



31 March 2020

Ms Sandy Chappel
Housing Policy Team
Department of Planning, Industry and Environment

Email: Sandy.Chappel@planning.nsw.gov.au

Dear Ms Chappel

Re: Feedback on the Affordable Housing Viability Tool

At the request of the SSROC Strategic Planning Group, we would like to take the opportunity to provide feedback on the SEPP 70 Affordable Housing Viability Tool (the Viability Tool) and the associated guide produced by the Department of Planning, Industry and Environment.

Accordingly, SSROC Secretariat provides the following feedback in the expectation that the Tool and Guide will continue to be improved following discussions with local councils.

As you may be aware, the Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of eleven local councils in the area south of Sydney Harbour, covering central, inner west, eastern and southern Sydney. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. Together, our member councils cover a population of about 1.7 million, one third of the population of Sydney. SSROC seeks to advocate for the needs of our member councils and the needs of their communities and bring a regional perspective to the issues at hand.

The NSW Government has clearly set the objective of making “Housing more diverse and affordable” (Objective 11) through the adoption of the Greater Sydney Region Plan (the Plan). The Plan acknowledges the housing affordability challenges faced by home renters and purchasers, and how rapid home price growth has exacerbated this problem. The Plan frames a multi-pronged strategy that seeks to simultaneously foster housing growth to meet projected population increases while including measures that can moderate housing price and cost rises in the market as well as planning mechanisms to assist those unable to rent affordably in the private market.

As the Plan highlights, “It is important that the supply of housing delivers the type of housing that communities and places need as they grow and change. Homes need to respond to people’s changing needs as they transition through different stages of life. A diversity of housing types sizes and pricepoints can help improve affordability.”¹

The goal of moderating of house price growth and the role of the Viability Tool has in supporting this are key themes of this submission.

¹ Greater Sydney Commission, Greater Sydney Region Plan 2018, page 69 <https://www.greater.sydney/metropolis-of-three-cities/liveability/housing-city/housing-more-diverse-and-affordable>

SSROC Secretariat particularly welcomes the opportunity to provide comment on the Viability Tool in an effort to identify ways to better inform the design of Affordable Housing Contribution Schemes. An effective tool will balance the need for affordable housing for households in rental stress through SEPP 70 with property developers' need to produce viable housing developments that successfully deliver reasonable market returns.

The Viability Tool is a critical part of setting community and private sector expectations about how feasibility and viability analysis will be undertaken to determine settings for Affordable Housing Contribution Schemes and the expectations of financial and social returns being delivered in these renewal areas.

There is a need therefore to ensure that the Tool enables desired development to occur in normal market conditions and reflects the actual costs of development. It also needs to ensure that this approach is effective in delivering the public benefit of affordable housing, which is a key objective behind the model.

While the current Coronavirus pandemic may provide a short reprieve from the affordability crisis, it is important that the opportunity to generate affordable housing for those in housing stress is not missed. Based on previous trends, the economic recovery phase may quickly lead to increased housing related hardship for low income households and promote greater spatial segregation. Due to the lengthy prescribed consultation and approval processes under SEPP 70, the timing of the introduction of affordable housing contribution schemes is likely to place the effective commencement of schemes fortuitously, in or just prior to a recovery phase and a return to normal business conditions.

General Comments

- Several SSROC councils, housing academics and planning experts have expressed reservations with the proposed use of site viability tools as an ongoing part of affordable housing programs, and concerns about the way such tools have been applied in other countries by some to unreasonably reduce the level of affordable housing contributions. It is, however, acknowledged that a Viability Tool has now been adopted by DPIE.
- Notwithstanding these concerns, SSROC Secretariat generally welcomes that the provision of the Viability Tool as part of a standard pathway that has DPIE endorsed for local councils to develop, test and then demonstrate the viability of their draft Affordable Housing Contribution Scheme(s). It allows councils to develop their own initial feasibilities before seeking independent advice from expert consultants. Hopefully it will assist with the speedy and ready adoption of Affordable Housing Contributions Schemes put forward by councils to DPIE.
- Overall the tool is generally easy to use and the Guide helpful. However, there are several aspects that we consider should to be improved.
- Housing costs are a foundational input into maintaining a healthy, competitive economy and play a large part of many employees' real wage pressures. In line with the Government's strategic directions, it is important that planning policies (and tools) should seek to not inflate housing costs but rather help to contain them. This will help build stronger businesses and a more robust NSW economy that successfully houses its residents. In a period of low wage growth, record low interest rates, the reduction of consumers' cost of living pressures due to housing expenses will help to ensure Sydney remains an internationally competitive global city that can maintain and enhance its productivity. While recognising the needs of the development industry, the guiding principle that aligns with this planning policy needs to be a consumer centric one.

- Robust policy settings for the Viability Tool should therefore seek to strike the right balance between ensuring new residential projects remain financially viable and the successful application of affordable housing contribution requirements. The aim is not to over inflate housing costs nor further escalate developer industry expectations beyond reasonable returns.
- A greater capacity to use the Tool flexibly (without some of the pre-set assumptions) will assist with this task and enable it to better match the prevailing local conditions.

In accordance with these principles, SSROC requests that the following issues be further considered and addressed in further developing and refining the tool and guidance:

The Guide: Clearly providing a context for applying the Viability Tool

- The context for the use of the Viability Tool needs to be clearly stated within the DPIE Guide itself. The current description of the Viability Tool as described on page 2 is too vague and this could prove to be highly problematic., in time when its context is no longer apparent to the reader.
- The purpose of the Tool needs to be explicitly stated in the document along with advice that restricts its official purpose to local councils developing and testing their draft Affordable Housing Contribution Schemes and for their Schemes' assessment by DPIE.
- It is not a credible tool for developers to challenge an individual affordable housing contribution requirement on a specific project/individual sites post the adoption of a Scheme. This is because the Viability Tool is explicitly designed for testing policy settings, market circumstances, land zoning and land value assumptions applying at the time the planning proposal is submitted and considered. Developers will need to undertake their own feasibilities with affordable housing contributions factored in, along with all the other costs related to the site, to guide their site procurement decisions.
- The most critical issue for successful value capture is that the site valuation testing for a contribution scheme precedes both the actual up-zoning and the process of up-zoning (undoubtedly also a speculative period).
- If the timing is right, with the contribution schemes preceding rezonings, the scheme will not drive up prices for housing consumers nor make housing projects less viable. This timing will be good news for quality developers. It provides assurance that projects proposed under normal circumstances will be feasible. However, it cannot prevent developers acquiring sites at too higher price if they failed to perform adequate due diligence.

Recommendation 1

The Affordable Housing Viability Guide (September 2019) be revised to include a more detailed introduction clearly providing the context and setting for the use of the Viability Tool and the Guide, in relation to Local Councils developing and testing their Affordable Housing Contribution Schemes under SEPP 70 prior to submitting their planning proposal to Gateway.

Calibrating the settings for *Premium for Sale* assumptions

- It is acknowledged that a premium above the current market price may be needed to be paid to induce a sale to entice landholders and owners to sell a parcel of land to developers. It forms an important component of the Viability Tool.
- Testing of the Viability Tool shows that the outcomes of the model are highly sensitive to the assumptions used for the premium for sale. Furthermore, if a high setting for the premium for sale value is used in the Viability Tool, it can unintentionally sanction and embed a level of unhealthy land speculation by developers that runs counter to the Government's objective of improving housing affordability for the current and future population.
- On the other hand, a lower premium setting but still in line with the prevailing industry standard can help to moderate price expectations and maintain sensible norms. This approach helps to foster a mindset and practice geared to keeping existing and new housing affordable for more of our citizens.
- A lower but realistic standard premium setting helps moderate these expectations, avoids 'baking in' return expectations and therefore helps to keep existing and new housing overall to be more affordable.
- Embedding the lowest possible, yet real-world threshold in the model has the best alignment to optimise the policy outcome of growing the quantum of private as well as affordable housing supply.
- Scenario testing by officers at Waverley Council using the Viability Tool but using a 20% premium sale value suggests that this setting has a major positive impact on the level of viable affordable housing contributions to be received.
- The logic for including a premium for sale appears strongest where there is a residential land use and owner occupiers are involved who need to be enticed to sell (as per the example noted on page 18, DPIE Guide). Accordingly, premiums higher than 20% should not be applied to sites not currently zoned for residential use where landowners and developers are changing from another land use zoning such as light industrial. The rezoning of the land to a different type of land use is in itself likely to provide a higher financial return to the owner.
- Embedding a realistic evidence-based benchmark located within the Viability Tool has the best alignment to this key policy outcome while enabling the growth of both private and affordable housing supply.
- However, the current version of the Viability Tool embeds some quite high default values of the premium for land sale in the spreadsheet, namely: 30%; 40%; 40%; 45% and 50%. As a minimum, the premium sale field of the spreadsheet needs to be amended to include 20%, as 20% is not currently an available option.
- From a range industry experts operating in the NSW housing market, namely SGS and HillPDA, it is clear that 20% is a standard benchmark in the development industry. While in a few select outlying cases a higher premium for an individual lot may be required, the benchmark should be anchored around 20%. Accordingly, options for 15%, 25%, 30%, 35% and 40% could be applied depending on the specific context. It is proposed that premium values of 10% and over 45% and 50% be both excluded as rare exceptions and outliers.

- Alternatively, the defaults for this variable should be removed, with suitable options more flexibly linked to specific contexts discussed in the Guide. Under this scenario the assumptions used, and their justification would need to be provided as part of the planning proposal.

Recommendation 2

The field for sales premium in the Affordable Housing Viability Tool is amended to enable the use of 20% as a standard benchmark with some qualified capacity to vary this. This could also be achieved by removing all of the other default values in the Model for this field and providing guidance in the Guide about appropriate premium sales values in certain contexts.

Note: A developer retrospectively using this Tool's methodology and applying the premium for sale to the current market value (i.e. post up-zoning) is likely to be especially flawed. This problem occurs because of the doubling up of the premium sale value calculations, initially embedded in the rezoned market value which captures the premium implicitly, and then the application of the formula within the Tool repeats this.

Calibrating the settings for *Construction contingency* assumptions

- Testing of the Viability Tool shows that the outcomes of the model are also very sensitive to the assumptions used for the construction contingency.
- Furthermore, if a high setting for the construction contingency value is used in the Viability Tool, it can unintentionally sanction and help embed expectations for higher building costs by developers. This runs counter to the Government's objective of improving housing affordability for the current and future population.
- Advice available to SSROC² is that most construction projects use a rate of 5%-10% from the total budget to determine the contingency. Typically, this will cover any extra costs that might arise.
- Based on this advice, the DPIE worst case assumption currently embedded in the model should not be used unless there are particular extenuating circumstances and construction risks.
- The Guide notes that the 'Estimated length of construction' is a drop-down list in the Viability Tool, however this is not the case.
- Accordingly, options of 5% or 10% should be routinely applied depending on the context.
- Alternately the defaults for this variable should be removed, with suitable options linked to contexts discussed in the guide. Under this scenario the assumptions used, and their justification would need to be provided as part of the planning proposal.

Recommendation 3

The field for the construction contingency in the Affordable Housing Viability Tool is amended to enable the flexible use of 5% and 10% as standard benchmarks but with some capacity to vary this. This flexibility may be best achieved by removing all of the other default values in the Model for this field and providing guidance in the Guide about appropriate values in certain construction contexts.

² Rawlinson's Construction Handbook recommends 10% construction contingency

Managing transitional issues when introducing a contribution scheme

- Some special care needs to be given at the introduction of an affordable housing contribution scheme when it is to be applied to a precinct that has already been upzoned or is currently in the process of up-zoning approval. While some of the opportunity will have been missed, some value capture opportunities will also be available.
- To avoid potential retrospectivity, the premium for sale will need apply to the current market value of the rezoned land at the time of the planning proposal. In effect inducing some of the aforementioned doubling effect because developers can, in some instances, rightly point to paying this value to secure a site without knowledge of a future contribution requirement.
- The result will often be a substantially lower level of affordable housing contributions being collected.
- This outcome underlines the importance of designing and establishing affordable housing contribution schemes ahead of rezoning or for planned rezoning under the DPIE Gateway process.

Recommendation 4

- Where possible, the introduction of affordable housing contribution schemes should aim to be timed to precede re-zoning of precincts to maximise value capture for creating affordable housing supply. This principle should be promoted in the Guide while noting that this may not always be possible.
- In line with a Council's Local Strategic Planning Statements vision and actions, Local Housing Strategies should seek to signpost the intention to introduce a viable affordable housing contribution schemes into precincts that will undergo upzoning in future, to forewarn developers and moderate market sales expectations.
- To support these recommendations advice about the optimising the timing for establishing a contribution scheme should be provided in the Guides' introduction, as contextual information for council and their consultants looking to use the Viability Tool to develop a contribution scheme in a timely manner.

Conclusion

SSROC member councils form a large part of Greater Sydney and have a direct interest in supporting and advocating for investment in more affordable rental housing to achieve better place-based planning. SSROC welcomes that the development of the Viability Tool and trusts that this feedback can be incorporated to improve the Tool and the Guide. We recommend that the issues raised in this submission be further considered and addressed.

In order to make this submission within the timeframe for receiving comments, it has not been possible for it to be reviewed by councils or to be endorsed by the SSROC. I will contact you further if any issues arise as it is reviewed. If you have any queries please do not hesitate to contact me or Mark Nutting, SSROC's Strategic Planning Manager on 8396 3800.



Again, thank you for the opportunity to comment on the Viability Tool and the context of the Tool's application. We are keen to participate in any further stages of developing and or reviewing the mechanism, in particular discussions about its impact on, and collaborative engagement with, local councils.

Yours faithfully

A handwritten signature in black ink that reads "Helen Sloan".

Helen Sloan
A/General Manager
Southern Sydney Regional Organisation of Council