

Response to the Government's November 2016 Discussion Paper: **USING VALUE CAPTURE TO DELIVER MAJOR LAND TRANSPORT INFRASTRUCTURE**

Prepared by Rebecca Richardson (Urbanista) with and on behalf
of:



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Section 1: This Submission

This submission responds to the discussion paper entitled 'Using value capture to deliver major land transport infrastructure' released by the Federal Government in November 2016. It is a collective response on behalf of national and state community housing peak groups, who whist strongly supportive the concept of value capture, are concerned to ensure that approaches to value capture:

- Acknowledge and address critical impacts;
- Are robustly formulated and based on sound planning principles; and
- Do not inappropriately favour transport infrastructure funding over other legitimate and potentially more worthy applications.

This response draws attention to the need to consider the critical place of affordable housing in the national approach to value capture, whether it is in the context of new land transport infrastructure or of other public investment or decisions.

Many of the issues raised herein go beyond the consultation questions identified in the discussion paper which are generally limited to specific themes relating to models of value capture and implementation issues.

In order to advance debate on a comprehensive national approach, this submission is made in two parts:

- The first part provides background on affordable housing and then explores the wider case for value capture and the importance of addressing the full range of negative externalities and planning principles, including housing affordability impacts and promoting inclusive communities. Refer sections 3 to 9.
- The second part addresses those specific questions identified in the discussion paper that are relevant to this submission. Refer to section 10.

Inevitably there will be some overlap between the two parts.

Section 2: About Us

The organisations directly participating in this submission are:

- Community Housing Industry Association (CHIA)
- NSW Federation of Housing Associations (the Federation)
- Community Housing Federation of Victoria (CHFV)
- Community Housing Council of South Australia (CHCSA)

These organisations represent community housing providers across Australia. Community housing providers are non-profit managers and developers of quality affordable rental housing for lower income and disadvantaged households. More information on each association is presented below. Refer to Box 1 for an overview of community housing in Australia and Box 2 for details of the organisations contributing to this response.

BOX 1

Background on Community Housing in Australia

This submission is a collective response on behalf of national and state community housing peak groups who want to ensure soundly based approaches to value capture. (Refer to section 2: About Us for further details of the four lead organisations involved in this response.)

Community housing providers are non-profit managers and developers of quality affordable rental housing for lower income households and those with specific housing needs. Whilst some short-term and emergency services are provided by community housing providers, generally community housing offers secure, affordable, long-term rental housing for people on low to moderate incomes with a housing need and provides a broad range of support for tenants; linking them to disability, education, health and employment opportunities and services where required.

Community housing was introduced in Australia in the early 1970s with some of the first housing occurring in Adelaide in the Bowden/Brompton area. Community housing across Australia has grown and developed over recent decades as an effective and efficient response to a key housing market failure. Community housing providers (CHPs) are viable, ethically run businesses driven by strong social missions and values. In 2016, CHPs managed 82,000 dwellings nationally in portfolios of community housing assets with an estimated value of \$15 billion. Income sources include rent, subsidies, and fees from services.

As the Affordable Housing Working Group reported in its 2016 Issues Paper:

‘The size and scope of the community housing sector, and its relationship to public housing authorities, varies considerably across states and territories. The growth in community housing reflects the policy direction of the states and territories, supported in part by Commonwealth housing initiatives.’ p 5

The demographic profile of tenants living in community housing is largely similar to those living in public housing, however CHPs provide a broader range of housing, including discount to market rental housing for a wider income group than traditionally available through public housing. A community home looks like any other home on the street. Tenants that move into a community home often report a far higher quality of life, significant financial relief, and a true sense of housing security and stability.

The introduction of independent, risk-based regulation in 2009 has assisted the industry to grow and continually measure and improve its capabilities and professionalism. In the last decade, the community housing industry has undergone significant growth and development with more diverse products, partnerships and new providers entering the market.

Community housing providers are regulated by and registered with the National Regulatory System for Community Housing (NRS). Larger providers that manage substantial tenancies and raise private finance to undertake new social housing are closely regulated under the NRS. The registration process is rigorous and is designed to give confidence to key stakeholders such as tenants, government, financiers and investors.

Despite this growth in community housing, the affordable housing needs are still great. In 2015 there were over 817,000 Australians living in social housing around the country, with around 200,000 households on social housing waiting lists. The community housing sector is working closely with providers, partners, investors and government to improve capability, capacity and funding to deliver new housing and services to those most in need of accommodation.

BOX 2

About our Community Housing Organisations

The **Community Housing Industry Association (CHIA)**, formed in 2015, is the national industry body for community housing providers (CHPs) in Australia. It has over 150 members nationwide. It represents a growth provider with a portfolio of 5,000 properties, a small organisation which exists solely to manage the 13 properties which it owns, as well as an organisation which provides affordable housing as an adjunct to specialist services such as mental health or disability support. As such, CHIA is uniquely positioned to provide a truly national voice for the community housing industry.

On behalf of its members CHIA undertakes research, policy development and advocacy around affordable housing issues. It leads representation of community and affordable housing issues at the national level through partnerships with government, research bodies, peak bodies and other industry groups with an interest in affordable housing.

The **NSW Federation of Housing Associations (the Federation)** is the industry peak body for community housing providers (CHPs) across NSW. Since 1993, the organisation has provided leadership, support and resources for the further development of the industry, and has represented the aspirations and interests of the industry to all other stakeholders – government, partners, business and the wider community. The Federation has 49 members including all 30 registered Tier 1 and Tier 2 organisation operating in NSW. Its members manage over 38,000 tenancies across the state.

The Federation seeks to ensure that community housing providers are active in all housing markets, providing a full range of housing options for households on very low to moderate incomes. The NSW community housing sector contains the largest and amongst the most well developed, professionally led organisations in Australia.

The **Community Housing Federation of Victoria (CHFV)** is dedicated to ensuring that all Victorians in housing need can gain access to secure, affordable long term housing. The positive impact that such housing offers the individual and society as a whole is profound.

CHFV represents 73 community housing organisations, from the industry's largest organisations that own and/or operate thousands of properties housing many thousands of tenants, to the smallest one or two dwelling operations. The larger organisations (8 Housing Associations and 33 Registered Housing Providers) are partially funded by the federal and state governments and have taken on responsibility for proactively growing the state's stock of community homes.

Housing Associations have been the state and federal governments' designated vehicles for growth in affordable housing stock under the Nation Building Economic Stimulus Program and the Victorian Social Housing Investment Fund. Many community housing organisations also manage stock owned by the Department of Human Services under lease arrangements. Providers currently registered have an asset portfolio worth approximately \$2.5 billion.

The **Community Housing Council of South Australia (CHCSA)** is the Peak Industry Body that represents community housing providers and other non-profit housing organisations in South Australia. The community housing sector provides high quality homes to approximately 8,700 tenants across the state, and owns and manages more than 7,600 properties. The community housing sector in the state is set to grow with a further 4,000 dwellings to be transferred in 2017 to five Tier 1 housing providers, anticipated to result in significant urban redevelopment and improved tenancy services.

South Australia implemented significant legislative and contractual change in 2013 to position community housing for significant growth. This has meant key industry stakeholders such as financiers and developers are confident that the community housing framework is robust and secure. For community housing providers it has resulted in simplified and streamlined processes resulting in a more efficient sector.

Section 3: Focus of our Response

The Federal Government's initiative to seek government, industry and community feedback to further the development of a national approach to value capture is supported. There is a strong case for capturing value created by government policies and investment by introducing a framework to divert this to offset the costs (both direct and indirect) and optimise the benefits of those policies and investment.

Encouragingly the Executive Summary indicates an appreciation of the breadth and application of value capture when it states:

The Australian Government is seeking to take action to support infrastructure investment practices by promoting value capture as a complementary funding approach and a land planning that – where appropriate – can result in more infrastructure, *better integrated planning between infrastructure and land use needs*, increased *economic benefits beyond transport objectives*, earlier delivery of infrastructure needs and *fairer funding models*.

(page 1– emphasis added)

However, despite this clear positioning and that the Government's paper flags the need for 'a considered and comprehensive national approach' (page 1), it does not provide the grounding for that. Instead, the paper focuses on the utilisation of value capture for one specific purpose – transport infrastructure funding. Consequently, the paper fails to explore the full rationale for value capture and its potential role in offsetting costs and maximising public benefits from government infrastructure investment and urban policy and planning decisions. Furthermore, the paper entirely overlooks all costs other than the cost of funding transport infrastructure projects.

Thus, while supporting the broad intent in releasing the paper, clearly the singular focus of the paper on funding transport infrastructure is the wrong point at which to launch a national debate on harnessing opportunities for value capture.

The focus on funding transport infrastructure comes at the expense of furthering sound planning principles and addressing more fundamental negative externalities. The increase in land values upon which value capture mechanisms are premised almost inevitably results in adverse impacts on housing affordability. The failure to acknowledge and address these matters is a serious **limitation of the Government's paper**.

Moreover, the positioning of the paper in this way is unlikely to open up dialogue about wider issues or potential applications associated with value capture or to generate much in the way of 'further ideas from other governments, from industry and the community' sought by the Ministers (refer Forward page iv).

The focus of the Government's review needs to be broadened in two ways:

- 1. To look beyond transport infrastructure led change to acknowledge the potential application of value capture approaches across the range of government investment and urban policy decisions including, for example, urban renewal projects, the creation of health precincts and the establishment of educational institutions;**
and
- 2. To significantly widen consideration of the range of ways value capture can be utilised for the benefit of the community and the economy, and in particular to offset negative externalities and to further sound planning principles.**

Section 4: Our Position

The Government's initiative to develop the concept of capturing the value created by government action and to introduce a framework to divert this to offset the costs (both direct and indirect) of those policies and investment is strongly supported. Where the decisions and actions of government create additional land value or other benefits (such as labour force accessibility), we agree that it is not only reasonable, but desirable that mechanisms be introduced to capture and divert that value to offset the direct and indirect costs of the project.

Addressing negative externalities, capturing public benefits and implementing sound planning principles should be the key drivers in implementing a national framework for value capture.

The premise of this response is that government infrastructure investment and urban development decisions generally have profound impacts on the availability of affordable housing for very low to moderate income households and place pressure on housing affordability for the community more generally. In fact, these impacts go hand-in-hand with the generation of the value upon which governments will rely in implementing the value capture mechanisms outlined in the paper.

Affordable housing is not simply one of a range of areas which could be funded through value capture. Adverse impacts on affordable housing are a cost of government investment in infrastructure and of urban development decisions. There is a strong case that these negative affordability impacts should be addressed before other costs and benefits are funded.

Furthermore, sound planning requires that, not only are negative impacts addressed, but when communities expand and are being gentrified, active steps are taken to ensure inclusive communities, i.e. that the opportunities that arise from government's investment and planning decisions are not only available to the better off in society. As well as fairer outcomes for lower income households, there is firm evidence that inclusive communities bring wide economic, environmental and social benefits. In other words, the promotion of inclusive communities must be seen as a fundamental planning principle. Moreover, affordable housing is a critical form of urban infrastructure vital to well-functioning communities.

For these reasons, the rationale for addressing housing impacts and ensuring inclusive communities must be differentiated and given priority over other cost offsets and public benefits that could be funded from any value captured.

Thus, it is submitted that value capture should first offset the negative impacts of infrastructure on housing affordability and ensure opportunities continue to be available for a full range of households to foster sustainable, inclusive communities in line with sound planning principles. Only once these fundamentals are satisfied, should value capture be used to help fund the costs of infrastructure and deliver other public benefits.

Finally, the organisations contributing to this response would welcome the opportunity to be further involved in the development of a comprehensive value capture strategy that addresses the full range of costs and encompasses a sound planning framework.

Section 5: Context and Relevance of Affordable Housing

5.1 Housing Affordability in Australia Today

House prices in Australia have trebled in the past 30 years¹ and Australia's capital cities are some of the most unaffordable in the world. Lower-income households are the most affected by this rise in prices and a high proportion are in rental stress (68%) or mortgage stress (47%), according to data analysis from ABS 2015².

While increasing the general supply of housing is often cited as the answer to the affordability challenge, the Affordable Housing Working Group concluded in its 2016 Issues Paper:

Recent significant increases in dwelling approvals, commencements and completions has done little to increase the supply of affordable rental housing, as the majority of new housing construction has been at the less affordable end of the market.³

This lack of an adequate supply of affordable and appropriate housing impacts upon the social and economic welfare of these households and our communities, the productivity of labour markets, the cost and adequacy of health and social security systems and the economic performance of our nation. It increases the risk of homelessness, which has its own high costs for society⁴.

As acknowledged by the Affordable Housing Working Group:

... there are few issues more important to ensuring the welfare of Australians than housing. From a social perspective, housing provides a stable base from which Australians can participate in their communities. Housing assists with family formation and security in retirement, and promotes and improves employment, educational and health outcomes. From an economic perspective, housing has a significant impact upon investment, productivity and participation, as well as consumption and saving trends across the economy.⁵

More generally, the wider economic and social benefits of adequate, affordable and well located housing are now widely recognised. The preservation or creation of inclusive communities with a diverse population from a range of socio-economic backgrounds is increasingly being recognised as a priority in planning policies and strategies across Australia. For this reason, providing affordable housing is a priority not only for the welfare of lower income and disadvantaged household, but to promote social cohesion and access to opportunities. Some jurisdictions have established aspirational targets for the provision of affordable housing in recognition of the vital role housing plays in the success of communities and economies.

The Affordable Housing Working Group aptly concludes:

Housing is fundamental to the welfare of all Australians. From a social perspective it promotes and improves employment, educational and health outcomes. From an economic perspective it is a driver of participation and productivity as well as consumption, investment and savings in the economy.⁶

¹ Yates, J. 2016, Why does Australia have an affordable housing problem and what can be done about it?, The Australian Economic Review, vol. 49, no. 3, pp. 328–39.

² ABS 2015 analyses presented in Yates 2016 (Survey of Income and Housing, 2013–14).

³ Council on Federal Financial Relations 'Affordable Housing Working Group: Issues Paper' January 2016, p 4.

⁴ For more details on homelessness and cost-offsets, refer to : Parsell, C. Peterson M and Culhane D, 2016, Cost offsets of supportive housing: Evidence for social work, British Journal of Social Work 1-20.

⁵ Council on Federal Financial Relations 'Affordable Housing Working Group: Issues Paper' January 2016, p 2.

⁶ Council on Federal Financial Relations 'Innovative Financing Models to Improve the Supply of Affordable Housing' October 2016 p 1.

5.2 What is the Need for Affordable Housing?

Obtaining reliable up to date estimates of affordable housing needs across Australia is difficult. In an analysis updating data published by the now defunct National Housing Supply Council (NHSC 2010)⁷, Yates (2016)⁸ has estimated that 140,000 additional dwellings were still required by 2016 to re-establish the proportion of social housing at its (close to peak) 1996 share of the national housing portfolio.

In addition to meeting the need outlined above, more affordable housing is required to address affordability pressures faced by lower income households in the private rental market. Estimates of the current national shortfall of rental dwellings affordable to such households vary from around 200,000 (Hulse, Reynolds et al. 2014, using 2011 census data)⁹ to around 550,000, depending on how rental stress and affordable supply are measured. Taking the lower estimate (and assuming rental stress levels do not worsen) means a minimum of an additional 10,000 dwellings would be needed each year over the next 20 years to meet the increased need for affordable housing (i.e. in addition to what is needed to overcome the existing shortage of social housing). In an alternative conceptualisation of affordable housing need, Rowley (2016)¹⁰ estimates that, of the projected 1.7 million newly forming households over the next decade, 203,000 (12 per cent) are likely to face housing stress in current market conditions.

Present rates of supply, while difficult to estimate accurately from current data sources, fall well short of these requirements. For example, in an analysis of current policy documents, Milligan, Martin et al¹¹, could only identify commitments for approximately 32,000 additional social and affordable dwellings (net of demolitions and sales) to be provided across all jurisdictions between 2015 and 2020. Offsetting at least some of the indicated additional supply, however, will be progressive losses from the 37,000 dwelling portfolio of homes currently rented at below-market rates, as the 10-year National Rental Affordability Scheme (NRAS) subsidies that these dwellings attract expire between 2019 and 2026.

5.3 What do we Mean by Affordable Housing?

Definitions of affordable housing can be ambiguous, which is why it is useful to be specific when we refer to as 'affordable housing' and to explain how affordable housing relates to the notion of 'housing affordability'.

Not surprisingly, the Senate Economics References Committee inquiry into affordable housing commented:

Defining concepts as complex as 'housing affordability' and 'affordable housing' can be problematic. What constitutes affordable housing for a particular household, and how pressing a concern housing affordability is for that household will depend on a number of factors. These include a household's financial situation, the housing market it is in, and where it sits on the housing continuum — that is, whether the household is currently renting or seeking to rent a property, looking to purchase a home, or working to repay a mortgage.¹²

⁷ National Housing Supply Council, State of Supply Report, 2010.

⁸ Yates, J. (2016). Why Does Australia Have an Affordable Housing Problem and What Can Be Done About It? The Australian Economic Review, 49(3), 328-339. <http://dx.doi.org/10.1111/1467-8462.12174>

⁹ Hulse, K., Reynolds, M. and Yates, J. (2014) Changes in the supply of affordable housing in the private rental sector for lower income households, 2006–11, AHURI Final Report No. 235, Australian Housing and Urban Research Institute, Melbourne, <http://www.ahuri.edu.au/research/finalreports/235>.

¹⁰ Rowley, S. (2016) 'Modelling housing need in Australia to 2025'; Presentation to AHURI conference: The Future of Housing Assistance; Adelaide 13 October 2016, accessed 10 November 2016,

¹¹ Milligan, V., Martin, C., Phillips, R., Liu, E., Pawson, H. and Spinney, A. (2016), Profiling Australia's affordable housing industry, AHURI Final Report No 268, Australian Housing and Urban Research Institute, Melbourne, <http://www.ahuri.edu.au/research/final-reports/268>.

¹² Senate Economics References Committee in its paper "Out of reach? The Australian housing affordability challenge" May 2015 p 11

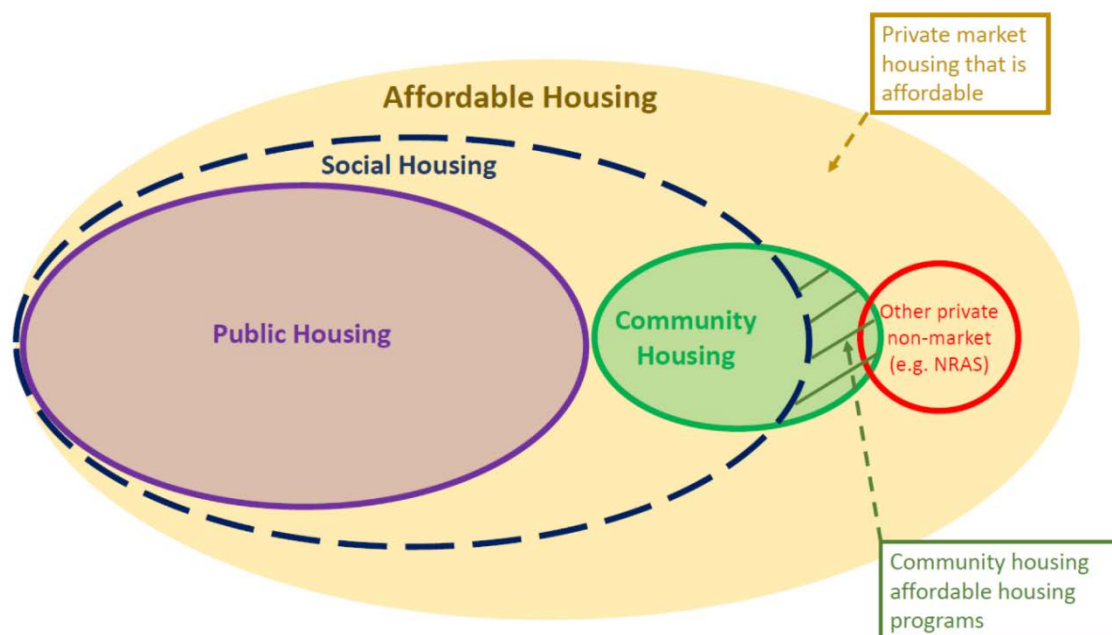
The term 'housing affordability' usually refers to 'the relationship between expenditure on housing (prices, mortgage payments or rents) and household incomes'¹³. The term 'affordable housing' on the other hand is often used to describe housing provided to lower income households at below market cost. For those in the bottom two income quintiles, housing is generally defined to be affordable housing if it consumes no more than 30 per cent of household income.

For the purposes of this submission, we have adopted the Affordable Housing Working Group definition applied in its Issues Paper in the context of affordable rental housing as follows:

Affordable housing is that which reduces or eliminates housing stress for low-income and disadvantaged families and individuals in order to assist them with meeting other essential basic needs on a sustainable basis, whilst balancing the need for housing to be of a minimum appropriate standard and accessible to employment and services.¹⁴

Defined in this broad way, the term affordable housing encompasses social housing provided by state government and community housing providers, as well as other subsidised rental housing including under the National Rental Affordability Scheme, and potentially some shared equity options.

The illustration below shows the relationship between different forms of affordable housing which are generally associated with different level of government assistance (from more highly subsidised social housing to less subsidised housing such as under NRAS) and cost setting approaches (eg income based or discount to market rent). Residents with the lowest incomes will require higher levels of subsidy to bring their housing to an affordable level. In some areas, particularly outside the main metropolitan centres, moderate income households may be able to secure affordable housing through the general housing market, though other constraints, such as a lack of housing diversity, may still make it difficult for these households to access appropriate housing.



Source: Community Housing Federation of Victoria

¹³ Parliament of Australia, Dr. Matthew Thomas, Social Policy and Alicia Hall, Statistics and Mapping http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook45p/HousingAffordability

¹⁴ Council on Federal Financial Relations 'Affordable Housing Working Group: Issues Paper' January 2016 p 3.

5.4 Affordable Housing as Key Urban Infrastructure

As introduced in section 5.1, affordable housing provides wide social and economic benefits to the community and in this way represents a key part of economic and social infrastructure.

Robert Pradolin, former General Manager with Frasers Property in Victoria, encapsulated the position in the Australian Financial Review when he wrote:

Governments and the private sector must work together to provide affordable and social housing, because, just like roads and rail, accommodation for all is critical infrastructure for the economy.

It makes good economic sense to locate these people in housing that maximises the value to the community and therefore minimises our long term costs as tax payers.

If we do not acknowledge and address this issue now, it will only get worse and the longer term cost to our community will only exacerbate the financial pressure to future federal and state budgets.

The economic impact and productivity of this country is inextricably linked to the fundamental need of a stable form of shelter to all its residents; rich or poor, so they can properly contribute to the economic prosperity of Australia. (10 July 2016)¹⁵

The economic and social benefits of affordable housing to the community are summarised by the Australian Council of Social Services:

Housing, affordability and location are integral to enabling population growth, and labour mobility, supporting improvements in participation rates and improving productivity. The housing and construction industries are also key drivers of economic activity, and associated jobs growth. Adequate housing is also a basic necessity and human right which impacts on education, health and employment outcomes, as well as the overall well-being of the population. Having a private place to be which is decent and over which we have some real control is fundamental to the well-being of every one of us as individuals and communities. In this sense, affordable housing is both vital economic and social infrastructure.¹⁶

Moreover, affordable housing shares many characteristics of urban infrastructure in terms of:

- the level of annuities it returns;
- the need for long term financing and debt repayment strategies;
- the requirement for long term asset maintenance and renewal,;
- a high level of involvement and regulation by government; and
- the need for up front land use planning before opportunities are lost (crowding out by increased land costs driven by speculators and gentrification).

For all these reasons, affordable housing should be recognised as a critical type of urban infrastructure, which should be taken into account when planning for infrastructure in general, and more specifically when addressing infrastructure funding through value capture.

¹⁵ See <http://www.afr.com/real-estate/social-housing-is-critical-infrastructure-20160710-gq2dnx#ixzz4YogOCAuw>.

¹⁶ Australian Council of Social Service (2014). Letter to Senator Mark Bishop, Senate Economic References Committee: Enquiry into affordable housing

5.5 Financing Gap for Affordable Housing

As for other types of infrastructure, there is a financing gap to provide affordable housing, even for housing within the lower range of required subsidy. While new financing models are being sought to improve feasibility, generally a layering of assistance is necessary for affordable housing projects to be viable. The report to Heads of Treasuries by the Affordable Housing Working Group identifies the affordable housing financing gap as:

... the gap that exists between the low rates of return available on affordable housing investments compared to market returns available on alternative investments with similar risk profiles. The rate of return from any investment is a function of its income, expenses and capital base. By design, affordable housing providers charge rents that are below market rates in order to assist tenants with their costs of living. Affordable housing providers are also unlikely to readily sell a dwelling as they aim to provide tenants with security of tenure. As such, the income and capital gains (and thus returns) available from investing in affordable housing are limited.¹⁷

The report goes on to cite some of the possible solutions put forward by stakeholders to bridge the financing gap and encourage the delivery of affordable housing such as: provision of free or discounted land, mixed development, inclusionary zoning, zoning regulations exceptions and government grants. Relevantly the report concludes:

The successful introduction of any innovative financing model would aim to lower the operational and capital costs associated with the provision of affordable housing, however it would be unable to close the financing gap entirely. Closing the remainder of the gap will require some form of government assistance. p 15

With or without the introduction of an innovative financing vehicle, it is clear that inclusionary zoning and value capture mechanisms applied in association with transport infrastructure enhancement and/or urban development, can play a significant role in closing the financial gap.

¹⁷ The Australian Government, 2016, Innovative Financing Models to Improve the Supply of Affordable Housing, Affordable Housing Working Group, Report to Heads of Treasury p 14.

Section 6 Rationale for Addressing Affordable Housing

As highlighted above, the rationale to include affordable housing in the value capture process is twofold:

- To offset the indirect costs and negative impacts on housing affordability arising from the implementation of new transport infrastructure or from other government urban development or infrastructure decisions;
- To improve the sustainable outcomes of infrastructure investments and urban development through a wider and integrated urban/regional planning, land use and transport framework.

6.1 Offset the Costs / Negative Impacts (Fairness Rationale)

Integral to any government decision to invest in infrastructure or to change policy settings, should be a robust assessment of the costs and benefits that will result followed by the development and adoption of strategies to address, minimise or offset identified costs.

The Government's initiative to develop the concept of capturing the value created by government action and to introduce a framework to divert this to offset the costs (both direct and indirect) of those policies and investment is strongly supported. Where the decisions and actions of government create additional land value or other benefits (such as labour force accessibility), we agree that it is not only reasonable, but desirable that mechanisms be introduced to capture and divert that value to offset the direct and indirect costs of the project.

Moreover in circumstances where investment and urban development decisions of government will result in an increase in land values or impact on the supply of housing, especially of affordable housing, a crucial component of government's implementation strategy should include actions to address adverse impacts of the changed housing environment, particularly for those most in need.

In making its case for value capture, on numerous occasions the discussion paper cites strong evidence of upward pressure on residential land values associated with augmentation of transport infrastructure. However the paper does not at any point acknowledge the adverse impacts of this on housing affordability or the dislocation of households and communities which takes place as gentrification occurs. This is a serious shortcoming of the paper.

Almost invariably significant transport infrastructure investment substantially boosts land values in areas benefiting from the increased accessibility and greater access to the labour force, customers and so on.¹⁸ Projects which displace existing development e.g. as land is used for a transport project, may also impact the supply of existing housing and in particular affordable housing.

As the discussion paper recognises:

... improvements in transport connectivity can have a profound impact on surrounding land uses, changing a location's residential and commercial potential. Improved accessibility provides benefits to existing residents and businesses, and also attracts others to relocate to the area, which translates into higher commercial and residential land prices, representing a windfall gain for existing local property owners and additional profit-making opportunities for developers. p 6

Indeed housing impacts are likely to be the most significant adverse impacts of such investment projects.¹⁹ This being the case, the basis for diverting a portion of value capture to addressing such housing impacts must be differentiated and given priority over other public benefits that could be financed from any value captured.

¹⁸ *The Conversation* highlighted a recent example linked to the extension of the new light-rail in Sydney where a reported 471% windfall profit was created by a rezoning of industrial land to high-density residential. See Troy, L, Rogers, D, Power, E, Pawson, H, Iveson, K, Crabtree, L, Darcy, M, Phibbs, P, 2016, Sydney needs higher affordable housing targets. <https://theconversation.com/sydney-needs-higher-affordable-housing-targets-69207>.

¹⁹ The loss of affordable housing and displacement of low-income populations associated with new transport infrastructure and consequent land value increases is a recognised phenomenon sometimes referred as "transit-induced gentrification". Paradoxically, key workers are the one who most need access to public transport.

6.2 Fostering Sustainable, Liveable Communities (Efficiency Rationale)

The discussion paper highlights the relevance of integrated land-use planning when it states:

Value capture is an approach to project development that requires integrated land use planning and a sharper focus on end benefits and public objectives leading to better infrastructure and services. p 4

It is firmly agreed that government infrastructure and urban development programs and projects should be integrated within a wider strategic urban planning framework to achieve sustainable objectives and liveable communities. Through an integrated framework, positive externalities can be optimised and the best use made of opportunities for value capture. This is particularly the case when increasing densities in prime, accessible locations next to mass transit stations or other transport infrastructure investment.

While in recent times there has been increasing integration of land use and transport planning, the question of affordable housing frequently remains absent from discussions. In the Sydenham to Bankstown corridor in Greater Sydney for example, consideration of housing needs and targets for affordable housing only came to the fore after submissions highlighted this as an area of concern. In contrast, in South Australia, there has been clearer recognition of the importance of providing affordable housing in desirable, well-serviced locations as reflected in the 30 Year Plan for Greater Adelaide introduced in 2010²⁰. More recently however, some of this emphasis has dissipated with less focus being given to implementation measures such as affordable housing targets.

As the Government's paper acknowledges, investment in transport infrastructure will give rise to opportunities that support more intensive uses of land. These opportunities will often be realised through an up-zoning of land to enable higher density development and/or more intensive land uses. These higher densities in appropriate locations will in turn assist in achieving inclusive communities, which bring together a diversity of households. This approach carries with it wide ranging social, environmental and economic benefits including:

- Enabling more households to have access to the benefits of living in compact, accessible, diverse, sustainable and liveable environments;
- Increasing housing supply and reducing cost pressures on residential land and existing housing;
- Supporting an increased range of services, facilities, transport and employment close to where people live;
- Enabling a sharing of the value of the uplift between landowners/developers and the community through more ambitious contributions towards affordable housing and enhancements to the public realm and community facilities; and
- Significant economic and environmental benefits flowing from a more compact urban form.

Significant economic and environmental benefits flow from a more compact urban form. The importance of providing a diversity of housing close to jobs in order to improve economic productivity has been highlighted by the Grattan Institute in its report on Productive Cities (2013)²¹. The access of key workers to job markets is essential and it is a priority to enable existing workers to remain in newly accessible location or to enable new workers to come.

²⁰ Government of South Australia, The Draft 30-Year Plan for Greater Adelaide 2016 Update. Also relevantly the Plan recognises that affordability cannot be measured only by housing costs, but has to consider other household's expenditure such as transport costs (the second largest cost after housing).

²¹ Kelly, J-F., Mares, P., Harrison, C., O'Toole, M., Oberklaid, M., Hunter, J., 2012, Productive Cities, Grattan Institute.

However, today the housing market is failing to improve rental affordability close to labour markets that rely on casual and part-time workers. The small business community is dependent on the availability of housing for low income earners and areas where value capture occurs will benefit from affordable housing provision. Low income earners in the service economy are often forced to work flexible hours or at short notice and need to live close to work. However, affordable, private, low rent housing is currently concentrated in particular parts of the city. As a result, workers face geographical barriers to low wage jobs. Long commuting times and their consequent stress on household time, budget, the environment and the transport system would be alleviated if affordable housing was included when value capture is being considered.

When urban development activities are spurred on by government investment and supported by land use zoning, there are strong grounds for ensuring that the opportunities created are available to a range of people, including those on lower incomes. However, in areas experiencing rapid increases in land values, lower income households are those who will have the greatest difficulty accessing suitable housing.

Denser, more diverse communities bring a host of accompanying benefits:- the ability to support a range of businesses, the potential for efficient transport and healthier lifestyles, access by business to an accessible workforce, a smaller and more sustainable urban footprint, greater capacity to incorporate sustainable technology, safer and more interesting public areas and so on. As densities are increased to appropriate levels, in the right locations, the redevelopment of ageing and inappropriate development becomes more viable.

If social diversity is accepted as 'a recognised and valued environmental characteristic' as suggested by SGS Occasional Paper 'Revisiting the economics of inclusionary zoning', then there is a diminution of that quality if, as a result of rising land values and declining housing affordability, lower income residents are unable to access housing opportunities in an expanding neighbourhood.²²

The SGS paper concluded that:

... protection or inclusion of affordable housing in development areas are strictly justified on mitigating negative externalities and optimising positive externalities in the efficient 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.²³

Optimising positive externalities by protecting existing social diversity and ensuring social mix in expanding communities is important in the context of government infrastructure investment and urban development programs and projects. Moreover, there is a clear case for drawing on the increased value created through the decisions of government to assist in funding these outcomes.

²² Spiller, M. and Anderson–Oliver, M., SGS Economics and Planning Occasional Paper Revisiting the economics of inclusionary zoning, April 2015, p 6.

²³ Ibid, p 7.

Section 7: Using Value Capture for Affordable Housing

7.1 How Value Capture has been used to Fund Affordable Housing?

Whilst there is no comprehensive national or state approach, there are a range of planning mechanisms which have been applied in Australia to capture value arising from government urban policy, planning and infrastructure decisions to facilitate affordable housing. These include the use of mandatory and voluntary inclusionary zoning, voluntary planning agreements, the levying of developer charges and public/private joint venture projects.

Most commonly the value 'captured' is a share of the planning gain originating from a change in planning regulations, i.e. rezoning (e.g. industrial to residential) or an increase in permissible density. However, the value captured can also come from other public decisions and investment such as transport infrastructure.

7.1.1 Case Study: City West Redevelopment, Ultimo-Pyrmont NSW

Perhaps the most relevant Australian example in the context of the Government's discussion paper is the affordable housing program in City West, an urban renewal area spanning approximately 200 hectares in the suburbs of Ultimo and Pyrmont located west of Sydney's CBD.

The State Government, the wider community, the development industry and business were expected to gain through the redevelopment of these suburbs. However, the State Government's decision to initiate urban redevelopment in the early 1990s generated public concern about the potential impacts on the existing community, in particular the impacts on the supply of lower cost rental housing and the risk of displacement of traditional residents.

The City West area was characterised by relatively low scale and ageing development. The State Government owned large parcels of land in the area which were seen as offering benefits, both in terms of generating financial returns to government and for providing a catalyst for wider urban regeneration. The initiative to renew and intensify the urban fabric was considered to further government and community objectives for a more compact city and was identified as being compatible with the objectives of the Federal Government's Building Better Cities Program. The urban renewal program arising from this collaboration included more intensive land uses and additional opportunities for commercial development, along with enhancements to the urban and transport infrastructure including the provision of a light rail system.

Early investigations showed that the City West area was likely to experience significant growth in land values as a result of the renewal and infrastructure proposals and that much of the existing low to moderate income community would be likely to be dislodged from the area. To address this and, by doing so, to offset the concerns of the community, an affordable housing program was initiated to enable the retention of social mix, including lower income households and key workers.

The program was funded under a unique tripartite arrangement whereby the Federal Government provided subsidies under the Building Better Cities Program (\$50m), the State Government contributed a portion of proceeds from the sale of State Government land (4%) and the private sector contributed through an inclusionary zoning scheme. The Federal and State Governments also contributed to infrastructure enhancement and the provision of light rail under the Building Better Cities program and from land sales proceeds respectively.

Under the inclusionary zoning provisions, developers were required to contribute towards affordable housing at the arguably very modest rates of 0.8% of total floor area from residential development and 1.1% from commercial development. The development industry by and large accepted the requirements to contribute in return for the benefits arising from the significant development opportunities created under the new and denser planning framework. The contributions for affordable housing were quickly factored into viability assessments and did not impede development.

A 600 unit affordable housing target was set representing approximately 6-7% of total anticipated yield under the proposed planning framework. Together with an additional 100 units of public housing, this was equivalent to approximately 8-10% of anticipated housing yield. The Affordable Housing Program provides for a roughly equal mix of very low, low and moderate income households, with rental set at a sliding scale reflective of capacity to pay. Applicants with links to the Pymont Ultimo area have priority.

A non-profit affordable housing company, City West Housing Company, was established to develop and manage the new housing stock. The company has delivered the target of 600 dwellings, which will be exceeded as further contributions continue to be made as the remainder of the area is redeveloped.

Both the State Government contributions from land sales and the developer contributions under the inclusionary zoning scheme represent value capture mechanisms that were used (and continue to be used) within this urban renewal and transport infrastructure project.

The intent of the Affordable Housing Program - to offset the loss of affordable housing resulting from the higher land values by providing affordable housing opportunities for existing very low, low and moderate income residents of the area and to ensure that, as the area expands, a diverse community is maintained through the inclusion of affordable housing - has been achieved. In this way, the program addresses the rationale outlined in the previous section, that is to:

- offset the indirect costs and negative impacts on housing affordability arising from the implementation of new transport infrastructure and urban renewal;
- improve the sustainable outcomes of infrastructure investments and urban development through a wider and integrated urban/regional planning, land use and transport framework.

The City West redevelopment, though modest in terms of overall numbers of affordable dwellings produced, is a successful example where increases in land values were both claimed to fund part of the public investments and to counter its own effect by providing affordable housing.

7.1.2 Use of Planning Mechanisms

This section provides a brief overview of the use of planning mechanisms that capture value arising from urban development and infrastructure to facilitate affordable housing.

Inclusionary Zoning

Inclusionary zoning provisions for affordable housing are a form of value capture that is already used to some extent in Australia, as well as internationally. In the City West example described above, the inclusionary zoning framework was a mandatory one. It required that a component of affordable housing be included when land was developed or redeveloped, or that a monetary contribution be paid in lieu of the direct provision of housing. Voluntary inclusionary zoning provides a developer with the option of utilising a specific planning incentive or concession, such as a density bonus, in return for the provision of affordable housing or another public good.

Mandatory inclusionary zoning ensures socially inclusive and economically integrated communities are maintained or created by requiring that affordable housing is provided as development or redevelopment occurred. The integration of affordable housing at the rezoning stage can assist in preventing the displacement of existing lower income communities as land values and housing costs rise when land is up zoned and redeveloped. Inclusionary zoning fosters diverse communities in locations with good access to facilities, jobs and other opportunities which, without such measures, may only be available to higher income groups. It also assists the effective functioning of local economies by enabling key workers who provide essential services to live close to the local communities they support.

Mandatory inclusionary zoning is most readily accepted when applied in an identified growth precinct or transport corridor or where up-zoning is creating significant additional development capacity and/or where substantial public investment in infrastructure may be occurring alongside. Thus, the incorporation of mandatory requirements represents a way of capturing some of the increased value flowing to land owners from infrastructure investment and planning decisions for the wider benefit of the public and in doing so supports diverse, equitable and functional communities. In New York City, for example, mandatory inclusionary housing is imposed on all developments that have benefited from rezoning or from the implementation of a transport infrastructure (NYC Planning, 2015, p 77).

South Australia became the first state in Australia to set a target for the inclusion of affordable housing in all significant new housing developments when it introduced its Housing Plan in 2005²⁴. The Plan, which requires 15% affordable dwellings, has delivered over 2040 dwellings for low to moderate income households to a value of almost \$480 million²⁵. It should be noted however, that roughly half of the housing delivered through this framework has been affordable housing for purchase by the occupier, rather than long-term rental. The affordable housing inclusionary zoning policy has been applied in over 85% of the State's Greater Metro Development Plans (across a range of zones). A recent review of affordable housing conducted by Renewal SA, Housing SA and SA Department of Planning, Transport and Infrastructure showed general industry support and understanding of the Policy.

In NSW, state regulation (State Environmental Planning Policy No 70 Affordable Housing (Revised Schemes)) empowers mandatory inclusionary zoning provisions to be applied in a limited range of areas. In addition some local councils, such as Waverley in Sydney, have applied voluntary inclusionary zoning. In Waverley's case, a planning incentive of up to an additional 15% in permissible floor space is available for public purposes including affordable housing (subject to an acceptability test). The provisions are premised on the basis that the value of the additional density is shared equally between council on behalf of the community and the developer, with the council's share of the additional value applied in accordance with the Waverley Affordable Housing Program. More widely, recent draft District Plans covering the Greater Sydney Region have identified an 'affordable rental housing target of 5 to 10%, subject to viability, in urban renewal and land release areas'²⁶. It is to be noted that, while these proposed measures are certainly promising, the rates of contribution remain quite modest and could be considerably more ambitious in many locations.

Internationally, there are numerous examples of the use of inclusionary zoning. New York City is often cited as an excellent model. In March 2016, it replaced its long existing voluntary inclusionary program by a mandatory inclusionary zoning (MIH) program, which requires developers to provide permanent affordable housing whenever public action creates substantial capacity for new housing²⁷. This MIH program defines options for a range of percentage of affordable housing for different categories of income, depending on the area (20-30% onsite and 25-35% offsite)²⁸. The proponents of this submission believe that this order of contribution is in keeping with the levels that should be pursued in Australia.

²⁴ Government of South Australia, 2005, Housing Plan for South Australia, Building South Australia

²⁵ Hallsworth, B. 2015, Ten years of inclusionary zoning in South Australia. Parity, Vol. 28, No. 9, Nov 2015: 68

²⁶ Greater Sydney Commission, 2016, Draft District Plan Information Note 4 – Affordable Housing Targets

²⁷ NYC Housing, 2017, Housing New York, Three years of Progress

²⁸ <https://www1.nyc.gov/site/planning/plans/mih/mandatory-inclusionary-housing.page>

Voluntary Planning Agreements

A voluntary planning agreement (VPA) is an ad-hoc value capturing mechanism used in NSW which enables a private developer to elect to provide certain public benefits in exchange for a relaxation of planning controls or a bonus in development potential. Many local governments in NSW have used VPA to provide for affordable housing. Examples include Waverley, Canada Bay, Randwick and Marrickville Councils, but are not limited to these.²⁹ In most cases, the council has sought to capture around 50% of the uplift in land value and applying it toward affordable housing and/or other supportive infrastructure. To date, the total numbers of affordable dwellings produced using VPAs have been modest.

Partnerships and Joint Development

Affordable housing development projects can also be conducted through different types of partnerships (including joint ventures, alliances or public/private partnerships (PPP)). One example is the Victoria Harbour Affordable Housing Proposal³⁰, which was part of the Melbourne's Dockland development and joined together Lend Lease Development (Developer), VicUrban (Landowner and Statutory Planning Authority), National Australia Bank (Lender), Office of Housing (Capital funding) and Melbourne Affordable Housing (MAH, a Housing Association now part of Housing Choices Australia). The project included a combination of value capture mechanisms, including the provision of density bonus and the waiving of the land value from VicUrban.

More generally, some councils have increased the delivery of affordable housing by contributing land towards affordable housing development and participating in joint development partnerships with private or non-profit community housing providers in the delivery of affordable housing. This has been done, for example, by Port Phillip Council in Victoria. The City of Port Phillip provided council land to the Port Phillip Housing Association to increase the non-profit organisation's capacity to leverage funds and deliver affordable housing. In this case, the land value (including the uplift) is directly redirected to the joint venture and to the provision of affordable housing by public landowner.

7.2 Possible Applications of Value Capture to Affordable Housing

There is considerable scope for extending existing uses of value capture for affordable housing. Where appropriate, they should be integrated in comprehensive national value capture strategies associated with transport infrastructure and urban redevelopment.

This approach is put forward as a central plank of the NSW Community Housing Industry Strategy for Planning and Housing, when it recommends:

Optimising access to the benefits of our cities to a diversity of households should occur by substantially **increasing housing yields** in prime/accessible locations and diverting a share of the resultant increase in land values to the provision of affordable housing through **value sharing** or **inclusionary zoning provisions**. A specified component of affordable housing, say 30%, should be incorporated in development projects.³¹

²⁹ More examples are presented in the Inner West Council position paper on best practice in Value Capture (Inner West Council, 2016, Position Paper: Best Practice in Value Capture, report prepared by Judith Stubbs and Associates). The case for value capture for affordable housing is also extensively supported by cases studies in special Shelter NSW Update on Value Capture (see Johnston, C. 2014, Capital-value uplift and affordable housing, Shelter NSW Update).

³⁰ City of Port Phillip, 2010, Affordable housing development models.

³¹ NSW Federation of Housing Associations and Urbanista, Affordable Housing through the Planning System: Industry Strategy Paper 2015, p 18.

To implement this, the Industry Strategy proposes that:

- A value capture/sharing or inclusionary zoning mechanism should be introduced for use in combination with density increases. In this way, affordable housing and other benefits can be achieved, whilst maintaining development viability. At present, landowners and developers generally receive most or all the financial benefit flowing from increased development opportunities made possible by government planning instruments. Mechanisms that enable a sharing of these benefits with the community would be a much fairer outcome of the use of the planning process.
- The level of contribution should be determined objectively at the beginning of the process of rezoning land or creating a new/revised planning instrument. At this time, informed assumptions can be applied to determine an appropriate value sharing arrangement whereby landowners/developers are able to achieve an acceptable level of profit and remaining value uplift is applied towards the provision of affordable housing and other public benefits, including the cost of transport infrastructure.

The proponents of this submission support these directions and recommend their consideration in the context of a national approach to value capture.

Inclusionary zoning is a clear, transparent and reliable planning mechanism which share the uplift land value to provide for affordable housing in the context of urban (re)development (with or without transport infrastructure investment). However, other value capture mechanisms (as those listed in the Table 2.3 of the discussion paper) are not excluded and can well contribute to affordable housing. For example, in the case of application of a betterment tax on surrounding land owners (or more accurately, applied on properties which are anticipated to experience uplift in value), part of the revenue collected from this tax could be applied to an Affordable Housing Fund to support affordable rental housing.

Section 8: Additional Comments

9.1 Willingness and Ability to Pay of Beneficiaries

Along with the question of the willingness to pay of beneficiaries, is the ability to pay. The discussion paper does not investigate potential unintended effects and risks of some of the value capture mechanisms and especially the impact for property owners of betterment taxes on land, for example:

- hardship for low socio-economic profile owner occupier resulting from an additional betterment tax when value increase is not realised (no sale or profit) – there should be some cases for exemption or deferral of the charge until the property is sold or ownership transferred;
- potential additional repercussions of any betterment tax on rents and on housing affordability for the renter.

9.2 Other Unintended Effects

Other unintended negative effects of transport infrastructure are also overlooked, such as impacts during construction works for local residents and businesses. It has been observed in past projects internationally that some businesses risk becoming bankrupt due to the loss of revenue during the lengthy construction periods so often involved in infrastructure works. If there is to be a sharing of benefits through value capture, it could be argued that there should also be a sharing of losses.

This is also true for noise or pollution impacts for the people who live next to the infrastructure, particularly so in the case of road infrastructure projects.

Section 9: Conclusions

To conclude, it is vital to recognise the critical importance of affordable housing in the development of value capture mechanisms and in the feasibility modelling. Any value capture mechanisms that are applied to new development should provide for regionally and/or locally informed targets for affordable housing and affordable housing contribution rates (in floorspace/units and/or in \$). These targets will assist in countering the gentrification process associated with improved accessibility and amenities. They will also help achieve the sustainable goals discussed in this submission.

For the reasons set out in this submission, the rationale for addressing housing impacts and ensuring inclusive communities must be differentiated and given priority over other cost offsets and public benefits that could be funded from value capture.

Any sound approach for implementing value capture must first identify and offset negative impacts on housing affordability and ensure opportunities continue to be available for a full range of households to ensure sustainable, inclusive communities in line with sound planning principles. Only once these fundamentals are satisfied, should value capture be used to help fund the costs of infrastructure and deliver other public benefits.

Finally, the organisations participating in this response would welcome the opportunity to be further involved in the development of a comprehensive value capture strategy that addresses the full range of costs and encompasses a sound planning framework.

Section 10: Response to the Consultation Questions

1. What factors would cause beneficiaries, in particular property owners, to see a value capture charge as 'just another tax?' How can these factors be overcome?

Any new tax should relate to an additional benefit. The first challenge is to arrive at an acceptable basis for determining the value of additional benefits. It has been highlighted in the discussion paper that an increase in land value linked to augmentation of transport infrastructure varies much and an accurate ex-ante evaluation is difficult to make. Moreover, for property owners to accept a new tax, this evaluation should correspond to their own perception and assessment of the benefits received as a consequence of the government's investment or decision. Two valuation techniques could be used in parallel and compared, one estimating ex-ante the expected increase in land value and the other one estimating the perceived benefits and willingness to pay of property owners.

In relation to a value capture charge for affordable housing more specifically:

- For property owners: value capture charge could be lower or waived if the property meets a required profile for affordable rental housing which includes conditions on the level of rent that is offered to eligible tenants;
- For developers:
 - the provision of affordable housing or contribution of affordable housing must first be seen as a planning requirement designed to meet planning objectives for sustainable communities;
 - this could be supplemented with a 'bonus' for affordable housing provision above the required base level provided, for example, through specified height or density incentives which can be factored into development feasibility calculations.³²

2. Are there examples of mechanisms currently being used in Australia or internationally which provide a clear nexus between payments and the benefits provided by the infrastructure?

The links between payments and benefits are more obvious when there is a rezoning, an increase in permissible density or a relaxation of other planning requirements. They are less clear when there are accessibility gains or indirect socio-economic gains generated by transport infrastructure.

It is also to be remembered that infrastructure can also generate drawbacks or costs. For those who live close to the infrastructure, this includes, for example, primarily housing affordability, but also noise, and pollution in the case of road infrastructure.

Direct and indirect benefits and costs of the infrastructure should be clearly identified before defining possible payments.

In the case study example described in section 7.1.1 above of the City West Redevelopment, Ultimo-Pyrmont NSW, the payments made by developers under the development contributions and inclusionary zoning provisions of the new planning scheme were largely accepted because they were clearly associated with direct and indirect benefits received, such as higher development opportunities (through re-zoning) and better public transport and amenities (through light-rail, open spaces, etc.), but also local community acceptance of the new planning framework as it provided for affordable housing.

³² This has been done by Waverley Council in Sydney, which developed an excel based WAHP Calculator (Waverley Affordable Housing Program Calculator) to determine the value of additional floor space, and to support negotiation and determination processes.

3. Which mechanisms are currently being used which have weak links between payments and benefits?

Section 7 provides an overview of some approaches used in the Australian planning system to harness value capture for affordable housing.

4. In providing funding to projects, should the Commonwealth set a condition that any contributions levied by state or local government on surrounding landowners are dedicated to the project?

Setting a condition is a good idea to ensure the correct use of contributions. However, the possible applications of the contributions should be widened to a broader range of investments linked to the infrastructure project, such as affordable housing, additional amenities, supportive social infrastructure and urban improvements, etc. The list of possible application and their potential priorities (e.g. affordable housing first) would have to be further analysed.

More generally, the project should be considered within a wider program including all components of transport and urban redevelopment, and affordable housing. And more specifically, in relation to affordable housing, inclusionary zoning is a great tool to ensure that contributions are dedicated within the area of impact.

5. How can governments accurately estimate the incremental value uplift generated by infrastructure projects as compared to uplift due to ordinary market growth?

There are many components of value uplift: uplift due to ordinary market growth, uplift due to owner's improvements, uplift due to rezoning and uplift due to the transport infrastructure. The value uplift generated by transport infrastructure projects is only one part of it. The rationale for capturing the total uplift (combination of transport and rezoning and urban quality improvements/refurbishment) and diverting it towards the cost of the transport infrastructure is not accepted.

In relation to the value uplift estimation, in the case of a planning gain (uplift originated from rezoning or increases in permissible density), the Department of Family and Community Services in NSW is developing a calculator to estimate this uplift, to be used in the negotiations of the Voluntary Planning Agreements between councils and developers to include affordable housing. The calculation tool may have wider application for projects in Australia, as a simple preliminary evaluation.

In the case of an accessibility gain (uplift generated from transport investment for example) or other gains generated by public investment, estimation of the increase in land value can be more complex and uncertain.

If estimates in value are too high, this can impede development. On the other hand, if estimates of value are too low, opportunities to fund investment and to fairly redistribute uplift will be lost.

Desirably in relation to affordable housing, local governments should first define the local needs and translate this into requirements for the total amount or percentage of floor space in new developments. Once this has been done, a preliminary evaluation can be made of the viability of including inclusionary zoning provisions or other value capture requirements. If necessary, the level of contribution can be adjusted upwards or downwards to ensure viability, while optimising the value captured.

A current AHURI study may assist this process. The study 'Affordable housing prospects in different market contexts' led by Prof Bill Randolph is investigating the financial parameters and affordability outcomes of selected 'best practice' new housing projects. The collected evidence will be used to develop an affordable housing model that is capable of estimating affordability outcomes for given policy scenarios in different market contexts.

6. When identifying beneficiaries, how should governments determine the geographical boundaries around new infrastructure assets? Should governments focus on all properties directly around the new assets, within the wider region or at a city-level?

As highlighted previously, as well as beneficiaries there are people who will be negatively impacted or disadvantaged by the infrastructure projects. Both should be identified if we want a fair approach to value capture.

A predetermined approach to identifying beneficiaries is not supported. The relevant area of influence should be defined for each project on a case by case basis. Within that area of influence, impacts (negative and positive) will also vary and need to be compensated appropriately. In the end, payment should be based on the benefit received, the needs of the project and the risks to future development viability.

7. How can governments design processes which cause beneficiaries to reveal their willingness to pay?

In the case of redevelopments or new developments, in a broad sense the planning system already provides a framework to test willingness to pay in that it provides and constrains rights and sets requirements to realise the rights provided. If the settings in the planning system do not align with the willingness of proponents to meet specified requirements, then development will not occur.

Of course, feasibility testing of requirements prior to implementation, will be invaluable in arriving at settings which have the greatest potential for acceptance.

Beyond this, examples that aim to make beneficiaries reveal their willingness to further contribute include:

- Voluntary planning agreement processes in NSW
- Auctions sales of air rights uses in Brazil³³.

For voluntary planning agreements, however, results are partly dependent on the negotiation and enforcement capabilities of each party and do not necessarily entirely represent the willingness to pay of the developer.

For betterment taxes on properties, it could be interesting to investigate how declared and revealed preference techniques could be used to estimate beneficiaries' willingness to pay, especially property owners.

Finally, it is to be mentioned that each person is unique and that one will value the transport infrastructure differently than the other. Therefore, a certain defined tax can be perceived as fair/just by some and not by others.

³³ The example of Brazil is mentioned in the discussion paper (p 11). For more information, refer to: Paulo Sandroni, A New Financial Instrument of Value Capture in Sao Paulo (Conference Paper), 2010, available at: http://sandroni.com.br/?page_id=310.

8. Could we adopt an approach in Australia of holding popular votes in relation to large infrastructure projects and their funding mechanism?

It is important to engage with the community and beneficiaries and work to obtain consensus. While a popular vote may be one way to gauge immediate acceptance of a proposal, this approach is not supported for a range of reasons.

This approach does not provide intergenerational equity as future beneficiaries of major projects, which may take many years to implement, cannot vote.

Inherent problems include:

- Deciding who should be enfranchised to vote on a particular infrastructure project when the benefits may be spread widely across the population but the costs incurred narrowly (for example, on a Melbourne to Brisbane rail-line);
- Challenge of effectively communicating the benefits of urban infrastructure to the public;
- People generally find it easier to assess near-term costs than long-term benefits, particularly for large projects where the pay-off is many, many years away; and
- The significant difficulty eliminating the influence of NIMBYism.

11. Are there examples of other successful approaches to seeking community acceptance for value capture mechanisms?

As described in section 7.1.1 above, in the City West project, the private sector accepted requirements to contribute towards affordable housing because awareness had been built of the importance of this to the acceptance of the renewal project by the wider community.

13. Are there examples where re-zoning, integrated planning and value capture funding have been well implemented? Are there examples of missed opportunities?

Again the City West urban renewal project is a good example, as described in section 7.1.1. Value capture funding has been implemented in conjunction with government funding, for a large and integrated project including urban renewal, affordable housing and transport.

There are countless examples of missed opportunities where public investment has been made and areas up-zone without any steps taken to harness the value of windfall gains accruing to property owners.

14. Should the Australian Government place stronger conditions on Commonwealth funding to drive more efficient use of re-zoning and integrated planning? For example, should the Commonwealth tie funding for new passenger rail projects to a requirement for re-zoning around station locations?

In general, it is desirable for governments to seek to drive more efficient use of re-zoning and integrated planning. Whether rezoning is required will depend on the circumstances. However, effective and efficient integrated planning should be a pre-condition.

Business case requirements could specify that a full assessment of costs and benefits be undertaken, together with an investigation of value capture opportunities and accompanying feasibility analysis. This should be followed by the development of an integrated strategy that addresses, not only land use, but also affordable housing and renewal investments, public realm improvements and other supportive infrastructure investments.

Requirements could be adjusted depending on the total cost or scale of the project and its location (rural/urban), so as not to penalise projects with additional cost when there is no potential.

It is vital that transport infrastructure initiatives be evaluated within their wider urban/regional context to optimise and integrate outcomes. Affordable housing is one major element to be considered in this process and a target of affordable housing inclusionary zoning should be defined in the business case/concept design of any new transport infrastructure project.

15. What is a realistic expectation for the funding contribution of value capture in the Australian context?

It is not appropriate to set a predetermined level. Instead this should be determined having regard to the costs and benefits identified, the priorities of the community and viability assessment of the impact of differing levels of contribution.

16. How can governments best determine the fair proportion of the value uplift generated by a transport investment to capture?

As above.

17. To what extent can infrastructure-driven value uplift be expected in less densely populated areas?

The rate of growth and change is generally more relevant than the existing population density. In slower growth areas, particularly non-metropolitan inland locations, it is likely that the additional value generated by renewal and transport projects will be less. Nevertheless, there will still be a need to assess costs and benefits and determine if a case can be established for capturing value, or indeed if there are grounds distributing value captured elsewhere to address local impacts (eg an intercity transport link may benefit cities to the expense of the rural land that it traverses).

18. At what point should value be captured from property value uplift? What practical ways exist to recover this value from property owners to coincide with the realisation of the benefit of property value uplift?

In the case of redevelopments or new developments, building on the work of the NSW Community Housing Industry Strategy for Planning and Housing³⁴:

- Value capture/sharing or inclusionary zoning mechanisms should be introduced for use in combination with, and most desirably in advance of density increases and/or infrastructure enhancements. In this way, impacts on development viability are minimised and maximum value increases can be captured.

As far as possible, the level of contribution should be determined objectively at the beginning of the process of rezoning land or announcing infrastructure augmentation. At this time, informed assumptions can be applied to determine an appropriate value sharing arrangement whereby landowners/developers are able to achieve an acceptable level of profit/benefit and remaining value uplift is applied towards the provision of affordable housing and other public benefits, including the cost of transport infrastructure.

In NSW value can be captured during the development and construction stage and form part of the development approval process. If monetary contributions are contemplated, the contribution can be determined during development assessment (planning approval stage). Conditions of development approval would require funds to be paid prior to the release of a construction certificate (required to begin construction). Payment of contributions could be delayed through the option of providing a bank guarantee. This would delay payment to prior to the release of an occupation certificate (project completion stage) when sales and marketing has occurred and speculative developers have the funds to pay the contribution. Indexation of contributions would need to occur to protect the value of the contribution over time to account for movements in prices and this would also form part of the condition of consent. Examples of indexes currently used by local government include CPI, House Price Index and Implicit Price Deflator

19. How can Commonwealth financing support for major projects, such as loans or guarantees, be best structured to encourage wider use of value capture funding streams?

Federal Government financing support could encourage wider use of value capture by limiting loans or guarantees to projects co-funded through value capture streams. More favourable loan conditions or more extensive guarantees could be offered as incentives to reward project developers which use value capture funding streams. Concessional taxation arrangements for such projects (at least through the construction phase) offer further opportunities to promote value capture funding mechanisms.

20. How else could the Australian Government leverage its role as a financier of infrastructure to support the wider uptake of value capture in Australia?

Capital grants from the Federal Government which offer less onerous matching requirements from State and Territory governments for projects which will be partially funded using value capture mechanism is the simplest way for the Commonwealth to leverage its infrastructure financing role.

³⁴ NSW Federation of Housing Associations and Urbanista, Affordable Housing through the Planning System: Industry Strategy Paper, 29 September 2015, p 18.

21. How can we design market processes to attract those who would benefit from an infrastructure project, and to arrive at a fair contribution from them?

The market processes should be designed to include public benefits such as affordable housing and supportive infrastructure (open space, schools, etc.) in the process. This could be done by including mandatory provisions such as mandatory inclusionary zoning or by the reserve of proportion of land for government use to redevelop and provide for this infrastructure (i.e. land readjustments processes that exist in Japan, Germany or elsewhere).

In the case of new developments, we are particularly supportive of the use of the planning system to predetermine contributions through inclusionary zoning requirements and other contributions. The rules must be clearly set by the governments and should not depend on negotiations with developers (like in VPAs).

22. How can the Australian Government best encourage the private sector to come forward with proposals for value capture funded projects? What are the benefits and risks of doing so?

If value capture approaches are encouraged, the primary role of the public sector in defining desirable urban and regional objectives and outcomes must be kept in mind. Governments should define objectives and requirements on outcomes, and then the private sector could enter to make bids in order to respond to these. Non-conforming bids could also be considered to offer some flexibility.

24. What are the major gaps between value capture assessment and implementation methodologies across Australia?

As observed, limited use has been made of value capture in Australia. There is considerable scope and benefit in addressing this before further opportunities are missed. Furthermore, unless the parameters of the current debate are widened, there is a grave risk that these opportunities for value capture will be monopolised for the purpose of funding transport infrastructure and that other important negative externalities and fundamental planning principles will not be given the priority they warrant. This is central theme of this submission.

Finally, even when value capture is in place, there can be downfalls in implementation processes and practices. For example, there are instances in relation to housing where lower levels of contributions have been made under voluntary agreements or partnerships than could have been achieved and/or that were stipulated in the implementation framework. This can occur as a result of real or perceived inequalities in negotiating power between developers and planning staff, or as a result of loop holes within the implementation framework which allow external factors to needlessly override the value capture requirements.

To achieve better outcomes in the implementation of value capture:

- Requirements must be clearly identified upfront;
- Grounds upon which these requirements can be contested must be strictly limited to factors which were unknown or unidentified earlier in the process;
- Any applications for variations on these limited grounds must be open to public scrutiny and subject to viability assessment by the authority implementing the requirements, not the proponent.

This approach would overcome the problems experienced in the UK in relation to their section 106 affordable housing contributions³⁵ where, in many instances, developer led viability assessment has resulted in significant reduction in the contribution levels achieved.³⁶

³⁵ Sayce, S, Crosby, N, Garside, P, Harris, R, Parsa, A, 2017, Viability and the Planning System: The Relationship between Economic Viability Testing, Land Values and Affordable Housing in London, available at:

25. How can the Australian Government better facilitate the development of best practice in value capture across Australia?

In promoting best practice in value capture across Australia, the government should ensure that sufficient priority is given to the following critical matters:

1. The focus of the Government's review needs to be broadened in two ways:
 - i. To look beyond transport infrastructure led change to acknowledge the potential application of value capture approaches across the range of government investment and urban policy decisions including, for example, urban renewal projects, the creation of health precincts and the establishment of educational institutions; and
 - ii. To significantly widen consideration of the range of ways in which value captured can be utilised for the benefit of the community and the economy, and in particular to offset negative externalities and to further sound planning principles.
2. A comprehensive national framework for value capture must address the full range of negative externalities, capture public benefits and ensure implementation of sound planning principles.
3. Recognition must be given to the profound impacts of government infrastructure investment and urban development decisions on the availability of affordable housing for lower income households and the pressure placed on housing affordability for the community more generally. In fact, these impacts go hand-in-hand with the generation of the value upon which governments will rely in implementing the value capture mechanisms outlined in the paper.
4. Affordable housing must not simply be seen as one of a range of areas which could be funded through value capture. There is a strong case that these negative affordability impacts should be addressed before other costs and benefits are funded.
5. Sound planning requires that, not only are negative impacts addressed, but when communities expand and are being gentrified, active steps are taken to ensure inclusive communities, i.e. that the opportunities that arise from government's investment and planning decisions are not only available to the better off in society. As well as fairer outcomes for lower income households, there is strong evidence that inclusive communities bring wide economic, environmental and social benefits. In other words, promotion of inclusive communities must be seen as a fundamental planning principle in any value capture framework.
6. In summary, value capture should first offset the negative impacts of infrastructure on housing affordability and ensure opportunities continue to be available for a full range of households to foster sustainable, inclusive communities in line with sound planning principles. Only once these fundamentals are satisfied, should value capture be used to help fund the costs of infrastructure and deliver other public benefits.

Examples of value capture practices for affordable housing were described in section 7.1.

31. How can governments ensure that proposals improve integrated planning outcomes?

Integrated planning objectives and expected outcomes (including affordable housing) should be defined by the public sector. Market-led proposals should demonstrate how they meet or improve these outcomes.

https://www.rau.ac.uk/sites/files/rau/field/field_document/Viability%20and%20the%20Planning%20System%20Research%20January%202017.pdf

³⁶ 'Viability and the Planning System: The Relationship between Economic Viability Testing, Land Values and Affordable Housing in London' Prepared for: London Boroughs of Barking and Dagenham, Brent, Camden, Croydon, Enfield, Greenwich, Islington, Lambeth, Merton, Newham, Southwark, Tower Hamlets and Waltham Forest, January 2017 (see https://www.rau.ac.uk/sites/files/rau/field/field_document/Viability%20and%20the%20Planning%20System%20Research%20January%202017.pdf).