



Providing social housing as essential infrastructure in the Creamery Road precinct

City of Greater Geelong

17 | 05 | 2022





© SGS Economics and Planning Pty Ltd 2022

This report has been prepared for City of Greater Geelong. SGS Economics and Planning has taken all due care in the preparation of this report. However, SGS and its associated consultants are not liable to any person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity taking or not taking action in respect of any representation, statement, opinion or advice referred to herein.

SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au

Offices in Canberra, Hobart, Melbourne, and Sydney, on Ngunnawal, Muwinina, Wurundjeri, and Gadigal Country.

Contents

| | | |
|----|--|----|
| 1. | Introduction..... | 5 |
| | 1.1 Project context | 5 |
| | 1.3 Report structure | 8 |
| 2. | Strategic justification | 9 |
| | 2.1 Social and affordable housing as essential infrastructure | 9 |
| | 2.3 Inclusionary provisions for social and affordable housing | 11 |
| | 2.4 Market impacts..... | 12 |
| 3. | Calculating the social housing contribution rate | 14 |
| | 3.1 Delivering social housing through the development approvals system..... | 14 |
| | 3.2 Determining an appropriate contributions rate | 14 |
| | 3.3 Social housing contributions as a share of expected land value uplift..... | 17 |

1. Introduction

Due to a pattern of underinvestment in social and affordable housing in Geelong, a significant portion of the community finds itself in need of some form of housing assistance. Like open space, schools and other community facilities, social and affordable housing is essential infrastructure necessary for the formation of successful communities. The town planning approach to the provision of social and affordable housing should be like that applied in the provision of other essential infrastructure items in Geelong's growth areas, including the Creamery Rd precinct.

1.1 Project context

Currently there are only 3,300 social housing dwellings in Geelong. The City of Greater Geelong (CoGG) estimates that 7,200 households in Geelong are in urgent need of social housing, with approximately 6,400 living in the private rental market and paying more than 30 per cent of their income on rent. A further 900 persons are without a home. Including those living in existing social housing stock, the estimated total demand for social housing in the City today is estimated at 10,500 dwellings.

Geelong's *Social Housing Plan 2020-2041* (SHP) demonstrates that the estimated total demand for social housing in Geelong is far greater than the current number of social housing units in the City. In addition, the plan shows that there is a need to deliver 13,500 new social housing units over 20 years. This includes the replacement of 1,500 existing public housing dwellings that will come to the end of their economic life within that period. This equates to the delivery of an average of approximately 675 social housing dwellings (or an investment of \$235 million) per annum to 2041.

The SHP outlines 5 key goals for increasing supply of social housing across the City:

1. Increase the supply of social housing from the current three per cent to seven per cent of total households by 2031 (an estimated increase in supply of 6,000 dwellings) and to 10 per cent by 2040 (a further 6,000 dwellings)
2. Increase the supply of social housing through the provision of City owned land for social housing developments, and a new requirement for all development on City owned land to contribute to an increased supply of social housing.
3. Maximise State and Commonwealth investment in new social housing across the City.
4. Amend the City of Geelong Planning Scheme to require the inclusion of social and affordable housing in new development based on identified need.
5. Complete an 'Urban Refreshment' of areas of high social housing concentration to enhance the utilisation and quality of social housing and increase the liveability and social wellbeing of these areas.

The SHP further states that *“future housing development will include a meaningful contribution to meeting the identified needs for social and affordable housing where there is a demonstrated uplift in land value”*.

1.2 Purpose

The purpose of this report is to assist CoGG achieve the goals of the SHP with a particular focus on progressing implementation of Goal 4 in respect of the Creamery Rd precinct. The intention is to utilise recent amendments to the *Planning & Environment Act 1987* (the Act) to negotiate the inclusion of an appropriate and meaningful social and affordable housing contribution in the Creamery Rd precinct where infrastructure investment and rezoning will result in land value uplift.

The Creamery Road precinct is bordered by Geelong Ring Road to the east and the Geelong Ballarat Railway to the north. The Northern & Western Geelong Growth Areas Framework Plan (2020) includes a vision for the Creamery Road growth area to *“exemplify Geelong’s transformation as a clever and creative city by building diverse, localised and sustainable neighbourhoods that prioritise self-sufficiency whilst maximising connections to the Geelong community, economy and identity”*.

The location of the precinct in the context of other growth areas CoGG is shown in Figure 1.

FIGURE 1: CREAMERY ROAD PRECINCT AND OTHER GROWTH AREAS



Source: City of Greater Geelong (2021)

1.3 Report structure

Following this introduction, this report is structured as follows:

- **Section 2** provides the strategic justification for implementing social and affordable housing contributions.
- **Section 3** determines the appropriate social and affordable housing contributions rate for Creamery Road.

2. Strategic justification

This section introduces the four frames of development contributions and presents the strategic justification for seeking contributions for social housing as essential infrastructure in the Creamery Road Precinct

2.1 Social and affordable housing as essential infrastructure

Safe, adequate, affordable and appropriate housing is critical to health, wellbeing and social and economic security.”

Australian Housing and Urban Research Institute (2019)

As a form of spatially fixed, materially realised capital expenditure that supports a range of social objectives in areas including public health and economic development, social and affordable housing – like transport networks, water cycle management, open space systems, hospitals and clinics, schools and other community facilities – is a form of essential social infrastructure.¹

There is a strong precedent internationally and in Australia for conceptualising social housing as essential infrastructure. In Victoria, this is evidenced in:

- Victoria’s infrastructure strategy 2021-2051, where social housing is listed as a priority infrastructure sector².
- State Government policies on comprehensive development of other urban areas, for example, Fishermans Bend.

As essential infrastructure required for the formation of successful communities across Greater Geelong the planning system should, in principle, support the delivery of social housing in the same manner applied for other forms of essential infrastructure.

Planning for social housing as essential infrastructure:

- Should be geared to the inter-generational needs of the place, as distinct from the presenting characteristics of the current generation of residents.
- Require all proponents who will reshape Geelong over the next 30 years to contribute, regardless of use and project size of any given development.

¹ Lawson, J., Denham, T., Dodson, D., Flanagan, K., Jacobs, K., Martin, C., Van den Nouwelant, R., Pawson, H. and Troy, L. (2019) Social housing as infrastructure: rationale, prioritisation and investment pathway, AHURI Final Report No. 315, Australian Housing and Urban Research Institute Limited, Melbourne,

² Infrastructure Victoria (2021), Victoria’s Infrastructure Strategy 2021-2051. Available: <https://www.infrastructurevictoria.com.au/wp-content/uploads/2021/08/1.-Victorias-infrastructure-strategy-2021-2051-Vol-1.pdf> page 107

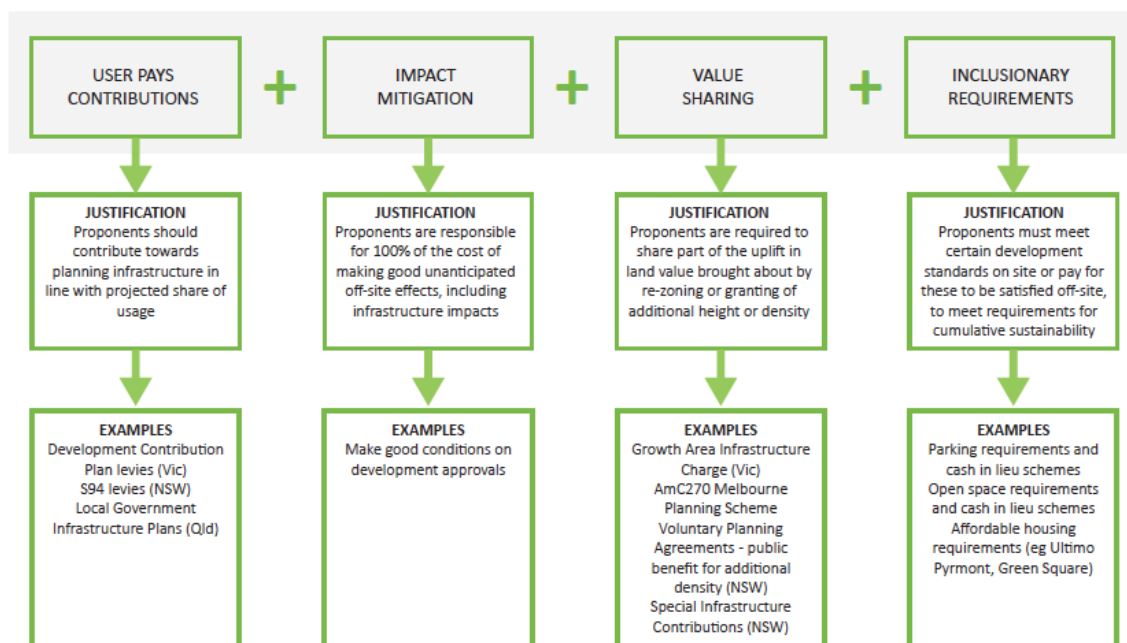
2.2 Understanding development contributions for social housing

Requirements of proponents to provide social housing must be understood in the context of the gamut of development contributions which might apply in the plan making and development assessment process. Conceptually, any requirement for a development contribution will fall into one of four mutually exclusive and additive categories. These are:

- **User charges:** These are payments required of developers to help fund planned infrastructure which will be used by the development in question. A key principle is that developers should contribute in proportion to their expected share of use of the infrastructure items in question. Development Contributions Plan levies under the Planning and Environment Act operate on user charges principles, as do payments exacted under the Infrastructure Contributions Plan provisions of the Act.
- **Impact fees:** Whereas user charges apply to *planned* infrastructure, impact fees apply when a development creates unanticipated demands on local infrastructure because of its particular design or timing.
- **Value sharing arrangements:** ‘Value sharing’ or value capture contributions target all or part of the uplift in the unimproved land value that follows from an infrastructure investment, site rezoning or development approval which allows for a higher value or more intensive land use. Value sharing requirements are premised on the principle that development rights are reserved by the state under planning laws. Accordingly, the community is entitled to charge what amounts to a licence fee for access to state granted development rights, and the value of this fee should be proportionate to the lift in land value associated with the development rights in question.
- **Inclusionary requirements:** Inclusionary requirements are about ensuring that successive developments meet community expectations in relation to liveability, efficiency and sustainability. Parking and open space requirements, or their cash-in-lieu equivalents for off-site provisions are examples.

An overview of the frames and the justification for each is shown in Figure 2.

FIGURE 2: FOUR FRAMES OF DEVELOPMENT CONTRIBUTION



Source: SGS Economics & Planning Pty Ltd

Of the four types, user charges and impact fees provide the weakest rationale for seeking contributions for affordable housing. It is difficult to conceive of social housing contributions as a user charge due to the lack of a clear *usage* nexus between new development and the demand for social housing³. The impact mitigation frame is inadequate in that it can only be employed to compensate for a loss of existing social housing stock, rather than expanding the stock of social housing.⁴

Contributions to social housing contributions have a strong justification under both the value capture and inclusionary requirement frames.

The approach to be adopted in the Creamery Rd precinct sees social housing as essential infrastructure to be delivered via an inclusionary provisions mechanism.

2.3 Inclusionary provisions for social and affordable housing

As noted, inclusionary provisions for affordable housing are conceptually similar to parking, open space and other planning standards in urban development, and like these other standards are justified on economic efficiency rather than redistributive grounds.

³ This is not to say that development does not derive significant benefit from the local provision of social and affordable housing infrastructure, as we discuss below.

⁴ Although, Council would be wise to seek impact mitigation fees if a development would result in the loss of affordable housing in each development.

Along with other forms of infrastructure, social and affordable housing is distinguished by its externalities. These are threefold:

- Facilitating supply of essential workers and skills for the regional economy.
- Mitigating after-housing cost-poverty for low-income households.
- Creating better neighbourhoods by supporting diversity and inclusion in placemaking.

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

Within this framework, inclusionary provisions for social and affordable housing would be strictly justified on managing externalities in the use of land. That is, they are warranted on economic efficiency grounds, in an endeavour to create the optimal net community benefit from urban development. They ought not to be confused with a redistributive mechanism, even though the resultant affordable housing would be systematically benefitting lower income groups.

2.4 Market impacts

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

Note that the development proponent cannot simply pass costs forward in higher prices for their product. These prices are set exogenously by the market.

Thus, if the proponent is confronted with a requirement to provide for affordable housing, the additional development costs will ultimately be reflected in a lower supportable bid price for the development site, that is, a lower residual land value (RLV).

The cost of the inclusionary provisions prosecuted through the planning system is borne by the land seller rather than a development proponent or end buyer. In this context, it is important to distinguish between three categories of agents in the land development process when considering the market impacts of inclusionary provisions.

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

A new inclusionary provision in the planning system, whether applied to social and affordable housing or some other infrastructure will have different impacts across these sectors:

- The **first of these groups ('original' owners)** would see a reduction in final price paid to purchase their land compared to what they might have otherwise expected. Nevertheless, they would remain motivated to release their land to a developer if the opportunity arose, provided they retained *some* premium on the next best use of their asset. Usually, the net present value of a sale would be significantly higher than that of the existing land use.
- Depending on their due diligence, **the second group (investors or land traders)** may also suffer a loss of value versus expectation. From a public interest point of view, this is not problematic so long as the land traders ultimately release their properties to bona fide developers.
- With respect to **the third group (developers)** the impact of the inclusionary provision will also depend on their due diligence. If they have made their acquisitions relatively recently – and most listed developers buy land on an as needed basis rather than landbank- they will have made due provision for the requirement in their development equation.

In principle, an inclusionary provision will only adversely affect the supply of housing or development generally if the RLV of the land in question is reduced to a point where it no longer provides a reasonable premium on the highest and best use of the land prior to development approval or rezoning. In our experience, this premium can be taken to be around 20% or 25%.

3. Calculating the social housing contribution rate

This section describes the methodology for determining social housing contributions for the Creamery Rd precinct based on the inclusionary requirement principle.

3.1 Delivering social housing through the development approvals system

As stipulated in Council's SHP, meeting current and forecast need for social and affordable housing is well beyond the capacity of any local government and requires a shared commitment across government and industry to address.

The appropriate role of various contributors can be considered by examining the benefits generated through adequate provision of social and affordable housing infrastructure. As discussed in Section 2, these are three-fold:

- To facilitate supply of essential workers and skills for the regional economy.
- Mitigating after-housing cost-poverty for low-income households.
- Creating better neighbourhoods by supporting diversity and inclusion in placemaking.

As the Commonwealth Government is responsible for social security, the mitigating poverty benefit is squarely in its bailiwick. Similarly, the State Government has primary responsibility for spatial labour markets. The second benefit – maintaining local skills supply – therefore rests with the State. Responsibility for the third benefit to do with neighbourhood effects rests with developers and the planning system; that is, those involved in creating better places.

Taking each of the benefits to be of equal importance to the entire community of Geelong - an approach not otherwise refuted in academic literature or government policy – would require that the Federal Government, the State Government and the development process and planning system each deliver one third of the overall measured need for social and affordable housing in Geelong.

3.2 Determining an appropriate contributions rate

Establishing a universal standard for social housing infrastructure provision

Given that social and affordable housing is essential infrastructure, required for the long term sustainability of all communities, the need for it in any given community ought to be established on consistent per capita ratios. Broadly speaking, all communities in Victoria require a similar proportion of social housing stock, in the same way that they all require similar rates of, say, parkland provision.

It is therefore appropriate to adopt a state-wide percentage rate of need in determining a social housing contribution rate in Geelong.

SGS has assessed that the current need for affordable rental housing in Victoria, inclusive of social housing as defined in the Planning & Environment Act, amounts to 14 per cent of all households (see Table 1).

Assuming that rents and incomes will trend in unison for the foreseeable future, 14 per cent of all housing is considered a reasonable measure of the requirement for social and affordable housing across all communities in Victoria and Greater Geelong to 2050.

TABLE 1: HOUSEHOLDS REQUIRING SOCIAL AND AFFORDABLE HOUSING IN VICTORIA, 2016

| CATEGORY | FIGURE |
|--|------------------|
| Homeless | 24,818 |
| In social housing | 71,358 |
| In severe rental stress in the private sector | 137,484 |
| In moderate rental stress in the private sector | 116,338 |
| Total households experiencing rental stress | 349,998 |
| Total households | 2,416,554 |
| Percentage of total households in \ rental stress | 14% |

Source: SGS Economics & Planning, based on ABS Census 2016 and VIF 2016

On this basis, the requirement for social housing in Creamery Rd, alongside all other neighbourhoods in Geelong, has been assessed at 14 per cent of total future dwellings with one third of these reasonably expected to be delivered via the planning and development approval process.

The social housing contribution rate in Creamery Rd has been determined by apportioning required future social housing floorspace across all marketed residential and non-residential floorspace projected for the precinct.

Table 2 presents the relevant inputs and results of this approach. The affordable housing contribution requirement is expressed in both floorspace ratio and cash in lieu terms. A contribution rate of \$357,356 per net developable hectare is indicated.

TABLE 2: ESTIMATION OF SOCIAL HOUSING REQUIREMENT PER UNIT OF DEVELOPMENT – CREAMERY RD

| Assumption/parameter | Source | Value |
|---|---|------------------|
| Net developable area (hectares) | Northern and Western Geelong Growth Areas Framework Plan (page 243) | 236 |
| Total residents | Northern and Western Geelong Growth Areas Framework Plan (page 243) | 8,433 |
| Total dwellings | Northern and Western Geelong Growth Areas Framework Plan (page 243) | 3,012 |
| Required social housing units | 14% of total | 422 |
| Market dwellings | <i>Calculation utilising above information</i> | 2,590 |
| Average floor area per market dwelling (sqm) | SGS assumption | 230 |
| Average floor area per social housing (sqm) | SGS assumption | 230 |
| Average price social housing dwellings | SGS assumption | \$600,000 |
| Average price per sqm | <i>Calculation utilising above information</i> | \$2,609 |
| Total social housing floorspace | <i>Calculation utilising above information</i> | 96,986 |
| Total -residential floor area (sqm) - market dwellings | <i>Calculation utilising above information</i> | 595,774 |
| Total residential floorspace - all dwellings | <i>Calculation utilising above information</i> | 692,760 |
| Retail/commercial floorspace as % of total floorspace | SGS assumption | 15% |
| Total marketed, non-residential floor area (retail, commercial) (sqm) | <i>Calculation utilising above information</i> | 122,252 |
| Total marketed floor area | <i>Calculation utilising above information</i> | 718,025 |
| Social housing floorspace to be funded by inclusionary target | <i>1/3 of total social housing requirement</i> | 32,329 |
| Social housing floorspace to be funded by inclusionary target per sq m of all marketed floorspace | <i>Calculation utilising above information</i> | 0.045 |
| Value - aggregate social housing contribution | <i>Calculation utilising above information</i> | \$84,336,000 |
| Social housing contribution per Net Developable Hectare | <i>Calculation utilising above information</i> | \$357,356 |

Source: SGS Economics and Planning (2021)

Based on this analysis, the relevant strategic planning documents for Creamery Road should provide the justification for introducing an affordable housing requirement applicable to all development in the Precinct. This requirement would see proponents entering into agreements as a condition of development approval to:

- Include social housing units in the project at the rate of 0.045 sqm (or 4.5%) for each square metre of commercially saleable or leasable floorspace (GFA) in the building(s) in question, with these social housing units being delivered at zero consideration to a registered community housing provider, or

- Provide a cash-in-lieu payment into the Geelong Affordable Housing Trust at the rate of \$117, indexed annually to movements in relevant dwelling prices in Geelong, for each square metre of saleable or leasable floorspace, or
- Provide a cash-in-lieu payment into the Geelong Affordable Housing Trust at the rate of \$357,356, indexed annually to movements in relevant dwelling prices in Geelong, per net developable hectare for subdivision projects, or
- A combination of the above to reflect the value of partial dwellings indicated by the formula.

3.3 Social housing contributions as a share of expected land value uplift

Uplift in land values is expected in the Creamery Road PSP because of rezoning and infrastructure investment. Average before and after (rezoning) land values for the precinct are shown in Table 3.⁵ These estimates have been generated by m3 Property utilising the direct comparison method which considers sales of broadly similar properties transacted in the open market and excluding sales which have obviously been affected by buyer expectations of future rezoning.

TABLE 3: AVERAGE LAND VALUE RATE BEFORE AND AFTER REZONING

| KSPA | AVERAGE LAND VALUE BEFORE REZONING (PER HECTARE) | AVERAGE LAND VALUE AFTER REZONING (PER HECTARE) |
|---------------|--|---|
| Creamery Road | \$50,000 | \$750,000 |

Source: m3 Property (2021), Land value estimates for Geelong Greenfield KSPAs

Council’s policy position notes that *“future housing development will include a meaningful contribution to meeting the identified needs for social and affordable housing where there is a demonstrated uplift in land value”*. Information summarised in Table 3 has been used to estimate the value of affordable housing contributions versus the anticipated uplift in land value. The results are shown in Table 4. The affordable housing inclusionary target provision translates to 34 per cent of land value uplift in Creamery Road.

⁵ Factors accounted for in the valuation assessment include (but are not limited to): prevailing market conditions with specific consideration to potential lot pricing, sale rates and development costs; and area and potential densities/lot yield; zoning status under the Local Authority Planning Scheme; development approvals; likely scheme cost contributions where applicable; access and proximity to local transport corridors including freeways and rail facilities; immediate competition and profile of developers active within the general localities; servicing constraints; environmental constraints and location. Sales have been analysed on a rate per hectare of land area.

TABLE 4: VALUE OF AFFORDABLE HOUSING INCLUSIONARY TARGET VERSUS LAND VALUE UPLIFT

| ASSUMPTION | CREAMERY ROAD |
|--|---------------|
| Total value after rezoning | \$262,500,000 |
| Total value before rezoning | \$17,500,000 |
| Calculated land value uplift | \$245,000,000 |
| Social housing floorspace required for every 1 sqm of market housing and employment floorspace | 0.045 |
| Social housing cash in lieu contribution per sq m of market floorspace | \$117.46 |
| Calculated value of social housing contribution | \$84,336,000 |
| Social housing contribution as % of value uplift | 34% |

Source: SGS Economics and Planning (2021)

Table 5 illustrates the impact on value uplift of the affordable housing inclusion requirements operating in conjunction with the State’s proposed Windfall Gains Tax (WGT), which is due to take effect in July 2023. Assuming the WGT applies, the owners of the rezoned land in the precinct would still enjoy major financial gains compared to the pre-rezoning value of their properties.

TABLE 5: RESIDUAL UPLIFT AFTER AFFORDABLE HOUSING REQUIREMENTS AND WINDFALL GAINS TAX

| | Creamery Road |
|--|---------------|
| Land value prior to rezoning | \$17,500,000 |
| Uplift captured privately without either WGT or affordable housing requirements | \$245,000,000 |
| Uplift captured privately with affordable housing requirements but without WGT | \$160,664,000 |
| Uplift captured privately with both affordable housing requirements and WGT | \$80,332,000 |
| Uplift captured privately with affordable housing requirements and WGT as percentage of pre-zoning value | 459% |

Source: SGS Economics and Planning (2021)

Across Geelong’s greenfield growth areas, it may be that affordable housing requirements translate to varying proportions of value uplift, regardless of whether the WGT applies. However, as discussed in Section 2.3, it must be borne in mind that making contributions towards the provision of essential social housing infrastructure as an inclusionary provision is *not* a value capture mechanism per se. There is no

in-principle reason why the contribution expected of successive developers should be tied to a pre-set value capture rate. Rather the cost of providing the required infrastructure dictates this share.

If social housing is regarded as essential infrastructure, it should be provided notwithstanding the impact on residual land value, providing residual land value continues to carry the minimum premium – nominally 25% - required to induce owners to release their properties to bona fide developers. This logic applies, for example, to open space contributions. They must be provided regardless of comparative impact on residual land value.

MELBOURNE

Level 14, 222 Exhibition Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

CANBERRA

Level 2, 28-36 Ainslie Avenue
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

HOBART

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

SYDNEY

209/50 Holt Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au

