leave them with just $250 per week as their disposable income, not be enough to cover even the essentials. Once their family begins to grow, Kate and Alistair will be forced to move out of the city, which will put additional strain on the family. Alistair will have to commute daily into the city, with the additional cost of transport that this entails, and it will be harder for them to remain in contact with their good friends in the city.

Bob (a 'Very Low Income Household') – Inner Melbourne

Bob is aged in his eighties and lives alone in a bedsit in Inner Melbourne. The unit is at the lower end of the market, and he pays $230 per week in rent.[84] His wife died two years ago; while she was alive they received a substantially higher pension, but now that he is living alone he is struggling with cost of living. He receives an age pension of about $405 per week,[85] as well as about $60 per week in Commonwealth Rent Assistance

[80] Victorian Department of Human Services, Rental Report Data Tables, September Quarter 2012.
[81] Administrative assistant jobs advertised on www.seek.com.au on 20 May 2013.
[82] ABS Household Expenditure Survey 2009-10 – Household with Second Quintile Gross Weekly Household Income for Victoria (average $779 per week):

- Groceries: an average of $105 per week.
- Clothing and footwear: $25 per week.
- Household furnishings and equipment: $40 per week.
- Household services and operation: $50 per week.
- Domestic power and fuel: $35 per week.
- Medical expenses: $35 per week.
- Personal care: $15 per week.
- Miscellaneous goods and services: $75 per week.

[83] Victorian Department of Human Services, Rental Report Data Tables, September Quarter 2012.
[84] JSA calculation, based on data from ABS Census of Population and Housing 2011.
[85] http://www.superguide.com.au/how-super-works/age-pension-rates

payments.[86] This places him in the very low household income band for Greater Melbourne.

Once rent is paid (approximately 50% of his income), this leaves him with a disposable weekly income of approximately $235 per week. This is just enough to cover essentials, such as groceries, clothing and footwear, purchase and maintenance of furniture and medical expenses.[87] Being quite old and frail, Bob requires help with some day-to-day activities, such as grocery shopping. However, some weeks he struggles to pay for cost of transport to the supermarket, as well as to other activities that help him to keep socially connected. Bob's family have been trying to convince him to go to a nursing home. However, a sense of independence is very important to Bob, though lately he has been beginning to feel quite overwhelmed with maintaining an independent lifestyle on his current income.

[86] http://www.humanservices.gov.au/customer/enablers/centrelink/rent-assistance/payment-rates

[87] ABS Household Expenditure Survey 2009-10 – Household with First Quintile Gross Weekly Household Income for Victoria (average $391 per week):

- Groceries: an average of $85 per week.
- Clothing and footwear: $15 per week.
- Household furnishings and equipment: $25 per week.
- Household services and operation: $30 per week.
- Domestic power and fuel: $25 per week.
- Medical expenses: $35 per week.
- Personal care: $10 per week.

3 Options for creation of Affordable Housing in FBURA

3.1 Overview

This section first provides an overview of the mechanisms and strategies available to create and retain affordable housing in Australian jurisdictions, including Victoria (Section 3.2). It then provides a summary assessment of the likely legality and effectiveness of these mechanisms and strategies in the context of the local housing market (Section 3.3). This is followed by summary assessments of likely effectiveness of broad funding strategies (Section 3.4) and delivery options (Section 3.5), again in the local context. These are looked at in more detail in Sections 6 and 7 of Part B of the report.

These provide a context to the presentation of **four options** for the delivery of affordable housing in FBURA housing in **Section 3.6**, which synthesise the findings of the report and propose a range of ways that affordable housing can be legally, feasibly and equitably provided in FBURA. The selection of preferred options will be a matter of political will regarding the degree of intervention in which government is prepared to engage to create affordable housing for the inclusions of low income and family households.

3.2 Mechanisms and Strategies Available to Retain or Create Affordable Housing

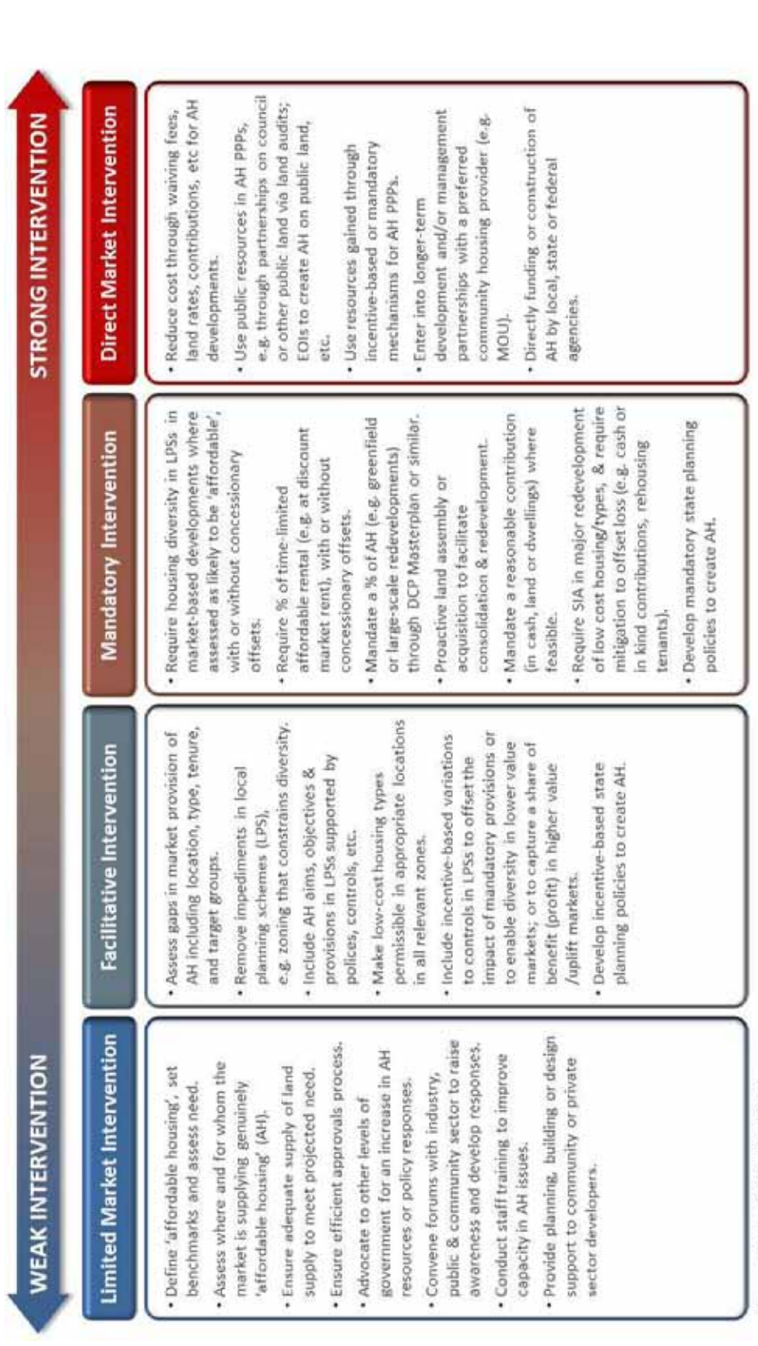
3.2.1 A range of mechanisms and strategies are needed

A range of planning mechanisms and strategies are available to government to create affordable housing in various Australian and international jurisdictions, including Victoria. These mechanisms and strategies are highly contextual. Those selected will depend upon the extent and nature of local affordable housing need, the depth of subsidy required to achieve affordability in a given market, the ability of the market to deliver affordable housing with or without intervention, and the level of commitment of the state or local government authority within the context of what is legal and economically feasible. To a large extent, the mechanisms and strategies selected by government are a matter of political will.

The following table provides an overview of the potential mechanisms and strategies that are available in the Victorian planning context. Mechanisms are generally grouped by the extent of intervention in the market required. These range from market delivery with limited intervention; reasonably 'weak' interventions such as removing impediments to the creation of affordable housing types in appropriate locations, or providing incentives for creation of affordable housing; through to 'stronger' requirements such as mandating a proportion of relevant dwelling types, levies of other mandatory contributions to affordable housing through various 'inclusionary zoning' approaches; and direct

intervention in the market by government such as the provision of funding, land and/or other subsidies to create affordable housing. Wherever possible, market delivery is considered as the first option.

In the case of FBURA, **strong intervention** will be required through the planning system and/or some form of subsidies by government to create affordable and low cost housing based on the evidence from this study if *any* very low, low or moderate income households are to be included or live affordably in FBURA. It is thus likely that **state and local government will need to use mechanisms and strategies across the full spectrum** outlined in the table below due to the extent and nature of affordable housing need and extent of likely exclusion of diverse groups from FBURA if housing provision is left entirely to the market.



Source: Stubbs (2003); JSA (2011)

Figure 3-1: Mechanisms and Strategies to Create Affordable Housing Along a Continuum of Planning Intervention

3.3 Evaluation of Planning Mechanisms and Strategies

Planning mechanisms and strategies available to create or protect the supply of affordable housing are outlined in Figure 3.1 above along a broad continuum of market intervention.

These have been assessed with regard to their likely legality and effectiveness. This assessment is summarised in the following table.

It is noted that some mechanisms or strategies are recommended despite their likely lower level of effectiveness or yield (for example, direct funding by DHS) as they would make a positive contribution to affordable housing for a hard to house group (very low income households if they could be implemented).

Table 3-1: Summary evaluation of planning mechanisms

Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
LIMITED PLANNING INTERVENTION			
Conduct studies to assess need, develop benchmarks, etc	No legal constraints	Provides an important evidence base for policy but not effective unless operationalised through planning system and/or funding commitment	✓
Advocacy, awareness raising, staff education	No legal constraints	Important but not likely to be effective without political commitment, practical mechanisms and funding	✓
Ensure adequate land supply, planning certainty etc	Provided to a large degree through the Capital City Zone and planned future redevelopment of large tracts of land in FBURA, although 'certainty' may still be constrained by the requirement for merits based development assessment, and there may be an overlay of controls (for example, that limit height) in a future structure plan.	Increased supply and liberal zoning alone are highly unlikely to provide affordability in the FBURA market context without active planning intervention.	?
Fast-tracking approvals	Provided for under Schedule 1 of the Capital City Zone for 'accommodation', although delays stills possible through merits assessment process.	Fast tracking unlikely to provide for affordability in the FBURA market context without linkage to affordable housing outcomes to capture benefit from time savings (see below).	?
Provide planning, building or design advice to developers (e.g. via development of a manual on dwelling types, sizes, design feature,	No legal constraints	Likely to be a useful support to developers and CHPs to support other mechanisms discussed below.	

Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
etc resulting in affordable housing at specified price points)			√
FACILITATIVE INTERVENTION:			
Include affordable housing objectives, definitions, benchmarks and targets or KPIs in relevant EPIs, policies and plans	Include in Structure Plan or similar for FBURA (as a whole or precincts), and operationalise for example through amendment to LPS, and/or to SPPF [for example, a clearer definition, benchmarks, target groups in cl 16.01]. Legal with ministerial approval for relevant amendments and likely required to support a Structure Plan or similar. Should be supported by a policy for transparency and consistency. Other mechanisms to achieve KPIs/ targets are discussed below.	Important, and effective if included in environmental planning instruments, policies or plans that have legal force, and preferably supported by specific mechanisms	√
Liberalise permissibility /remove impediments from LPS, policies, controls (e.g. zoning that constrains diversity, controls that increase cost)	No legal constraints - the Capital City Zone provides for a liberal approach to zoning, and a preliminary audit shows no significant barriers, apart from potential to delay development through the merits assessment process, and depending on what controls are ultimately overlayed on FBURA.	Important in opening up diversity but of limited utility due to liberal nature of the Capital City Zone, and the fact that 'diversity' does not equal 'affordability' for most target groups.	?
Incentives to increase developable area (relaxation of controls, etc) involving density or height bonus in exchange for a 50% share of	No apparent legal constraints, though this would likely need ministerial approval for application generally or to high value precincts. Mechanism could be operationalised through an amendment to LPS	More conventional approaches are unlikely to be effective in the Capital City Zone *unless* there is an overlay of more restrictive controls over part or all of the site. Whilst artificial constraints could be imposed on	

Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
additional profit (in cash or kind) to provide affordable on- or off-site in perpetuity *should* the developer choose to take up the incentive	including an overlay with map precincts /sites where it applies supported by appropriate and transparent policy to allow for consistent application, including a density bonus 'calculator' for the contribution (e.g. Waverley Council in NSW).	height and density, this could work against other objectives such as densification and graduated development standards to protect urban interfaces. This would be a more valuable mechanism *if* significant constraints are ultimately applied to height, given the significant value of each additional floor in JSA's preliminary assessment. However, it is noted that schemes in NSW where this has been applied, yield is relatively low, and the response by developers is uncertain. It is not a substitute for a mandatory levy.	?
Incentive to reduce time/ increase certainty of approvals linked to demonstrated affordable housing outcomes.	There is an implied or effective constraint in the Capital City Zone regarding approvals, despite 'Accommodation' being listed as 'permit not required' under Schedule 1. 'Accommodation' could be transferred into Section 2 (requiring a permit), and 'Accommodation including x% of affordable housing' (as specified in a related policy or schedule) could be listed in Section 1. This could providing an incentive for applications which provide the required component of affordable housing in FBURA precincts. In the event of unconstrained height constraints, development could be structured to support the impost through additional height. A policy could provide for an equivalent cash or land contribution (on or off site), and would provide for	Streamlining of approvals process to reduce time could be an effective incentive for the creation of affordable housing within the Capital City Zone. However, this may be seen to work against the intention of the Capital City Zone to provide for a more liberal approvals regime including for accommodation. JSA's analysis indicates that significant profit is obtained from each additional floor, so that a more liberal approvals process where a demonstrated Affordable Housing outcome is achieved could be quite beneficial (see Table 3.2 below).	√

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Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
	transparency in decision making. No apparent legal constraints, though this would likely need ministerial approval to amend LPS, for example Schedules 1 and 2 of the Capital City Zone. (Could also be implemented to support mandatory mechanisms –see below).		
Incentives to increase dwelling diversity /reduce cost	No apparent legal constraints due to the Capital City Zone.	This mechanism is effective in markets where controls have the deliberate or unintended consequence of constraining the development of smaller dwellings. However, it is largely redundant in the Capital City Zone and the market appears to be providing smaller dwellings, though these are not affordable to most target groups without a subsidy.	?
Entering into Planning Agreements under section 173 of the Act	Legal mechanism for negotiating a planning agreement, which could be negotiated with regard to securing affordable housing. They would normally be entered into voluntarily as part of the rezoning or development application process, so legal advice would be required regarding the securing of affordable housing as part of mandatory mechanisms discussed below. However, there would appear to be an opportunity	The rezoning to Capital City Zone of the whole FBURA site well in advance of structure planning or infrastructure provision is likely to have meant a loss of leverage by the relevant authority in negotiating such agreements. Nonetheless, their proactive use on large sites (where there may be other advantages to the owner) or to secure mandatory contributions if this can be legally achieved is likely to be an effective mechanisms to	?

Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
	for Places Victoria /the Victorian State Government to seek such agreements proactively in relation to individual large sites to provide planning certainty or other benefit in exchange for the creation of affordable housing. Again, it is preferable that this is supported by a policy or plan to ensure transparency and accountability.	secure affordable housing in perpetuity.	
MANDATORY INTERVENTION			
Inclusionary approaches that specify a % of affordable housing (in this case, 20%) be provided across the whole area, or specified precincts/sites: • Through one mechanism, or • Through a range of mechanisms and funding strategies (as favoured in this case) .	No apparent legal constraints to an inclusionary approach, though amendments may be required in LPS and/or VPP/SPPF for *some* mechanisms. For example, a Structure Plan or similar could require 20% affordable housing at specified benchmarks/ dwelling types and tenures for a relevant target group mix, with targets, KPIs and a suite of related mechanisms required to achieve this also specified. Amendments to LPS and/or the SPPF would be needed to the extent they are required to support mechanisms specified (e.g. mandatory mechanisms set out below), and to ensure the Structure Plan has legal force. This could be achieved through an affordable housing overlay for FBURA that specifies the requirements for affordable housing, relevant mechanisms, etc,		√

Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
	supported by a transparent policy for implementation, accountability for funds collected including priorities, administration, etc (per cl 41 of City of Port Phillip LPS, for example).		
Mandating dwelling size, type, and/or other controls that reduce cost of construction (e.g. maximum or no parking)	No apparent legal constraints, though this would likely need ministerial approval to amend LPS, for example, specified in an affordable housing overlay to support the FBURA structure plan.[88]	Likely to be of benefit to a narrow range of target groups but nonetheless valuable to require this in the event that the market does not continue to provide such dwellings, or less costly inclusions.	√
Development contributions under Part 3B of the Act.	Requiring a development contribution for affordable housing under a DCP under Part 3B of the Act depends upon the interpretation of 'community infrastructure' or 'service' in determining its legal status. There could also be constraints to the amount that could be levied depending on competing demands for these funds, although as noted a significant levy is feasible. Requiring such a contribution may require an amendments to (or clarification of definitions under) Part3B of the Act, or a **specific affordable housing**	There are likely to be competing demands on such contributions, even if they are deemed to be legal. However, some form of levy on additional profit generated through the operation of the planning and development assessment process is by far the most efficient and effective method for generating affordable housing in FBURA. JSA's research indicates that this approach is likely to be economically feasible (due to significant uplift in FBURA precincts), equitable (not required to be passed on to first home owner, for example), and to provide for by far	√

[88] Modelling is based on 50:50 studio and one bedroom apartments; and 70:30 two bedroom and three bedroom apartments to ensure a spread of apartment sizes.

Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
	levy in addition to conventional development contributions.	the highest affordable housing yield of any funding strategy available in the FBURA context.	
Affordable Housing Levy (e.g. floor space or equivalent unit) across FBURA or precincts (e.g. under the *Urban Renewal Authority Act 2003)*	A key component in an inclusionary approach, generally levied on a floor space basis across all residential (and potentially) commercial uses in an area, or specific precincts, and levied in units or equivalent cash or land to create affordable housing in perpetuity , and component is a floor space levy (which may be constructed as an in-kind contribution in units or land). It is noted that under the *Urban Renewal Authority Act 2003*, the authority (Places Victoria) may levy fees and charges and pursue a range of strategies to create affordable housing (see discussion at Section 2.5.1 above). This could provide an alternative legal mechanism to development contributions under Part 3B of the Act, though in practice its remains a levy,	As noted, JSA's research indicates that this approach is likely to be economically feasible (due to significant uplift in FBURA precincts), equitable (not required to be passed on to first home owner, for example), and to provide for by far the highest affordable housing yield of any funding strategy available in the FBURA context.	√
Incentive to reduce time/ increase certainty of approvals linked to demonstrated affordable housing outcomes.	The mechanisms described above could be constructed as a mandatory requirement, where all 'accommodation' in Schedule 1 of the Capital City Zone as it applies to *FBURA only* is required to contain '20% affordable housing' in perpetuity (as specified in a related structure plan, policy or	Streamlining of approvals process to reduce time could be an effective incentive for the creation of affordable housing within the Capital City Zone. However, this may be seen to work against the intention of the Capital City Zone to provide for a more liberal approvals regime including for accommodation.	

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Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
	schedule). This requirement could be provided in units as part of the development or as an equivalent contribution. The developer would be aware of this requirement and could factor in this requirement into the height of the building, number of apartments so as to structure the development to account for this levy. As noted, there is an implied or potential constraint the Capital City Zone regarding approvals, despite Accommodation' being listed as a use for which a permit is not required under Section 1 of Schedule 1. No apparent legal constraints, though this would likely need ministerial approval to amend LPS, for example Section 1 and 2 of Schedule 1 to the Capital City Zone.	JSA's analysis indicates that for every additional floor, profit would be around $3,000 per square metre or more, so that a more liberal approvals process where a demonstrated Affordable Housing outcome is achieved could be quite beneficial (see Table 3.2 below).	√
Protection of existing stocks of affordable or low cost housing	Appear to be provided for under social and economic impact considerations under *s60(1A)(a) of* the Act	Likely to be of limited utility as there is not a high concentration of existing affordable housing on the FBURA site. Experience in other states also indicates that refusal of applications involving a loss of stock is a reasonably high risk strategy as it is often legally challenged despite legislation requiring an assessment of the social and economic impacts of a DA, and mitigation to offset the loss of such housing is most effective when supported by strong policy provisions.	X

Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
DIRECT MARKET INTERVENTION:			
Use of government land for affordable housing development /partnerships	No legal apparent constraints to use of council or other government land, and legal mechanisms exist to protect the public authority's interest in the land, to ensure that land or units created are used for affordable housing in perpetuity, etc. Further, under the *Urban Renewal Authority Act 2003*, Places Victoria can resume land in FBURA based on current land value, consolidate land, etc and do other things to achieve certain outcomes (including in relation to affordable as a purpose of the authority). There would appear to be nothing to prevent it from doing so to achieve its purpose in relation to affordable housing under its Act (see discussion at Section 2.5.1 above). PV can also enter into joint ventures with other agencies to develop land for a specific purpose, which again could legitimately include affordable housing given that is one of the purposes for which Places Victoria was established.	Limited government-owned sites have been identified that are unconstrained or have the potential for future redeployment. However, those that have been identified have significant potential to yield affordable housing for the range of target groups including very low and low income households as part of mixed tenure developments (including social rental, discount market rental, shared equity and market housing to help fund the development). Leveraging opportunities are particularly important (see Table 3.2 below and Section 7). Further, the powers of Places Victoria that can be used to give effect to its purpose in relation to affordable housing open up significant opportunities in creating affordable housing on government land. These can be developed through an EOI process in partnership with a CHP and/or a suitable private developer including under models such as community land trust (CLT) with ownership vested in an affordable housing trust or similar and units managed by a CHP.	√
Redeployment of DHS funds from the sale or redevelopment of capital stock in City of Melbourne or City of	No legal constraints	Potentially important strategy to create social rental housing in FBURA, but consultation with DHS indicate that this is likely to be low yield as FBURA may not be a	√

Mechanism /Strategy	Legal Considerations	Effectiveness	Recommended
Port Phillip to construct stock or buy land in FBURA		priority area for DHS investment strategically, and greater yield is likely to be achieved in lower land value areas (e.g. redevelopment of lower density stock in middle ring suburbs). The exception would be if some form of subsidy were available (e.g. land component provided free of charge or at a significant discount, with investment by DHS part of a partnership development where leverage opportunities were available). See also discussion below regarding funding strategies.	
Direct funding for social housing from DHS	No legal constraints	Per row immediately above. Discussed below as funding strategy. See also discussion below regarding funding strategies.	√

3.4 Evaluation of Funding Strategies

Funding mechanisms vary from direct funding by government to levies on developers' profit, with a range of leveraging opportunities available. In reality, a combination of these funding strategies is required to accommodate the target groups likely to need affordable housing in FBURA.

A range of broad funding strategies have been assessed with regard to effectiveness and economic feasibility. This assessment is summarised in the following table, whilst Sections 6 and 7 in Part B of this Paper provides detailed modelling of the options considered.

It is noted that provision of affordable housing for most target groups will require a transfer, that is, a subsidy in the form of discount market rent, social housing, subsidised purchase and the like. The exception is for a minority of smaller moderate income purchasing households and smaller moderate income renting households to the extent that housing is taken up by investors.

It is generally preferred that the development and management partner be a **registered community housing provider (CHP)**. Such providers are experienced in the management of affordable housing, many have development capacity. They have considerable advantages in the leveraging of funds raised through planning mechanisms and government land or funding contributions due to taxation advantages and CRA maximise CRA, and often have their own funding or resources to contribute to a partnership.

Table 3-2: Summary evaluation of funding mechanisms

Funding mechanism	Who pays?	Comments	How effective in meeting identified need?
Mandating dwelling size and provision through the market	Developers *may* pay	To the degree to which this mechanism distorts the market (is not already being provided by developers), it could be seen as an impost on them regarding use of land for highest and best use as there may be some loss of profit. However, the increase in supply does not involve a subsidy to purchasers as they still pay the market price for the dwelling.	Somewhat effective for smaller households but families largely excluded. Smaller dwellings will provide affordable housing to around 19% of the demand for affordable housing using the housing stress profile for Greater Melbourne.
Funding transfers, e.g. discount market rent, social housing, subsidised purchase. Mechanisms include:			
Provision of public housing by DHS (capital or funding)	Government/whole of community pays	Likely to be inefficient in FBURA due to high dwelling prices, and DHS may not consider FBURA as a priority for future investment compared with other areas with lower levels of social housing	Yields likely low compared with areas of lower land value, and DHS owns no land in FBURA
Sale of DHS stock and reinvestment of funds in FBURA	Government/whole of community pays	Likely to be inefficient in FBURA due to high dwelling prices, and DHS may not consider FBURA as a priority for future reinvestment of funds gained from sale of dwellings near FBURA	Yields likely low compared with areas of lower land value, and DHS owns no land in FBURA
Use /dedication of public land for JVs, CLTs, etc.	Government/whole of community pays	Use of green (open) space is likely to be at a premium and unlikely. Use or redeployment of brownfield sites will involve an opportunity cost (e.g. COPP depot) (or could be 'airspace') Use of 'airspace' is cost free (e.g. car parks and	Some opportunities for leveraging of funds obtained elsewhere (eg through planning mechanisms discussed below). See discussion below with regard to yield.

Funding mechanism	Who pays?	Comments	How effective in meeting identified need?
		road reserves, fire station or Auspost sites), although there may be some price on increased foundations, substructure etc	
Development contributions, floor space affordable housing levies under inclusionary zoning, etc.	Developer pays	Despite Capital City Zoning being already applied, significant uplift is still likely to occur in the future with the provision of transport infrastructure and development certainty. JSA's analysis suggests that levels of profit based on current land and dwelling prices are such that levies can be required and development profit will still be well above normal levels of profit.	Assessed as the most effective funding strategy particularly given the mix of dwellings and subsidy required under scenarios modelled. Based on our modelling, there is significant opportunity for benefit capture of the order of one dwelling in each five to seven constructed.
	Home purchasers /renters pay	JSA analysis suggests that the demand curve is relatively flat, that is, the increased supply from construction of dwellings in FBURA will not lead to a decline in price. As noted, up lift is high enough that the cost of reasonable contributions or levies does not have to be passed on to the consumer, and purchasers in FBURA are generally not in the affordable housing target groups, and are more likely to be higher income households.	Not applicable.
Development incentives /concessions or control relaxation	Whole of community pays	Profit from up lift and apartment sales price is likely to be sufficiently high to make such incentives attractive. To the extent that the developer gets *extra* floor space or height or time than would otherwise be available, it would be cost neutral or likely increase profit. There is a non-monetary 'cost' to the community to the extent that amenity is compromised by the	As noted above, such opportunities are limited due to the site already being rezoned Capital City, and yield is likely to be low. However, this may be re-evaluated once controls (if any) are known for the Capital City Zone as it applies in FBURA.

Funding mechanism	Who pays?	Comments	How effective in meeting identified need?
		granting of additional floor space or lower level of scrutiny for applications.	
Leverage options:			
Assisted purchase (e.g. shared equity)	The purchaser (their share of equity and other costs) and the community /developer	Whilst the purchaser pays, the benefit to the purchaser will exceed the cost as they have obtained a good at below market price	With a 70% equity share, a levy of one apartment will yield three affordable apartments in total. With a 50% equity share, a levy of one apartment will yield two affordable apartments.
Discount market rental	The renter and the community /developer	Whilst the renter pays, the benefit to the renter will exceed the cost as they have obtained a good at below market price	Using 80% discount rent and allowing 10% for administration and maintenance, a levy of ten apartment will yield nineteen affordable apartments. With 50% market rent, a levy of four apartments will yield five affordable apartments.
Social housing	The renter and the community /developer	Whilst the renter pays, the benefit to the renter will exceed the cost as they have obtained a good at below market price	There is limited leverage opportunity here as social housing incomes for community housing providers are largely consumed in operational costs
Use of public land	The community, renters and purchasers	There is a considerable gap between square metre sales prices and square metre construction prices for multi storey apartments and the land component forms a significant proportion of the purchase price of multi storey dwellings. While there is a cost to the community, this cost is lost opportunity cost (return on capital), and so does not require to be funded, rather it is a cost in the	A levy of two apartments, taken as cash, will yield three apartments if constructed on public owned land and opportunity cost is foregone.

Funding mechanism	Who pays?	Comments	How effective in meeting identified need?
		sense of forgone profit.	
Direct government funding	State and federal government under the NAHA	The current funding environment does not favour significant additional funding by state and federal government for social housing, and FBURA would need to be prioritised for such new investment, or reinvestment of properties sold or redeveloped elsewhere.	A relatively small contribution unless FBURA is prioritised.
Leverage options combined with use of public land:			
• Assisted purchase	The purchaser (their share of equity and other costs) and the community /developer		With 70% equity share, a levy of two apartments will yield nine apartments if constructed on public owned land and opportunity cost is foregone.
• Discount market rental	The renter and the community /developer		With 80% discount market rent, a levy of ten apartments will yield 28 rental apartments if constructed on public owned land and opportunity cost is foregone.
• Social Housing	The renter and the community /developer		A levy of two apartments, taken as cash, will yield three apartments if constructed on public owned land and opportunity cost is foregone.

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3.5 Evaluation of Delivery Mechanisms

The summary evaluation of funding options is followed by tables that summarise delivery options for affordable housing considering effectiveness in meeting the quantum of need for relevant target groups.

Table 3-3: Summary evaluation of funding mechanisms

Delivery mechanism	Comments	How effective in meeting identified need
Increase in supply of developable land	Efficacy of mechanism is debated. (See discussion at 7.1.13) No evidence from historical data that increasing supply leads to long term decreasing prices.	Very Limited. Market will provide affordable housing to: • 50% of smaller moderate income renting households; and • 10% of smaller moderate income purchasing households. This is 1% of the demand for affordable housing using the housing stress profile for Greater Melbourne.
Provide smaller dwellings/ no parking	Modelling has been based on the following maximum dwelling sizes (without parking) and extracted from NSW SEPP ARH: • Studio apartment 35 m^2 • One bedroom apartment 50 m^2 • Two bedroom apartment 70 m^2 • Three bedroom apartment 95 m^2	Somewhat effective for smaller households but families largely excluded. Smaller dwellings will provide affordable housing to: • 50% of smaller low income renting households; • all smaller moderate income renting households; • two bedroom accommodation to 50% of smaller moderate income renting households; • all smaller low income purchasing households (studio apartments); and • all smaller moderate income purchasing households This is 19% of the demand for affordable housing using the housing stress profile for Greater Melbourne.

Delivery mechanism	Comments	How effective in meeting identified need
Assisted purchase/shared equity approaches	Based on Western Australian experience, 30% subsidy is sustainable. Higher levels of subsidy are required to provide affordable purchase to family target groups: Three bedroom apartments for 50% of moderate income family households will require a 42% subsidy; Three bedroom apartments for 50% of low income family households will require a 62% subsidy; and Two bedroom apartments for 50% of low income family households will require a 46% subsidy.	Somewhat effective for smaller purchasing households but larger families excluded. Assisted purchase of smaller dwellings will provide affordable housing to: • 30% of smaller very low income purchasing households (studio apartment) • all smaller low income purchasing households; • all smaller moderate income purchasing households; and • two bedroom accommodation to 90% of smaller family moderate income purchasing households. This is 21% of the demand for affordable housing using the housing stress profile for Greater Melbourne.
Discount market rent	Based on SEPP ARH and NRAS, a 20% subsidy (80% discount market rent) is sustainable. Higher levels of subsidy are required to provide affordable rental to many family and very low income target groups: • Three bedroom apartments for 50% of moderate income family households will require a 25% subsidy; • Three bedroom apartments for 50% of low income family households will require a 51% subsidy; • Two bedroom apartments for 50% of low income family households will require a 34% subsidy; • One bedroom apartments for 50% of very low income smaller households will require a 62% subsidy; and	Somewhat effective for smaller renting households but larger families generally excluded. Subsidised rental of smaller dwellings will provide affordable housing to: • 90% of smaller low income renting households • all smaller moderate income renting households; • two bedroom accommodation to all smaller family moderate income renting households; and • three bedroom accommodation to 40% of family moderate income renting households. This is 11% of the demand for affordable housing using the housing stress profile for Greater Melbourne.

Delivery mechanism	Comments	How effective in meeting identified need
	• Two bedroom apartments for 50% of very low income smaller family households will require a 75% subsidy.	
Social housing	Essentially restricted to very low income households	Will provide affordable housing to very low income renting households however very low income working households are likely to be excluded due to allocation policies. This is 34% of the demand for affordable housing using the housing stress profile for Greater Melbourne.

3.6 Consideration of Four Delivery Options

Four delivery options have been developed and assessed below. These incorporate considerations above and detailed findings in Part B of the report.

Modelling considers provision of affordable housing in FBURA by five broad delivery mechanisms:

- Market delivery
- Mandating dwelling type and size
- Assisted purchase
- Discount market rent
- Social Housing.

Four broad approaches are considered, being:

- Option 1 - 'Business as usual' (delivery through the market without deliberate planning intervention to create affordable housing);
- Option 2 - An' aspirational model' with provision of affordable housing through all delivery mechanisms including social housing, and based on identified need using housing stress distribution for Greater Melbourne, and assuming 30% of gross income as a housing stress threshold;
- Option 3 - A 'pragmatic mixed model' with provision of affordable housing through all delivery mechanisms including social housing, based on identified need using housing stress distribution for Greater Melbourne but with social housing at average levels for Greater Melbourne, and assuming mixed housing stress thresholds (as set out in Section 2.3.3 above); and
- Option 4 - An 'intermediate affordable housing model' with provision of affordable housing per Option 3 above, but excluding social housing due to the high subsidies required.

Of these, it is likely that Option 3 may be preferred as it meets the stated objectives of government whilst providing for a more realistic input with regard to direct government funding and land inputs. Although a 20% inclusion of affordable housing has been assumed and is justifiable, the inclusion could be 10% or 15% affordable housing. This would reduce the quantum of affordable housing and associated cost proportionally as these calculations are linear.

It is noted that to achieve anything tangible in the creation of affordable housing in FBURA (Options 2, 3 and 4) a development levy will be required. As discussed above, this is feasible, equitable and reasonable, but is likely to require political will regarding its implementation. Without this, all but relatively wealthy families and smaller moderate income households will be excluded from living affordably in FBURA.

Table 3-4: Summary of modelling of delivery options

	Option 1: 'Business as Usual' Model	Option 2: 'Aspirational Affordable Housing' Model	Option 3: 'Pragmatic' Mixed Model	Option 4: Intermediate Affordable Housing Model
Affordable Housing Target	20% of total stock	20% of total stock	20% of total stock	20% of total stock
Housing Stress Levels assumed	30%, 35% and 40% assumed for sensitivity analysis	30% housing stress for all tenure, income and household groups	Mixed housing stress (1)	Mixed housing stress (1)
Housing subsidy assumptions	No subsidies assumed	Minimum discount market rent as required to allow access for all target groups Minimum equity share for purchaser as required to allow access for all target groups	Minimum discount market rent of 70% Minimum equity share for purchaser of 50%	Minimum discount market rent of 70% Minimum equity share for purchaser of 50%
Broad delivery methods considered (% of affordable housing component provided in FBURA)	Market delivery only	Market delivery (1.3%) Mandated dwelling size[89] (18.9%) Assisted purchase (32.5%) Discount market rent (13.6%) Social housing (33.8%)	Market delivery (7.5%) Mandated dwelling size (33%) Assisted purchase (26.1%) Discount market rent (17.9%) Social housing (15.5%)	Market delivery (8.9%) Mandated dwelling size (39.1%) Assisted purchase (30.9%) Discount market rent (21.1%)

[89] Modelling based on 50:50 studios and one bedroom apartments; and 70:30 two bedroom and three bedroom apartments to provide an appropriate mix of dwellings. Refer tables 7-15, 16 and 17 for details.

	Option 1: 'Business as Usual' Model	Option 2: 'Aspirational Affordable Housing' Model	Option 3: 'Pragmatic' Mixed Model	Option 4: Intermediate Affordable Housing Model
Broad delivery methods considered (% of all housing in FBURA)	Market delivery only	Market delivery (0.3%) Mandated dwelling size (3.8%) Assisted purchase (6.5%) Discount market rent (2.7%) Social housing (6.8%)	Market delivery (1.5%) Mandated dwelling size (6.6%) Assisted purchase (5.2%) Discount market rent (3.6%) Social housing (3.1%)	Market delivery (1.8%) Mandated dwelling size (7.8%) Assisted purchase (6.2% Discount market rent (4.2%)
% of aspirational affordable housing target groups accommodated	1.3%	80%	56%	44%
Target groups likely to be housed in FBURA (see Table 2.5 above for relevant groups)	Small moderate income renting and purchasing households in studio and 1 b/r dwellings	At least 50% of each target groups is accommodated	All moderate income households At least 40% of low income households Very low income renting households, though with reduced quantum of social housing	All moderate income households At least 40% of low income households
Target groups likely to be excluded from FBURA (see Table 2.5 above for relevant groups)	All other target groups including all family households, and all very low & low income households	Lower 50% of low income family renters, and lower 50% of very low income purchasers	Very low income purchasers Lower 50-60% of low income family households	Very low income renters and purchasers Lower 50-60% of low income family households

	Option 1: 'Business as Usual' Model	Option 2: 'Aspirational Affordable Housing' Model	Option 3: 'Pragmatic' Mixed Model	Option 4: Intermediate Affordable Housing Model
Potential funding mechanisms	Nil required	Direct government funding Development levy Leveraging opportunities Other sources	Direct government funding Development levy Leveraging opportunities Other sources	Direct government funding Development levy Leveraging opportunities Other sources
Levy required on saleable commercial floor area	Nil	Possible in future, but modelling shows low levels of profitability	Possible in future, but modelling shows low levels of profitability	Possible in future, but modelling shows low levels of profitability
Levy required on saleable residential floor area	Nil	9% of net floor area	5.0% of net floor area	3.6% of net floor area
Levy required on saleable floor area with some development on public land	Nil	8.4% of net floor area	4.7% of net floor area	3.4% of net floor area
Levy required on saleable floor area with attraction of NRAS funding	Nil	8.8% of net floor area	4.8% of net floor area	3.3% of net floor area
Levy required on saleable floor area with 30% DHS funding of social housing	Nil	7.7% of net floor area	4.4% of net floor area	Not applicable

	Option 1: 'Business as Usual' Model	Option 2: 'Aspirational Affordable Housing' Model	Option 3: 'Pragmatic' Mixed Model	Option 4: Intermediate Affordable Housing Model
Levy required on saleable floor area with some development on public land, NRAS funding and DHS funds 30% of social housing component	Nil	7.0% of net floor area	3.9% of net floor area	3.1% of net floor area
Cost to government of land use	Nil	No funding required, but lost opportunity cost on land	No funding required, but lost opportunity cost on land	No funding required, but lost opportunity cost on land

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PART B: BACKGROUND REPORT

4 Population and Housing Market Trends

4.1 Overview

There has been well above average growth in City of Melbourne, largely driven by the dramatic increase in high density stock in redevelopment areas of Southbank and Docklands, and in Melbourne CBD (Melbourne SA2).

Although historically not as expensive as Sydney, the rate of increase in Greater Melbourne prices was much higher from 2003 to 2009, though price growth in Melbourne did not match that of some of the capital cities affected by the resources boom (for example Perth and Darwin). Despite recent growth, Melbourne was the fourth lowest priced market for an established house in 2012 (ahead of Brisbane, Adelaide and Darwin).

However, the local market context for FBURA is very different. Relevant proxy markets (Southbank, Docklands and Melbourne SA2s) were far more expensive for the range of comparable rental and purchase products compared with Greater Melbourne and LGAs such as Hobsons Bay and Maribyrnong to the west. These proxy markets experienced significant growth in median purchase prices and rental costs from 2001 to 2010, though with relatively 'flat' conditions since that time.

This is looked at further below, and in more detail in relevant appendices.

4.2 Population Growth 1991-2011

In the 20 years to 2011, the population of Greater Melbourne grew from 3.02 million residents to more than 4 million, a proportional increase of 33% which was comparable to the growth experienced by City of Port Phillip and double the growth experienced by Hobsons Bay and Maribyrnong LGAs. Over the same period, the population of City of Melbourne tripled, largely due to the construction of apartments in major renewal areas and the CBD.

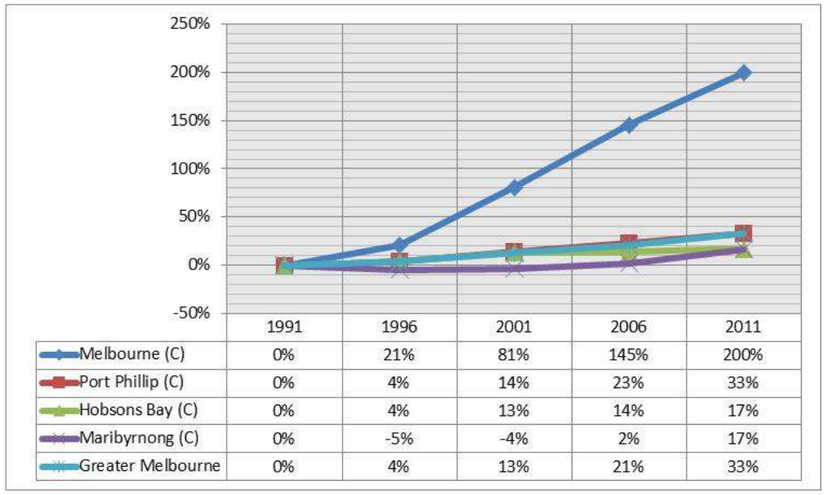


Figure 4-1: Percentage increase in population from 1991 – Selected LGAs

Source: JSA 2013, using data from ABS Census of Population and Housing 1991-2011 (Time Series Profile, Place of Enumeration)

Proportional change (from 2001) was highest in Southbank SA2 and in Docklands SA2, though both started from relatively low population bases. Melbourne CBD and surrounds experienced the highest growth in absolute terms.

The following graphs show proportional change over the period from 2001 to 2011.

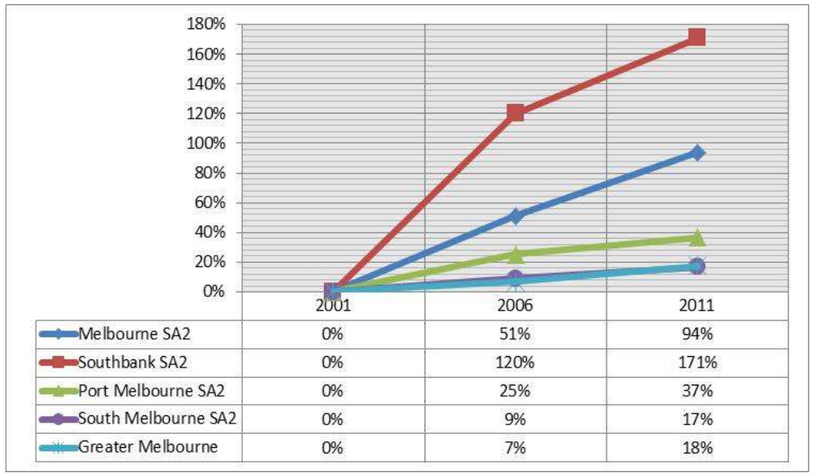


Figure 4-2: Percentage increase in population from 2001 – Selected SA2s (

Source: JSA 2013, using data from ABS Census of Population and Housing 2001-2011 (Time Series Profile, Place of Enumeration)

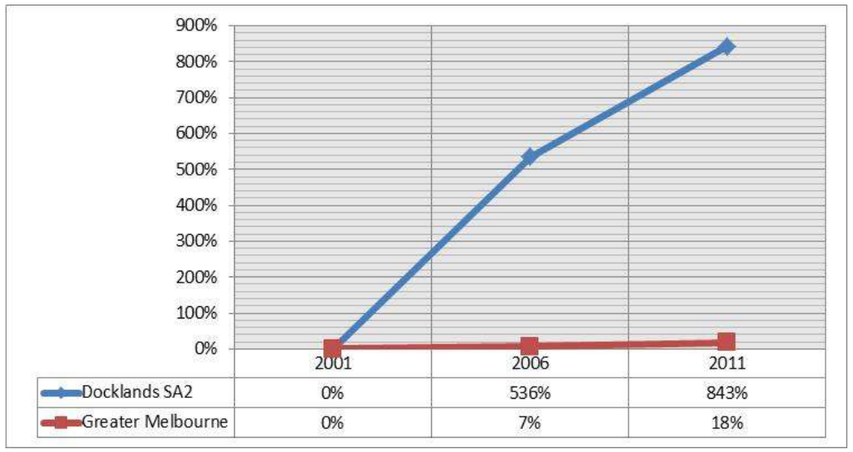


Figure 4-3: Percentage increase in population from 2001 – Docklands SA2

Source: JSA 2013, using data from ABS Census of Population and Housing 2001-2011 (Time Series Profile, Place of Enumeration)

4.3 Age Profile

The age profile for City of Melbourne is very different to the profile for Greater Melbourne, with 52% being aged between 20 and 34 years of age compared with 23% for GM. City of Port Phillip also has quite a distinct age profile, with 38% being aged between 25 and 39 years of age (compared with 24% for Greater Melbourne) and just 9% being aged between 5 and 19 years of age (compared with 18% for GM). Both Melbourne and Port Phillip LGAs have a lower median age compared with Greater Melbourne, 30 and 35 years respectively compared with 36 years for GM in 2011.

Of the five small areas (SA2s) surrounding the Fishermans Bend Urban Redevelopment Area, those immediately to the north and northeast have age profiles most different to the Greater Melbourne profile. The age profile of Melbourne SA2 is the most different to Greater Melbourne, with 53% of residents aged in their 20's, compared with 15% for GM; followed by Southbank SA2, with 58% aged between 20 and 34 years; and Docklands, with 49% aged between 20 and 34 years.

In terms of median ages, Melbourne SA2 is the youngest small area with a median of 29 years, followed by Southbank SA2 (31 years) and Docklands (33 years). Note that the median ages for Port Melbourne and South Melbourne SA2s was older than the Greater Melbourne median in 2011 (38 and 37 years respectively). Finally, in terms of the Local Government Areas immediately to the west, while the age profile for Hobsons Bay is very similar to the GM age profile, the Maribyrnong age profile is somewhat different, with 41% of residents aged in their 20's and 30's, compared with 31% of Greater Melbourne residents.

While the median age for Greater Melbourne has increase substantially over the past 20 years, from 32 years in 1991 to 36 years in 2011, the median ages of Melbourne (C) and Port Phillip (C) residents have change little over the same period. However, the same cannot be said for all of the smaller surrounding areas: between 2001 and 2011 the median ages for Southbank, Port Melbourne and South Melbourne SA2 increased (by three, two and two years respectively), while the median age of Melbourne SA2 residents decreased by three years over the same period. (Comparatively, over the same period the median age of Greater Melbourne residents increased by one year.) In terms of the two Local Government Areas to the west, while Maribyrnong (C) experienced a relatively modest increase of two years between 1991 and 2011 (from 32 to 34 years), Hobsons Bay (C) experienced a very large increase of six years over the same period, from 32 years in 1991 to 38 years in 2011.

4.4 Household type profiles and change over time

In terms of household composition profiles, the profiles of City of Port Phillip and especially City of Melbourne are substantially different to the profile of Greater Melbourne overall. Specifically, these two Local Government Areas have a substantially higher proportion of lone person households (38-39% of households compared with 23% for Greater Melbourne) and group households (10% for Port Phillip (C) and 17% for Melbourne (C) compared with 5% for Greater Melbourne), and a substantially lower proportion of couples with children (15% for Port Phillip (C) and 10% for Melbourne (C) compared with 35% for Greater Melbourne) and single parent families (6% for Port Phillip (C) and 5% for Melbourne (C) compared with 11% for Greater Melbourne).

The five selected smaller areas (Statistical Areas Level 2) surrounding the Fishermans Bend Urban Redevelopment Area tend to follow this trend, especially those to the immediate north and northeast. Especially large differences from the Greater Melbourne profile are as follows: Docklands SA2 has a large proportion of couples without children (36%) compared with GM (25%); and Melbourne SA2 has an especially small proportion of couples with children (5%), an especially large proportion of lone person households (41%), and an especially large proportion of group households (19%). The LGAs of Hobsons Bay and Maribyrnong to the west have household composition profiles similar to the Greater Melbourne profile, though Maribyrnong (C) does have a somewhat lower proportion of couples with children (28%) and a somewhat higher proportion of group households (8%).

The household composition profile for Greater Melbourne has remained relatively unchanged over the past ten years, with the major changes being a slight increase in the proportion of couples without children (increased from 23% to 24% between 2001 and 2011) and a slight decrease in the proportion of couples with children (decreased from 36% to 34%). In Melbourne (C) and Port Phillip (C), the proportion of couples without children also increased, in this case by three percentage points for each, while the proportion of single parent families decreased for both (by two percentage points for Melbourne (C) and by one percentage point for Port Phillip (C)) and the proportion of lone person households decreased by two percentage points for Port Phillip (C).

Four of the five surrounding SA2s (apart from Docklands SA2) experienced an increase in the proportion of couples without children, with the largest increases being in Melbourne SA2 (a seven percentage point increase), followed by Southbank SA2 (a five percentage point increase) and South Melbourne SA2 (a four percentage point increase). Melbourne, Southbank and Port Melbourne SA2s saw a substantial increase in the proportion of lone person households (a three, four and five percentage point increase respectively between 2001 and 2011), and while there was a four percentage point increase in the proportion of group households in Melbourne SA2, Southbank, Port Melbourne and South Melbourne SA2 each saw a two percentage point decrease in this household composition type over the same period.

In terms of Hobsons Bay and Maribyrnong Local Government Areas to the west, Hobsons Bay followed the Greater Melbourne trend with a decrease in the proportion of couples with children (decreased by three percentage points), while in Maribyrnong there was a two percentage point increase in the proportion of couples without children and a four percentage point decrease in the proportion of lone person households.

4.5 Capital City Price Comparisons

Real (adjusted for inflation) established house prices in Melbourne increased up to late 2003, and then were relatively constant between 2003 and 2008, with a significant price spike in 2008, just prior to the Global Financial Crisis. Prices increased through 2009, and have since been relatively constant, although falling from a high point in December 2010, and are currently at September 2009 levels. By comparison, Sydney house prices, although fluctuating, are currently at 2005 levels, and peaked in 2003. In general, trends in other capital cities are similar to Melbourne, with the exception of Perth, which appeared to have experienced a housing bubble between 2006 and 2008, reaching Sydney prices in March 2007.

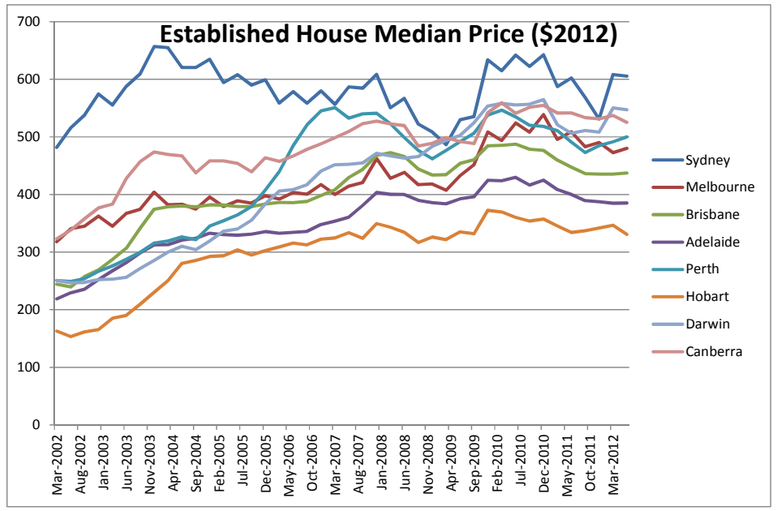


Figure 4-4: Median established house prices – Capital Cities (CPI adjusted)

(Source: ABS, JSA calculation)

Price growth trends for Melbourne are quite similar to trends in Adelaide, Hobart, Brisbane, and Canberra. Growth in Sydney has been much lower, though from an historically much higher base, while there has been marked growth in both Perth and Darwin.

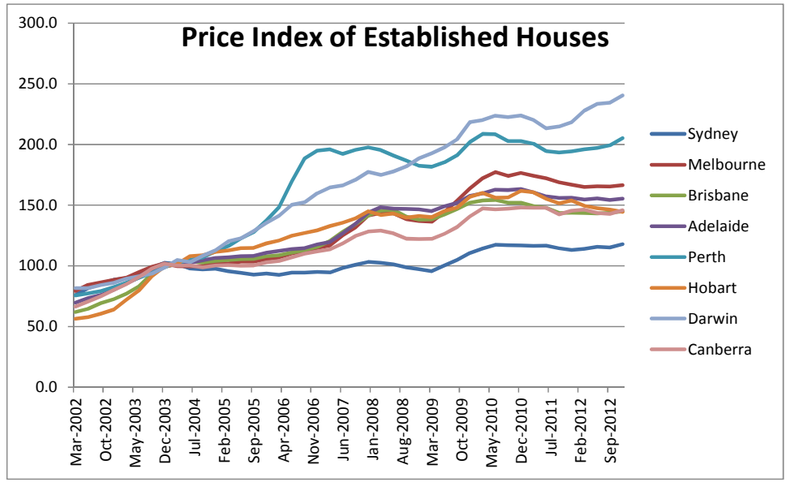


Figure 4-5: Price Index of Established Houses – Capital Cities

(Source: ABS, JSA calculation)

4.6 Sales Prices over time

The graphs below show the change in median sales prices over time for houses and units/apartments in selected LGAs and suburbs.

House prices in City of Melbourne are approximately 60% higher than prices for Greater Melbourne, while those for City of Port Phillip are about 90% higher. House prices have fallen since 2010, with prices in Port Phillip City falling by 30% and in Melbourne City falling by 20%. Prices in the suburbs of Port Melbourne and South Melbourne are closely aligned and are similar to prices for Port Phillip City, supporting the use of surrounding suburbs as a proxy for likely house prices in FBURA.

Similar trends are seen in apartment prices, with prices in City of Melbourne being 10% higher than in the Melbourne Metropolitan area and prices in City of Port Phillip being 25% higher. Prices in suburbs near FBURA are typically higher than in City of Melbourne and across the metropolitan area, with recent falls seen in South Melbourne and Southbank, suggesting an oversupply or smaller product entering the market, and with Docklands and Port Melbourne holding their value.

Selected graphs are provided below, and in full at Appendix A.

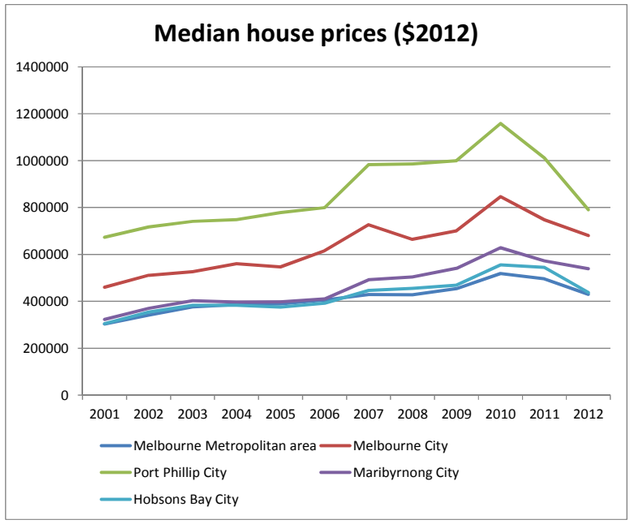


Figure 4-6: Median house prices – selected LGAs (CPI adjusted)
(Source: Land Victoria, *A Guide to Property Values 2011*)

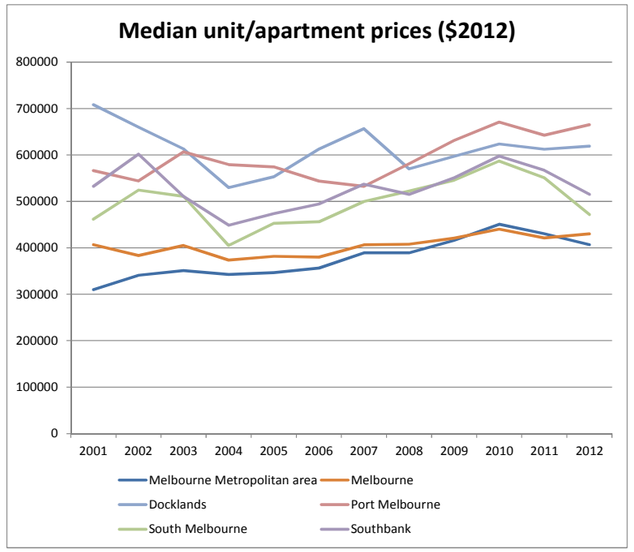


Figure 4-7: Median unit/apartment prices – selected suburbs (CPI adjusted)
(Source: Land Victoria, *A Guide to Property Values 2011*)

4.7 Rents over time

Like purchase prices, median rents are much higher in City of Melbourne and City of Port Phillip compared with Greater Melbourne. However, unlike purchase costs, rents for apartments are highest in City of Melbourne, which may be due to greater demand in the inner Melbourne rental market, the nature of stock available for rent, or a non-alignment between those seeking to rent and those purchasing, though the rental cost of houses remains highest in City of Port Phillip.

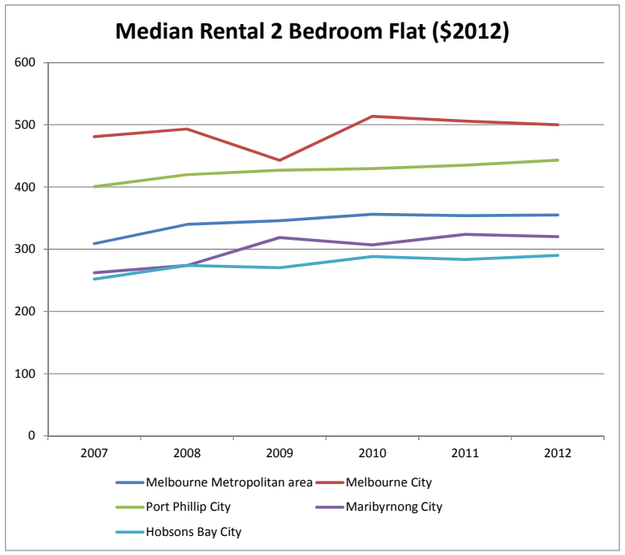


Figure 4-8: Median two bedroom flat rentals for selected areas (CPI adjusted)
(Source: Department of Human Services, *Rental Report*)

There are relatively few houses available for rent in these areas. Like purchase prices, rents are much lower than the Greater Melbourne average in LGAs to the immediate west of FBURA.

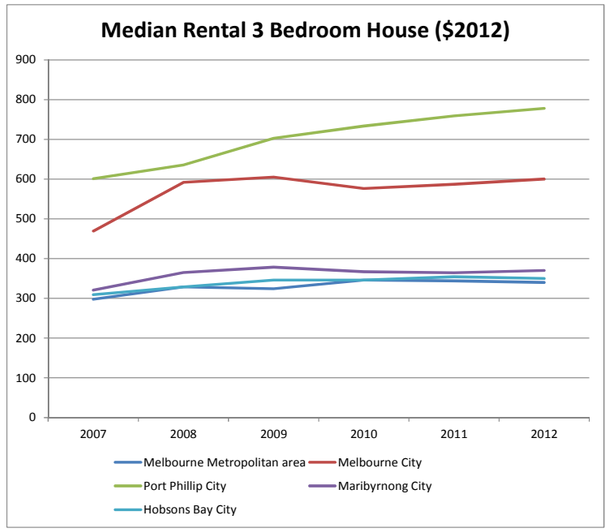


Figure 4-9: Median three bedroom house rentals for selected areas (CPI adjusted)
(Source: Department of Human Services, *Rental Report*)

Areas that provide a context to the likely FBURA market (Docklands and Southbank SA2s, and also Port Melbourne SA2) have higher rental cost for 1 and 2 bedroom apartments compared with Melbourne CBD (SA2), and are again well above the Greater Melbourne rental medians.

The following graphs provide selected comparisons, whilst more detail is provided in in Appendix A.

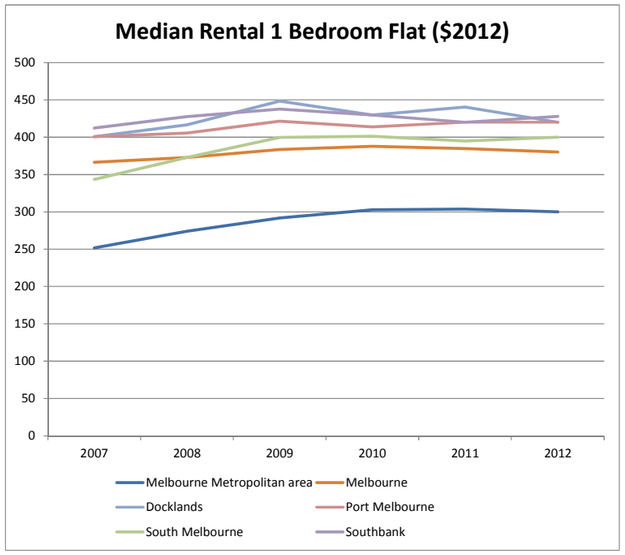


Figure 4-10: Median one bedroom flat rentals for selected areas (CPI adjusted)
(Source: Department of Human Services, *Rental Report*)

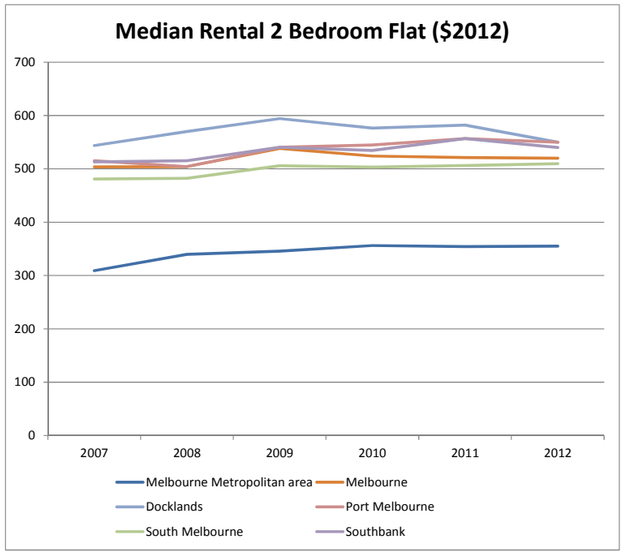


Figure 4-11: Median two bedroom flat rentals for selected areas (CPI adjusted)
(Source: Department of Human Services, *Rental Report*)

4.8 Dwelling Structure and change over time

The dwelling structure profiles of both Melbourne and Port Phillip LGAs are very different to the profile of Greater Melbourne as a whole. These two LGAs have a much larger proportion of flats, units and apartments (78% and 63% respectively compared with just 15% for GM), a substantially larger proportion of semi-detached, townhouses, etc (17% and 21% compared with 12% for GM), and a much smaller proportion of separate houses (5% and 15% respectively compared with 73% for GM).

In City of Melbourne, flats and units are predominantly in blocks of four or more storeys in height (three quarters of units are in blocks of this height), while in Port Phillip (C) unit heights are more variable. City of Melbourne has seen a dramatic increase in the number of flats and units, in particular those in four storey or higher blocks (from almost 18,000 in 2001 to 37,000 in 2011), while City of Port Phillip saw a smaller, though still substantial increase in the number of flats and units over the same period (from 23,500 to 29,600). Comparatively, Greater Melbourne as a whole saw a substantial increase across each dwelling structure type.

In the three smaller areas to the immediate north and northeast of the Fishermans Bend Urban Redevelopment Area (i.e. the Statistical Areas Level 2 of Docklands, Melbourne and Southbank), almost all occupied private dwellings are flats, units and apartments (i.e. between 97% and 99% of OPDs) with the remainder comprised of semi-detached dwellings, duplexes, townhouses, etc. These flats, units and apartments tend to be in blocks of four storeys or higher, with 90% or more of units in these smaller areas being in taller blocks. Each of these three smaller areas have seen a large increase in the number of flats, units and apartments over the past ten years, and in particular in the number located in a block of four or more storeys in height. In Docklands SA2 the number increased from a mere 50 units to over 3,000 between 2001 and 2011, while in Melbourne and Southbank SA2s the number of units more than doubled (from 4,400 to 11,000 in the case of Melbourne SA2 (CBD) and from 2,100 to 5,900 in the case of Southbank SA2).

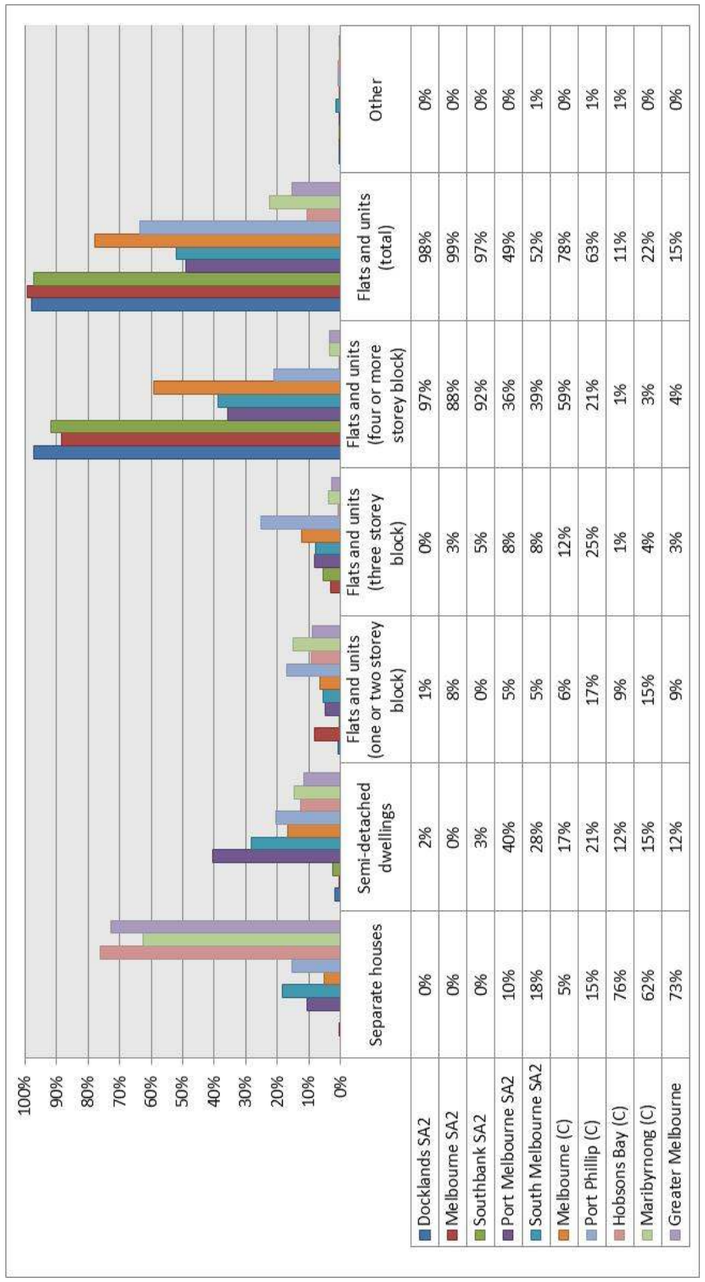
The two smaller areas to the immediate south and southeast (i.e. Port Melbourne and South Melbourne SA2s) have quite a different dwelling structure profile compared with those areas to the north. In particular, they have substantially fewer flats, units and apartments (approximately half of occupied private dwellings), though this is still quite high compared with Greater Melbourne (15% of OPDs); as well as a large number of semi-detached dwellings, townhouses, etc (30-40%) and a substantial number of separate houses (10-20%). Again, flats and units in these areas are more likely to be in blocks of four or more storeys in height, with three-quarters of units being in blocks of this height.

These two smaller areas have both seen an increase in the number of flats and units over the past ten years, though the increase was much larger in Port Melbourne (increased from 1,350 to 3,550 between 2001 and 2011, a 170% increase) than it was in South Melbourne (increased from 1,770 to 2,550, a 45% increase). The major difference between these two areas in terms of change over the past ten years is that while Port Melbourne SA2 experienced a slight increase in the number of semi-detached dwellings,

townhouses, etc. and substantial decrease in the number of separate houses, South Melbourne SA2 experienced the opposite, with a substantial decrease in the number of semi-detached dwellings, etc. and a substantial increase in the number of separate houses.

In terms of areas across the Yarra River to the west, Hobsons Bay and Maribyrnong Local Government Areas have dwelling structure profiles more in line with Greater Melbourne, with large proportions of separate houses (approximately 75% for Hobsons Bay and 60% for Maribyrnong), substantial proportions of flats and units (10-20%) and semi-detached dwellings (10-15%). These areas have tended to see a steady increase in all dwelling structure types over the past ten years.

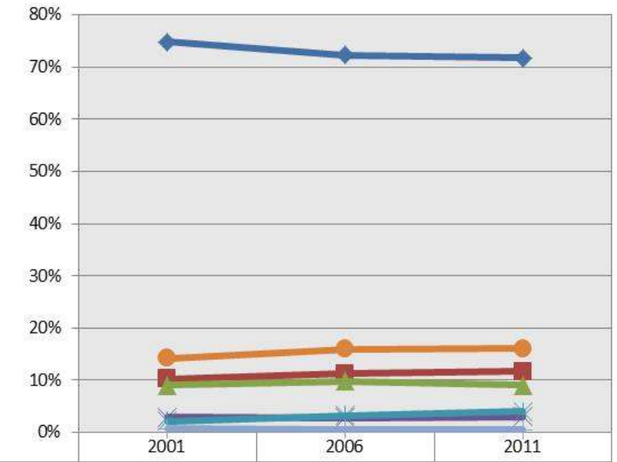
These trends are shown in selected graphs below, and in more detail in Appendix G.



	Separate houses	Semi-detached dwellings	Flats and units (one or two storey block)	Flats and units (three storey block)	Flats and units (four or more storey block)	Flats and units (total)	Other
Docklands SA2	0%	2%	1%	0%	97%	98%	0%
Melbourne SA2	0%	0%	8%	3%	88%	99%	0%
Southbank SA2	0%	3%	0%	5%	92%	97%	0%
Port Melbourne SA2	10%	40%	5%	8%	36%	49%	0%
South Melbourne SA2	18%	28%	5%	8%	39%	52%	1%
Melbourne (C)	5%	17%	6%	12%	59%	78%	0%
Port Phillip (C)	15%	21%	17%	25%	21%	63%	1%
Hobsons Bay (C)	76%	12%	9%	1%	1%	11%	1%
Maribyrnong (C)	62%	15%	15%	4%	3%	22%	0%
Greater Melbourne	73%	12%	9%	3%	4%	15%	0%

Figure 4-12: Dwelling structure profile – Selected SA2s and LGAs, 2011

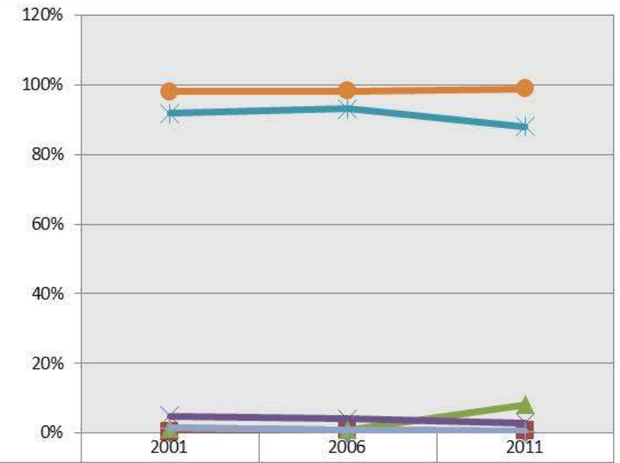
Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Basic Community Profile, Place of Usual Residence)



	2001	2006	2011
Separate house	75%	72%	72%
Semi-detached	10%	11%	12%
Flats and units (one or two storey block)	9%	10%	9%
Flats and units (three storey block)	3%	3%	3%
Flats and units (four or more storey block)	2%	3%	4%
Flats and units (total)	14%	16%	16%
Other	1%	1%	1%

Figure 4-13: Dwelling structure profile 2001-2011 (percentages) – Greater Melbourne

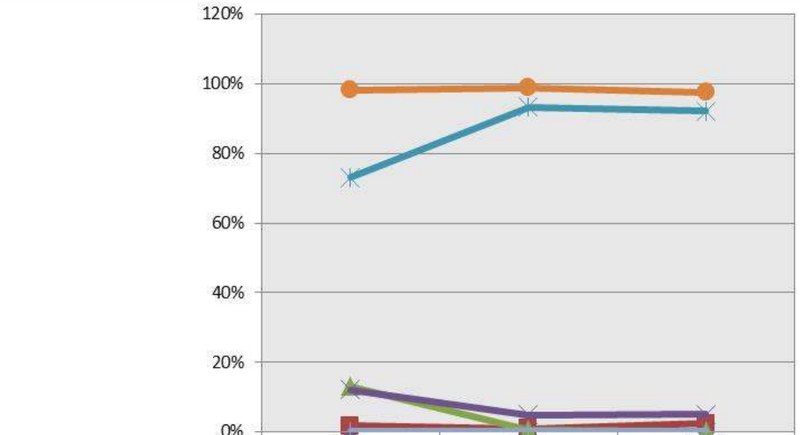
Source: JSA 2013, using data from ABS Census of Population and Housing 2001-2011 (Time Series Profile, Place of Enumeration)



	2001	2006	2011
Separate house	0%	0%	0%
Semi-detached	0%	1%	1%
Flats and units (one or two storey block)	1%	1%	8%
Flats and units (three storey block)	5%	4%	3%
Flats and units (four or more storey block)	92%	93%	88%
Flats and units (total)	98%	98%	99%
Other	1%	1%	0%

Figure 4-14: Dwelling structure profile 2001-2011 (percentages) – Melbourne SA2

Source: JSA 2013, using data from ABS Census of Population and Housing 2001-2011 (Time Series Profile, Place of Enumeration)



	2001	2006	2011
Separate house	0%	0%	0%
Semi-detached	2%	1%	2%
Flats and units (one or two storey block)	13%	1%	0%
Flats and units (three storey block)	12%	5%	5%
Flats and units (four or more storey block)	73%	93%	92%
Flats and units (total)	98%	99%	97%
Other	0%	0%	0%

Figure 4-15: Dwelling structure profile 2001-2011 (percentages) – Southbank SA2

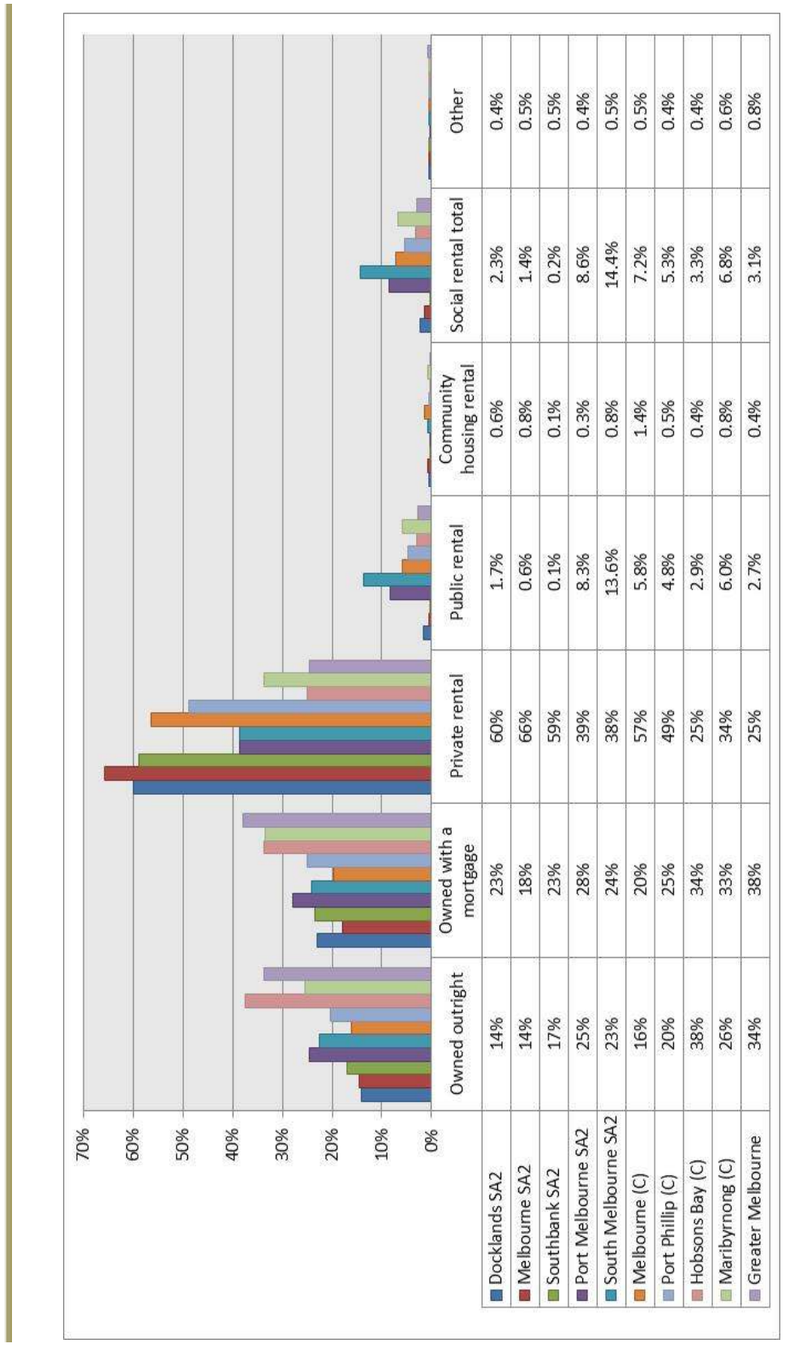
Source: JSA 2013, using data from ABS Census of Population and Housing 2001-2011 (Time Series Profile, Place of Enumeration)

4.9 Tenure profile and change over time

4.9.1 General tenure profile

Compared with Greater Melbourne, the likely proxy markets for FBURA (Docklands, Southbank and Melbourne SA2s) have very high levels of private rental, and much greater differentials between purchasers and outright owners. This is consistent with the high levels of newly constructed high rise stock in these areas. Influenced by the amount of new construction and significant component of medium and high density development, City of Melbourne and to a lesser extent City of Port Philip have much higher proportions of private rental overall.

As discussed later, social rental is higher than average in both City of Melbourne and City of Port Phillip, though this is not keeping pace with increasing population in these areas.



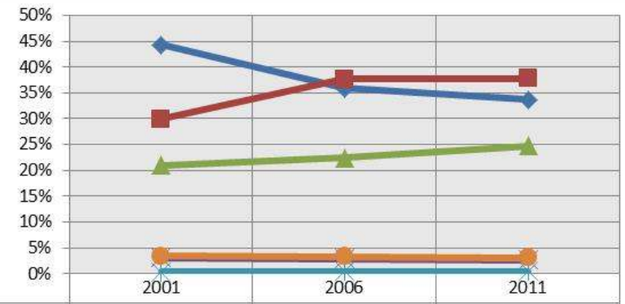
	Owned outright	Owned with a mortgage	Private rental	Public rental	Community housing rental	Social rental total	Other
Docklands SA2	14%	23%	60%	1.7%	0.6%	2.3%	0.4%
Melbourne SA2	14%	18%	66%	0.6%	0.8%	1.4%	0.5%
Southbank SA2	17%	23%	59%	0.1%	0.1%	0.2%	0.5%
Port Melbourne SA2	25%	28%	39%	8.3%	0.3%	8.6%	0.4%
South Melbourne SA2	23%	24%	38%	13.6%	0.8%	14.4%	0.5%
Melbourne (C)	16%	20%	57%	5.8%	1.4%	7.2%	0.5%
Port Phillip (C)	20%	25%	49%	4.8%	0.5%	5.3%	0.4%
Hobsons Bay (C)	38%	34%	25%	2.9%	0.4%	3.3%	0.4%
Maribyrnong (C)	26%	33%	34%	6.0%	0.8%	6.8%	0.6%
Greater Melbourne	34%	38%	25%	2.7%	0.4%	3.1%	0.8%

Figure 4-16: Tenure profile – Selected SA2s and LGAs, 2011

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Basic Community Profile, Place of Usual Residence)

In the 20 years to 2011, purchasing overtook outright ownership as the dominant tenure form in Greater Melbourne, due to increasing urban development, generational change and more established households exchanging equity for debt (for example, dwelling upgrades, reverse mortgages and the like). Private rental also increased from 21% to 25% of occupied private dwellings. The situation in urban renewal or intensification areas like Southbank, Docklands and Melbourne SA2s, where the predominant tenure form is private rental, was quite different. In each of these areas, private rental peaked in 2006, and declined somewhat in 2011, likely due to an increase in sales of a minority of newly constructed dwelling to owner occupiers.

The following graphs illustrate these trends for selected areas, with more detail provided in Appendix G.



	2001	2006	2011
Owned outright	44.3%	35.9%	33.7%
Owned with a mortgage	30.0%	37.7%	37.8%
Private rental	21.0%	22.5%	24.7%
Public housing rental	3.1%	2.9%	2.7%
Community housing rental	0.3%	0.4%	0.4%
Social housing rental total	3.4%	3.3%	3.1%

Figure 4-17: Household tenure type profile 2001-2011 (percentages) – Greater Melbourne

Source: JSA 2013, using data from ABS Census of Population and Housing 2001-2011 (Time Series Profile, Place of Enumeration)

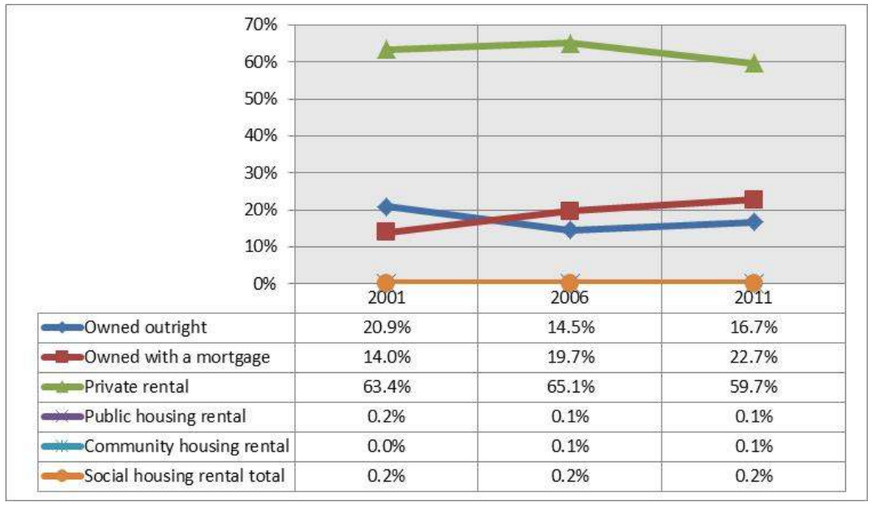


Figure 4-18: Household tenure type profile 2001-2011 (percentages) – Southbank SA2

Source: JSA 2013, using data from ABS Census of Population and Housing 2001-2011 (Time Series Profile, Place of Enumeration)

4.9.2 Social Housing Fails to Keep Pace with Population Increase/Demand

Levels of social (public and community) housing across Greater Melbourne have historically been below national levels of supply (3.1% of all occupied private households for Greater Melbourne in 2011 compared with 4.8% for Australia), and has been falling (from 3.4% in 2001).

Levels of social housing in City of Melbourne and Port Phillip have been historically higher than Greater Melbourne due to large government land holdings and major construction programs from the 1950s in inner ring areas. However, they have fallen considerably (from 11.6% and 6.0% of households respectively in 2001 to 7.1% and 5.3% of stock in 2011), as shown in the following graphs.

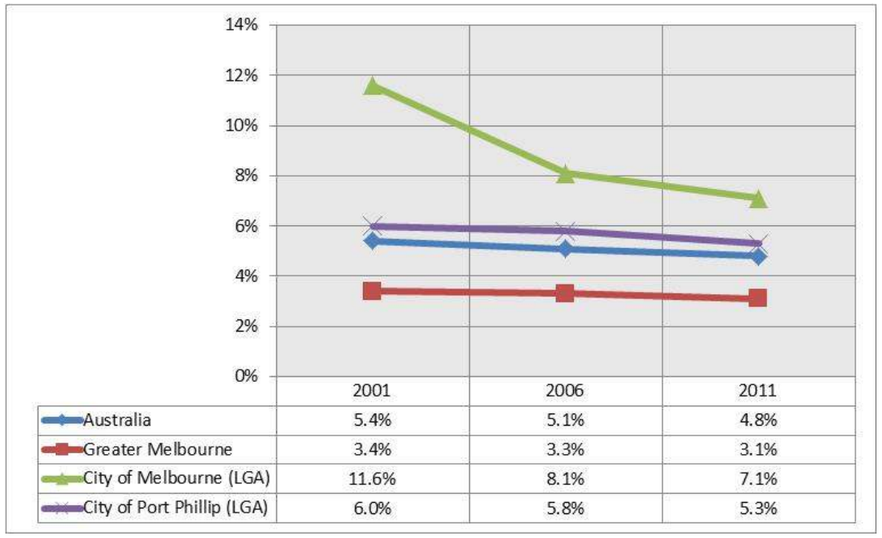


Figure 4-19: Change in proportion of occupied private dwellings comprised of social housing, Melbourne and Port Phillip Local Government Areas, compared with Greater Melbourne and Australia, 2001-2011

Source: JSA 2013, using data from ABS Census of Population and Housing 2001, 2006, 2011 (Time Series Profile, Place of Enumeration)

Importantly, very little of the new stock being constructed in Docklands, Melbourne and Southbank SA2s is social housing, so that the trend for significantly declining levels of stock compared with increasing population and demand is likely to continue without active creation of such stock (see graph below).

Table 4-1: Changes in Social Housing Supply in Proxy SA2s 2001-2011

Social Housing		2001	2006	2011
Docklands (SA2)	Number	0	6	60
Docklands (SA2)	% of occupied private dwellings	0.0%	0.3%	2.2%
Melbourne (SA2)	Number	133	108	150
Melbourne (SA2)	% of occupied private dwellings	3.5%	1.7%	1.6%
Southbank (SA2)	Number	3	7	10
Southbank (SA2)	% of occupied private dwellings	0.2%	0.2%	0.2%

Source: JSA 2013, using data from ABS Census of Population and Housing 2001, 2006, 2011 (Time Series Profile, Place of Enumeration)

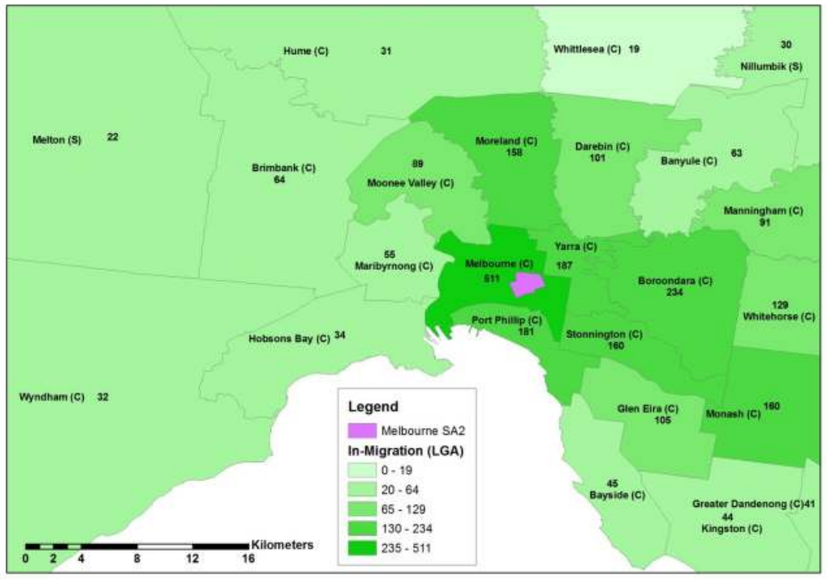
4.10 Mobility trends

4.10.1 Migration

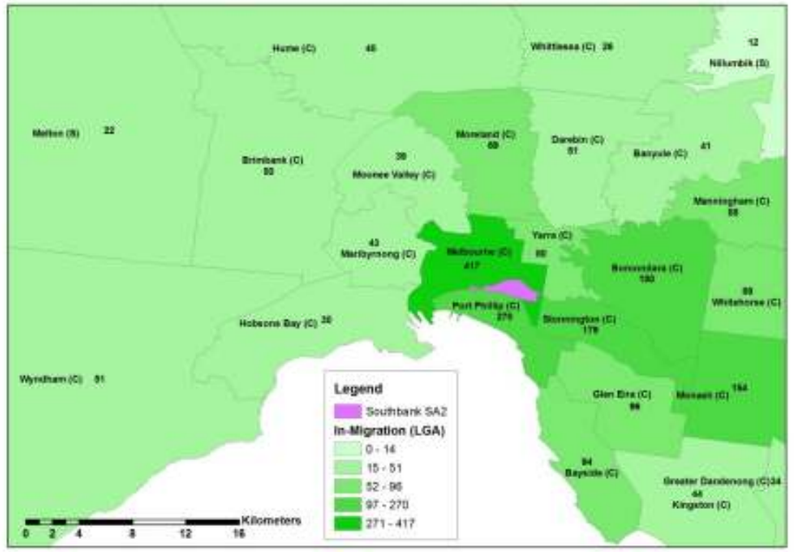
Mobility data from the ABS Census provides one way of understanding which groups are likely to be excluded from an area on recent trends. This includes the movement of different groups into and out of an area (or similar areas that may be used as a proxy), and the commuting profile of those working within relevant employment nodes.

Overall, there is a reasonable difference between the areas from which people have recently moved from 2006-2011 to redevelopment areas near FBURA (Docklands SA2, Southbank SA2 and Melbourne SA2 (including more intensive development in and around the CBD)), and the areas from which commuters are coming to work in Port Melbourne Industrial Area SA2 (which includes FBURA precincts and industrial areas to the north).

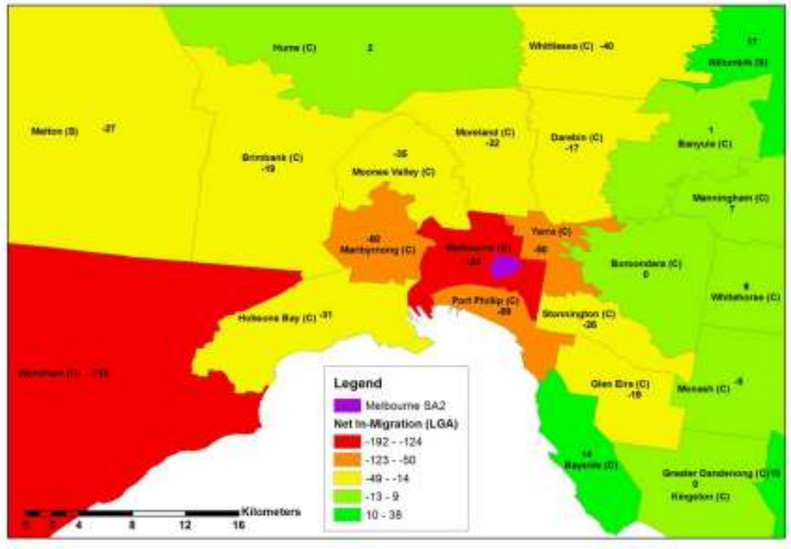
Those migrating into areas of intensifying development or redevelopment are largely from more affluent LGAs to the east and immediate north of the Yarra River (City of Melbourne, Port Philip, Boroondara, Monash, Stonnington and Yarra) (see Maps 4.1 and 4.2 below), though there is also a significant degree of 'churn' evident in the net migration data (former residents of the redeveloping areas also moving out to similar areas as those moving in) (see Maps 4.3 and 4.4 below).



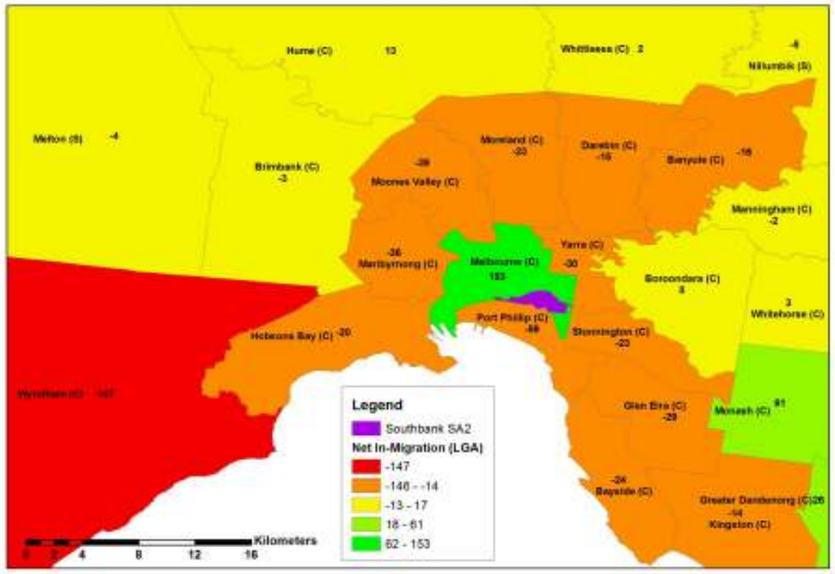
Map 4-1: LGAs from which residents have moved to Melbourne SA2 2006-2011
Source: JSA 2013, using data from ABS Census of Population and Housing 2011



Map 4-2: LGAs from which residents have moved to Southbank SA2 2006-2011
Source: JSA 2013, using data from ABS Census of Population and Housing 2011



Map 4-3: Net In-Migration to Melbourne SA2 from LGAs 2006-2011
Source: JSA 2013, using data from ABS Census of Population and Housing 2011

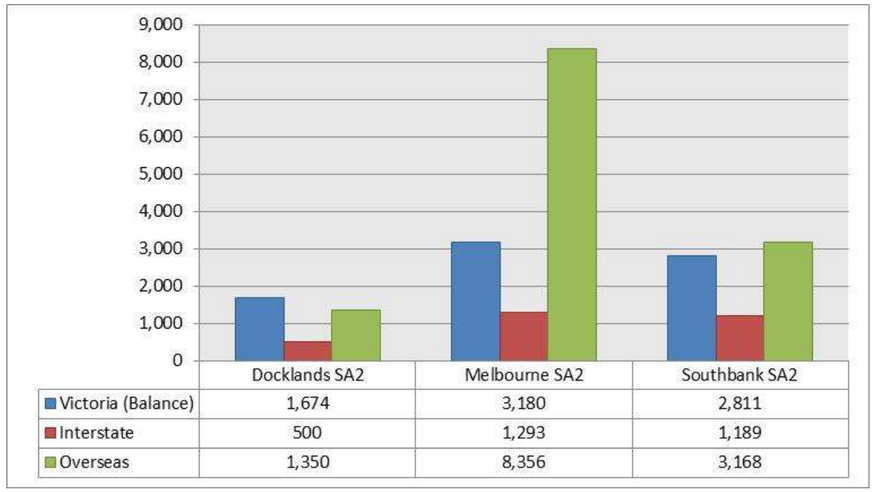


Map 4-4: Net Migration into Southbank SA2 from LGAs 2006-2011

Source: JSA 2013, using data from ABS Census of Population and Housing 2011

Despite the local migration patterns, by far the highest in-migration into comparative major urban renewal or intensification areas in absolute terms came from overseas. The balance between interstate, international and domestic (excluding the SA2s themselves), in-migration is illustrated below. Around 55% of total in-migration came from overseas (principally China, elsewhere in Asia and the Indian subcontinent), whilst 32% came from elsewhere in Greater Melbourne and Victoria and 13% came from interstate. Southbank and Melbourne contain high proportions of people attending post school education compared to Greater Melbourne,[90] and it is likely that many of these are from overseas and studying locally.

[90] ABS table builder, 19.4% for Melbourne SA2, 14.8% for Southbank SA2 and 8.5% for Greater Melbourne.



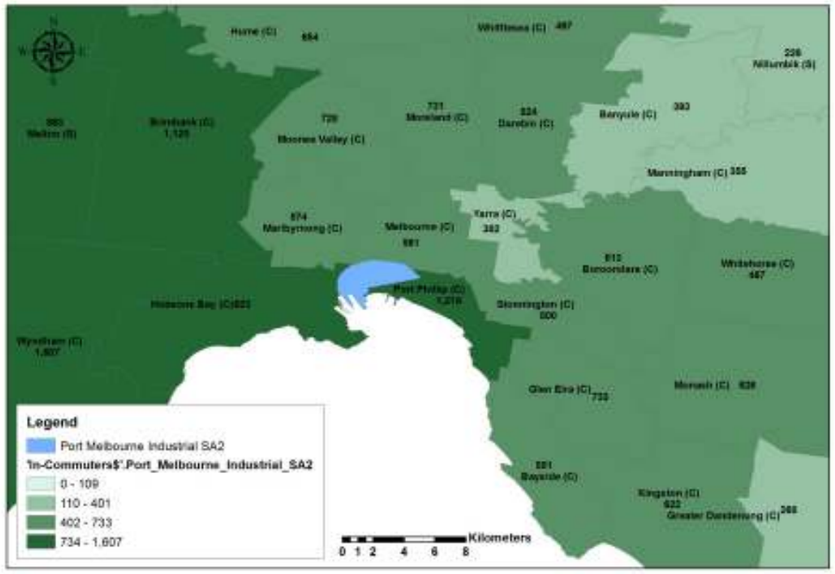
	Docklands SA2	Melbourne SA2	Southbank SA2
Victoria (Balance)	1,674	3,180	2,811
Interstate	500	1,293	1,189
Overseas	1,350	8,356	3,168

Figure 4-20: In-Migration Summary 2006-2011 – Numbers

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Usual Residence)

4.10.2 Commuting trends

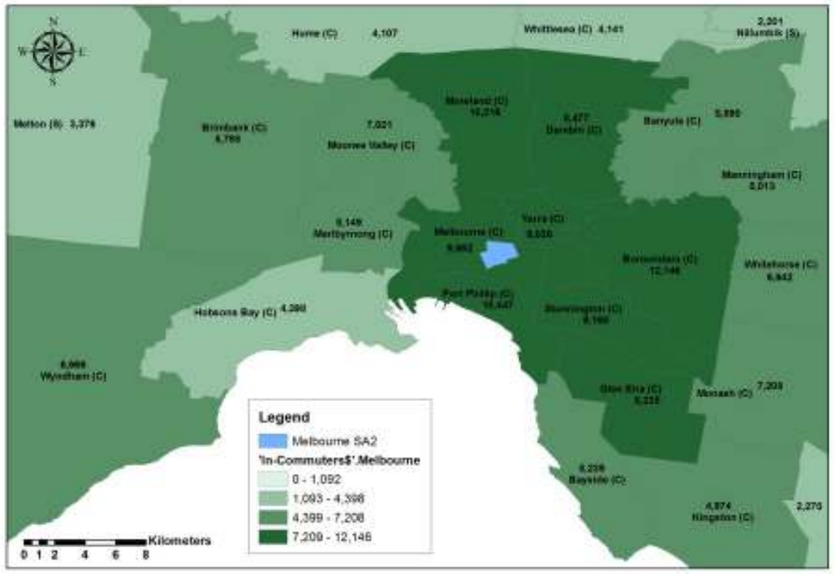
The areas in which those commuting into relevant industrial areas principally live are quite different to where people tend to migrate from, with workers in Port Melbourne Industrial Area SA2 mainly travelling from suburbs to the west of the Yarra River (for example, Brimbank, Hobsons Bay, Melton, and Wyndham LGAs) as well as from the balance of City of Port Phillip, and outer urban areas such as Morebank and Mooney Ponds. This is not surprising given the nature of employment and the quite different educational and occupational profiles of Greater Melbourne's LGAs. However, it is also noted that the catchment for employment centres within and close to FBURA is very wide, with many workers travelling long distances to their place of work. This would involve considerable cost for such workers, with a particularly serious impact on low and moderate income households.



Map 4-5: LGAs from which workers commute into Port Melbourne Industrial SA2
Source: JSA 2013, using data from ABS Census of Population and Housing 2011

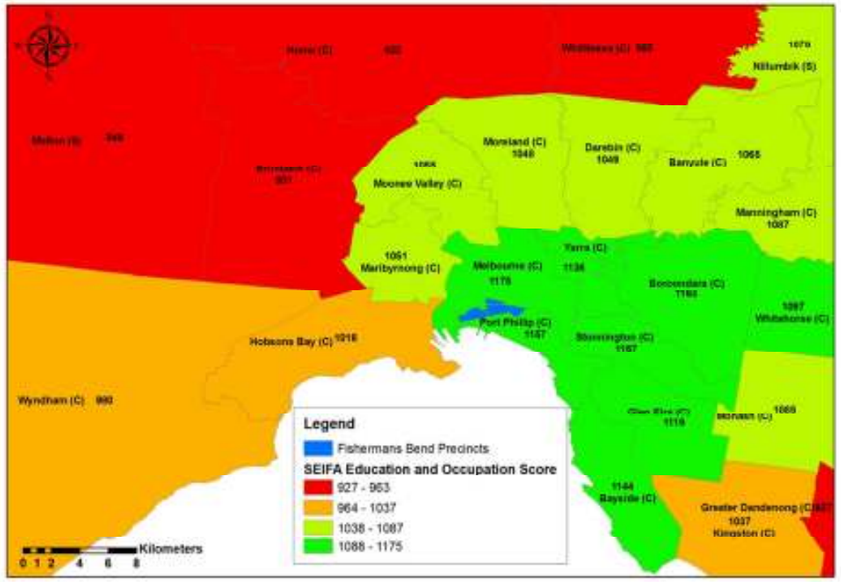
The picture for Melbourne SA2, Docklands SA2 and Southbank SA2 is quite different, with a much higher proportion coming from LGAs to the north, east and southeast, although those commuting to Docklands and Southbank appear to commute greater distances and come from somewhat more diverse areas. Again, commuters are in general drawn from a wide area across Greater Melbourne.

The following map shows the commuting pattern for Melbourne SA2 (including the CBD), whilst a range of relevant maps and data is provided in Appendix E.



Map 4-6: LGAs from which workers commute into Melbourne SA2
Source: JSA 2013, using data from ABS Census of Population and Housing 2011

The educational and occupational status of LGAs within a reasonable distance of the FBURA tends to reflect commuting patterns, with those commuting into key industrial employment centres coming from areas that tend to have lower status on the SEIFA Index of Education and Occupation, and those commuting into Melbourne CBD, Southbank and Docklands coming from higher status areas, as shown in the following map.



Map 4-7: SEIFA Index of Education and Occupation by LGAs

Source: JSA 2013, using data from ABS Census of Population and Housing 2011

The number of those who commute into relevant employment centres within and adjacent to the FBURA are shown in the tables below. Importantly, these indicate that the number of persons working in relevant employment centres far exceeds the number that live and work in these areas, with very high levels of commuting from a wide catchment across Greater Melbourne evident.

Table 4-2: Total commuters by selected SA2s and LGAs

Area	People who live and work in the area	People who commute into the area	People who commute out of the area
Docklands SA2	605	31,407	2,562
Melbourne SA2	4,378	181,543	4,693
Southbank SA2	1,003	32,945	5,501
Port Melbourne SA2	926	2,844	6,947
South Melbourne SA2	822	20,176	4,152
Melbourne (C)	27,913	331,772	17,718
Port Phillip (C)	11,843	52,013	39,442

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Work)

Interestingly, the vast majority of those who work in nearby industrial areas commute from LGAs outside of City of Melbourne and City of Port Phillip, likely due to the different occupational and educational profile of the latter areas compared with areas in Western Melbourne (see Table 6-3 below).

Table 4-3: Total commuters by industrial / commercial areas (SA2s)

Industrial / Commercial Area	People who live in City of Port Phillip and work in the industrial area	People who live in City of Melbourne and work in the industrial area	People who live elsewhere
West Melbourne SA2	76	83	4,294 (96% of workforce)
Port Melbourne Industrial SA2	1,218	561	17,012 (91% of workforce)

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Work)

There is a reasonable similarity between those who live and work in Southbank SA2 and those who commute into the area as far as individual income and occupation is concerned, though household income is not available for this variable, and may be quite different. The main exception is a higher proportion of professionals and community and personal services workers living and working in Southbank, and a higher proportion of clerical and administrative workers commuting into Southbank.

These comparisons are illustrated in the following graphs, and in more detail in Appendix E.

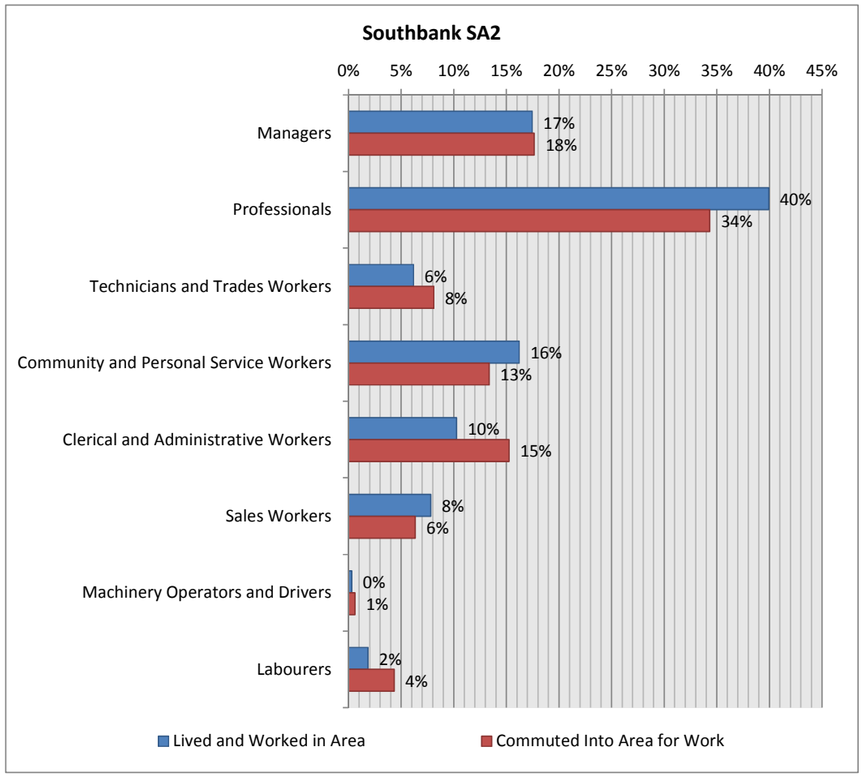
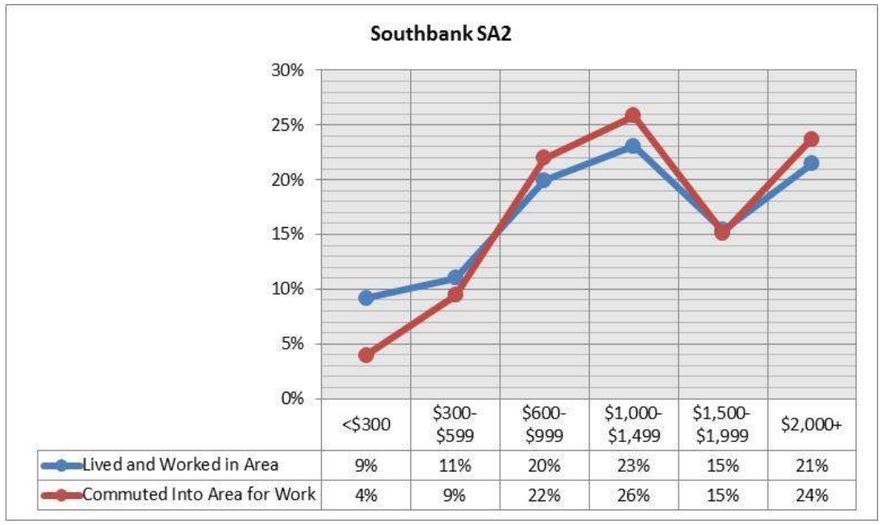


Figure 4-21: Occupation Profile by Commuter Status – Southbank SA2

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Work)



	<$300	$300-$599	$600-$999	$1,000-$1,499	$1,500-$1,999	$2,000+
Lived and Worked in Area	9%	11%	20%	23%	15%	21%
Commuted Into Area for Work	4%	9%	22%	26%	15%	24%

Figure 4-22: Individual Income by Commuter Status – Southbank SA2

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Work)

There are some differences regarding those living and working in the CBD compared with those who commute in to work. Whilst there is again a reasonable similarity in terms of occupational profile (though again with more resident community and personal service workers and more administrative and clerical workers commuting in), the individual income profile shows a few key differences, with a much higher proportion of commuters in the upper individual income bands compared with resident workers, and a lower proportion in the lowest income bands. A similar pattern is evident for Docklands SA2.

These comparisons are illustrated in the following graphs, and in more detail in Appendix E.

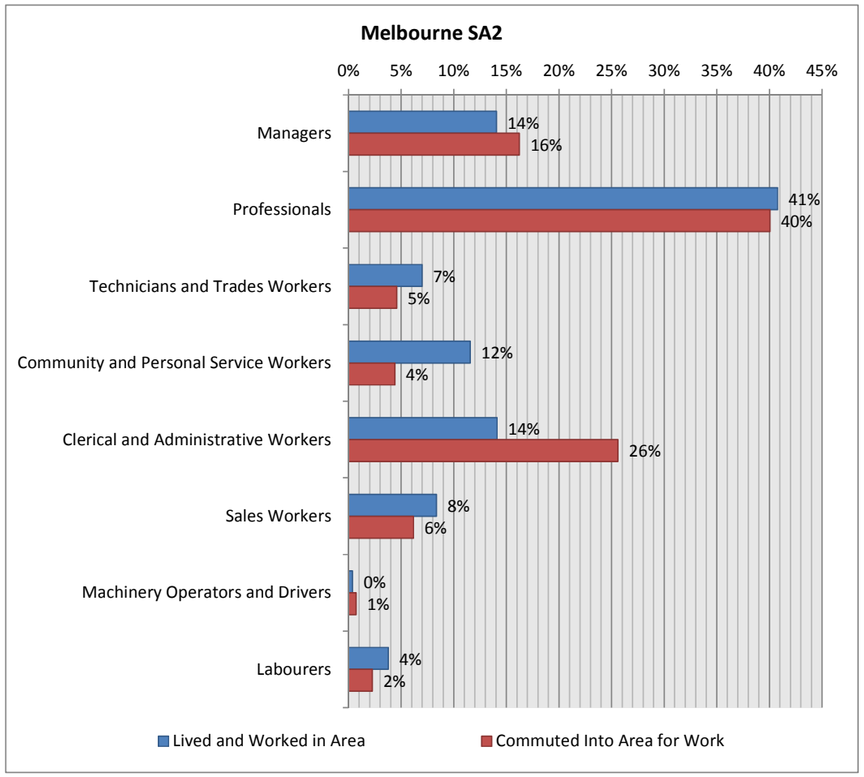


Figure 4-23: Occupation Profile by Commuter Status – Melbourne SA2

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Work)

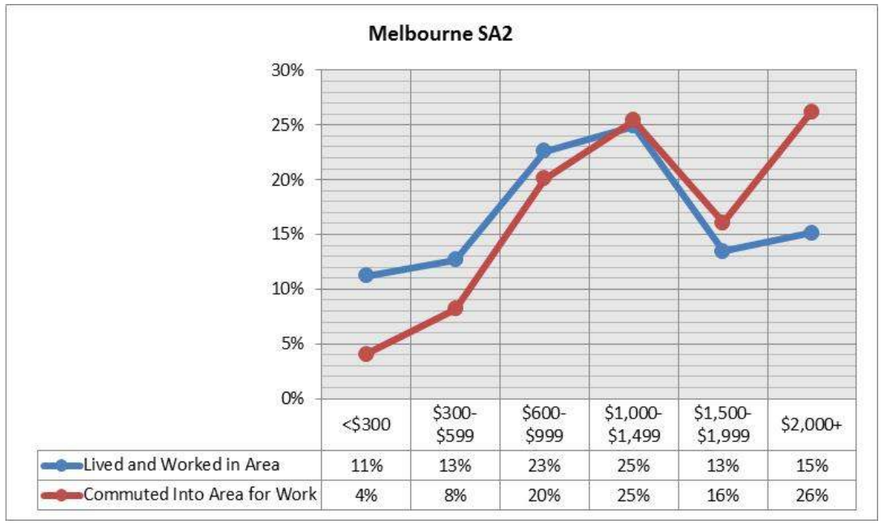


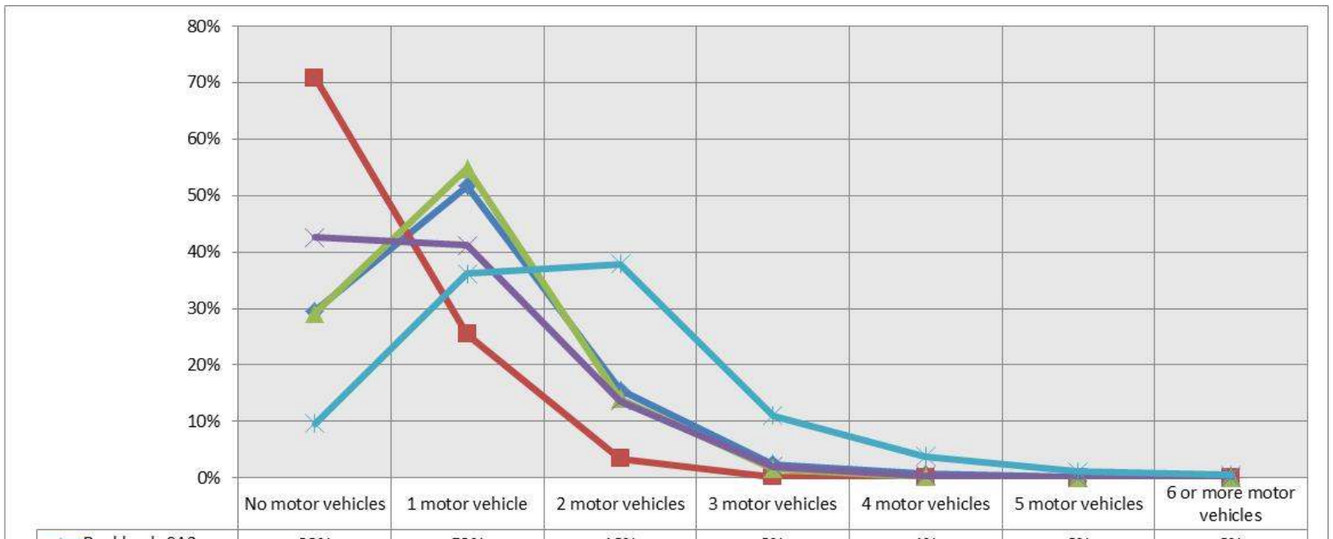
Figure 4-24: Individual Income by Commuter Status – Melbourne SA2

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Work)

4.10.3 Car Ownership

Whilst only 10% of households in Greater Melbourne have no motor vehicle, over 70% of those living in Melbourne SA2 do not own a vehicle. Rates of carless households are also high in Southbank SA2 and Docklands SA2 (30%), and in City of Melbourne overall (43%). The average motor vehicle ownership rates in these areas are also relatively low (less than one MV per household and only 0.3 MVs per household for Melbourne SA2). Proximity to the CBD, transport and services are likely to be major influences on MV ownership rates, as well as life cycle stage.

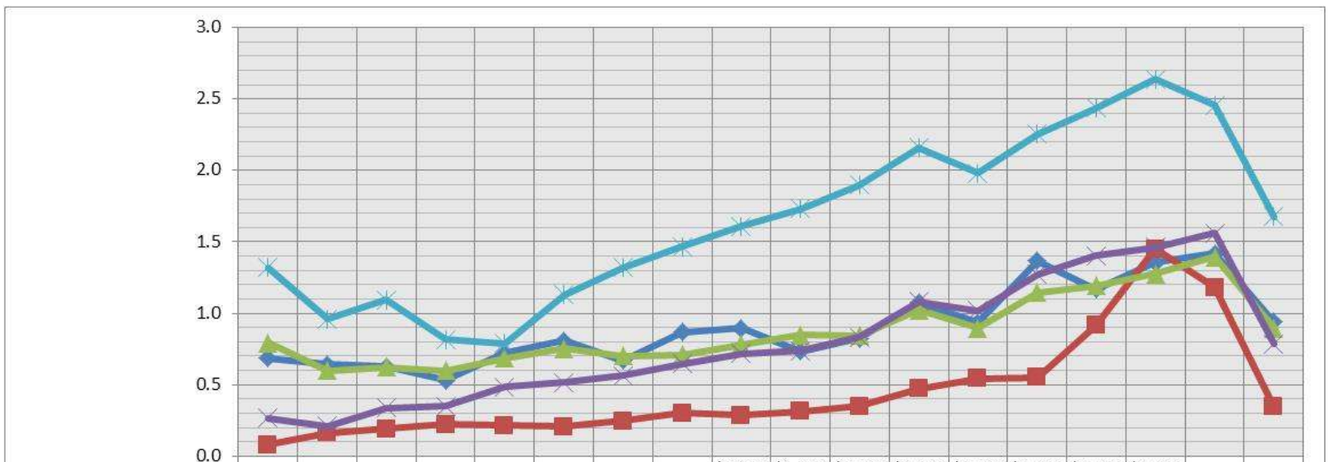
As well as locational factors, MV ownership also tends to decrease with income, with those on very low household incomes far less likely to own less than one MV on average regardless of where they live. Income and locational factors are more important for inner Melbourne areas, with low and moderate income households living in Melbourne SA2 maintaining very low relative levels of MV ownership (less than 0.5 per household), and such households also having low levels of ownership in renewal areas like Docklands and Southbank SA2s (less than one MV for moderate income households compared with almost two MVs in Greater Melbourne (see the following graphs and Appendix G).



	No motor vehicles	1 motor vehicle	2 motor vehicles	3 motor vehicles	4 motor vehicles	5 motor vehicles	6 or more motor vehicles
Docklands SA2	30%	52%	16%	2%	1%	0%	0%
Melbourne SA2	71%	25%	3%	0%	0%	0%	0%
Southbank SA2	29%	55%	14%	2%	0%	0%	0%
Melbourne (C)	43%	41%	14%	2%	0%	0%	0%
Greater Melbourne	10%	36%	38%	11%	4%	1%	1%

Figure 4-25: Motor vehicle ownership for selected areas, compared with Greater Melbourne, 2011 – proportion of households by number of motor vehicles owned

Source: JSA 2013, calculated using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Enumeration)



	Neg	Nil	$1-$199	$200-$299	$300-$399	$400-$599	$600-$799	$800-$999	$1,000 - $1,249	$1,250 - $1,499	$1,500 - $1,999	$2,000 - $2,499	$2,500 - $2,999	$3,000 - $3,499	$3,500 - $3,999	$4,000 - $4,999	$5,000 +	Total
Docklands	0.7	0.6	0.6	0.5	0.7	0.8	0.7	0.9	0.9	0.7	0.8	1.1	0.9	1.4	1.2	1.4	1.4	0.9
Melbourne	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.5	0.5	0.6	0.9	1.5	1.2	0.3
Southbank	0.8	0.6	0.6	0.6	0.7	0.8	0.7	0.7	0.8	0.8	0.8	1.0	0.9	1.1	1.2	1.3	1.4	0.9
Melbourne (C)	0.3	0.2	0.3	0.4	0.5	0.5	0.6	0.6	0.7	0.7	0.8	1.1	1.0	1.3	1.4	1.5	1.6	0.8
Greater Melbourne	1.3	1.0	1.1	0.8	0.8	1.1	1.3	1.5	1.6	1.7	1.9	2.2	2.0	2.3	2.4	2.6	2.5	1.7

Figure 4-26: Motor vehicle ownership for selected areas, compared with Greater Melbourne, 2011 – average number of motor vehicles per household by gross weekly household income

Source: JSA 2013, calculated using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Enumeration)

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5 Housing Stress

5.1 Overview of housing stress is relevant areas

One important way of understanding the need for affordable housing is the degree of relative 'housing stress'[91] among very low, low and moderate income households,[92] the characteristics of such households, and how this is changing over time. This also informs the development of relevant targets to meet demonstrated affordable housing need in a given area.

Looking first at **Greater Melbourne**, approximately 294,000 households were in housing stress in 2011, which was 31% of all renting and purchasing households. There were slightly more renters than purchasers in housing stress (52% and 48% of the total respectively), and more larger households (couples with children, single parents, group and other household types) than smaller households (lone persons and couples with children) (roughly 60% and 40% respectively).

There were some significant differences between renting households and purchasing households in housing stress.

There were 154,000 **renting households** in housing stress in Greater Melbourne in 2011 (39% of all renting households). Of these:

- By far the vast majority (89%) were very low and low income renting households (59% and 30% of the total respectively), and only 11% were moderate income renters;
- The highest proportion were smaller households, with 48% being lone person and couple only households, 40% being family households (sole parents, couples with children, etc), and 12% being group households; 61% of households in rental stress were one and two person households, 18% were 3 person households, and 20% were 4+ person households;
- More than half (54%) of reference persons living in renting households in housing stress were aged 20-39 years, whilst 31% were 40-59 years, and 13% were older than 60 years;
- Of those with an employed reference person, the majority (60%) could be termed 'key workers', whilst 40% were managers and professionals.

The 140,000 **purchasing households** in housing stress (26% of all purchasing households) had a quite different profile to renters in housing stress, which reflects the higher income required to enter the purchase market. Specifically:

[91] A household living in Greater Melbourne that is earning less than 120% of the median gross household income for Greater Melbourne and that pays 30% or more of its gross household income in rental payments or mortgage repayments is said to be in housing stress.
[92] Note that, by definition, higher income households cannot be in housing stress.

- The largest proportion (41%) were moderate income households, followed by low income (33%) and very low income households (26%);
- Larger households were the predominant group. The highest proportion were family households with children (65%), whilst smaller households (lone person and couples only) made up 33% of purchasers in housing stress. Whilst 38% were one and two person households (including some sole parents and group households), 19% had 3 persons, 27% had 4 persons, and 16% had 5 or more persons;
- Ages were older than renters in housing stress, with 44% of reference persons of households in home purchase stress aged 20-39 years, 48% aged 40-59 years, and 7% older than 60 years;
- Of those with an employed reference person, the majority (55%) could be termed 'key workers', whilst 45% were managers and professionals.

Housing stress in the **two local government areas within which FBURA is located** have quite different housing stress profiles.

- Overall, in **City of Melbourne,** 42% of all renting and purchasing households (14,400 very low, low and moderate income households) were in housing stress, which is much worse than the Greater Melbourne average despite the higher incomes of City of Melbourne households.

  Housing stress among renters (particularly very low and low income renters) in City of Melbourne is particularly severe, with 85% of households in housing stress made up of renters, and the vast majority of these (84%) being very low and low income households. Around 60% were managers and professionals, and 40% were 'key workers', which is the reverse of the Greater Melbourne situation.

  Importantly, 46% of all renting households were in housing stress in 2011 compared with 39% in Greater Melbourne; and 88% of very low income renting households and 77% of low income renting households were in housing stress.

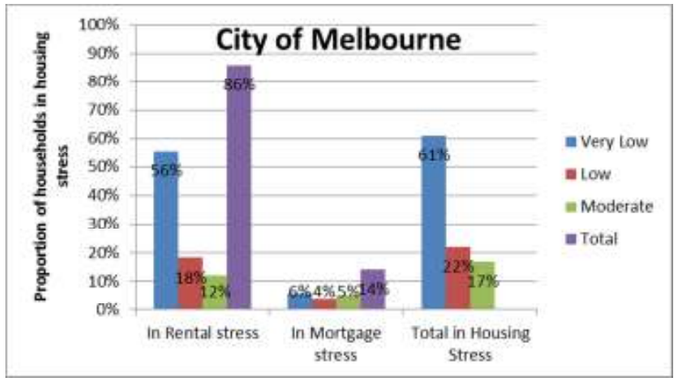

Figure 5-1: Housing Stress among Relevant Target Groups – City of Melbourne

Source: JSA 2013, using data from ABS Census of Population and Housing 2011 (Tablebuilder)

- Overall, in **City of Port Phillip,** 27% of all renting and purchasing households (8,925 very low, low and moderate income households) were in housing stress, which was somewhat lower than the Greater Melbourne average. This is largely due to the higher proportion of higher income purchasers and renters in the LGA, who by definition cannot be in housing stress.

  Like City of Melbourne, housing stress in City of Port Phillip is particularly serious for renters, with 78% of those in housing stress being renting households (85% of these being on very low and low incomes), and the vast majority of such households in housing stress.

  The situation for purchasers is somewhat better than average, with 19% of purchasing households in City of Port Phillip being in housing stress (compared with 26% for Greater Melbourne), though this is likely to be largely due to the higher proportion of higher income purchasers in the LGA, who by definition cannot be in housing stress.

Although the income profiles are similar in the two LGAs, it is likely that there has been a reasonable degree of displacement of lower income groups from City of Port Phillip, whilst such households continue to be accommodated in older (and possibly newer) high density development in City of Melbourne. However, such households would also be at risk of displacement in the gentrifying rental market of City of Melbourne given the very high proportion of very low income renters in housing stress.

Local Government Areas from which **commuters into Port Melbourne Industrial Area SA2** (including FBURA) are principally drawn are also considered. The five main LGAs from which workers commuted into the SA2 were drawn in 2011 were Brimbank, Hobsons Bay, Melton, Port Phillip and Wyndham LGAs.

There are similarities with the Greater Melbourne housing stress profile, except that there are a somewhat higher proportion of purchasing households and family households in keeping with the 'mortgage belt' market of a number of these areas.

5.2 Projected Population forecasts and implications for housing stress

In 2011, the population of Greater Melbourne was approximately 4 million, and is projected to increase to around to 6.5 million residents by 2051, based on the most recent estimates.[93] Based on current trends, overseas migration, and to a lesser extent natural increase, is expected to drive metropolitan growth.[94] Median age is expected to increase from 37 to 41 years in the State of Victoria, with the proportion of those aged 65 years and older expected to increase from 14% to 22%, and with household growth expected to outstrip population growth due to reducing household size.[95]

There are significant differences in projected growth between various local government areas in Greater Melbourne, with the greatest population change expected to be in designated growth areas,[96] and strong change also predicted within inner Melbourne LGAs.[97] Within this context, it is noted that City of Melbourne LGA is projected to grow from 120,000 residents in 2011 to 189,000 by 2031, an average annual growth rate of 2.7% (more than twice the Greater Melbourne growth rate of 1.2% pa); whist City of Port Phillip LGA is expected to grow at a lower than average rate (1.0% pa) from 98,500 to 120,300 residents.

If current housing stress rates are applied to anticipated household growth, this would mean that by 2031:

- Around 400,000 renting and purchasing household would be in housing stress in Greater Melbourne;
- Around 27,500 renting and purchasing household would be in housing stress in City of Melbourne;
- Around 10,900 renting and purchasing household would be in housing stress in City of Port Phillip.

[93] Department of Planning and Community Development (2012*) Victoria in the Future 2012: Population and Household Projections 2011-2031 for Victoria and its Regions*, p 2.
[94] Department of Planning and Community Development (2012*) Victoria in the Future 2012: Population and Household Projections 2011-2031 for Victoria and its Regions*, p 2.
[95] Department of Planning and Community Development (2012*) Victoria in the Future 2012: Population and Household Projections 2011-2031 for Victoria and its Regions*, p 3.
[96] Cardinia, Casey, Hume, Melton, Mitchell, Whittlesea and Wyndham.
[97] Department of Planning and Community Development (2012*) Victoria in the Future 2012: Population and Household Projections 2011-2031 for Victoria and its Regions*, p 6.

5.3 Three Scenarios as the basis of targets for Affordable Housing Created in FBURA

5.3.1 Overview

Based on housing stress for relevant areas outlined above, a target of **20% affordable housing** as defined for relevant target groups would be justified if the objective is to enable such groups to be included in the future FBURA redevelopment area. This would also be in line with emerging Places Victoria thinking.[98] Assuming that 40,000 dwellings will ultimately be constructed in the four FBURA precincts, this equates to 8,000 affordable rental and purchase dwellings for a mix of different income and household types.

Using the mix of households currently in housing stress as a proxy for future affordable housing need, **three scenarios** are provided, based on various assumptions regarding social inclusions and sustainability. These provide a context to on appropriate targets for affordable housing created in FBURA through various mechanisms and strategies discussed in *Part A: Options Paper*.

Overall, an aspirational affordable housing profile reflecting the housing stress distribution for **Greater Melbourne** was selected as the basis for modelling as this provides the most inclusive approach to affordable housing, particularly in relation to the inclusion of a higher level of purchasers and family households. This more balanced profile would also appear to be in line with stated aspirations of the Minister and Places Victoria, discussed above.

5.3.2 Greater Melbourne Scenario

The first scenario is based on current housing stress across **Greater Melbourne**, which may be seen as a 'base case' should the Victorian government seek to include the broad range of households likely to require affordable housing in the metropolitan area, and seek to provide for such social inclusion and diversity.

The following table provides a breakdown of the target groups and relevant dwelling and tenure types that would be required under this scenario. There would be a reasonable balance between renting and purchasing households (though more rental would be required) and between the need for smaller and larger dwellings, since, as previously noted, far greater housing stress (including severe housing stress) is experienced by very low and low income households (particularly renters). Almost 80% of affordable housing would be required by very low and low income households.

[98] Presentation by Places Victoria, 13 May 2013

Table 5-1: Housing Targets based on Housing Stress Profile for Greater Melbourne

Total	Tenure	Size[99]	Income
Total 8,000 Dwellings	Rental 55% 4,400 Dwellings	Smaller Dwellings 27.5% 2,200 Dwellings	Very Low Income 18.5% 1,500 Dwellings
			Low Income 7% 600 Dwellings
			Moderate Income 2% 100 Dwellings
		Larger Dwellings 27.5% 2,200 Dwellings	Very Low Income 14.5% 1,200 Dwellings
			Low Income 9% 700 Dwellings
			Moderate Income 3% 300 Dwellings
	Purchase 45% 3,600 Dwellings	Smaller Dwellings 17.5% 1,400 Dwellings	Very Low Income 5.5% 400 Dwellings
			Low Income 6% 500 Dwellings
			Moderate Income 6.5% 500 Dwellings
		Larger Dwellings 27.5% 2,200 Dwellings	Very Low Income 7.5% 600 Dwellings
			Low Income 9% 700 Dwellings
			Moderate Income 11% 900 Dwellings

Source: JSA 2013, calculated using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Enumeration)

[99] Smaller dwellings are those suitable for single person and couple households (typically studio and one bedroom), larger dwellings are those suitable for other households (typically two bedroom and greater).

5.3.3 City of Melbourne Scenario

The next table provides a breakdown of likely affordable housing need based on inner city markets, namely for households living in the two LGAs within which the FBURA precincts are included. Given that **City of Melbourne** includes most of the redevelopment areas that are likely to be similar to FBURA residential development, this is used as the context to the nature of housing need should the status quo prevail (a 'business as usual' approach).

The following table provides a breakdown of the target groups and relevant dwelling and tenure types that would be required under this scenario. Targets for affordable housing based on housing stress/need in a profile that resembles City of Melbourne (containing much of the recent urban redevelopment in inner Melbourne) would require a much higher proportion of affordable rental housing and affordable dwellings for smaller households. Over 80% would be required by very low and low income households.

Table 5-2: Housing Targets based on Housing Stress Profile for City of Melbourne

Total	Tenure	Size	Income
Total 8,000 Dwellings	Rental 85% 6,800 Dwellings	Smaller Dwellings 52% 4,200 Dwellings	Very Low Income 34% 2,700 Dwellings
			Low Income 11% 900 Dwellings
			Moderate Income 7% 600 Dwellings
		Larger Dwellings 33% 2,600 Dwellings	Very Low Income 20% 1,600 Dwellings
			Low Income 7% 550 Dwellings
			Moderate Income 6% 450 Dwellings
	Purchase 15% 1,200 Dwellings	Smaller Dwellings 10% 800 Dwellings	Very Low Income 3% 250 Dwellings
			Low Income 3% 250 Dwellings
			Moderate Income 4% 300 Dwellings
		Larger Dwellings 5% 400 Dwellings	Very Low Income 2% 150 Dwellings
			Low Income 1.5% 125 Dwellings
			Moderate Income 1.5% 125 Dwellings

Source: JSA 2013, calculated using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Enumeration)

5.3.4 Scenario based on main areas from which commuters are drawn

A third context is provided for those currently **commuting into industrial areas** within FBURA and Fishermans Bend more broadly (Port Melbourne Industrial Area SA2). This provides an understanding of those likely to require access to affordable housing *if* the aim is to include those working in areas close to FBURA, who may otherwise be excluded by virtue of income. The five main LGAs from which workers commute into Port Melbourne Industrial Area SA2 are Brimbank, Hobsons Bay, Melton, Port Phillip and Wyndham LGAs. The following table provides a breakdown of relevant target groups and housing types.

Based on the main areas from which commuters are drawn into Port Melbourne Industrial Areas (including FBURA), there should be equal proportions of affordable purchase and rental (noting that areas such as Melton and Wyndham are included in Melbourne's designated growth areas), and a somewhat higher proportion of larger dwellings (55% compared with 45% for smaller households), though again almost 80% of affordable accommodation would be required for very low and low income households.

Table 5-3: Housing Targets based on Housing Stress Profile for Main Commuting Areas (Brimbank (C), Hobsons Bay (C), Melton (S), Port Phillip (C) and Wyndham (C))

Total	Tenure	Size	Income
Total 8,000 Dwellings	Rental 50% 4,000 Dwellings	Smaller Dwellings 25% 2,000 Dwellings	Very Low Income 16% 1,300 Dwellings
			Low Income 7% 550 Dwellings
			Moderate Income 2% 150 Dwellings
		Larger Dwellings 25% 2,000 Dwellings	Very Low Income 15% 1,200 Dwellings
			Low Income 8% 650 Dwellings
			Moderate Income 2% 150 Dwellings
	Purchase 50% 4,000 Dwellings	Smaller Dwellings 20% 1,600 Dwellings	Very Low Income 6% 450 Dwellings
			Low Income 7% 550 Dwellings
			Moderate Income 7% 600 Dwellings
		Larger Dwellings 30% 2,400 Dwellings	Very Low Income 9% 700 Dwellings
			Low Income 10% 800 Dwellings
			Moderate Income 11% 900 Dwellings

Source: JSA 2013, calculated using data from ABS Census of Population and Housing 2011 (Tablebuilder, Place of Enumeration)

6 Assessment of current and likely future affordability

6.1 Overview

6.2 Analysis of Sales Data

6.2.1 Separate Houses

Introduction

Sales data were obtained for the suburbs of South Melbourne and Port Melbourne for the last twelve months.[100] There were no separate house sales recorded for Southbank or for Docklands. The data were analysed using linear regression analysis (LRA) and price quartiles were calculated. Results suggest that all very low, low and moderate income households will be excluded from the separate house purchase market if such product is built in the Fishermans Bend redevelopment area.

LRA results

Significant variables impacting on separate house price were found to be the number of bedrooms, bathrooms and garages in the house, with these variables accounting for 36% of the variation in the price of separate houses. The balance of the variation in price is likely to be accounted for by individual dwelling size, amenity of the dwelling and amenity of the immediate area. Block size and suburb were not found to be significant variables,[101] probably because there is little variation in block size, though there was found to be a weak trend for houses in South Melbourne to be priced $90,000 higher than those in Port Melbourne.

The average house price for the area was just over $1.0 million, more than twice the maximum affordable property price for moderate income households, calculated above. Details of the analysis are shown in the table below.

[100] RP Data.
[101] The 95% level of significance was used as the test variable.

Table 6-1: Results of linear regression analysis – separate houses

Variable	Impact on price	Notes
Constant	+$295,000	This is the base component of price and could be considered as representing land value.
Number of bedrooms	+$168,000	Each bedroom adds this amount to the sales price.
Number of bathrooms	+$101,000	Each bathroom adds this amount to the sales price.
Number of garages / parking spaces	+$138,000	Each garage/parking space adds this amount to the sales price. The high value reflects the premium placed on parking in the area.

Source: RP Data sales data, 12 months to March 2013, JSA analysis

This analysis suggests that separate houses are very unlikely to be affordable to moderate income households. For example, a two bedroom, one bathroom house would on average have a sale price of $732,000, nearly twice the affordable purchase price for those households at the upper end of the moderate income band.

Quartile analysis

Results are set out in the table below.

Table 6-2: Quartile analysis – separate houses

Number of bedrooms	First quartile price	Median price	Comment
One	$640,500	$745,000	Sample less than ten
Two	$674,500	$795,000	
Three	$900,000	$1,050,000	
Four	$1,112,000	$1,200,000	Sample less than thirty

Source: RP Data sales data, 12 months to March 2013, JSA analysis

It is evident that no first quartile property sold was affordable to a moderate income household. Of the 201 house sales assessed, four properties (2%) were affordable to moderate income households. JSA were not able to assess the condition of these properties, nor whether or not the sales were conducted at 'arm's length'.

6.2.2 Apartments

Introduction

Sales data were obtained for the suburbs of Southbank, Docklands, South Melbourne and Port Melbourne for the last twelve months.[102] The data were again analysed using linear regression analysis (LRA) and quartiles calculated. Results suggest that all very low income households, and larger low income households and moderate income households will be excluded from the apartment purchase market, even if small apartments are mandated.

LRA results

Introduction

Two analyses were carried out. The first considered the impact on sales price of apartment area (including parking spaces and the like) and suburb, while the second considered the impact in terms of dwelling characteristics and suburb.

Apartment size

Apartment area and suburb were found to be very good indicators of sale price, with this model accounting for 69% of the variation in sales price. A discount is associated with apartments located in the suburb of South Melbourne, probably reflecting the lack of premium waterfront locations in this suburb compared with Southbank, Docklands and Port Melbourne.

The average apartment price across the sample was $624,000, well above the affordable property price calculated above for moderate income households. Details of the analysis are shown in the table below.

[102] RP Data sales data, 12 months to March 2013.

Table 6-3: Results of linear regression analysis – apartments

Variable	Impact on price	Notes
Area	+$7,387 per m^2	Note that care is required when extrapolating outside of the data range, particularly with regard to negative values below.
South Melbourne	-$68,000	A locational discount is associated with South Melbourne by comparison with the study area.
Constant	-$21,000	This constant is not statistically significant.

Source: RP Data sales data, 12 months to March 2013, JSA analysis

Using this data, and assuming the Fishermans Bend Redevelopment area will have the characteristics of South Melbourne, the affordability limits calculated above can be translated into dwelling sizes. The maximum affordable property of $426,250 for a moderate income household is equivalent to a 70 square metre apartment, with this corresponding to a two bedroom dwelling, or a one bedroom dwelling with a parking space.

The maximum affordable property of $283,750 for a low income household is equivalent to a 50 square metre apartment, with this corresponding to a one bedroom apartment or a studio apartment with a parking space.

A typical studio apartment of 35 square metres is estimated to have a sales price of $170,000. However, this is outside the range of the data analysed and so may be an underestimate. This studio apartment will be affordable to all low income households and to a few very low income households.

Apartment type

Variables found to significantly impact on apartment price were the number of bedrooms, bathrooms and garages, with these variables accounting for around 48% of the variation in the price of apartments in the area. Similar to separate housing, the balance of the variation in price is likely to be accounted for by individual dwelling size, amenity of the dwelling and amenity of the immediate area. Suburb was not found to be a significant variable.

The average apartment price across the sample was $630,000, well above the maximum affordable property price for moderate income households calculated above. Details of the analysis are shown in the table below.

Table 6-4: Results of linear regression analysis – apartments

Variable	Impact on price	Notes
Constant	-$66,000	Care should be taken extrapolating outside the range of data.
Number of bedrooms	+$197,000	Each bedroom adds this amount to the sales price.
Number of bathrooms	+$167,000	Each bathroom adds this amount to the sales price.
Number of garages / parking spaces	+$81,000	Each garage/parking space adds this amount to the sales price. The high value reflects the premium placed on parking in the area.

Source: RP Data sales data, 12 months to March 2013, JSA analysis

A typical two bedroom apartment with one bathroom and a parking space is estimated to have a sale price of $576,000, well above the affordability level for moderate income households. A one bedroom apartment with one bathroom is estimated to have a sale price of $298,000, with this dwelling expected to be affordable to all moderate income households.

Quartile analysis

Results are set out in the table below.

Table 6-5: Results of quartile analysis – apartments

Suburb	Number of bedrooms	First quartile	Median	Comment
All	All	$460,000	$550,000	
	One	$379,250	$407,250	
	Two	$500,125	$560,000	
	Three	$640,000	$850,000	
Docklands	All	$453,600	$547,500	
	One	$368,750	$415,000	
	Two	$498,750	$570,500	
	Three	$756,250	$957,500	Sample less than thirty properties.

Suburb	Number of bedrooms	First quartile	Median	Comment
Southbank	All	$447,500	$540,000	
	One	$378,000	$400,000	
	Two	$489,750	$540,000	
	Three	$622,500	$700,000	
South Melbourne	All	$446,250	$521,000	
	One	$366,500	$406,000	Sample less than thirty properties.
	Two	$512,000	$535,000	
	Three	$551,250	$655,000	Sample less than ten properties.
Port Melbourne	All	$500,000	$620,000	
	One	$402,500	$459,500	
	Two	$526,500	$630,000	
	Three	$868,750	$1,167,500	Sample less than ten properties.

Source: RP Data sales data, 12 months to March 2013, JSA analysis

It is evident that no first quartile property sold was affordable to a low income household. A proportion of moderate income households could affordably purchase a first quartile one bedroom apartment (33% of moderate income households), with a similar result in all suburbs.

Of 958 apartment sales assessed, 173 properties (18%) were affordable to moderate income households, with 90% of these apartments being one bedroom dwellings. Thirteen (1%) were affordable to low income households, with these evenly split between one and two bedroom apartments.

6.3 Analysis of Rental Data

6.3.1 Separate Houses

Introduction

Rental data were obtained for the suburbs of Docklands, South Melbourne and Port Melbourne by taking a snapshot of rental advertisements as at 26 April 2013.[103] There were no separate houses advertised for rent in Southbank on this date. The data were analysed using linear regression analysis (LRA) and quartiles were calculated. Results suggest that all very low and low income households and many moderate income households will be excluded from the separate house rental market if such product is built in the Fishermans Bend redevelopment area.

LRA results

Variables significantly impacting on separate house rental prices were found to be the number of bedrooms, bathrooms and garages, with these variables accounting for approximately 75% of the variation in the rental price of separate houses.

The average rental price of houses in the area was $908 per week, nearly twice the maximum affordable rent for moderate income households calculated above. Details of the analysis are shown in the table below.

Table 6-6: Results of linear regression analysis – separate houses

Variable	Impact on weekly rent	Notes
Constant	-$228	
Number of bedrooms	+$170	Each bedroom adds this amount to the rent.
Number of bathrooms	+$284	Each bathroom adds this amount to the rent.
Number of garages / parking spaces	+$124	Each garage/parking space adds this amount to the rent.

Source: Rental advertisements (snapshot at end March 2013), JSA analysis

This analysis suggests that separate houses are likely to be affordable to some moderate income households. For example, a two bedroom, one bathroom house would on average have a rent of $396 per week and be affordable to the upper 60% of moderate income households.

[103] www.realestate.com.au

Quartile analysis

Results are set out in the table below.

Table 6-7: Results of quartile analysis – separate houses

Number of bedrooms	First quartile weekly rent	Median weekly rent	Comment
One	$408	$475	Sample less than ten properties.
Two	$500	$555	Sample less than thirty properties.
Three	$750	$875	
More than three	$1,150	$1,300	Sample less than thirty properties.

Source: Rental advertisements (snapshot at end March 2013), JSA analysis

A first quartile and a median one bedroom rental property was affordable to a moderate income household. Of 73 house advertised for rent and assessed, nine properties (12%) were affordable to moderate income households.

6.3.2 Apartments

Introduction

Rental data were obtained for the suburbs of Southbank, Docklands, South Melbourne and Port Melbourne by taking a snapshot of rental advertisements on 26 April 2013.[104] The data were analysed using linear regression analysis (LRA) and quartiles were calculated. Results suggest that most very low and low income households will be excluded from the apartment rental market in the Fishermans Bend redevelopment area. Larger moderate income households will also be excluded.

LRA results

Variables found to significantly impact on separate house rental prices were number of bedrooms, bathrooms and garages. A rental premium is associated with Southbank and a rental discount is associated with South Melbourne. These variables account for 57% of the variation in the rents of apartments.

The average apartment rent for the area was found to be $630 per week, nearly 30% more expensive than the maximum affordable rent for moderate income households, as previously stated. Details of the analysis are shown in the table below.

[104] www.realestate.com.au

Table 6-8: Results of linear regression analysis – apartments

Variable	Impact on weekly rent	Notes
Constant	-$35	
Number of bedrooms	+$135	Each bedroom adds this amount to the rent.
Number of bathrooms	+$216	Each bathroom adds this amount to the rent.
Number of garages / parking spaces	+$43	Each garage/parking space adds this amount to the rent.
Southbank	+$35	On average Southbank attracts higher rents.
South Melbourne	-$48	On average South Melbourne is associated with slightly lower rents.

Source: Rental advertisements (snapshot at end March 2013), JSA analysis

This analysis suggests that rental apartments are likely to be affordable to some moderate income households. For example, a two bedroom, one bathroom apartment in South Melbourne would on average have a rent of $403 per week and be affordable to the upper 50% of moderate income households. A one bedroom, one bathroom apartment would on average have a rent of $268 per week and be affordable to all moderate income households and to the upper 50% of low income households.

Quartile analysis

Results and set out in the table below.

Table 6-9: Results of quartile analysis – apartments

Suburb	Number of bedrooms	First quartile weekly rent	Median weekly rent	Comment
All	All	$450	$550	
	One	$400	$425	
	Two	$520	$560	
	Three	$749	$893	
Docklands	All	$480	$588	
	One	$410	$450	
	Two	$540	$600	
	Three	$840	$950	
Southbank	All	$450	$530	
	One	$400	$430	
	Two	$520	$550	
	Three	$699	$845	
South Melbourne	All	$410	$510	
	One	$375	$400	
	Two	$513	$550	
	Three	$695	$750	Sample less than 30
Port Melbourne	All	$472	$596	
	One	$398	$440	
	Two	$500	$596	
	Three	$750	$878	Sample less than 30

Source: Rental advertisements (snapshot at end March 2013), JSA analysis

No first quartile property advertised for rent was affordable to a low income household. One bedroom first quartile and median apartments were affordable to moderate income households, with 55% of moderate income households able to affordably rent a first quartile one bedroom property. Affordability is somewhat higher in South Melbourne with 70% of moderate income households able to affordably rent a first quartile one bedroom property.

Of 965 apartments advertised for rent, 329 properties (34%) were affordable to moderate income households, with 85% of these apartments having one bedroom. 53% were located in Southbank, with the balance fairly evenly spread between Docklands, Port Melbourne and South Melbourne. One was affordable to very low income households, and four were affordable to low income households, with these all being one bedroom apartments.

7 Delivery mechanisms for Affordable Housing

7.1 Principles and discussion

7.1.1 Affordability Target

A target of 20% affordable housing has been adopted for modelling. Higher values can be defended, for example using levels of housing stress in Greater Melbourne, around 40% of renting very low, low and moderate income households are in housing stress, as are 25% of purchasing very low, low and moderate income households. The target groups comprise 60% of households in Greater Melbourne, so provision of 20% affordable housing will mean these groups are well underrepresented in FBURA. Twenty per cent is a commonly adopted target for affordable housing in other jurisdictions.

7.1.2 Target Groups

There are three target groups for affordable housing. These are:

- Very low income households (The 25% of all households with incomes less than half the median household income for Greater Melbourne)
- Low income households (The 15% of all households with incomes between half and 80% of the median household income for Greater Melbourne)
- Moderate income households (The 20% of all households with incomes between 80% and 120% of the median household income for Greater Melbourne)

Together these groups comprise 60% of households in Greater Melbourne.

These households are made up of small households comprising single people and couples; and larger family households; and are further divided into renting households, purchasing households and home owners.

7.1.3 Housing Affordability Benchmark

A housing affordability benchmark of 30% of household income spent on rent or mortgage payments is typically adopted, taking the view that households at the lower end of the income scale expending a proportion of household income greater than 30% will be in housing stress. This is the aspirational model.

While useful as a rule of thumb, there are some criticisms of this approach. It is evident that this approach leaves a very low income household with much less disposable income after housing payments than a moderate income household (less than half). While this may be partially offset by the progressive nature of our taxation system and the progressive nature of a range of welfare payments, a very low income household paying 30% of income on housing will still be in a worse position than a moderate income household paying 30% of household income on housing.

There are other circumstances where the 30% may be somewhat low. For example, a low or moderate income household may pay more than 30% on housing compared to another similar household, but may offset this cost by reduced transport costs such as no car ownership and walking to walk or commuting by public transport.

It may also be the case, for a moderate income household entering the housing purchase market, that the household tolerates initially high levels of housing stress to enter the housing market, in expectation of both real increases in future income and the effect of inflation on loan repayments. Around 20% of moderate income households in purchasing housing stress spend in excess of 50% of gross household income on mortgage payments. This could reflect either tolerance for initially high levels of housing stress or may reflect changed circumstances leading to reduced household income. Such households are likely to be in significant housing stress, as illustrated by our case studies.

35% has been adopted as a benchmark to represent possible savings from reduced vehicle ownership in an inner city location. A benchmark of 40% for some purchasing households has been adopted to represent possible tolerance for high initial mortgage payments and an assumption of decreasing debt to income ratios over time. This could be considered as a more pragmatic model. Additional benchmarks have been used to assess sensitivity. These are:

- All very low income households 30%
- All family renting households 30%
- Low and moderate income small renting households 35%
- Low and moderate family purchasing households 35%
- Low and moderate small purchasing households 40%

Income benchmarks are set out in the table below.

Table 7-1: Maximum affordable rental and purchase price for different levels of housing stress

	Household type		
Proportion of gross household income spent on rent or mortgage payments	**Very Low income**	**Low income**	**Moderate income**
Rental Households			
30%	$204	$326	$490
35%	$239	$381	$572
40%	$273	$436	$654
Purchasing Households			
30%	$178,000	$284,000	$426,000
35%	$208,000	$294,000	$497,000
40%	$237,000	$303,000	$568,000

Source: JSA 2012, based on data from ABS (2011) Census indexed to December 2012 dollars, ANZ loan calculator

7.1.4 Affordable Housing in Perpetuity

An important principle in provision of affordable housing is that of affordable housing in perpetuity. This is an important principle, to avoid some people obtaining windfalls and to ensure that there is a genuine increase in affordable housing. It is important to ensure that affordable housing remains affordable. This is the case when ownership of rental stock is vested in community housing providers or the like, and when assisted purchase stock has caveats around resale.

7.1.5 Minimum dwelling sizes

NSW SEPP ARH (2009) contains acceptable dwelling sizes for affordable housing. These are 95 m^2 for three bedroom apartments, 70 m^2 for two bedroom apartments, 50 m^2 for one bedroom apartments and 35 m^2 for studio apartments. These apartment sizes have been adopted for all affordable housing stock, noting that the dwellings do not include parking. Using the results of our linear regression analysis, rents and purchase prices for these products are tabulated below.

Table 7-2: Rents and prices for minimum dwelling sizes

Dwelling size	Rent (No parking space)	Purchase price
Studio	$270	$170,000
One bedroom	$270	$280,000
Two bedroom	$400	$428,000
Three bedroom	$540	$613,000

Source: JSA calculation based on results of linear regression analysis

7.1.6 Mandating dwelling type and size

Purchase Market

Using the results of the LRA reported in Section 6, an apartment of 70 square metres should be affordable to the upper end of the moderate income household band, an apartment of 50 square metres should be affordable to all moderate income households and the upper end of the low income band and an apartment of 35 square metres should be affordable to all low income households and the top end of the very low income household band.

There is some limited data on land sales for the area, suggesting an underlying land value of approximately $800 per square metre. This is in line with rateable values reported by others.[105] The assessment below considers the likely construction cost of such apartments by comparison with the likely sale price to see whether mandating dwelling size would be an impost on developers. A block size of 1,000 square metres and construction of five storey lifted apartments has been assumed.

The analysis below shows that, with the exception of construction of studio apartments in Montague precinct, profits are likely to be well above a normal profit of 10%, suggesting that mandating dwelling size and type is unlikely to place a cost impost on developers.

[105] MacroplanDimasi, *FBURA Real Estate Market Assessment*, quotes values of $800-1,000 for Sandridge, Wirraway and Lorimer with higher values of $3,000-$3,500 reported for Montague.

Table 7-3: Detailed development scenarios

Scenario	Estimated Maximum GFA	Construction Cost per Apartment	Sales Cost per Apartment	Expected Profit per Apartment	Apartment Affordability
Five storey development, with lift, 35 square metre apartments (studio) with no parking (Montague precinct)	1,000 m2 X 0.9 (assumes 10% of area is open) X 0.8 (allow 20% for common area and external walls) x 5 floors = 3,600 m^2 Allowing 35 m^2 per apartment gives 103 dwellings.	Land Purchase $3,500,000 / 103 = $34,000 Apartment 35 m^2 X $2,933[106] /0.8= $128,000 Allowance for landscaping 1,000 m^2 X 0.1 X $123[107] / 103 = $100 TOTAL: $162,000	$170,000	$170,000 - $162,000 = $8,000. (Rate of return about 5%).	Affordable to all low income households
Five storey development, with lift, 35 square metre apartments (studio) with no parking (other precincts)	1,000 m2 X 0.9 (assumes 10% of area is open) X 0.8 (allow 20% for common area and external walls) x 5 floors = 3,600 m^2 Allowing 35 m^2 per apartment gives 103 dwellings.	Land Purchase $1,000,000 / 103 = $10,000 Apartment 35 m^2 X $2,933 /0.8= $128,000 Allowance for landscaping 1,000 m^2 X 0.1 X $123 / 103 = $100 TOTAL: $138,000	$170,000	$170,000 - $138,000 = $32,000. (Rate of return about 23%).	Affordable to all low income households

[106] Rawlinsons Australian Construction Handbook 2012, using rates for basic standard finish apartments, and allowing 40% for profit, overheads, GST etc.
[107] Rawlinsons Australian Construction Handbook 2012, using rates for open parking, and allowing 40% for profit, overheads, GST etc.

Scenario	Estimated Maximum GFA	Construction Cost per Apartment	Sales Cost per Apartment	Expected Profit per Apartment	Apartment Affordability
Five storey development, with lift, 50 square metre apartments (one bedroom) with no parking (Montague precinct)	1,000 m2 X 0.9 (assumes 10% of area is open) X 0.8 (allow 20% for common area and external walls) x 5 floors = 3,600 m^2 Allowing 50 m^2 per apartment gives 72 dwellings.	Land Purchase $3,500,000 / 72 = $49,000 Apartment 50 m^2 X $2,933 /0.8= $183,000 Allowance for landscaping 1,000 m^2 X 0.1 X $123 / 72 = $200 TOTAL: $232,000	$280,000	$280,000 - $232,000 = $48,000. (Rate of return about 21%).	Affordable to all moderate income households
Five storey development, with lift, 50 square metre apartments (one bedroom) with no parking (other precincts)	1,000 m2 X 0.9 (assumes 10% of area is open) X 0.8 (allow 20% for common area and external walls) x 5 floors = 3,600 m^2 Allowing 50 m^2 per apartment gives 72 dwellings.	Land Purchase $1,000,000 / 72 = $14,000 Apartment 50 m^2 X $2,933 /0.8= $183,000 Allowance for landscaping 1,000 m^2 X 0.1 X $123 / 72 = $200 TOTAL: $197,000	$280,000	$280,000 - $197,000 = $83,000. (Rate of return about 42%).	Affordable to all moderate income households

Scenario	Estimated Maximum GFA	Construction Cost per Apartment	Sales Cost per Apartment	Expected Profit per Apartment	Apartment Affordability
Five storey development, with lift, 70 square metre apartments (two bedroom) with no parking (Montague precinct)	1,000 m2 X 0.9 (assumes 10% of area is open) X 0.8 (allow 20% for common area and external walls) x 5 floors = 3,600 m^2 Allowing 70 m^2 per apartment gives 51 dwellings.	Land Purchase $3,500,000 / 51 = $69,000 Apartment 70 m^2 X $2,933 /0.8= $257,000 Allowance for landscaping 1,000 m^2 X 0.1 X $123 / 51 = $241 TOTAL: $326,000	$428,000	$428,000 - $326,000 = $102,000. (Rate of return about 31%).	Just affordable to moderate income households
Five storey development, with lift, 70 square metre apartments (two bedroom) with no parking (other precincts)	1,000 m2 X 0.9 (assumes 10% of area is open) X 0.8 (allow 20% for common area and external walls) x 5 floors = 3,600 m^2 Allowing 70 m^2 per apartment gives 51 dwellings.	Land Purchase $1,000,000 / 51 = $20,000 Apartment 70 m^2 X $2,933 /0.8= $257,000 Allowance for landscaping 1,000 m^2 X 0.1 X $123 / 51 = $241 TOTAL: $277,000	$428,000	$428,000 - $277,000 = $151,000. (Rate of return about 55%).	Just affordable to moderate income households

Source: JSA calculation based on references cited.

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7.1.7 Benefit Capture

Feasibility and quantum

There is likely to be considerable uplift (and hence profit) associated with development in FBURA. The table below assesses the likely developer profit associated with some common development scenarios and identifies sustainable levels of benefit capture, based on a 50:50 profit split of profit in excess of a normal level of profit of 10%.

Two residential development scenarios in two precincts were evaluated. Calculated rates of return, profit per square metre and sustainable benefit capture are tabulated below. Townhouse development in Montague precinct is associated with normal levels of profit, suggesting that current land values have been influenced by surrounding residential areas. Significant uplift is associated with construction of lifted apartments in Montague precinct, and with both townhouse and lifted apartment construction in other precincts. In other precincts, rate of return is maximised by town house construction, with lifted apartments maximising profit. It should be noted that there will be competing interests to affordable housing seeking benefit capture, such as social infrastructure, open space, public transport links and the like.

Table 7-4: Summary of development scenarios

Scenario	Estimated rate of return	Profit per square metre of land	Sustainable benefit capture
Town house development – Montague precinct	8%	$435	Nil
Town house development – other precincts	110%	$2,935	$248,000 per dwelling or one dwelling in four
Five storey lifted apartments – Montague precinct	56%	$8,241	$83,000 per dwelling or one dwelling in seven
Five storey lifted apartments – other precincts	87%	$10,742	$116,000 per dwelling or one dwelling in five

Source: JSA calculation

The opportunity for uplift associated with commercial development has also been assessed. There is some limited sales information available with regard to commercial property within FBURA, suggesting a price of about $2,200 per square metre.[108] With an underlying land value of approximately $800/m^2, this allows about $1,400/m^2 for construction. Allowing 40% for overheads, builders profit etc., this is equivalent to the construction cost of warehousing and factories, and is well below the construction cost of office and retail development.[109] It is noted that this assessment is supported by typical development in the area.

Average letting rates for commercial uses and estimated annual returns have been estimated and are tabulated below.[110] Estimated rates of return are generally less than the normal level of 10%, except for retail, suggesting that retail development is the only opportunity for benefit capture in the current market. Against this, the opportunity for benefit capture is likely to be low, as the construction costs estimated below do not include a land component and so the rate of return is optimistic. Also, retail is likely to support a local market and there is unlikely to be demand for retail without significant residential development. In addition, the quantum of retail development will be quite small as it is likely to only service a local market.

Within the accuracy of available data, there is likely to be little opportunity for benefit capture from commercial development.

[108] RPdata and JSA analysis
[109] Using rates from Rawlinsons *Australian Construction Handbook 2012*.
[110] Using rental advertisement data from www.realcommercial.com.au for South Melbourne, accessed 3 May 2013.

Table 7-5: Assessment of commercial uses for benefit capture

Commercial Use	Annual rental/m²	Net yield/m² [111]	Construction Cost[112] (Land cost not considered)	Estimated annual rate of return
Offices (low rise two stories, finished)	$300	$255	$2,576	10%
Offices (4-7 stories, finished)	$300	$255	$3,164	8%
Offices (high rise, finished)	$300	$255	$4,158	6%
Retail (Shopping Centre – medium standard, two storey)	$616 (Using all data)	$524	$2,961	18%
Retail (Shopping Centre – medium standard, two storey)	$548 (Excluding data from regional shopping centre)	$411	$2,961	14%
Warehouses (Multi Storey)	$223	$190	$2,058	9%

Source: JSA calculation

[111] Allowing 15% for rates, maintenance, depreciation etc.
[112] Using rates from Rawlinsons *Australian Construction Handbook 2012* and allowing 40% for builders profit, GST, overheads etc.

Detailed modelling

The following tables provide detailed modelling in support.

Table 7-6: Detailed development scenarios

Scenario	Estimated Maximum GFA	Construction Cost per Dwelling	Sales Cost per Dwelling	Expected Profit per Dwelling	Benefit capture
Five storey development, with lift, average apartment (88 m² including garage, two bedrooms, one bathroom) (Montague precinct)	1,000 m2 X 0.9 (assumes 10% of area is open) X 0.8 (allow 20% for common area and external walls) x 5 floors = 3,600 m² Allowing 88 m² per apartment gives 41 dwellings.	Land Purchase $3,500,000 / 41 = $85,000 Apartment 62 m² X $3,164[113] /0.8= $245,000 Garage $21,000[114] Balcony 8m² X $1,092[115] = $9,000 Allowance for landscaping 1,000 m² X 0.1 X $123[116] / 41 = $300 TOTAL: $360,000	$7,387 X 88 - $68,000 - $21,000 = $561,000	$561,000 - $360,000 = $201,000. (Rate of return about 56%). (Profit per m² of land is $201,000 X 41 /1,000 = $8,241)	($561,000 - $360,000 X 1.1) X 0.5 = $83,000. This is equivalent to one apartment in seven.
Five storey development, with lift, average apartment (88 m² including	1,000 m2 X 0.9 (assumes 10% of area is open) X 0.8 (allow 20% for common area and external walls)	Land Purchase $1,000,000 / 41 = $24,000	$7,387 X 88 - $68,000 - $21,000 =	$561,000 - $299,000 =	($561,000 - $299,000 X 1.1) X

[113] Rawlinsons Australian Construction Handbook 2012, using rates for medium standard finish apartments, and allowing 40% for profit, overheads, GST etc.
[114] Rawlinsons Australian Construction Handbook 2012, using rates for parking stations, and allowing 40% for profit, overheads, GST etc.
[115] Rawlinsons Australian Construction Handbook 2012, using rates for medium standard unit balconies, and allowing 40% for profit, overheads, GST etc.
[116] Rawlinsons Australian Construction Handbook 2012, using rates for open parking, and allowing 40% for profit, overheads, GST etc.

Scenario	Estimated Maximum GFA	Construction Cost per Dwelling	Sales Cost per Dwelling	Expected Profit per Dwelling	Benefit capture
garage, two bedrooms, one bathroom) (other precincts)	x 5 floors = 3,600 m^2 Allowing 88 m^2 per apartment gives 41 dwellings.	Apartment 62 m^2 X $3,164 /0.8= $245,000 Garage $21,000 Balcony 8$m^2$ X $1,092 = $9,000 Allowance for landscaping 1,000 m^2 X 0.1 X $123 / 41 = $300 TOTAL: $299,000	$561,000	$262,000. (Rate of return about 87%). (Profit per m^2 of land is $262,000 X 41 /1,000 = $10,742)	0.5 = $116,000. This is equivalent to one apartment in five.
Town house development, with lift, average dwelling (block size 186 m^2 including garage, three bedrooms, one bathroom) (Montague precinct)	Allowing effective plot ratio of 0.5, dwelling area = 93 m^2 with separate garage of 18 m^2.	Land Purchase 186 m^2 X $3500 = $651,000 Dwelling 93 m^2 X $2,933[117] = $273,000 Garage 18m2 X $1,043[118] = $19,000 Allowance for landscaping	$295,000 + $168,000 X 3 + $101,000 X 1 + $138,000 X 1 = $1,039,000	$1,039,000 - $958,000 = $81,000. (Rate of return about 8%). (Profit per m^2 of land is $81,000 /186 = $435)	Not applicable

[117] Rawlinsons Australian Construction Handbook 2012, using rates for high standard town houses, and allowing 40% for profit, overheads, GST etc.
[118] Rawlinsons Australian Construction Handbook 2012, using rates for brick garages, and allowing 40% for profit, overheads, GST etc.

Scenario	Estimated Maximum GFA	Construction Cost per Dwelling	Sales Cost per Dwelling	Expected Profit per Dwelling	Benefit capture
		120 m^2 X $123[119] = $15,000 TOTAL: $958,000			
Town house development, with lift, average dwelling (block size 186 m^2 including garage, three bedrooms, one bathroom) (other precincts)	Allowing effective plot ratio of 0.5, dwelling area = 93 m^2 with separate garage of 18 m^2.	Land Purchase 186 m^2 X $1,000 = $186,000 Dwelling 93 m^2 X $2,933[120] = $273,000 Garage 18m2 X $1,043[121] = $19,000 Allowance for landscaping 120 m^2 X $123[122] = $15,000 TOTAL: $493,000	$295,000 + $168,000 X 3 + $101,000 X 1 + $138,000 X 1 = $1,039,000	$1,039,000 - $493,000 = $546,000. (Rate of return about 110%). (Profit per m^2 of land is $546,000 /186 = $2,935)	($1,039,000 - $493,000 X 1.1) X 0.5 = $248,000. This is equivalent to one dwelling in four.

Source: JSA calculation based on references cited

[119] Rawlinsons Australian Construction Handbook 2012, using rates for open parking, and allowing 40% for profit, overheads, GST etc.
[120] Rawlinsons Australian Construction Handbook 2012, using rates for high standard town houses, and allowing 40% for profit, overheads, GST etc.
[121] Rawlinsons Australian Construction Handbook 2012, using rates for brick garages, and allowing 40% for profit, overheads, GST etc.
[122] Rawlinsons Australian Construction Handbook 2012, using rates for open parking, and allowing 40% for profit, overheads, GST etc.

Benefit capture delivery models

Introduction

There are a number of avenues available to translate benefit capture into affordable housing, which are discussed below. It should be noted that, despite various forms of packaging, such approaches are a transfer in that wealth is transferred from one part of society to another, in this case from the land owner or developer to the purchaser or renter. Consequently efficiency in delivery of affordable housing will be maximised by approaches that minimise transaction costs such as bureaucratic overheads and lending charges.

Affordable Purchase Housing

Affordable purchase housing can be provided by using benefit capture to sell dwellings at below market value to households meeting particular criteria. As an example, the likely sale price of a 95 square metre three bedroom apartment[123] is $613,000. However, for such a dwelling to be just affordable to a moderate income household a discount of $187,000 would be required. There is an opportunity for initial purchasers to obtain a one-off windfall profit by reselling at market rates and relocating to a less expensive area. Consequently, without adequate controls, discounted sales are unlikely to provide affordable housing in perpetuity. Alternative approaches to address such concerns include shared equity approaches and caveats whereby the dwelling can only be sold to a nominated organisation, such as a community housing provider, at a price commensurate with the original discount.

Against this, there are efficiencies associated with such approaches as the method captures investment from the buyer. As an example, consider the construction of five three bedroom dwellings. Using the benefit capture calculation above of one dwelling in five, transfer of title to a housing provider for subsequent rental would result in one unit of affordable housing (noting that the yield would be somewhat higher due to the ability to leverage such stock). In this case the total income received by the developer is $613,000 X 4 = $2,452,000. However, if three dwellings were sold at a discounted price of $420,000, and the remaining two at market price of $613,000, the total income received by the developer would be $2,486,000, slightly higher. It can be seen that, for similar levels of benefit capture, this approach results in three affordable dwellings rather than one.

Affordable Rental Housing

There are three common approaches to provision of affordable rental housing. The first approach is to provide an incentive to developers and builders to provide property for rental at below market rents, such as the NRAS scheme. The second approach is to hold stock in public ownership and rent directly to target groups at affordable rents. The third is a voucher approach whereby households are given a subsidy towards payment of

[123] Using minimum dwelling sizes from NSW SEPP Affordable Rental Housing

private rental. Each of these approaches has various pros and cons and are discussed below.

Provision of affordable rental by property owners

Such schemes are not favoured as they tend to be an inefficient way of capturing benefit, or obtaining a return on public investment. As an example, the NRAS scheme costs around $10,000 per dwelling per year. In return a 20% rental discount is obtained. For a weekly rent of $500, this is a total discount of $5,200 at a cost of $10,000.[124] Clearly, it would be twice as efficient to give the money directly to tenants as this would double the discount or double the number of households receiving the discount. Such schemes do not appear to be favoured as the commercial take-up of NRAS has been poor, as has overall take-up of the subsidy. At the same time, the scheme provides additional federal funding for organisations such as community housing providers.

Using a discount rate of 7%, the net present value of NRAS is $70,000.[125] For an average affordable dwelling of 70 square metres, this is a 16% discount, so that if NRAS funding can be attracted, the levy for affordable rental housing can be discounted by 16%.

Transfer of benefit in money or in kind to community housing providers

Such schemes have a number of advantages. These are:

- The provision of affordable rental housing in perpetuity;
- Ability to service a range of target groups;
- Ability to nominate and service particular target groups;
- Efficiency of housing provision can be improved by leveraging stock transfers to expand housing stock;
- Ability to access existing management systems; and
- Efficiency of housing provision can be improved by applying cash benefits to development of housing projects on public land or in lower priced areas.

Voucher systems

Such schemes are not relevant in FBURA and are included only for completeness. They have the advantage that households can decide how they will balance expenditure on housing with expenditure on other goods and services, whereas under a social housing model there is no financial advantage in living in, for example, a smaller property.

[124] The rest of the money goes towards interest payments.
[125] $10,000 per year over ten years at 7%.

7.1.8 Recipient sites for benefit capture

One possible delivery method is to capture benefit as cash and use this to develop affordable housing on publicly owned land. There are two likely sources of such land in FBURA. The first is government owned land within the FBURA precincts and the second is DHS land in the suburbs of Port Melbourne and South Melbourne.

If recovery of opportunity cost is foregone, there is considerable leverage opportunity for development on public land compared to spot purchase on the market.

Eleven sites within FBURA have been assessed. Of these, four appear to have opportunities for development. These are open space at the corner of Williamstown and Prohasky, the council depot site at Williamstown and Graham, the fire station site at Williamstown and Graham and the carpark of the Auspost sorting centre at Williamstown and Bertie.

Assuming ten storey development, and a 45% site utilisation, these sites have the potential to provide 1,500 dwellings. If opportunity cost is foregone, a levy of two apartments will yield three apartments if constructed on public land.[126] Consequently, a levy of 7,500 dwellings will be required to yield 8,000 dwelling if all these development opportunities are utilised. Consequently, development of these sites will reduce levies by 6.25%.

[126] The estimated construction cost (including builder profit) of a two bedroom apartment in a five storey lifted development is $277,000, compared with a likely spot purchase price of $428,000. On this basis, a levy of two apartments, taken as cash, can be used to construct three similar apartments on public land.

Table 7-7: Publicly owned land within FBURA precincts

Number	Address	Current Use	Access to proposed public transport links	Access to services	Lot size	Probable dwelling yield (assuming ten storey development)	Restraints (Heritage, Flood prone, contaminated, fire prone)	Comments
1	Corner Williamstown and Prohasky	Open Space with some landscaping Ownership?	2-300 metres from proposed light rail in Plummer street 400 metres from buses at corner of Williamstown and Salmon	3.0 kms to shops in Bay Street	11,550m^2	11,550 × 0.45 × (10 ÷ (66 ÷ 0.8)) = 630	Not known	Open space likely to be in short supply in FBURA
2	JL Murphy Reserve Corner Williamstown and Graham	Open Space, Sports Fields, Council Depot	Adjacent to proposed light rail in Plummer street Adjacent to buses in Williamstown Road	1.5 kms to shops in Bay Street	Depot: 9,100m^2	9,100 × 0.45 × (10 ÷ (66 ÷ 0.8)) = 500	Not known	Sports fields etc likely to be at a premium in FBURA The depot site is mostly car park and is underutilised
3	Corner Williamstown and Graham	Fire Station	Adjacent to proposed light rail in Plummer street Adjacent to buses in Williamstown Road	1.5 kms to shops in Bay Street	1,800m^2	1,800 × 0.45 × (10 ÷ (66 ÷ 0.8)) = 100 Limited yield	Heritage (?)	Possible integrated development?

Number	Address	Current Use	Access to proposed public transport links	Access to services	Lot size	Probable dwelling yield (assuming ten storey development)	Restraints (Heritage, Flood prone, contaminated, fire prone)	Comments
4	Corner Williamstown and Bertie	Austpost sorting centre	300 metres to proposed light rail in Ingles street Adjacent to buses in Williamstown Road	1.2 kms to shops in Bay Street	Carpark: 5,000m^2	5,000 × 0.45 × (10 ÷ (66 ÷ 0.8)) = 270		A good part of the site is an at grade parking area. Housing could be developed on this area and parking levels maintained
5	Corner Ingles & Williamstown	Port Melbourne Cricket Ground	Adjacent to proposed light rail in Ingles street Adjacent to buses in Williamstown Road	1.3 kms to shops in Bay Street and around South Melbourne Market		Not suitable		Sports fields etc likely to be at a premium in FBURA. There is currently restricted access to the cricket ground, and it does not appear to be public open space
6	Corner Boundary and Governor	Port Phillip Council Works Depot	200 metres to proposed light rail in Ingles street 100 metres to buses in Normanby Road	1.5 kms to shops in Bay Street and near South Melbourne Markets		Not suitable		Existing uses would need to be relocated

Number	Address	Current Use	Access to proposed public transport links	Access to services	Lot size	Probable dwelling yield (assuming ten storey development)	Restraints (Heritage, Flood prone, contaminated, fire prone)	Comments
7	Corner Boundary and White	Garbage Transfer station	300 metres to proposed light rail in Ingles street 200 metres to buses in Normanby Road	1.5 kms to shops in Bay Street and near South Melbourne Markets		Not suitable		Existing uses would need to be relocated
8	Corner Boundary and Fennell	Ambulance Service	700 metres to proposed light rail in Ingles street 600 metres to buses in Normanby Road 300 metres to buses in Lorimer Street (pedestrian access?)	2.0 kms to shops in Bay Street and near South Melbourne Markets		Not suitable		Existing use unlikely to be relocated?
9	Corner Gladstone and Montague	Secondary College	100 metres to tram stop 200 metres to buses in Normanby Road	700 metres to shops near South Melbourne Markets		Not suitable		Existing use unlikely to be relocated?

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Number	Address	Current Use	Access to proposed public transport links	Access to services	Lot size	Probable dwelling yield (assuming ten storey development)	Restraints (Heritage, Flood prone, contaminated, fire prone)	Comments
10	Douglas and Ferrrars	Old Melbourne Theatre Company Site	200 metres to tram stop 650 metres to buses in Normanby Road	500 metres to shops near South Melbourne Markets		Not suitable		Proposed school site – current ownership?
11	Douglas and Ferrrars	Appears to be industrial land	200 metres to tram stop 650 metres to buses in Normanby Road	500 metres to shops near South Melbourne Markets		Not suitable		

Source: JSA site evaluation

Table 7-8: Larger parcels of DHS land in adjacent areas

Number	Address	Current Use	Access to proposed public transport links	Access to services	Restraints (Heritage, Flood prone, contaminated, fire prone, zoning)	Comments
1	Area around Howe Parade	Separate housing (semi-detached)	1,000 metres from existing light rail stop 500 metres from buses in Williamstown Road	2.0 kms to shops in Bay Street	Check heritage zoning	Opportunity to increase density
2	Area near Graham and Princes	Two story townhouses	300 metres to existing light rail stop	450 metres to shops in Bay Street		Possible redevelopment site for multi-story apartments
3	Barak Estate	Two story townhouses	800 metres to existing light rail	1.3 kms to shops in Bay Street		Site coverage relatively low compared to surrounding uses
4	Bath Place	Four story high density apartments	300 metres to existing light rail stop	300 metres to shops in Bay Street		Apartments appear quite old
5	Area around Coventry Street	Two story townhouses	500 metres to existing light rail stop	600 metres to shops around South Melbourne Market		New development

Source: JSA site evaluation

7.1.9 Occupier share in purchase schemes

The Western Australian SharedStart home loan scheme is based on a minimum 70% ownership share by the purchaser. While this value is likely to represent reasonable levels of sustainability and commitment by purchasers, lower ownership shares will be required to provide affordable housing for low income family households within FBURA. We have used a minimum purchaser equity share of 50%.

7.1.10 Discount Market Rent

The NRAS and NSW SEPP ARH take 80% as an appropriate discount market rent to attract subsidies. We have adopted this value for the purposes of modelling.

Similar to shared equity, there is an opportunity for leveraging from the rents paid.

Table 7-9: Values adopted for modelling

Dwelling	Net rent (80% market rent less 10%)	Loan repayment for apartment (no deposit)	Leverage
One bedroom	$194	$402	Levy of ten apartments will fund additional nine apartments or nineteen in total
Two bedroom	$288	$615	Levy of eleven apartments will fund additional nine apartments or twenty in total
Three bedroom	$389	$880	Levy of eleven apartments will fund additional nine apartments or twenty in total

Source: JSA calculation

Because of their tax free status, community housing providers typically charge 75% of market rent for affordable housing. We have adopted a maximum of 70% discount market rent, as these levels are required to provide affordable housing to some target groups within FBURA.

7.1.11 Very Low Income Households

Criteria for entry into public housing are currently very stringent, with eligibility for the priority housing list generally requiring Centrelink income combined with other matters such as homelessness or special needs. The upper end of the very low income band is $667 per week. By comparison, a couple on the aged pension will have a weekly income of $609 per week, and other Centrelink payments, such as Newstart, or payments for single people, are less. If receipt of Centrelink payments is taken as a threshold for entry to public housing, then at least 10% of very low income households will not be eligible and the figure is probably much higher.

7.1.12 Very Low and Low Income Purchasing Households

Levels of housing stress among very low and low income purchasing households are very high. 80% of very low income households pay more than 50% of household income in mortgage payments compared to 40% for low income households and 20% for moderate income households. Typical bank borrowing limits are around 53% of gross household income for low income households (upper income limit $55,400 per year) and 47% for very low income households (upper income limit $34,700).[127] For these reasons, we think that high levels of purchasing housing stress among very low income households and perhaps low income households reflects changed circumstances, such as loss or change of employment.

7.1.13 Economic Efficiency

There are two important economic goals of government to be considered when allocating resources to competing needs. The first is efficiency,[128] and the second is equity.[129] While the first can be assessed through markets or assessed using cost-benefit analysis, the second is a matter of values. In western parliamentary democracies, such as Australia, decisions about 'values' are made by elected representatives.[130] The existence of a welfare system including services for people disadvantaged by income, culture, geography or disability, which transfers wealth from one part of society to another, shows the importance placed by government on matters of equity and demonstrates that this a central policy concern of government. Using this framework, provision of affordable housing through any means other than the open market will always involve a transfer of wealth from one part of society to another and should be viewed as a mechanism for achieving the economic goal of government of equity.

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[127] http://www.nab.com.au/wps/wcm/connect/nab/nab/home/personal_finance/22/2/11/1 NAB borrowing power calculator, noting that results are an approximate guide only.

[128] This concept is a technical term whereby the maximum utility is obtained from the available resources. It is discussed more broadly below. Relative efficiency can be empirically observed through the operation of markets and hence is measurable.

[129] Defined as fairness or distribution of resources. The meaning of the notion itself is contested, for example does equity mean equality of opportunity or equality of outcome? The two approaches have quite different policy implications. See for example Friedman L, (2002), *The Microeconomics of Public Policy Analysis,* Princeton, Princeton University Press, page 58.

[130] *Ibid*, page 66.

Once the decision is made to adopt some system of transfers to address perceived inequality, assessment becomes a matter of economic effectiveness, i.e. how the available resources can be best used to address the perceived inequality.

With regard to affordable housing and public policy responses, there are broadly three options. The first is to mandate dwelling type and size. The second is to transfer wealth via subsidised rents (including social housing) and the third is to transfer wealth via subsidised purchase.

There is no clear economic advantage to the community from shared ownership schemes compared to discount market rent, assuming both reflect the principle of affordable housing in perpetuity. Both provide opportunities to leverage stock. For affordable rental, once the initial stock is allocated, rental income can be used to fund purchase of additional stock. Similarly, for affordable purchase, the occupier share means that more families can be housed for a given initial outlay of funds.

This is however a difference in equity outcomes in the case of changed household circumstances. In the case of affordable rental, when a household's income rises, they will either be no longer eligible to occupy the dwelling, or will be required to pay a market rent, providing pressure for them to relocate, thereby freeing up the dwelling for occupancy by another eligible household. This is not the case with shared equity type approaches, as, while the dwelling may revert to public ownership in the case of sale, there is no pressure on the occupiers to relocate if their circumstances change and it is likely to be to their advantage to stay rather than to relocate.

7.1.14 Australian Housing Market Context

Currently estimated rates of return on apartment construction in FBURA are much higher than would be expected in a 'mature' market. This is because of the current relatively low land values by comparison with surrounding areas. There are two possible market responses to the rezoning of land in FBURA. In the first, land values remain as they are and dwelling prices fall. In the second, dwelling prices remain as they are, and land values increase. The outcome depends on whether the price of dwellings is set by constraints on the supply of land or not. This is a contested matter, with some commentators strongly on the side of constrained supply,[131] and others noting a range of factors.[132]

Empirical evidence is not straight forward. Stapleton (2010)[133] developed times series data for Sydney and Melbourne for the period 1880-2010. That data shows relatively constant house prices from 1880-1950, with booms and busts typically of the order of

[131] See for example Cox, W. & Pavletich, H. (2013) *9th Annual Demographia International Housing Affordability Survey*, page 1. "In every market where there has been a sustained and significant increase in the Median Multiple, there has also been the implementation of more restrictive land use policy, which is referred to in this survey as "urban containment".

[132] Berry, M. and Dalton, T. (2004) *Housing Prices and Policy Dilemmas: A Peculiarly Australian Problem,* Urban Policy and Research, 22:1 69-91. The authors identify nine factors affecting housing affordability including interest rates; investment demand; economic climate; financial deregulation and innovation; land supply and the land use system; government taxes, levies and charges; demography; economic growth; and wealth levels and distribution.

[133] Stapeldon, N. (2010) *A History of Housing Prices in Australia 1880-2010,* Australian School of Business, University of NSW, discussion paper 2010/18, figure 1.

ten years. Between 1950 and 2010, median house prices increase exponentially, again with booms and busts of the order of ten years, and with a rapid increase in median prices from around 1995. When constant house prices are considered, the rapid rise from 1995 is no longer evident, suggesting that at least part of this increase is a result of increases in the quality (probably size) of housing. We have found similar effects in work we have conducted on the urban fringes of cities, where cheaper land prices have resulted in the construction of larger dwellings, rather than a reduction in median dwelling price.

Other commentators attribute the rapid rise in real prices since 1995 to a change in interest rate regime from typically 12-16% through the 1980's and early 90's to the current 6-7%. By this argument, affordability did not increase from falling interest rates, but rather affordability remained constant with consumers using the interest saving to purchase larger or better located houses. Stapleton (2010)[134] shows that the increase in dwelling stock exceeded the increase in adult population for the period 1945-2005, however through this period, median house prices increased.

The rate of increase in dwelling stock fell below the rate of increase of adult population for the period 2005-2010, but house prices levelled out in this period, by comparison with increases between 1995 and 2005. The very high house prices in places like Karratha and Port Hedland (noted by Cox and Pavletich (2013)) are also of interest, as there is little restriction on supply of land in these areas, suggesting that house price is demand driven. These findings are contrary to what would be expected if price was driven by supply only. The heavy differentiation of the housing market is also noted. Inner ring suburbs in Melbourne have median house prices of around $952,000, while outer ring western suburbs have median house prices of around $388,000 suggesting that house prices are driven by transport and amenity considerations, that is, the housing market is highly differentiated.[135]

The behaviour of sellers should also be noted. For example in Sydney in the period 2003-2008, real house prices (adjusted for inflation) fell continuously, but the price in dollars remained relatively constant, suggesting that house prices are 'sticky', with owners reluctant to sell for less than they paid.[136]

It should also be noted that any significant depreciation in the housing market will lead to a drop in the perceived wealth of households and for this reason policy positions which maintain current housing prices could be expected to be favoured by government.

We have taken the view that the underlying trend of increasing house prices since 1950, with periods of boom and bust at the scale of ten years, will continue. The study area is currently experiencing real price decreases. House prices in Melbourne City are at 2006 levels, those in City of Port Phillip are at 2005 levels and those in Greater Melbourne are at 2008 levels.[137] Similarly, apartment prices in Melbourne City are at 2006 levels, those

[134] *Ibid,* Figure 5.

[135] Department of Sustainability and Environment (2013) *Victorian Property Sales Report – September 2012 quarter*, pp 2-4, taking a simple average of reported medians for groups of suburbs.

[136] Refer Appendix A

[137] Refer Appendix A

in City of Port Phillip are at 2009 levels and those in Greater Melbourne are at 2008 levels.[138] While the future is unknown, the current support for apartment prices in City of Port Phillip suggests that 'bubble' effects in this LGA for this product type are likely to be small, reducing the likelihood of large price reductions in the future.

7.2 Assumptions

7.2.1 Overview

This analysis is based on a number of assumptions drawn from the principles articulated and discussed above.

1. An affordable housing target of 20% of dwellings for FBURA is adopted.
2. The target groups are taken to be:
    a. Very low income households
    b. Low income households
    c. Moderate income households
3. A housing affordability benchmark of 30% of household income spent on rent or mortgage payments has been adopted, with sensitivity modelled on higher benchmarks of 35% and 40%.
4. A minimum occupier share of 70% has been adopted for shared equity and reversion price approaches with sensitivity modelled on 50%.
5. A sustainable level of discount market rent has been taken as 80% with sensitivity modelled on 70%.
6. Very low income households are eligible for social housing (noting that this is not always the case).
7. Rezoning in FBURA will not result in a reduction in dwelling prices, but rather will lead to increased land prices and hence maintenance of current dwelling prices.
8. The distribution of target groups comprising the 20% of affordable housing is estimated using the housing stress profile for greater Melbourne.
9. Very low income households are unlikely to save a deposit for house purchase.
10. Family household stock is taken to be 70% two bedroom and 30% three bedroom.

[138] Refer Appendix A

7.3 Options

7.3.1 'Business as Usual' Option

This option considers those households who will be provided with affordable housing by the market in FBURA.

Without planning intervention in FBURA, the only households who can affordably live in FBURA are half of single and couple moderate renting households and 10% of single and couple moderate income purchasing households. All very low and low income households are excluded, as are moderate income family households and most single and couple moderate income households.

At levels of **housing stress of 40%** of gross household income, and assuming smaller households can live in a one bedroom apartment and families can live in two bedroom apartment, many households are still excluded.

All moderate income single and couple renting households can live in FBURA, as can 10% of low income single and couple renting households. 40% of moderate income family households can rent a two bedroom apartment, but a three bedroom apartment is not affordable. All very low income renting households, 90% of small low income renting households, all low income renting family households, all larger moderate income renting family households and 60% of smaller moderate income renting family households will be excluded.

Similarly for purchasing households, all very low and low income households are excluded, as are 40% of moderate income single and couple households and almost all moderate income family households.

Table 7-10: Household affordability using median data

	Affordability Benchmark (Rent and mortgage payments as a proportion of household income) using median **rent and sales data.**[139]		
Target Group	**30%**	**35%**	**40%**
Renting Households			
Very Low income single and couple renting households	Excluded from FBURA	Excluded from FBURA	Excluded from FBURA
Very Low income family and group renting households	Excluded from FBURA	Excluded from FBURA	Excluded from FBURA
Low income single and couple renting households	Excluded from FBURA	Excluded from FBURA	10% of households can live in FBURA
Low income family and group renting households	Excluded from FBURA	Excluded from FBURA	Excluded from FBURA
Moderate income single and couple renting households	50% of households can live in FBURA	80% of households can live in FBURA	All households can live in FBURA
Moderate income family renting households	Excluded from FBURA	5% of households can rent a two bedroom apartment or house in FBURA	40% of households can rent a two bedroom apartment or house in FBURA
Purchasing Households			
Very Low income single and couple	Excluded from FBURA	Excluded from FBURA	Excluded from FBURA

[139] Median data has been used as it is more likely to represent newly constructed stock

households			
Very Low income family and group households	Excluded from FBURA	Excluded from FBURA	Excluded from FBURA
Low income single and couple households	Excluded from FBURA	Excluded from FBURA	Excluded from FBURA
Low income family and group households	Excluded from FBURA	Excluded from FBURA	Excluded from FBURA
Moderate income single and couple households	10% of households can purchase a one bedroom apartment in FBURA	40% of households can purchase a one bedroom apartment	60% of households can purchase a one bedroom apartment
Moderate income family households	Excluded from FBURA	Excluded from FBURA	3% of households can purchase a two bedroom apartment in FBURA

Source: JSA calculation

7.3.2 Assessment of affordability of different delivery methods

The tables below look at the groups that could be housed under the five delivery mechanisms of market delivery, mandated dwelling size, shared equity, discount market rent and direct provision. Three levels of housing stress are considered, 30%, 35% and 40%.

30% housing stress criterion

Table 7-11: Household affordability from various delivery mechanisms

Target Group	Market delivery (using median data)	Mandated dwelling size	Shared equity (70% of mandated dwelling size)	Discount market rent (80% of median rent for mandated dwelling size)	Social Housing
Renting Households					
Very Low income single and couple renting households	NA	NA	NA	NA	All households
Very Low income family and group renting households	NA	NA	NA	NA	All households
Low income single and couple renting households	NA	One bedroom or studio apartment affordable to 50% of households	NA	One bedroom or studio apartment affordable to 90% of households	NA
Low income family and group renting households	NA	NA	NA	NA	NA
Moderate income single and couple renting households	50% of households can live in FBURA	One bedroom or studio apartment affordable to all households	NA	NA	NA
Moderate income family renting households	NA	Two bedroom apartment affordable to 50% of households	NA	Two bedroom apartment affordable to all households and three bedroom apartment affordable to 40% of households	NA

Target Group	Market delivery (using median data)	Mandated dwelling size	Shared equity (70% of mandated dwelling size)	Discount market rent (80% of median rent for mandated dwelling size)	Social Housing
Purchasing Households					
Very Low income single and couple households	NA	Studio affordable to 5% of households	Studio affordable to 30% of households	NA	NA
Very Low income family and group households	NA	NA	NA	NA	NA
Low income single and couple households	NA	Studio affordable to all households One bedroom affordable to 4% of households	One bedroom affordable to 80% of households	NA	NA
Low income family and group households	NA	NA	NA	NA	NA
Moderate income single and couple households	10% of households can purchase a one bedroom apartment in FBURA	One bedroom affordable to all households	Two bedroom affordable to 90% of households	NA	NA

Source: JSA calculation

35% housing stress criterion

Table 7-12: Household affordability from various delivery mechanisms

Target Group	Market delivery (using median data)	Mandated dwelling size	Shared equity (70% of mandated dwelling size)	Discount market rent (80% of median rent for mandated dwelling size)	Social Housing
Renting Households					
Very Low income single and couple renting households	NA	NA	NA	One bedroom or studio apartment affordable to 10% of households	All households
Very Low income family and group renting households	NA	NA	NA	NA	All households
Low income single and couple renting households	NA	One bedroom apartment affordable to 80% of households	NA	One bedroom apartment affordable to all households	NA
Low income family and group renting households	NA	NA	NA	Two bedroom apartment affordable to 40% of households	NA
Moderate income single and couple renting households	80% of households can live in FBURA	One bedroom apartment affordable to all households	NA	One bedroom apartment affordable to all households	NA
Moderate income family renting households	Two bedroom apartment affordable to 5% of households	Two bedroom apartment affordable to 90% of households Three bedroom apartment affordable to 20% of households	NA	Three bedroom apartment affordable to all households	NA

Target Group	Market delivery (using median data)	Mandated dwelling size	Shared equity (70% of mandated dwelling size)	Discount market rent (80% of median rent for mandated dwelling size)	Social Housing
Purchasing Households					
Very Low income single and couple households	NA	Studio affordable to 20% of households	Studio affordable to 40% of households One bedroom affordable to 5% of households	NA	NA
Very Low income family and group households	NA	NA	NA	NA	NA
Low income single and couple households	NA	Studio affordable to all households One bedroom affordable to 20% of households	One bedroom affordable to all of households	NA	NA
Low income family and group households	NA	NA	NA	NA	NA
Moderate income single and couple households	40% of households can purchase a one bedroom apartment in FBURA	One bedroom affordable to all households	One bedroom affordable to all households	NA	NA
Moderate income family households	NA	Two bedroom affordable to 30% of households	Two bedroom affordable to all households Three bedroom affordable to 30% of households	NA	NA

Source: JSA calculation

40% housing stress criterion

Table 7-13: Rents Household affordability from various delivery mechanisms

Target Group	Market delivery (using median data)	Mandated dwelling size	Shared equity (70% of mandated dwelling size)	Discount market rent (80% of median rent for mandated dwelling size)	Social Housing
Renting Households					
Very Low income single and couple renting households	NA	NA	NA	One bedroom or studio apartment affordable to 20% of households	All households
Very Low income family and group renting households	NA	NA	NA	NA	All households
Low income single and couple renting households	One bedroom or studio apartment affordable to 10% of households	Two bedroom apartment affordable to 20% of households	NA	Two bedroom apartment affordable to 70% of households	NA
Low income family and group renting households	NA	Two bedroom apartment affordable to 20% of households	NA	Two bedroom apartment affordable to 70% of households	NA
Moderate income single and couple renting households	All households can live in FBURA	Affordable to all households	NA	Affordable to all households	NA
Moderate income family renting households	Two bedroom apartment affordable to 40% of households	Two bedroom apartment affordable to all households Three bedroom affordable to 50% of all households	NA	Three bedroom apartment affordable to all households	NA

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Target Group	Market delivery (using median data)	Mandated dwelling size	Shared equity (70% of mandated dwelling size)	Discount market rent (80% of median rent for mandated dwelling size)	Social Housing
Purchasing Households					
Very Low income single and couple households	NA	Studio affordable to 30% of households	One bedroom affordable to 20% of households Studio affordable to 50% of households	NA	NA
Very Low income family and group households	NA	NA	NA	NA	NA
Low income single and couple households	NA	Studio affordable to all households One bedroom affordable to 30% of households	One bedroom affordable to all households	NA	NA
Low income family and group households	NA	NA	Two bedroom affordable to 5% of households	NA	NA
Moderate income single and couple households	60% of households can purchase a one bedroom apartment in FBURA	One bedroom affordable to all households	One bedroom affordable to all households	NA	NA
Moderate income family households	3% of households can purchase a two bedroom apartment in FBURA	Two bedroom affordable to 50% of households	Three bedroom affordable to 50% of households	NA	NA

Source: JSA calculation

30% housing stress criterion with 50% shared equity and discount market rent

Table 7-14: Household affordability from various delivery mechanisms

Target Group	Market delivery (using median data)	Mandated dwelling size	Shared equity (50% of price for mandated dwelling size)	Discount market rent (50% of median rent for mandated dwelling size)	Social Housing
Renting Households					
Very Low income single and couple renting households	NA	NA	NA	One bedroom or studio affordable to 70% of households	All households
Very Low income family and group renting households	NA	NA	NA	Two bedroom affordable to 2% of households	All households
Low income single and couple renting households	NA	One bedroom or studio apartment affordable to 50% of households	NA	One bedroom or studio apartment affordable to all households	NA
Low income family and group renting households	NA	NA	NA	Two bedroom apartment affordable to all households and three bedroom apartment affordable to 40% of households	NA
Moderate income single and couple renting households	50% of households can live in FBURA	One bedroom or studio apartment affordable to all households	NA	NA	NA
Moderate income family	NA	Two bedroom apartment affordable to 50% of	NA	Three bedroom apartment	NA

Target Group	Market delivery (using median data)	Mandated dwelling size	Shared equity (50% of price for mandated dwelling size)	Discount market rent (50% of median rent for mandated dwelling size)	Social Housing
renting households		households		affordable to all households	
Purchasing Households					
Very Low income single and couple households	NA	Studio affordable to 5% of households	Studio affordable to 50% of households	NA	NA
Very Low income family and group households	NA	NA	NA	NA	NA
Low income single and couple households	NA	Studio affordable to all households One bedroom affordable to 4% of households	One bedroom affordable to all households	NA	NA
Low income family and group households	NA	NA	Two bedroom affordable to 70% of households	NA	NA
Moderate income single and couple households	10% of households can purchase a one bedroom apartment in FBURA	One bedroom affordable to all households	One bedroom affordable to all households	NA	NA
Moderate income family households	NA	NA	Two bedroom affordable to all households and three bedroom affordable to 80% of households	NA	NA

Source: JSA calculation

7.3.3 Aspirational affordable housing model

This model is based on the provision of 20% affordable housing to target groups, with the distribution of affordable housing based on the housing stress profile for Greater Melbourne and using a benchmark for housing stress of 30% of household income. The model provides accommodation to at least 50% of all target groups, however large subsidies are required to provide affordable housing to some target groups. While 100% of all target groups can be accommodated, levels of subsidies to some households will be very high such as providing housing at 10% of market rent. The model can be delivered by a levy of 9% of saleable floor area (including parking) in FBURA.

Table 7-15: Rents Number of dwellings (based on target of 8,000 affordable dwellings)

Household type (target number of dwellings)	Market delivery	Mandate dwelling size[140]	Shared equity	Discount market rent	Social housing	Proportion of affordable housing target	Proportion of all housing in FBURA
Very low income single and couple renting households (1,500)	0	0	0	0	1,500 (1 br, studio)	18.8%	3.8%
Very low income family renting households (1,200)	0	0	0	0	360 (3 br) 840 (2 br)	15.0%	3%
90% of low income single and couple renting households (600)	0	300 (1 br, studio)	0	300 (1 br, studio – 80% of market rent)	0	7.5%	1.5%
50% of low income family renting households (700)	0	0	0	490 (2 br – 66% of market rent)	0	8.8%	1.8%

[140] Modelling based on 50:50 studios and one bedroom apartments; and 70:30 two bedroom and three bedroom apartments to provide an appropriate mix of dwellings. Refer tables 7-15, 16 and 17 for details.

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Household type (target number of dwellings)	Market delivery	Mandate dwelling size[140]	Shared equity	Discount market rent	Social housing	Proportion of affordable housing target	Proportion of all housing in FBURA
				210 (3 br – 49% of market rent)			
100% of moderate income single and couple renting households (100)	50	50 (1 br, studio)	0	0	0	1.3%	0.3%
100% of moderate income family renting households (300)	0	210 (2 br)	0	90 (3 br – 80% of market rent)	0	3.8%	0.8%
50% of very low income single and couple purchasing households (400)	0	0	400 (studio 48% owner equity)	0	0	5.0%	1.0%
50% of very low income family purchasing households (600)	0	0	420 (2 br – 20% owner equity) 180 (3 br – 15% owner equity)	0	0	7.5%	1.5%
100% of low income single and couple purchasing households (500)	0	500 (studio)	0	0	0	6.3%	1.3%

Household type (target number of dwellings)	Market delivery	Mandate dwelling size[140]	Shared equity	Discount market rent	Social housing	Proportion of affordable housing target	Proportion of all housing in FBURA
50% of low income family purchasing households (700)	0	0	490 (2 br – 54% owner equity) 210 (3 br – 38% owner equity)	0	0	8.8%	1.8%
100% of moderate income single and couple purchasing households (500)	50	450 (1 br)	0	0	0	6.3%	1.3%
90% of moderate income family households (900)	0	0	630 (2 br – 80% owner equity) 270 (3 br – 58% owner equity)	0	0	11.3%	2.3%
Total	100 (1.3%)	1,510 (18.9%)	2,600 (32.5%)	1,090 (13.6%)	2,700 (33.8%)		
1 br/studio	100 (1.3%)	1,300 (16.3%)	400 (5.0%)	300 (3.8%)	1,500 (18.8%)		
2 br	0	210 (2.6%)	1,540 (19.3%)	490 (6.1%)	840 (10.5%)		
3 br	0	*0*	660 (8.3%)	300 (3.8%)	360 (4.5%)		

Source: JSA calculation

An average apartment supplied by the market in the area is 88 square metres, however the average sized affordable housing dwelling will be somewhat smaller, and so 20% of dwellings will be a lesser proportion of net floor area (GFA less common areas or saleable area). In addition there are leverage opportunities for some types of stock.

Of the 8,000 affordable dwellings, about one quarter (1,950) will be delivered by the market and by mandating dwelling size. No levy is required to provide this stock, however there may be some loss of profit by developers as a result of mandating dwelling size.

The average size of shared equity dwellings is 72 m^2. 2,600 dwellings are required as shared equity, which is equivalent to a levy of 6.5% of dwellings, or 5.9% of net floor area.[141] When leverage opportunities are considered, a levy of 1,292 dwellings is required,[142] or 50% of the 2,600 dwellings. Hence the levy required to supply this stock is 5.9% X 50% = 3.0% of net floor area (saleable area), in kind or cash at market value.

The average size of discount market rental stock is 69 m^2. 1,090 dwellings are required as discount market rent, which is equivalent to 2.7% of dwellings, or 2.1% of net floor area.[143] When leverage opportunities are considered, a levy of 765 dwellings is required,[144] or 70% of the 1,090 dwellings. Hence the levy required to supply this stock is 2.1% X 70% = 1.5% of net floor area (saleable area), in kind or cash at market value.

The average size of social housing stock is 58 m^2. 2,700 dwellings are required as social housing, which is equivalent to 6.8% of dwellings, or 4.5% of net floor area.[145] There is no leverage opportunity for this type of stock.

The total levy required to deliver this model, providing 20% affordable housing to target groups in accordance with need for greater Melbourne, is therefore 9.0% of net floor area, with 50% of this levy for the provision of social housing. Based on our modelling, this level of benefit capture is sustainable in FBURA.

If available delivery options on public land are taken up, then the levy will be 8.4% of net floor area.[146]

If NRAS can be attracted, the levy for discount market rent is reduced to 1.3%, giving a total levy of 8.8%.

If 30% of social housing is funded by government, then the levy for social housing is reduced to 3.2%, giving a total levy of 7.7%.

If all these three options were available, then the total levy would be 7.0%.

7.3.4 'Pragmatic' mixed model

This model is based on the provision of 20% affordable housing to target groups, with social housing at current rates for Greater Melbourne (3.1% of dwellings), and includes

[141] 6.5% X 72/88 = 5.9%
[142] 400 X 0.52 + 420 X 0.8 + 180 X 0.85 + 490 X 0.46 + 210 X 0.62 + 630 X 0.2 + 270 X .42 = 1,292
[143] 2.7% X 69/88 = 2.1%
[144] 390 X 10/19 + 700 X 4/5= 765
[145] 6.8% X 58/88 = 4.5%
[146] 9.0% X 7500/8000 = 8.4%

shared equity purchase and discount market rent options. Varying levels of housing stress are adopted, being:

- All very low income households 30%
- All family renting households 30%
- Low and moderate income small renting households 35%
- Low and moderate family purchasing households 35%
- Low and moderate small purchasing households 40%

Where a group would be otherwise excluded by the criteria of 70% owner equity share and 80% discount market rent, the middle of the income band is targeted except where this will result in an owner equity share below 50%, or a discount market rent of 70%. Very low income purchasers are excluded, on the basis that this group represents those in changed circumstances, and very low income renters are assumed to be eligible for social housing.

The distribution of housing among remaining groups is proportional to the distribution of these groups in the housing stress profile for Greater Melbourne.

The model provides access to at least part of most target groups, with the exception of very low income purchasers and can be funded by a levy of 5% of saleable floor area in FBURA.

Table 7-16: Number of dwellings (based on target of 8,000 affordable dwellings)

Household type (target number of dwellings)	Market delivery	Mandate dwelling size[147]	Shared equity	Discount market rent	Social housing	Proportion of affordable housing target	Proportion of all housing in FBURA
Very low income single and couple renting households (690)[148]	0	0	0	0	690 (1 br, studio)	8.6%	1.7%
Very low income family renting households (550)[149]	0	0	0	0	165 (3 br) 385 (2 br)	6.9%	1.4%
100% of low income single and couple renting households (35% stress) (940)	0	750 (1 br, studio)	0	190 (1 br, studio – 80% of market rent)	0	11.8%	2.4%
40% of low income family renting households (1,100)	0	0	0	1,100 (2 br – 70% of market rent)	0	13.8%	2.8%
100% of moderate income single and couple renting households (35% stress) (160)	130	30 (1 br, studio)	0	0	0	2.0%	0.4%

[147] Modelling based on 50:50 studios and one bedroom apartments; and 70:30 two bedroom and three bedroom apartments to provide an appropriate mix of dwellings. Refer tables 7-15, 16 and 17 for details.
[148] Based on 3.1% of dwellings being social housing
[149] Based on 3.1% of dwellings being social housing

Household type (target number of dwellings)	Market delivery	Mandate dwelling size[147]	Shared equity	Discount market rent	Social housing	Proportion of affordable housing target	Proportion of all housing in FBURA
100% of moderate income family renting households (470)	0	330 (2 br)	0	140 (3 br – 80% of market rent)	0	5.9%	1.2%
100% of low income single and couple purchasing households (40% stress) (790)	0	790 (studio)	0	0	0	9.9%	2.0%
50% of low income family purchasing households (35% stress) (1,100)	0	0	1,100 (2 br – 60% owner equity	0	0	13.8%	2.8%
100% of moderate income single and couple purchasing households (40% stress) (790)	470	320 (1 br)	0	0	0	9.9%	2.0%
100% of moderate income family purchasing households (35% stress) (1,410)	0	420 (2 br)	570 (2 br – 80% owner equity) 420 (3 br – 58% owner equity)	0	0	17.6%	3.5%
Total	600 (7.5%)	2,640 (33.0%)	2,090 (26.1%)	1,430 (17.9%)	1,240 (15.5%)		
1 br/studio	600 (7.5%)	1,890 (23.6%)	0	190 (2.4%)	690 (8.6%)		

Household type (target number of dwellings)	Market delivery	Mandate dwelling size[147]	Shared equity	Discount market rent	Social housing	Proportion of affordable housing target	Proportion of all housing in FBURA
2 br	0	750 (9.4%)	1,670 (20.9%)	1,100 (13.8%)	385 (4.8%)		
3 br	0	0	420 (5.3%)	140 (1.8%)	165 (2.1%)		

Source: JSA calculation

An average apartment supplied by the market in the area is 88 square metres, however the average sized affordable housing dwelling will be somewhat smaller, and so 20% of dwellings will be a lesser proportion of net floor area (GFA less common areas or saleable area). In addition there are leverage opportunities for some types of stock.

Of the 8,000 affordable dwellings, about 40% (3,240) will be delivered by the market and by mandating dwelling size. No levy is required to provide this stock, however there may be some loss of profit by developers as a result of mandating dwelling size.

The average size of shared equity dwellings is 75 m^2. 2,090 dwellings are required as shared equity, which is equivalent to a levy of 5.2% of dwellings, or 4.4% of net floor area.[150] When leverage opportunities are considered, a levy of 730 dwellings is required,[151] or 35% of the 2,090 dwellings. Hence the levy required to supply this stock is 4.4% X 35% = 1.5% of net floor area (saleable area), in kind or cash at market value.

The average size of discount market rental stock is 69 m^2. 1,430 dwellings are required as discount market rent, which is equivalent to 3.6% of dwellings, or 2.8% of net floor area.[152] When leverage opportunities are considered, a levy of 750 dwellings is required,[153] or 52% of the 1,430 dwellings. Hence the levy required to supply this stock is 2.8% X 52% = 1.5% of net floor area (saleable area), in kind or cash at market value.

The average size of social housing stock is 58 m^2. 1,240 dwellings are required as social housing, which is equivalent to 3.1% of dwellings, or 2.0% of net floor area.[154] There is no leverage opportunity for this type of stock.

The total levy required to deliver this model, providing 20% affordable housing to target groups in accordance with criteria above, is therefore 5.0% of net floor area, with one third of this levy for the provision of social housing. Based on our modelling, this level of benefit capture is sustainable in FBURA.

If available delivery options on public land are taken up, then the levy will be 4.7% of net floor area.[155]

If NRAS can be attracted, the levy for discount market rent is reduced to 1.3%, giving a total levy of 4.8%.

If 30% of social housing is funded by government, then the levy for social housing is reduced to 1.4%, giving a total levy of 4.4%.

If all these three options were available, then the total levy would be 3.9%.

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150 5.2% X 75/88 = 4.4%
151 1,100 X 0.40 + 570 X 0.2 + 420 X 0.42 = 730
152 3.6% X 69/88 = 2.8%
153 1,430 X 10/19 = 750
154 3.1% X 58/88 = 2.0%
155 5.0% X 7500/8000 = 4.7%

7.3.5 Intermediate affordable housing model

This model is based on the provision of 20% affordable housing to target groups, with social housing excluded, and includes shared equity purchase and discount market rent options. Varying levels of housing stress are adopted, being:

- All very low income households 30%
- All family renting households 30%
- Low and moderate income small renting households 35%
- Low and moderate family purchasing households 35%
- Low and moderate small purchasing households 40%

Where a group would be otherwise excluded by the criteria of 70% owner equity share and 80% discount market rent, the middle of the income band is targeted except where this will result in an owner equity share below 50%, or a discount market rent of 70%. Very low income purchasers are excluded, on the basis that this group represents those in changed circumstances, and the absence of social housing precludes very low income households.

The distribution of housing among remaining groups is proportional to the distribution of these groups in the housing stress profile for Greater Melbourne.

The model provides access to low and moderate income target groups, with low income households excluded. The delivery model can be funded by a levy of 3.6% of saleable floor area in FBURA.

Table 7-17: Number of dwellings (based on target of 8,000 affordable dwellings)

Household type (target number of dwellings)	Market delivery	Mandate dwelling size[156]	Shared equity	Discount market rent	Proportion of affordable housing target	Proportion of all housing in FBURA
100% of low income single and couple renting households (35% stress) (1,120)	0	900 (1 br, studio)	0	220 (1 br, studio – 80% of market rent)	14.0%	2.8%
40% of low income family renting households (1,300)	0	0	0	1,300 (2 br – 70% of market rent)	16.3%	3.3%
100% of moderate income single and couple renting households (35% stress) (190)	150	40 (1 br, studio)	0	0	2.4%	0.5%
100% of moderate income family renting households (560)	0	390 (2 br)	0	170 (3 br – 80% of market rent)	7.0%	1.4%
100% of low income single and couple purchasing households (40% stress) (930)	0	930 (studio)	0	0	11.6%	2.3%
50% of low income family purchasing households (35% stress) (1,300)	0	0	1,300 (2 br – 60% owner equity	0	16.3%	3.3%

[156] Modelling based on 50:50 studios and one bedroom apartments; and 70:30 two bedroom and three bedroom apartments to provide an appropriate mix of dwellings. Refer tables 7-15, 16 and 17 for details.

Household type (target number of dwellings)	Market delivery	Mandate dwelling size[156]	Shared equity	Discount market rent	Proportion of affordable housing target	Proportion of all housing in FBURA
100% of moderate income single and couple purchasing households (40% stress) (930)	560	370 (1 br)	0	0	11.6%	2.3%
100% of moderate income family purchasing households (35% stress) (1,670)	0	500 (2 br)	670 (2 br – 80% owner equity) 500 (3 br – 58% owner equity)	0	20.9%	4.2%
Total	710 (8.9%)	3,130 (39.1%)	2,470 (30.9%)	1,690 (21.1%)		
1 br/studio	710 (8.9%)	2,240 (28.0%)	0	220 (2.8%)		
2 br	0	890 (11.1%)	1,970 (24.6%)	1,300 (16.3%)		
3 br	0	0	500 (6.3%)	170 (2.1%)		

Source: JSA calculation

An average apartment supplied by the market in the area is 88 square metres, however the average sized affordable housing dwelling will be somewhat smaller, and so 20% of dwellings will be a lesser proportion of net floor area (GFA less common areas or saleable area). In addition there are leverage opportunities for some types of stock.

Of the 8,000 affordable dwellings, about half (3,840) will be delivered by the market and by mandating dwelling size. No levy is required to provide this stock, however there may be some loss of profit by developers as a result of mandating dwelling size.

The average size of shared equity dwellings is 75 m^2. 2,470 dwellings are required as shared equity, which is equivalent to a levy of 6.2% of dwellings, or 5.3% of net floor area.[157] When leverage opportunities are considered, a levy of 860 dwellings is required,[158] or 35% of the 2,470 dwellings. Hence the levy required to supply this stock is 5.3% X 35% = 1.9% of net floor area (saleable area), in kind or cash at market value.

The average size of discount market rental stock is 69 m^2. 1,690 dwellings are required as discount market rent, which is equivalent to 4.2% of dwellings, or 3.3% of net floor area.[159] When leverage opportunities are considered, a levy of 890 dwellings is required,[160] or 52% of the 1,690 dwellings. Hence the levy required to supply this stock is 3.3% X 52% = 1.7% of net floor area (saleable area), in kind or cash at market value.

The total levy required to deliver this model, providing 20% affordable housing to target groups in accordance with criteria above, is therefore 3.6% of net floor area. Based on our modelling, this level of benefit capture is sustainable in FBURA.

If available delivery options on public land are taken up, then the levy will be 3.4% of net floor area.[161]

If NRAS can be attracted, the levy for discount market rent is reduced to 1.4%, giving a total levy of 3.3%.

[157] 6.2% X 75/88 = 5.3%
[158] 1,300 X 0.40 + 670 X 0.2 + 500 X 0.42 = 860
[159] 4.2% X 69/88 = 3.3%
[160] 1,690 X 10/19 = 890
[161] 3.6% X 7500/8000 = 3.4%

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