



FEATURE ARTICLE

Funding affordable rental housing what are the options?

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Across Federal, State and Local Government, affordable housing has become a priority on the policy agenda. Effective mechanisms for funding affordable housing are still being investigated; however, it is becoming increasingly evident that the answer to affordable housing funding needs to be a multi-layered and collaborative approach.

The provision of affordable housing has been a long standing challenge across Sydney, with the market outpacing many purchasers and the rental market becoming increasingly unaffordable. Increased development demand in infill areas is producing upwards pressure on property values, consequently pricing low to moderate income households out of inner city locations. As seen in Figure 1, affordable housing needs to be considered across the full housing continuum, with more innovative financing mechanisms required to support private rental and eventually home ownership.

To date, existing provision has struggled to address the growing demand for affordable housing. Public funding is limited and the private sector cannot be expected to carry the full burden of affordable housing delivery. Across Federal, State and Local Government, there has been a range of

opinion on how best to deliver affordable housing and what mechanisms should be utilised. Figure 2 highlights available funding mechanisms that may assist in the delivery of affordable housing, with these various mechanisms outlined below.

Inclusionary zoning – bonus density
The bonus density provision enables development to gain additional floor space in return for affordable housing. This in practicality, shares the cost of affordable housing between the public and private sector. The basis of inclusionary zoning is that land undergoing urban renewal would increase in value as a result of its rezoning and public investment in infrastructure. This mechanism has been recently encouraged by the Greater Sydney Commission (GSC) in the District Plans.

The draft District Plans incorporate affordable rental housing targets as a form

of inclusionary zoning. A target of between 5% - 10% of new floor space would be applied at rezoning stage so that it can be factored into the development equation.

Special infrastructure contribution (SIC)
The SIC levy is implemented by the State Government under the EP&A Act. The SIC has traditionally been implemented to help fund infrastructure in growth areas. Various Councils however, are currently exploring the possibility of leveraging the SIC to fund affordable housing in urban renewal areas.

Contributions under the SIC can be in the form of monetary or in-kind. Monetary contributions collected would finance various infrastructure projects, with only part of the contribution directed to affordable housing. To achieve a greater number of affordable housing outcomes, Councils should instead encourage the SIC mechanism to be geared towards dwelling in-kind contributions.

SEPP70 – Affordable Housing
SEPP70 offers a mechanism to specific councils that enables an affordable housing contribution to be assigned to developments. At present, the City of Sydney, Willoughby City Council and the former Leichhardt Council are the only LGAs listed in SEPP70 as areas in need of affordable housing. Amendments of the EP&A Act to permit the expansion of the SEPP to other LGAs would enable greater application, funding and delivery of affordable housing.

Voluntary planning agreement (VPA)
A VPA is permitted under s93F of the EPAA and is an agreement entered into between a developer and consent authority either at rezoning or development application stage to procure public benefit, including affordable housing. Additional floorspace is usually granted in return for the public benefit; however the proposal must have planning merit. This approach, while effective, can be ad hoc and opportunistic. It provides limited certainty for affordable housing outcomes and can have the perception that the developer is able to 'buy' development uplift in return for public benefit.

Section 94 Contributions
Section 94 contributions are well known by the development industry, however the cap prevents funding to be drawn upon for the provision of affordable housing. If the cap was lifted, Section 94 would be an easy mechanism to adapt for the provision of affordable housing funding. The Greater Sydney Commission is currently exploring options around section 94 contributions and the possibility of lifting the cap.

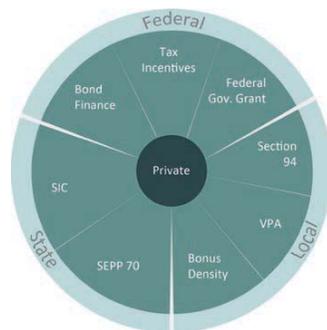
Federal grant – National Rental Affordability Scheme (NRAS)
In 2008 the Federal Government released the NRAS with the aim to increase the supply of new affordable rental housing by providing an annual financial incentive for up to 10 years.¹

NRAS was made available to 137 housing providers in the form of tax credits (or cash if not-for-profit) to build and rent dwelling to means tested affordable housing tenants. Despite its success in delivering up to 38,000 NRAS properties, the program was discontinued in 2014.

Tax incentives
There are numerous tax related incentives that could assist in attracting investors to fund affordable housing. These include:

- targeted land tax and stamp duty concessions to investors and housing providers;
- tax credits for equity investment in low income rental housing development; and
- GST exemptions of construction components used in developing affordable housing.

The tax credits scheme for low income rental housing, incentivises dwellings being rented under long term leases and consequently encourages more private investment to flow into the affordable



[Figure 2: Funding mechanisms – a Federal, State and Local Government responsibility] [HillIPDA 2017]

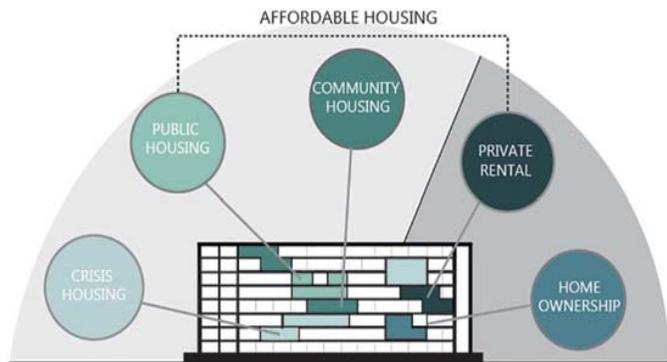
housing market². GST exemptions would see savings on the cost of construction for many affordable housing developers, enabling funds to be redirected into financing more projects.³

Bond finance
In order to attract larger investment in affordable housing, the Federal Government has been exploring opportunities to enable super funds and private investment to invest in affordable housing nationally. Last year saw the release of the Australian Governments' Affordable Housing Working Group: Issues Paper in January 2016 and consequently the recommendation to proceed with the design of the bond aggregator model in December 2016. Under the supervision of a specialist financing intermediary, the model would allow housing providers to aggregate their debt financing requirements, therefore assisting in obtaining funding at a better price and longer tenure than what would be normally be available to individuals.⁴

Conclusion
Achieving affordable housing targets will require various levels of reform, subsidy and support. It is the innovative layering and consistent application of these mechanisms that is required. Future Local Government housing strategies should provide clear housing targets and incorporate effective guidance around contribution mechanisms. This however needs to be supported by a strong policy direction from State Government. Work that HillIPDA has undertaken has demonstrated that affordable housing targets need to be realistic and supported by robust feasibility testing. The introduction of any affordable housing contribution needs to be known upfront to afford developers the opportunity to factor in any additional development costs. Ultimately, the best outcome will be achieved by innovatively layering affordable housing mechanisms, including incentives and subsidies, across Federal, State and Local Government to incentivise private investment in affordable housing ■

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Endnotes
1 See: <https://www.dss.gov.au/our-responsibilities/housing-support/programmes-services/national-rental-affordability-scheme>
2 Berry, M., Whitehead, C., Williams, P., Yates, J. (2004) *Financing affordable housing: a critical comparative review of the United Kingdom and Australia*, AHURI Final Report No. 72, Australian Housing and Urban Research Institute Limited, Melbourne. <https://www.ahuri.edu.au/research/final-reports/72>.
3 NSW Federation of Housing Association inc. 2009, Submission to the Commonwealth Government's review of Australia's Future Tax System, NSW, Australia
4 Lawson, J., Milligan, V. and Yates, J. (2012) *Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia?*, AHURI Final Report No. 188, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/188>.



[Figure 1: Affordable housing on the housing continuum] [HillIPDA 2017]

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