Development contributions for affordable housing: theory and implementation

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Independent insight.

Key Points

- In Australia, social and affordable housing has generally been funded by Commonwealth and State Governments tax systems, rather than the planning or development assessment system.
- State Governments in NSW and Victoria have signaled an intent to change this, and to use planning policy mechanisms to address the shortfalls in the provision social and affordable housing.
- There is clear justification for using the planning system to support an increase in social and affordable housing:
  - Using value capture, on the basis that the community should share in the land value uplift which is created when planning regulations allow increased development (value sharing);
  - Considering affordable and social housing in the same way as contributions to open space, parking, water-cycle infrastructure and heritage conservation are required as essential requirements for sustainable neighbourhoods.
- These two approaches can and should be applied in tandem.
- If clearly and appropriately configured, such contributions should not provide an economic disincentive to develop land, nor will they increase the sales price of market dwellings or non-residential floor space.
- Value sharing for affordable housing provision could legitimately target 50% to 80% of the uplift in land value uplift created by planning decisions
- There is a case for a mandatory 1% of floorspace contribution for affordable housing, and this could increase gradually over time depending on need and contributions from other funding streams.
- Designated affordable dwellings should be transferred to a not for profit registered housing association or community provider at zero cost. The option of cash-in-lieu payments should also be available to allow flexibility and facilitate contributions from developments where the obligation is less than one dwelling.

Cover image:
McIntyre Drive Social Housing, Altona
MGS Architects
Image: Rhiannon Slatter

CONTEXT

In Australia, the task of supplying social and affordable housing has generally fallen on broad based Commonwealth and State funded housing programs, rather than the planning or development assessment system.

It is notable, however, that the planning system does play a significant role in the delivery of social and affordable housing in many overseas jurisdictions and in limited circumstances in Australia.

A shift in approach is apparent as State Governments in both NSW and Victoria have signalled their intent to provide or expand planning policy mechanisms that will increase the supply of social and affordable housing[1].

In seeking to apply such planning approaches, it is useful to scrutinise the rationale for addressing the shortage of social and affordable housing in this way and the implications for land and development economics.

PURPOSE

We have two purposes in this paper. Firstly, we set out to resolve a clear justification in planning and economic theory for affordable housing contributions. Secondly, we propose specific mechanisms by which affordable housing contributions can be efficiently and equitably generated via the development assessment process typically applied in Australian State jurisdictions. In exploring these mechanisms, we also consider the impact of affordable housing contributions on development economics and the flow of effects for the supply of both affordable and market housing.

In this paper, we define 'affordable housing' as:

> *"dwellings where title or equivalent value is transferred by a development proponent to a not for profit registered housing association or community provider at zero consideration".*

Assets transferred to registered housing associations and providers can be used to meet a variety of housing needs spanning the spectrum of income groups from very low to moderate earners.

This could include, for example, provision of key worker housing and shared equity schemes, albeit that this may require the acquiescence of the relevant State registrars of housing associations and community providers.

CONCEPTUAL FOUNDATIONS

Requirements of proponents to provide affordable housing must be understood in the context of the gamut of development contributions which might apply in the plan making and development assessment process. Conceptually, any requirement for a development contribution will fall into one of four mutually exclusive and additive categories – user pays charges, impact mitigation payments, value sharing requirements and inclusionary provisions. An overview of these categories, including the relevant principles for cost apportionment, is provided in Figure 1. We provide further elaboration in the following paragraphs.

User pays contributions

This category of development contribution requires proponents to provide cash or in-kind assets towards infrastructure benefitting their project, with the contributions linked to the proportion of *usage* of the infrastructure items in question. A *nexus* between the development and an infrastructure item is established when residents, workers or visitors of the development make use of the planned facility, and *fair cost apportionment* is established by aligning share of cost with share of usage. Funds collected must be used for the delivery of the planned infrastructure or they must be returned to the current owners of the land which generated the user pays revenues. This is the *accountability* principle built into most State legislation for user pays contributions.

The provision of affordable housing does not qualify under this category of development contribution. There is typically no direct 'usage nexus' between additional development and affordable housing.

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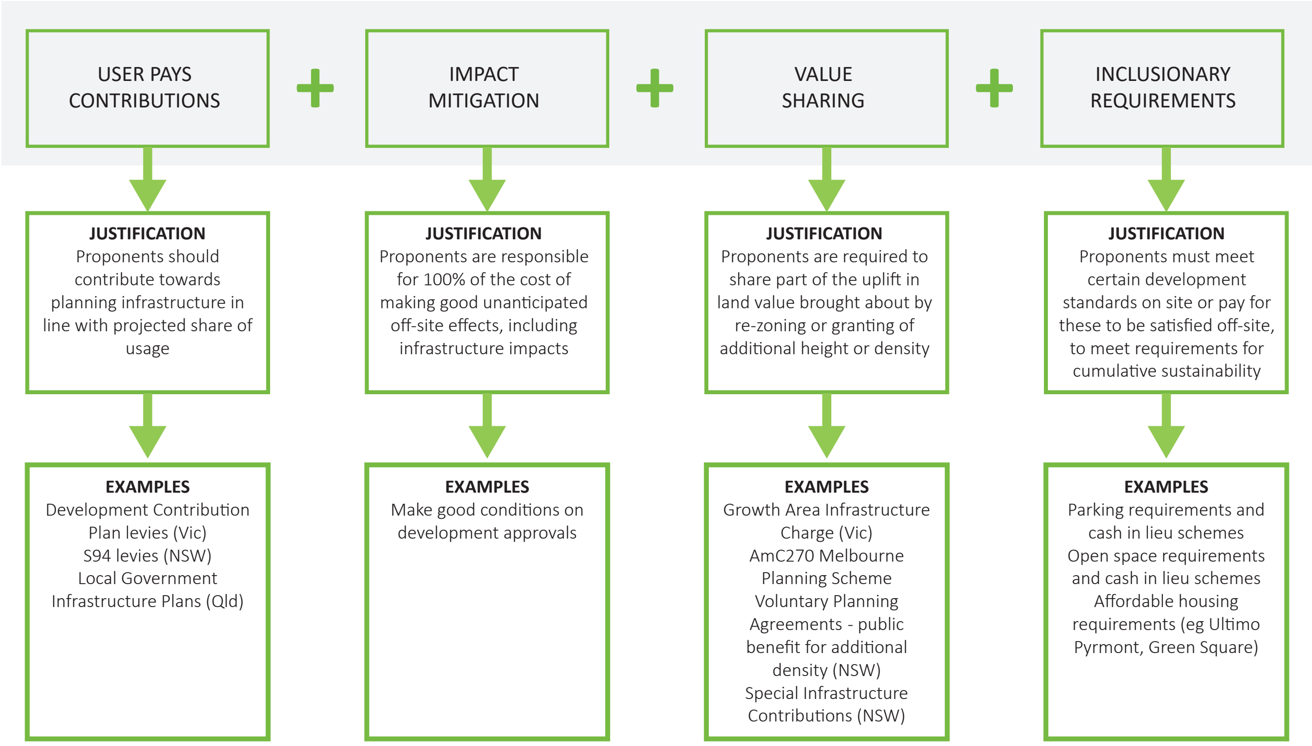
[1] See http://www.planning.nsw.gov.au/Policy-and-Legislation/Housing/Affordable-Rental-Housing; https://www.smh.com.au/national/nsw/revealed-lucy-turnbulls-affordable-housing-plan-for-sydney-20161027-gsbxyd.html;http://www.planmelbourne.vic.gov.au/highlights/housing-choice-and-affordability

FIGURE 1: TYPES OF DEVELOPMENT CONTRIBUTION



Source: SGS Economics & Planning Pty Ltd

Impact mitigation payments

A proponent may be legitimately required to make compensatory payments or off-setting contributions to mitigate the unanticipated adverse effects of their project on the natural, built or social environment. For example, if a development incorporates significantly more site coverage and would therefore result in stormwater runoff that exceeds the parameters which had been built into an area wide contribution scheme (DCP) for drainage, that particular proponent may reasonably be requested to meet 100 per cent of the cost of, say, an off-site retarding basin or tank to manage the additional flows. This requirement is premised on the ‘exacerbater pays’ principle where the party responsible for the damage must meet the full cost of making it good (even though others may subsequently benefit from the off-site retention facility). This is clearly distinct from the ‘user pays’ principle where, as noted, costs are shared according to projected share of usage.

As impact mitigation payments are applied to deal with unanticipated adverse effects of development they cannot be pre-notified in Planning Schemes and the like. Instead, they are applied on a case by case basis via conditions on development consents.

The provision of affordable housing may qualify under this category of development contribution as ‘impacts’ of development can extend to displacing or destroying affordable housing stock which forms part of the established social fabric of a neighbourhood. Pending the circumstances of each case, it may be reasonable to require a proponent to mitigate this impact through replacement of some or all of the lost housing.

This impact mitigation cannot expand the stock of affordable housing. It can just compensate for a loss. This frame is therefore of limited relevance in this paper.

Value sharing requirements

Development contributions generated under value sharing requirements are premised on another, separate and distinct, principle relating to the efficient regulation of community sanctioned development rights.

Regulation of land use and development through planning controls represents a form of restriction on market access necessitated by the objective of economic efficiency. The State deliberately and systematically rations access to ‘development rights' via planning regulations. Governments and communities apply this rationing because it is expected to generate a net community benefit (that is, an efficiency or welfare gain) compared to allowing urban development to proceed on a 'laissez faire' basis.

The value of regulated development rights is capitalized into the price of the land. For example, other things equal, land which is enabled for use as a major shopping centre will be more valuable than land without this privileged access to retail centre development rights. Similarly, land enabled for a multi-storey apartment building will be worth more than otherwise equivalent land designated for a single household dwelling, and so on. And land zoned for mixed use residential will be more valuable than land designated for industrial uses.

As occurs with other regulated markets – commercial fisheries, mineral exploitation, broadcasting bandwidth etc – it is appropriate to charge a licence fee for access to these regulated development rights (see Spiller et al, 2017). Licence fees in the context of the development assessment process can be paid in the form of provision of public benefits in return for development rights.

The provision of affordable housing does qualify under this category of development contributions. Licence fees can be readily directed to affordable housing, amongst other public benefits.

Value sharing, or the collection of development licence fees in line with the granting of additional development rights, can be effected for the provision of affordable housing, through one or both of two development approval processes commonly encountered in Australian planning systems:

a. *Where land is already zoned for a given purpose, but the quantum of permissible development is subject to discretionary height or density limits;* proponents could have the option to acquire additional development capacity (not exceeding an acceptable environmental or design envelope) through the provision of a community benefit of commensurate value, for example, affordable housing.

b. *Where land is being rezoned from a lower order to higher order use;* proponents may be required to share the increased value of land which occurs because of zoning changes, with some or all of the proceeds going to provision of affordable housing.

An example of a licence fee/value sharing requirement in the Victorian planning system is provided by Am C270 to the Melbourne Planning Scheme approved in December 2016 (see Figure 2).

Inclusionary provisions

Inclusionary provisions are premised on minimum acceptable standards of development with the proponent sometimes having the option to fulfil the required performance standard off-site through a cash or in-kind contribution. Cash-in-lieu schemes have been operated for the fulfilment of car parking requirements for decades in most jurisdictions. Cash payments in lieu of provision of 5 per cent (or more) of land for public open space upon approval of subdivision is another example of the 'inclusionary standards' premise for requiring cash or in-kind contributions from a development proponent.

Again, this premise is quite different to the other rationales for requiring cash or in-kind contributions (user pays, impact mitigation and value sharing) and could reasonably be applied in *addition* to all three of these other measures.

The provision of affordable housing again qualifies under this category of development contributions as affordable housing can legitimately be seen to be part of the 'must have' attributes of place to ensure sustainable development, in much the same way as open space provision might be. This broad definition of essential attributes of a sustainable place is sanctioned by the expansive definition of 'environment' found in the planning legislation of most jurisdictions. This definition typically includes the social as well as the natural and built form aspects of development. We discuss this in more detail below.

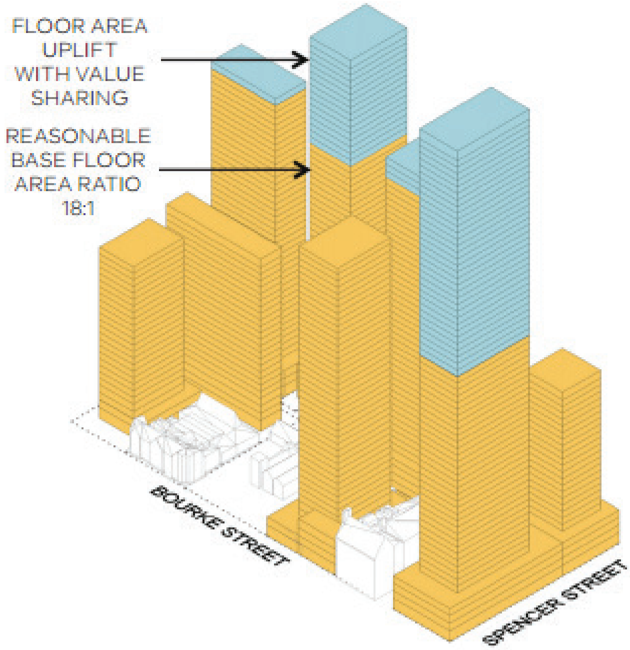
DETAILED RATIONALE FOR AFFORDABLE HOUSING CONTRIBUTIONS UNDER THE INCLUSIONARY ZONING AND VALUE SHARING FRAMES

Both the 'inclusionary requirements' and 'value sharing' frames for development contributions can, and should, be applied to justify affordable housing obligations of proponents. And, in theory, these frames can and should be applied in tandem.

FIGURE 2: VALUE SHARING AND AFFORDABLE HOUSING PROVISION - AM C270 MELBOURNE

Through this amendment, the Victorian State Government has explicitly sanctioned value sharing linked to the granting of additional development rights to proponents of high rise developments in the Capital City Zone.

The amendment provides new built form provisions and specifies a value sharing scheme for the Melbourne Capital City Zone. This provides for the delivery of public benefits (such as affordable housing provision) based on floor area uplift. Clause 22.03 of the Scheme sets out how 'Floor Area Uplift and Delivery of Public Benefit' mechanism is to operate (see schematic opposite).



Source: DELWP, 2016 http://delwp.vic.gov.au/__data/assets/pdf_file/0017/363113/1611-C270-Summary-Doc.pdf

Inclusionary zoning for affordable housing

As noted, inclusionary requirements for affordable housing are conceptually similar to parking, open space and other mandated planning standards in urban development, and like these other standards are justified on economic efficiency rather than redistributive grounds. This issue is explored at length in Spiller and Anderson-Oliver (2015).

As discussed by Spiller and Anderson-Oliver (2015), planning regulation is necessary in the first instance because the use and development of land generates externalities, both positive and negative. Externalities are uncompensated (or un-rewarded) impacts incurred by third parties as a result of market transactions. The transacting parties can be assumed to make their buying and selling decisions in their own best interest. If there were no externalities at all, market transactions could generally be trusted to produce an optimal community-wide use of land resources[2]. Where externalities are present, regulation (or some other measure, like corrective pricing or allocation of property rights) is necessary to make sure that transacting parties take into account all the cost and benefits of any particular land use proposal, not just the outlays and returns they face in consummating their deal.

The reason different planning rules apply to different land uses and development types is that externalities are judged to vary between them. For example, large shopping centre proposals are generally treated differently in terms of where and when they can locate compared to small shop development proposals because their external effects, in terms of travel efficiency on the part of customers, the demands placed on shared infrastructure and the creation of blighting effects through market crowding, differ significantly.

As is further discussed in Spiller and Anderson-Oliver (2015), 'affordable housing' can be clearly distinguished from other forms of housing in terms of positive and negative externalities. The distinct external effects of affordable housing are threefold (Table 1).

Firstly, in some neighbourhoods, social diversity is a recognised and valued environmental characteristic. If successive developments in a diverse neighbourhood have the effect of diluting that diversity, there is likely to be a demonstrable diminution of a valued (social) environmental quality, that is, a loss of welfare.

Secondly, social mix can be seen as an essential requirement for 'sustainable development'. Here, the hypothesis is that quality of life and wellbeing are enhanced if people transact their citizenship in diverse communities rather than polarised districts. Health outcomes, engagement in civic process and social capital building are supposed to be superior for rich and poor alike in mixed communities.

[2]Assuming no monopoly distortions

The research base for such beliefs is still in its formative stages[3] though they command strong currency in published planning policy.

The third and final category of externality associated with the displacement, or non-provision, of permanently affordable housing in well serviced locations as the city develops relates to the spatial marginalisation of low income and at-risk groups and their implied concentration in areas of inferior access to opportunity. Here there is clear research evidence that concentration exacerbates disadvantage and diminishes the potential for involvement in training and work[4]. This implies higher social expenditures and wastage of otherwise productive human capital.

Against this background, we can say that if an area is allowed to develop without sufficient diversity it will, in time, generate adverse externalities in extra social expenditures and foregone benefits of cohesion. A relevant analogy could relate to allowing a neighbourhood to progressively develop without sufficient open space or with a poorly functioning road network.

Spiller and Anderson-Oliver (2015) point out that, within this framework, mandatory inclusionary provisions for affordable housing would be strictly justified on *managing externalities* in the use of land. That is, they are warranted on *economic efficiency* grounds, in an endeavour to create the optimal net community benefit from urban development. They ought not to be confused with a redistributive mechanism, even though the resultant affordable housing would be systematically benefitting lower income groups.

Thus, mandatory inclusionary zoning for affordable housing cannot be construed as a redistributive tax, just as, for example, the requirement on the owners of heritage properties to forego the value of development potential that would otherwise be available to them cannot be seen as a tax.

Value sharing and affordable housing

Unlike inclusionary zoning for affordable housing, the development licensing principles which underpin value sharing stand independently of the purpose to which development licence fees might be put. That is, the proceeds of value sharing in the planning system could be used for a variety of purposes or even fed into consolidated revenue. There is no in-principle reason why these funds should be directed into affordable housing, but of course, they can be at Government's discretion.

Operation in tandem and market impacts

To repeat, inclusionary zoning for affordable housing and value sharing are conceptually separate and could be applied in tandem, in the same way as a value sharing scheme such as that applied in central Melbourne via AmC270 can operate alongside parking or open space requirements.

The limit on the tandem application of these two types of development contribution in the service of affordable housing outcomes lies not in conceptual inconsistency but in development economics.

A developer will value a property on a residual basis. As a price taking agent in the market, the developer will pay no more for a site than the residual after all development costs and margins for profit and risk are deducted from their anticipated gross sales (or 'gross realisation') upon completion of the project. This equation is illustrated in Figure 3.

TABLE 1: EXTERNALITIES GENERATED WHEN DISTRICTS DEVELOP WITHOUT AFFORDABLE HOUSING, OR WHEN EXISTING AFFORDABLE HOUSING IS DISPLACED

Externality type	***Elaboration***
Type 1: Loss of existing social (or cultural) environmental value	Diverse neighbourhoods may be recognized as offering particular (social) environmental values, in terms of cultural vitality, hospitality offer, retail mix and capacity for innovative business formation.
Type 2: Foregone benefits of social mix in new or gentrified neighbourhoods	The broader community, not just lower income groups, may benefit in health and wellbeing terms from local social mix.
Type 3: Foregone human capital and higher social expenditures	If affordable housing is not reserved in new or redeveloping districts which are relatively well connected to opportunity, spatial marginalization of lower income and disadvantaged groups will be worsened, leading to foregone human capital and higher palliative and correctional social expenditures.

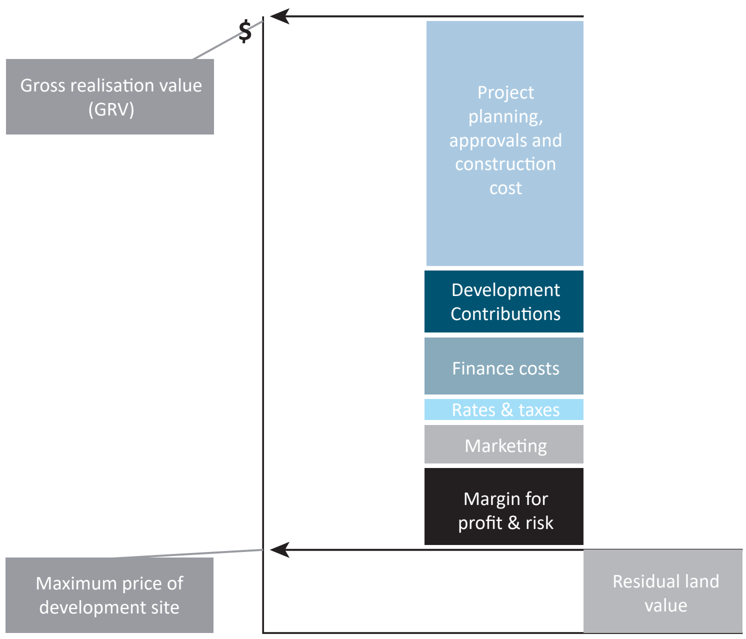
Source: Spiller and Anderson-Oliver (2015)

[3]SGS Economics & Planning Pty Ltd (2013) Understanding the social outcomes of housing: A report prepared for the City of Melbourne. (http://participate.melbourne.vic.gov.au/files/7714/1257/3673/COM_SERVICE_PROD-_7709312-v1-20120348_understanding_the_social_outcomes_of_housing_final_report_020213.pdf)
[4]ibid

Note that the development proponent cannot simply pass costs forward in higher prices for their product. These prices are set exogenously by the market. Thus, for example, if the proponent is confronted with an inclusionary zoning requirement for affordable housing, this would add to their development costs which, in turn, would necessitate a larger $ amount for profit and risk. This additional cost will ultimately be reflected in a lower supportable bid price for the development site, that is, a lower residual land value (RLV).

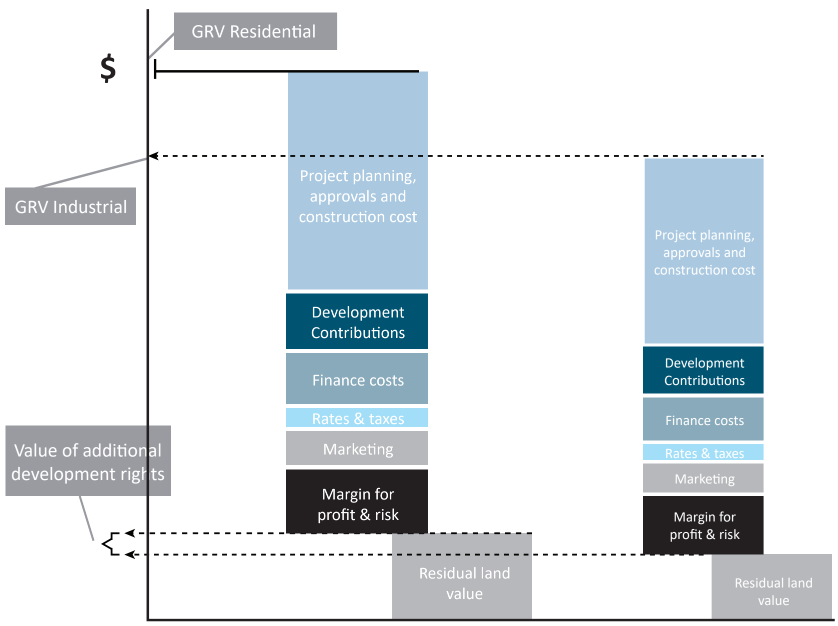
Meanwhile, any value sharing requirement would simply target a proportion of the uplift in land value brought about by the granting of additional development rights or development potential, as illustrated in Figure 4 which contemplates a rezoning from a lower value use (such as industrial) to a higher value use (such as residential). This is the uplift which remains *after* all the other three types of development contribution, where applicable, have been met

FIGURE 3:
RESIDUAL LAND VALUE



Source: SGS Economics & Planning Pty Ltd

FIGURE 4:
VALUATION OF ADDITIONAL DEVELOPMENT RIGHTS UPON REZONING



Source: SGS Economics & Planning Pty Ltd

In theory, Councils/Government could require the full value of this residual uplift to be returned to the community in the form of affordable housing or some other social benefit. In practice, it is likely that part of the uplift needs to be left with the land owner, as they would otherwise have little incentive to release the property for development.

Based on a review of explicit and implicit value capture rates applied across Australian jurisdictions, a 50% value sharing ratio is a reasonable lower bound benchmark (see Table 2).

TABLE 2: VALUE SHARING RATIOS

Value sharing / development licensing scheme	Jurisdiction	Value sharing rate
Growth Area Infrastructure Charge	Victoria	25%- 33%
Am C270 Melbourne	Victoria	80% of additional RLV above Floor Area Ratio of 18:1
Lease Variation Charge	ACT	75%
Voluntary Planning Agreements	NSW	50% (typical)

Source: SGS Economics & Planning Pty Ltd

Market impacts

As discussed, the cost of a licence fee or value sharing arrangement prosecuted through the planning system is borne by the land seller rather than a development proponent or end buyer. In this context, it is important to distinguish between three categories of agents in the land development process when considering the market impacts of value sharing.

1. 'Original' owners of the land subject to value uplift through, say, rezoning from industrial to residential, with no development aspirations themselves, but looking to sell their property to a developer in due course
2. Investors or land traders who are not intending to develop in their own right but rather to generate an appropriate return by; acquiring property at a pre-rezoning rate; shepherding it through the planning scheme amendment process and then selling to a developer, and
3. Developers who have purchased the land recognising that it is 'due' to be rezoned and are looking to feed the property in question into their production pipeline

McIntyre Drive Social Housing, Altona
MGS Architects
Image: Rhiannon Slatter

Using the value sharing benchmark noted above, the first of these groups would sustain a reduction of around 50% in the value uplift they might have otherwise expected. Nevertheless, they will continue to enjoy a substantial uplift, and this would continue to motivate them to release their land to a developer if the opportunity arose. The net present value of a sale albeit at a price 50% lower than previously expected would be significantly higher than that of the existing land use (e.g. low density residential or industrial).

Depending on their due diligence, the second group may also suffer a loss of value versus expectation. This, in itself, is not problematic so long as the land traders ultimately release their properties to developers. Again, rational investment behaviour would suggest they would absorb losses and move on.

With respect to the third group – developers – the impact of the value sharing requirement will also depend on their due diligence. If they have made their acquisitions relatively recently – and most listed developers buy land on an as needed basis rather than landbank- they will have made due provision for the value sharing in their development equation.

In principle, a value sharing scheme will only adversely affect the supply of housing if the RLV of rezoned land is reduced to a level *below* the RLV given the highest and best use of the land in question before rezoning. This relationship is readily discoverable and manageable in the setting of the value sharing rate.

PLANNING MECHANISMS TO EFFECT AFFORDABLE HOUSING CONTRIBUTIONS

Inclusionary requirements for affordable housing

An exemplar inclusionary requirements scheme in Australia is that operating in the Ultimo Pyrmont and Green Square redevelopment areas in Sydney. This has been in place for up to 25 years.

The former industrial/port district of Ultimo Pyrmont in the inner city was the subject of a State and Commonwealth *'Building Better Cities'* initiative in the early 90s, under which a targeted amount of affordable housing would be maintained in the neighbourhood as it transformed into an otherwise exclusive area for well remunerated 'knowledge workers'. A special purpose, not for dividend company – City West Housing Ltd – was created by the State Government to own, operate and, where necessary, build the targeted affordable housing. The requisite housing was to be procured via a one off *Better Cities* capital grant from the Commonwealth, an agreed proportion of the value of State Government land sales in the precinct and the proceeds, both cash and in kind, from the Inclusionary Zoning scheme applying in the area.

The City West IZ scheme requires developers to provide affordable housing at a rate of 0.8% of the total floor area to be used for residential purposes and 1.1% of the total floor area that is not intended to be used for residential purposes. Cash equivalents are payable where in development provision is not possible or preferred.

Similar inclusionary requirements could be applied on a regional or LGA basis in other Australian cities, resulting in clear, pre-notified, contribution rates which proponents could readily factor into their feasibilities.

The inclusionary requirements formula would target provision of a given proportion of social housing in the region or municipality. For example, the cash in lieu rate per square metre (of saleable floorspace) would be set so as to achieve the current proportional representation of permanently affordable housing (in effect social housing) in the total stock of the metro area. A formula for estimating this rate is shown below.

> **General IZ rate** \$/m² = **(C/(Fr+Fnr))**
> where
> **C =** Capital cost of providing the number of additional social housing units required in the subject LGA to achieve the 2018 ratio of this housing to all housing in the relevant metro area, over a 20-year period
> **F^r =** Total new residential (saleable) floorspace forecast to be built in the subject LGA 2018-2038 (includes replacement floorspace)
> **F^{nr} =** Total new non-residential (saleable) floorspace forecast to be built in the subject LGA 2018-2038 (includes replacement floorspace)

Were such a scheme to be in place, development proponents would make their contributions/ payments via routine conditions on planning permits, as occurs now with open space contributions. They would also have the option to provide affordable housing on-site to meet their affordable housing obligations.

Value sharing mechanisms

As alluded to earlier, two types of value sharing mechanism to generate affordable housing can be identified. These are based on whether the land in question is already zoned for the development question and the proponent is seeking access to additional height or density, or the land in question is the subject of a rezoning.

Zoned land

For land which is already zoned for the development in question, value sharing can be implemented via a Floor Area Uplift (FAU) scheme as exemplified by Am C270 to the Melbourne Planning Scheme (see Figure 2). This would require planning authorities to establish a quantum of licence fee-free development, with proponents being required to remit the land value uplift from the additional development capacity. This would be priced at, or close to, the RLV per square metre, pending an investigation of the land economics in the development area.

Rezoning

For land which is subject to rezoning to a more valuable land use, such as the industrial to residential scenario mentioned above, a published policy which establishes the value sharing rate (and implied affordable housing provision rate) would be in order.

If the land subject to rezoning is in multiple ownerships and will be developed at an indeterminate rate and pattern, the value sharing mechanism can be expressed as a requirement for provision of a certain amount of affordable housing floorspace for each unit of commercially marketed floorspace. The statutory expression of this requirement will resemble an inclusionary zoning requirement but would be premised on the principle of value sharing as discussed.

We set out an example in the text box overleaf.

This mechanism for establishing and enforcing the affordable housing liability of development proponents in the area could be set out in a suitable statutory instrument or agreement accompanying the rezoning. This would prescribe how the amount of affordable housing to be provided by individual developers will be calculated (as explained above) and how the assets in question will be transferred to registered housing associations and providers. The latter could occur by way of transfer to a Housing Trust operated by the host municipality, with the Trust then on-allocating the assets to housing providers on transparent basis. Alternatively, proponents would be required to show evidence to the consent authority that they have entered into legally binding agreements to transfer the mandated assets or cash to a nominated provider which has been pre-approved for this purpose by the Council.

Once in receipt of assets, relevant housing associations and providers would provide all required tenancy support and asset management services. Developers would have no ongoing obligations.

Kyme Place Rooming House, Port Melbourne
MGS Architects
Image: Trevor Mein

CODIFYING VALUE SHARING OBLIGATIONS – A HYPOTHETICAL EXAMPLE

For the sake of simplicity, we assume in this illustration that share of value uplift across the rezoned land in question is broadly commensurate with share of future development capacity in the precinct, measured by share of 'build out' floor area. Greater precision in this equation could be achieved by weighting floor area by use-specific RLV (expressed on a per square metre basis).

The total planned floor area in area in question is set out below.

▪ Dwellings	3,000 or 240,000 m²
▪ Retail	5,500 m²
▪ Commercial	33,000 m².

Assuming there is a demonstrated need for 10% affordable housing, 300 affordable housing units are required in this precinct. Assuming further that these dwellings are priced at $525,000 each, this translates to a total value of $157,500 million. If this amount is less than the benchmark 50% value share rate, successive development proponents would be required to transfer the full 300 units to registered housing providers. Should the total value of affordable housing required be found to be greater than 50% of the land value uplift, the number of transferred units could be scaled back.

This example proceeds on the basis that the value uplift can carry the full cost of transferring 300 dwellings. This cost needs to be borne by all commercially marketed floor area in the area in question, including all non-residential uses. After netting out the 300 transferred dwellings, this remaining pool of floor area comprises:

▪ Dwellings	2,700 or 216,000 m²
▪ Retail	5,500 m²
▪ Commercial	33,000 m²
▪ Total	254,500 m².

Thus, total commercially marketed development of 254,500 m² is required to generate 300 affordable housing units. This translates to 0.118 affordable housing units for each 100 m² of commercially marketed floor area of whatever type.

This ratio can be applied at the time when individual proponents come forward for the development of their land. Two cases follow to illustrate the practical application of this formula.

CASE 1

Development proposal	50 commercially marketed dwellings
Total commercially marketed floor area	4,000 m²
Affordable housing liability (units)	(4,000 m² /100) x 0.118 = 4.72 dwellings
Discharge of affordable housing obligation	**Option 1** Transfer of 4 units plus 0.72 x $525,000 in cash ($378,000) **Option 2** Pay 4.72 x $525,000 in cash ($2.478 million) **Option 3** Any combination of transferred units, land and cash to the value of $2.478 million

CASE 2

Development proposal	100 commercially marketed dwellings plus 3,000 m² of retail floor area
Total commercially marketed floor area	11,000 m²
Affordable housing liability (units)	(11,000 m² /100) x 0.118 = 12.98 dwellings
Discharge of affordable housing obligation	**Option 1** Transfer of 12 units plus 0.98 x $525,000 in cash ($514,500) **Option 2** Pay 12.98 x $525,000 in cash ($6.815 million) **Option 3** Any combination of transferred units, land and cash to the value of $6.815 million

CONCLUSIONS AND RECOMMENDATIONS

The discussion in this paper shows that affordable housing requirements within planning regulations are justifiable on efficiency grounds; they should not be construed as selective taxes on development.

Affordable housing contributions through the planning system are warranted both as inclusionary requirements to ensure sustainable development and as a means of discharging a legitimate obligation to share the value generated through rezonings and planning consents which grant additional development height or density.

Mandatory inclusionary requirements for affordable housing can and should be applied in tandem with affordable housing contributions generated through value sharing.

Based on successful practice elsewhere (Ultimo Pyrmont in particular), there is a case for a mandatory 1% of floorspace contribution for affordable housing, perhaps increasing gradually over time depending on identified affordable housing requirements and other funding streams available for investment in permanent affordable housing.

Value sharing for affordable housing provision (and other community benefits) should be applied regardless of whether mandatory inclusionary requirements are in place. Value sharing, or development licence fees, could legitimately target 50% to 80% of the uplift in land value associated with the granting of additional height or density.

In principle, the 'cost' of affordable housing contributions through either the inclusionary requirements or value sharing mandate will fall on the land seller rather than the developer or end buyer of finished development product. Development will proceed for as long as the residual land value after the incorporation of affordable housing requirements maintains a sufficient margin over the value of the land in its current or next best use.

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North Eveleigh Affordable Housing, Sydney
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Image: Brett Boardman

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