Housing All Australians

**Our Single Mission:**
To harness the ability of the private sector and collaborate to address the chronic shortage of low income affordable housing.

20 July 2020

Mr Andrew Wallace, MP
Member for Fisher
Chair of the Federal Government Inquiry into Homelessness in Australia

Sent via email: andrew.wallace.mp@aph.gov.au

**Housing All Australians – a private sector initiative**

Dear Andrew,

I would like to thank you and the committee for listening to what Housing All Australians is doing to help vulnerable Australians by the implementation of innovative ideas around housing. As our name suggests, our focus is on housing all Australians, rich or poor. However, the provision of housing alone for vulnerable Australians is only part of the answer. It also needs support services. That is why we work closely with NFP sector that provides those services.

Housing All Australians (HAA) is unlike any other charity in Australia as its supporters are corporate Australia. Historically the discussion about the provision of affordable, social and public housing, has been perceived as a purely social issue championed by charity and not-for-profit organisations. Whilst HAA works closely with the NFP sector, HAA was established to facilitate a private sector voice and reposition the discussion, through a commercial lens, to advocate that the provision of housing for all Australians, rich or poor, is fundamental economic infrastructure upon which to build a successful and prosperous economy.

As requested, please find below a brief description of the two initiatives you requested further information on, along with a more detailed paper on each attached.

**<u>Creation of Short Term Shelters at no cost to government</u>**

The **Pop Up Shelter** concept was developed in response to a recognition that thousands of buildings across Australian cities stand vacant while vulnerable Australians have no roof over their heads. The concept is quite simple. Use some of these buildings to provide short term shelter.

With the support of Metricon Homes, we successfully demonstrated proof of concept by refurbishing an empty aged care home where the YWCA now house vulnerable women. This was Melbourne's first Pop Up Shelter. Metricon and now supporting HAA nationally with this initiative.

Please view the videos on the two links below:

***https://www.linkedin.com/feed/update/urn:li:activity:6429570025702682624/***

***https://housingallaustralians.org.au***

Housing All Australians

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**Creation of Affordable Housing at no cost to government**

Affordable housing needs a subsidy. The planning process can create significant value. Using the **PRADS model,** the development industry can share some of the value uplift to subsidise some affordable housing. The housing created under the **PRADS model**, is rented at below market rents, to tenants with incomes that satisfy the Department of Social Services definition of income which is consistent with the Social Security Act 1991 (the SS Act). This obligation will exist on title for the economic life of the dwelling.

The PRADS model works on the principle of "value sharing" some of the economic gains delivered through the planning process. It is a form of value capture but in reverse.

PWC, Minter Ellison, Norton Rose Fulbright and Tract are currently working with Housing All Australians to establish the required legal and governance structure needed to establish an Affordable Housing Fund which uses the **PRADS model**.

(Whilst the detailed paper attached is written for a Victorian context, its principles are applicable nationally and Minter Ellison has determined the respective planning instruments in each state to achieve the same outcome. Also attached is the PWC Report on PRADS)

We accept the reality that government is risk adverse and consequently we expect no assistance. This should not be taken as a display of arrogance, just the reality that governments move at glacial speeds and the private sector is always impatient. We have no time to wait. However, we are always open to working in collaboration, as this can accelerate the national impact and implementation of what we are doing.

In conclusion, there is a significant amount of goodwill that exists in the private sector to help vulnerable Australians at no cost to government. We would be very pleased, if you were interested, in discussing our initiatives further with you.

Yours faithfully

[redacted]

Robert Pradolin
Founder - Housing All Australians

**Our Single Mission:**
To harness the ability of the private sector and collaborate to address the chronic shortage of low income affordable housing

# HOUSING ALL AUSTRALIANS

# &

# THE "POP UP" SHELTER CONCEPT

Registered Address: PO Box 7064 Melbourne VIC 3004

Housing All Australians

**Housing All Australians**

Housing All Australians (HAA) is a private sector Not For Profit (NFP) organisation who believes it is in Australia's long-term economic interest to provide housing for all its people; rich or poor. Just like the provision of roads, schools and hospitals, safe, affordable and stable housing is a necessity for every Australian to be productive and contribute to society.

Australia's chronic shortage of affordable, social and public housing is set to create an intergenerational time bomb where the future economic costs of managing the unintended consequences of homelessness, such as mental and physical health, family violence, policing, justice and long-term welfare dependency, will explode.

Historically the discussion about the provision of affordable, social and public housing, has been perceived as a purely social issue championed by charity and not-for-profit organisations.

Housing All Australians was established to facilitate a private sector voice, and reposition the discussion through a commercial lens and advocate that the provision of housing for all Australians, rich or poor, is fundamental economic infrastructure upon which to build a successful and prosperous economy. There is significant economic and social payback for society in the prevention of the inadvertent consequences arising from the lack of availability of affordable housing.

HAA aims to address this by:

1. Being a vehicle through which the private sector can unite and collaborate to address the shortage of public, social and affordable housing;

2. Creating new and innovative housing models that unlock private capital to invest in affordable housing;

3. Taking immediate action by collaborating with Property Owners to re-purpose vacant buildings for short-term transitional “pop up shelters” and with the involvement of a social services support agency, create a safe and supportive environment for people in need;

4. Moving the discussion on the provision of public, social and affordable housing from being a social justice argument to an economic one;

5. Undertaking a strategic marketing campaign to educate the general public on the long-term economic impact to the Australian economy of not providing housing for all Australians;

# HAA'S STRATEGIC PRORITIES

## Our Big Vision

An Australia where everyone has a stable place to call home - no matter if they're rich or poor.

Follow us on LinkedIn

Housing All Australians

## Our Single Mission:

To harness the ability of the private sector and collaborate to address the chronic shortage of low income affordable housing.

## WHO WE ARE:

A group of influential leaders from the private sector with a shared belief that it's in Australia's long term economic interest to house all Australians including those on low incomes.

We believe the long-term cost to Australia of not providing stable housing for all will result in future generations inheriting a significant burden with disastrous economic and social consequences.

## OUR ROLE:

1. Harness the goodwill of the private sector to deliver short term affordable housing.
2. Introduce a private sector perspective to develop strategies for the economic interest of Australia, free from political bias.
3. Via our personal relationships, influence our political system at all levels; local, state and federal by demonstrating long term economically sound options to achieve our vision.

## OUR UNIQUE POSITION:

We are a private sector single purpose group using a commercial lens to help address Australia's supply of low income and affordable housing.

## OUR VALUES:

* Thinking with an intergenerational perspective
* Delivering long term value to Australian taxpayers
* Bipartisan collaboration

## OUR STRATEGIC PRIORITIES

IMMEDIATE → MEDIUM TERM → LONG TERM

| | | | |
|---|---|---|---|
| Provide short term shelter in under-utilized infrastructure | Quantify the long term economic consequences of NOT providing housing for all | Increase the supply of rental housing on Government land for diverse incomes | Create a financial mechanism for private sector developments to provide low income affordable housing mixed with private rental |

## OUR AMBITIOUS PROJECTS

### POP UP SHELTERS

Delivery of short term transitional housing in existing buildings that are going through a long redevelopment process. We are also exploring the possibility of a national partnership with Homes for Homes to scale up the concept across Australia.

### ECONOMIC STUDY

Undertake an independent national bi-partisan study to demonstrate the long term economic impact for future generations of not providing housing for all.

### COMMERCIAL DEVELOPMENT AGREEMENTS

Convince super funds to undertake commercial developments on Govt land under a long term lease agreement rather than Govt selling the land to the private market.

### POLICY CHANGE

Prepare a draft Policy Paper to stimulate discussion around the creation of a new financial instrument to subsidise the incorporation of low income housing into Build-to-Rent developments.

## SUCCESS LOOKS LIKE

**Pop Up Shelters**

- A simple and effective short-term solution to combat a critical shortage of transitional housing
- 3 shelters operating by end 2019
- 100 people housed by end 2019
- Acceptance of the concept by support agencies

**Economic Study**

- We have demonstrated the economic benefits of acting today and saving costs tomorrow.
- Study outcomes are accepted as 'evidence based'
- Study is being utilised to create change across the sector
- Bipartisan approach adopted by all political parties

**Commercial Development Agreements**

- Govt retains its strategic assets for the long term benefit of all Victorians
- Super funds achieve an acceptable return relative to risk
- Improved social inclusion – A diverse mix of people living under the same roof
- A compelling model for large financial institutions to invest in more "salt and pepper" housing while still achieving their required returns
- Submit and win an urban renewal bid with a superfund based on a lease model

**Policy Change**

- New Govt policy – similar principles of the Low Income Housing Tax Credit in the USA, but created in the Australian context
- Improved social inclusion - A diverse mix of people living under the same roof
- Evidence the private sector will adopt and utilise the changes
- Submit and win an urban renewal bid with a superfund based on a lease model



Designed by OR Design Labs

**The Pop-Up Shelter Concept**

The pop-up shelter concept was conceived by property developer, Rob Pradolin, former General Manager of Frasers Property Australia & Founder of Housing All Australians. While having a cup of coffee with his daughter opposite Melbourne's Flinders Street Station, a homeless person was canvasing tables asking for money to get a bed for the night. A conversation then followed about a story in the media that week about the Grand Hall above the station having been vacant for over 10 years. Rob couldn't believe how a space above a Melbourne icon could remain vacant for such a long time and directly below, people were sleeping rough. He then asked a rhetorical question to his daughter *"I wonder how many buildings in Melbourne are empty?*". The concept aired on the ABC News in July 2016 (https://youtu.be/mGLfqf642dw) and Housing All Australians and the national movement of creating "pop up" shelters began.

Thousands of buildings across Australian cities stand vacant while many of our citizens experience homelessness. Often these buildings are idle pending the outcome of a lengthy and arduous process of apply for a planning permit for redevelopment of a future use. With the collaboration of an appropriate social services support agency, these buildings could be re-purposed for short term shelter and used as crisis or transitional accommodation for people experiencing housing issues.

HAA achieves this with the good will that exists both in the property sector and business in general and has attracted, and is attracting, value aligned corporates wanting to contribute their skills and the expertise of their companies, on a voluntary basis. The individuals involved are all volunteers with extensive networks and experience across property development, management and construction.

*A Case Study – The Lakehouse, Victoria*

*The Lakehouse was an aged care facility owned by CaSPA Care. It had been vacant for over 2 years as CaSPA Care had built a new facility close by and the existing property was earmarked for redevelopment. A commercial lease was negotiated at a peppercorn rent and the YWCA identified as the preferred social services provider with women over 55 years identified as the best suitable cohort. The building needed an extensive makeover to make it habitable for residents and a central kitchen was created to allow the women to prepare their own meals.*

*Based on an existing relationship, HAA approached Metricon to assist with the building works and they were happy to get on board. Drawings were prepared, suppliers were contacted, subcontractors arrived and the works began. Metricon encouraged their staff to participate, where possible, which included a helping hand with the landscaping. While there were a number of businesses that contributed to the setup of the Lakehouse, Crowne Plaza, part of the Intercontinental Hotel Group, donated all of the bedroom furniture from their hotel which was undergoing refurbishment. Guest Furniture provided new lounge settings valued at over $40,000, making the rundown aged care facility look like a new motel and the Rotary Club of Albert Park donated the bed linen and made welcome packs for the women.*

*This culminated in the launch of Melbourne's first "pop up shelter" in July 2018 last by the Minister for Housing and the Governor of Victoria. The Lakehouse is now housing over 30 women over 55 years of age, some of which were previously sleeping in cars or couch surfing.*
***https://www.linkedin.com/feed/update/urn:li:activity:6429570025702682624/***

*Other than "doing the right thing, one of the unintended benefits for CaSPA Care was that their insurance costs for the building reduced as the insurance companies charge a higher premium when buildings are left empty. It ended up being a win for all parties.*

# Pop Up Shelter Model - Overview

Housing All Australians

## POP UP SHELTER

Existing building sitting idle as owners contemplate future use or apply for planning permits

Re-purposed as short term accommodation for people experiencing homelessness

Housing All Australians believes that it is in Australia's long-term economic interest to provide housing for all its people. It aims to harness the ability of the private sector to collaboratively address the chronic shortage of low-income affordable housing.

### INPUTS

**Property Owner**

- Commercial lease.
- Pepper corn rent $1.
- Lease to lessee.
- Pay fixed costs/outgoings as per building empty.
- Notify Lessee when vacant possession is required.

**Lessee**

- **(NOTE – Lessee is also the Support Agency Service Provider)**
- Rent $1 per year
- Property maintenance e.g. grounds, site maintenance, security etc.
- Pay variable costs/ outgoings; utilities, fire services etc.

**Support Agency Service Provider**

- Homelessness expertise.
- Source, select, support and manage those housed.
- Staffing – Case Worker and Tenancy Worker.
- Wrap around support services.
- Funding to deliver the tenancy support and services to residents.
- Prepare exit strategy.
- Find alternative housing for residents at end of Lease.

**Tenancy Worker**

- Source, screen and on-board cohort.
- Collect % income to cover outgoings.
- Building liaison re maintenance/issues.

**Case Worker**

- Full time social worker.
- Wrap around support services to residents.

**Building works**

- Pro–bono services provided by various building parties sourced by HAA.
- Site preparation & clean up.
- Complete internal building works e.g. kitchen, laundry, bathroom upgrades.
- Garden set up.
- Occupation certificates as required.

**Fit out**

- Pro-bono fit-out provided by various parties sourced by HAA.
- Chattels and furnishings e.g. beds, kitchen utensils, wifi, lounge.
- White goods.
- Painting and decorating.

### Project Facilitator

#### PLANNING & SET UP

- Project planning
- Coordination of commercial lease
- Source pro-bono legal for lease costs
- Liaison with local govt.
- Secure occupancy certificates
- MOU coordination.
- Secure builder and scope works.
- Fit-out inventory and secure pro-bono suppliers.
- Secretariat.
- Help select Support Agency
- Fundraising for Case Worker & Other materials as required.

#### IMPLEMENTATION

- Project management.
- Secretariat & enquiries.
- Stakeholder management.
- Coordinate contributors.
- Coordinate building works. and fit-out pro-bono
- Financial & project reporting to partners.
- Media & communications.
- Coordinate volunteers and pro-bono storage facilities for furniture.

#### POST OCCUPANCY

- Impact report to stakeholders

**The Pop-Up Shelter Model - Particulars**

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| **Site Assessment** | Once a suitable building is identified, HAA representatives will complete an assessment of the property to scope any works required to warrant safe occupation and to determine the level of fit-out required for residential use. HAA will source an appropriately experienced builder, project manage the refurbishment and all works will be completed at no cost to the Property Owner. |
| **Agreement** | To ensure clarity of roles and responsibilities, a tri-partite Memorandum of Understanding (MOU) will be implemented which outlines the responsibilities of HAA, the Support Agency service provider who will source and manage the residents and the Property Owner. See detailed responsibilities list below. |
| **Lease** | The Property Owner and the Support Agency service provider will enter into a commercial lease with all the usual terms and conditions. |
| **Term** | The longer the better. The preference is for a minimum of 12 months from completion of works, with 6 month options for extension. This timeframe will be based on the amount of pro bono contribution required in respect to any construction and fit-out works needed. The greater the work, the longer the Lease Term needs to justify the pro bono contribution. |
| **Rent** | Peppercorn |
| **Outgoings** | The Support Agency service provider will pay all utilities associated with the direct use of the premises and will also be responsible for all maintenance within the premises. |
| **Resident Management** | The Support Agency service provider will be responsible for sourcing, selecting and managing all interim residents 24/7, including providing all essential support services.<br><br>Working with the Property Owner and HAA, the Support Agency determines the best cohort to suit the particular circumstances and the local need. |
| **Costs** | The Property Owner will continue to pay all costs normally associated with a vacant building. Other than this, the HAA Pop-Up Shelter model is based on the premise that no additional expenditure is required by the Owner. |
| **Risks** | 1. **Community or Local Residents Concerns**<br><br>Community concerns may be mitigated by:<br><br>a) housing a low risk cohort e.g. women aged over 50<br>b) inviting local residents to a community FAQ meeting<br>c) inviting residents to the launch of the facility |

| | |
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| | This will be dependent on a number of local issues and is determined on a case by case basis with the Property Owner.<br><br>2. **Where do the Residents go at the end of the Lease?**<br><br>There is a potential risk for the Property Owner if negative publicity arises when the pop-up shelter is withdrawn at the end of the Lease. This risk is mitigated by the Support Agency having a planned approach on how they will vacate and re-house residents, prior to lease expiry.<br><br>**3. Inability to secure funds for Case Worker.**<br><br>The responsibility of sourcing funding for support services will be the responsibility of the Support Agency. The level of funding will determine the cohort able to be housed. If no funding sourced, then the cohort will be selected for their ability to live with minimal supervision. |
| **Makegood** | Any potential make good is identified from the outset and will form part of the Lease Agreement. This will be undertaken by the support agency with assistance from HAA. |
| **Insurance and Outgoings** | In simple terms, the Property Owner continues to pay all fixed costs associated with the property including insurance and outgoings. Experience has shown that this could save the property owner money as insurance firms charge less if the building is occupied than if it is left vacant. |
| **Responsibilities** | **<u>Housing All Australians (HAA)</u>**<br><br>• <u>Project Management</u><br><br>HAA will be the over-all Project Manager – inclusive of project planning, set-up, scoping any required building, securing pro-bono or funds for building works and securing any occupancy certificates. HAA will manage communications with all stakeholders (govt, corporate, community, property owner etc) and ensure that communication channels are open, transparent and clearly documented. HAA will ensure that all key players are informed, engaged, understand and respect each-others speciality and contribution, and will help to iron out or clarify any project challenges including the development and monitoring of any agreed time lines.<br><br>• <u>Permits</u><br><br>HAA will be responsible to apply for any permits required during the implementation and use of the "pop up" shelter. This includes any planning discussions with the state and local government and well as the any occupancy certificate. HAA will keep the building owner informed of discussions with the local authority. |

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- <u>Source a Builder / Project Manager</u>

  HAA will source an appropriate private sector builder/project manager to coordinate and undertake the physical work and achieve any building permits required. HAA will also tap the private sector to source furniture and all items needed to furnish the property.

- <u>Assist with Lease Negotiation</u>

  HAA will assist the Support Agency service provider to negotiate the lease agreement and will seek pro bono legal services to assist with legal agreements on behalf of the Support Agency.

- <u>Secretariat</u>

  Throughout the planning, set-up and implementation, regular project meetings will be held covering the issues of stakeholder management and reporting, marketing, communications, construction. HAA will be responsible for the coordination of meetings, generation of minutes, and follow up of action items.

- <u>Program Services Manager</u>

  HAA will work with the support agency to explore opportunities to secure a dedicated Case Manager who will be embedded within the property to support the cohort and the case management services provided during resident admittance and departure.

- <u>PR & Marketing</u>

  Whilst it should not be the driver for any organisations involvement in the “pop up shelter” concept, HAA will promote the Pop-Up Shelter model and acknowledge stakeholders contributing to the success of the project. This initiative and collaboration is not about egos. It is about outcomes.

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<tr><td>**Responsibilities**</td><td>

**<u>Support Agency (SA)</u>**

- Lease & Tenancy

  The SA will execute the Lease and abide by the terms and conditions stipulated, including the payment of any costs which are incurred as a result of the building being occupied; e.g. water usage. (For clarity, the PO pays all fixed cost, while the SA agency pays the variable costs)

  Once notice is given by the Property Owner to vacate the property, the SA will, in an orderly manner, relocate all residents in a careful and considered manner to alternate premises (if available).

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| | • <u>Operations & Services</u><br><br>The SA will focus on the day to day operational aspects of the property as well as the provision of the case management wrap around services to assist individual residents.<br><br>• <u>Funding</u><br><br>The SA will apply to relevant government or philanthropic foundations for funding and will manage any funds granted for the provision of case management or wrap around services. |
| **Responsibilities** | **<u>Property Owner (PO)</u>**<br><br>• The PO agrees to enter into and execute a commercial lease on the basis of a peppercorn rent for $1 pa.<br><br>• The PO will continue to pay all fixed outgoings due if the property was vacant. |

**Governance**

Norton Rose Fulbright, HAA's pro bono legal advisor, is in the process of submitting to ASIC an application for HAA to register as a Public Benevolent Institution (PBI). As part of ASIC's requirements, HAA must have a Constitution which clearly states its purpose which is to provide benevolent relief to people in need and have appropriate governance structures in place. It is anticipated that HAA will receive its PBI status by end of July 2019.

**HAA Directors and Associates**

One of HAA's clear objectives is to have a Board of individuals with a diverse range of skills. Part of the Board governance process is that an individual cannot be considered for a Directorship position until they have completed at least six months assisting HAA with its activities. This allows reasonable exposure to the workings of the Board and a better understanding of the level of commitment required.

Below is a short resume of Directors and Associates.

**<u>National Board of Directors</u>**

**Robert Pradolin**
Robert qualified as an engineer and has been active in the property industry for over 30 years most recently as General Manager of Frasers Property Australia (formally Australand). He is currently the founding chair of Housing All Australians, on the Board of the Summer Housing, Salvation Army Housing, and the Board of Advisors for the Property Industry Foundation (Vic). Robert is also a past Board member of the Property Council of Australia (Vic), Residential Development Council, HIA (Vic), UDIA (Vic), Livable Housing Australia and the Heritage Council of Victoria.

**Louise Rutten**
Louise has a unique and diverse background with over 25 years' experience in Business Strategy and Innovation. She is a multi-disciplinary, multi industry, globally experienced senior executive and entrepreneur. A mentor and business leader adding cultural, professional, ethnic & gender diversity to the Board Room.

**State Board of Advisors (Victoria)**

**Dianne Cuka**
Dianne is a Tax Partner that leads the Melbourne Private Client Services group at EY. She specialises in providing accounting, taxation and related business services advice to High Net worth Individuals, their private wealth structures, entrepreneurs and family owned business. With over 23 years taxation experience, she has advised clients on asset protection planning, advice around passive investment structures, family business, succession, estate and retirement planning, self-managed superannuation funds and cross boarder issues.

**Kristiana Greenwood**
Kristiana was born in the UK and schooled in Zimbabwe before moving Italy and the UK to study. Her background is languages, business and marketing with many years of experience at various companies in London, France and Luxembourg. She moved to Australia in 1996 and has been working within the Facilities Management field ever since. As well as one of the founding partners of FM Innovations, she was recently elected as the first female Chairman of the Facilities Management Association of Australia and also sits on the Advisory Board of Building & Architecture at Deakin University.

**Lisa Kingman McGlinchey**
Lisa is one of Australia's most respected independent community advisors to the corporate and not for profit sectors on social change initiatives. Recognised in 2018 as one Australia's 100 Most Influential Women, Lisa has been at the coal face of social change strategies for 30 years. She's led over 40 corporations and hundreds of charities into mutually beneficial relationships and her contribution to indigenous organisations, education, health, social justice and the arts sector can be seen in all corners of Australia. Her personal commitment to our First Australians can be seen through her contribution to the growth and success of organisations including the Cathy Freeman Foundation, National Centre of Indigenous Excellence, Reconciliation Australia and more recently to Atlantic Fellows for Social Equity.

**Angela Skandarajah**
Angela is the former head of Minter Ellison's National Real Estate, Environment and Planning team. Her broad experience spans high-profile property and infrastructure projects, major acquisitions, disposals, Leases, and Crown land developments. She has advised on procurement and delivery of major urban renewal projects with complex development arrangements, as well as public and private sector infrastructure such as hospitals and roads. She also held the managing partner position in Minter Ellison's Melbourne office. Currently, Angela is the CEO of Development Victoria, the Victorian Governments development arm.

**Robert Pradolin** (see above)

**Louise Rutten** (see above)

**State Board of Advisors (New South Wales)**

**Sarah Cohen**

Sarah is a senior consultant with 15+ years project management experience in asset and portfolio management spanning the retail, commercial and industrial property sectors in Australia and the UK. Her recent work history includes 5 years as a senior leader in the AMP Capital Office & Industrial team and 4 years in a National Role with the JLL Premium Asset Group.

With expertise managing projects across business transformation, process improvement, governance and technology, Sarah enjoys solving problems using creative thinking and tenacity, looking for options and solutions which offer a tangible difference.

Her focus on human centred outcomes underpins the supportive team environment she fosters, actively encouraging transparent communication, genuine collaboration, and community mindedness with all customers and stakeholders.

**Tracey Williams**

Tracey has over 30 years spent in the architecture, interior design, project management and building industries and currently works with Construction Profile as their business developer and client manager.

As an avid researcher of Sydney's planning and development market and through her contact with Architects, Designers, Project Managers and Development Managers, Tracey keeps up to date as to who is moving, changing, updating and planning. This coupled with her understanding and experience with the development process, the stakeholders and end users assists with finding suitable sites and development groups willing to lease their properties to the HAA Pop-Up Shelter initiative.

For further enquiries, please contact Laura Hannan-Smith, Executive Assistant to the Board on 0403 922 721 or email laura.hannan.smith@gmail.com

Housing All Australians

**Our Single Mission:**
To harness the ability of the private sector and collaborate to address the chronic shortage of low income affordable housing

## The Permanent Rental Affordability Development Solution

# PRADS®

Updated 11th April 2020

**Housing All Australians**

Housing All Australians (HAA) is a private sector for purpose organisation and registered charity with a single focus on increasing the supply and access, at scale, of affordable housing nationally. It was founded in 2019 by property executive Rob Pradolin. HAA believes it is in Australia's long-term economic interest to provide housing for all its people: rich or poor. Just like the provision of roads, schools and hospitals, safe, affordable and stable housing is a necessity for every Australian to be productive and be able to contribute to society.

HAA's mission is to harness the skills and capacity of the private sector to collaborate with private and public sector industry to address, at scale, the chronic shortage of low-income affordable housing. Housing for all Australians is fundamental economic infrastructure needed to avoid an intergenerational time bomb where the future economic costs of managing the unintended consequences of homelessness, such as mental and physical health, family violence, policing, justice and long-term welfare dependency, will explode.

HAA's definition of Affordable Housing is the provision of housing to those Australians who cannot afford a reasonable cost of housing from their own resources which would give them a modest standard of living in the Australian community.

Historically the discussion about the provision of affordable, social and public housing, has been perceived as a purely social issue championed by charity and not-for-profit organisations. Housing All Australians was established to facilitate a private sector voice and reposition the discussion, through a commercial lens, and advocate that the provision of housing for all Australians, rich or poor, is fundamental economic infrastructure upon which to build a prosperous economy and consequently a prosperous country. There is significant economic and social payback for society in the prevention of the inadvertent consequences arising from the lack of availability of affordable housing.

**Permanent Rental Affordability Development Solution – PRADS**

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## STRATEGIC CONTEXT

In Australia, there is overwhelming evidence of a housing affordability crisis affecting many of our major and regional cities. The number of households unable to access market provided housing or requiring some form of housing assistance in the private rental market to avoid rental stress is on the rise. The Australian Housing Urban Research Institute publication, 'Modelling housing need in Australia in 2025', estimates current housing need in Australia to be 1.3 million households (just under 14% of households) which is estimated to rise to 1.7 million households by 2025. For New South Wales, this equates to almost 373,000 households, rising to 678,000 by 2025 and in Victoria, housing need is estimated to rise from 291,000 to 462,000 over the eight-year period.

Many jurisdictions are exploring ways to influence supply through increase in social and affordable housing investment. In Victoria, the Victorian Government announced $2.6 billion of investment to respond to the housing affordability crisis. The suite of initiatives was announced under a State led plan - Homes for Victorians. This plan provided several measures to facilitate outcomes for a range of housing needs ultimately to make homes more affordable and accessible. Some of these outcomes include:

- Helping people to buy their first home;
- Increasing housing supply;
- Creating more stable rental market;
- Upgrading social housing; and
- Improving services for Victorians looking for a home

The plan recognised that the strategy response needs to address many pieces to the puzzle and requires collaboration from local government, developers and builders, investors, real estate agents, owners, tenants and not for profit organisations.

The plan demonstrates that there are many parties involved in the provision of affordable housing and all the levers that can positively affect the supply and increase of affordable housing outcomes is critical. That is, the housing problem is so big that it requires a range of interventions, resources and partnerships to deliver meaningful outcomes.

PRADS was created to be one of the many interventions needed to ensure housing remains affordable for those that need it. Housing All Australians (HAA) recognises that while the public and social housing streams of assistance are well defined and regulated, there are other parts of the housing continuum where the private sector can play a part to address the shortfall in the available supply of affordable rentals. This, in the long term, should reduce the cascading effect that is currently occurring, where demand and housing vulnerability is at risk of rising, especially post Covid19, due to limited supply of affordable rental properties for moderate and low income earners.

The purpose of creating the PRADS model is to maximise the involvement of the private sector in delivering affordable rental housing, by acknowledging and mitigating the risks normally considered part of the development process.  Over the medium term, this should result in the delivery of affordable housing becoming part of a developers normal business.

The PRADS model targets a proportion of the households experiencing rental stress that are not currently housed through State provided housing and the registered housing agencies. It in effect is a remodelling of NRAS under a different delivery model and bridges on the recent Victorian Government amendments to the Planning and Environment Act 1985 with the inclusion of a definition on affordable housing and the affirmation of the Section 173 agreement to negotiate affordable housing outcomes as part of the planning permit.

## THE MODEL

### Summary

The outcome of this model is the creation of privately owned rental housing, rented at below market rents, to tenants with incomes that satisfy the definition of affordable housing under Section 3AB of the Planning and Environment Act 1987, the "Affordable Housing Income Levels". This obligation will exist on title for the economic life of the dwelling. The model is deliberately created to assist key workers and is position within the housing continuum is described in Fig 1.

The developer and councils negotiate, in good faith, the number of dwellings and the percentage below market rent for which these dwellings can be rented. In Victoria, this obligation will be secured via a Section 173 Agreement for the economic life of the dwelling.

If there was a nationally legislated governance process similar to NRAS, the developer could then sell the affordable rental dwellings to investors in the private market to "Mum and Dad" investors with the rental encumbrance and an obligation to comply with a legislated governance process. The investor can then rents the dwelling either through a NFP Community Housing Provider or an approved private sector property manager.

As with the start of any new concept, it is not possible to have government legislation in place until, perhaps, the model is well tested and proven. To overcome this, HAA is pursuing a governance structure created through the corporation's law and being a fundamental requirement of affordable housing fund. Collaborative discussions with Norton Rose Fulbright, Minter Ellison and Corrs (all providing pro bono advice to HAA) suggest this is possible and are working together to provide the basis of a working model.

As an additional level of governance, the proposed model by HAA also includes the creation of an Affordable Rental Housing Register which identifies all affordable rental obligations negotiated by councils. This Register is audited annually to ensure satisfactory compliance with the rental obligation by the private sector owners.

If scaled up for delivery through voluntary planning agreements, the use of the PRADS model has the potential to create a significant supply of long-term affordable private rental housing without the need for any government subsidy. From a governance perspective, it will be based on a similar process that currently exists and is used with managing National Rental Affordability Scheme (NRAS) properties.

This model can work for apartment projects and for housing and land subdivisions.

### The model

The model is summarised as follows:

- **Affordable dwellings** - a number of affordable dwellings that will be allocated/negotiated to be provided within a development.

- **Affordable rent** - the affordable dwellings are to be leased to households on low to moderate incomes, as defined under the Affordable Housing Income Levels, at 80% of market rents for the economic life of the building. This creates long term affordable private rental housing. This is purely a rental product. As with student housing, these dwellings will not be available for owner occupation.

- **Discounted rent** - a valuation will be undertaken by an approved valuer to determine the market rent from which the agreed discount can be applied. This rental figure will be conveyed to the private sector property manager and will become the maximum rental which can be charged. The developer can sell the dwelling to the investor market at a lower value reflecting the lifetime encumbrance of the reduced rental agreement. The number of affordable dwellings and the percentage below market rent is a commercial decision for the developer. The number of affordable dwellings is imposed by a planning permit condition. The investor will be paying a lower price for the dwelling and they too will view the investment from a commercial perspective based on the expected rental income and capital growth.

- **Eligible households** - have to meet the income tests for very low, low and moderate incomes as defined under the Affordable Housing Income Levels (as amended from time to time by the Minister for Housing).

- **Management Framework / Process** - this will involve:

  a) Property management - appointment of a qualified property manager of the investor or developer's choice. This could either be a private sector real estate agency or a community housing provider. The property manager needs to understand and agree to follow specific processes and governance requirements similar to NRAS. The appointment of a private sector property manager will remove the market perception (rightly or wrongly) associated with community housing management.

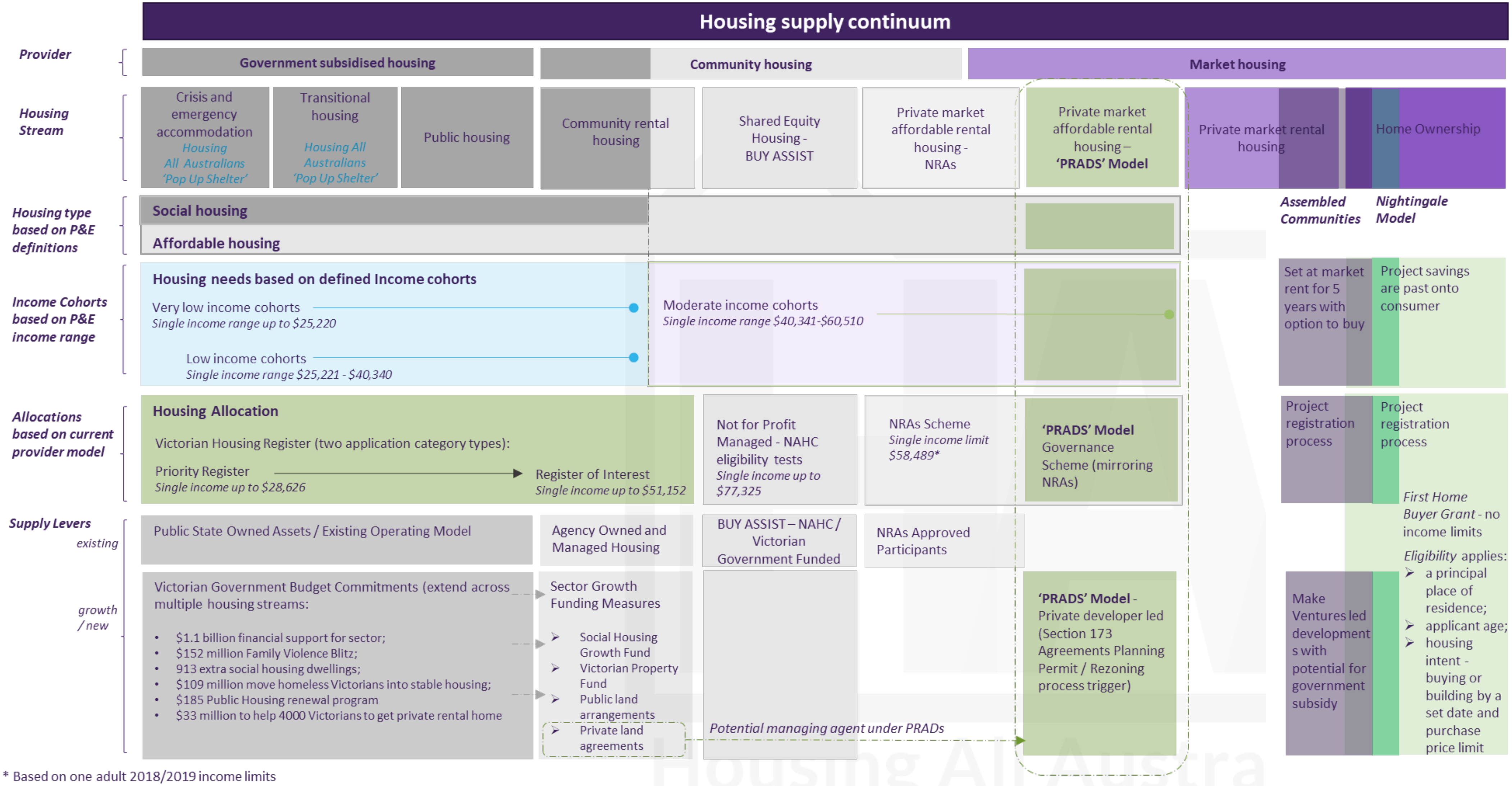
  b) Affordable rent levels – the property manager requests from an approved housing provider (a community housing organisation) the maximum rental to be charged for the designated dwellings. This will be based on a sworn valuation of market rent which will then be reduced by the agreed percentage below market rent negotiated with council. A fee for service will be paid to the community housing provider to conduct this process.

  c) Tenant selection - the property manager reviews each tenancy application based on income selection criteria as defined under Affordable Housing Income Levels and the dwelling is then leased to the tenant.

  d) Verification - the property manager submits required documentation (incomes and rents) to the community housing provider to verify affordability compliance. The housing provider checks documentation and submits it to the State Government (the relevant department is yet to be determined). This process is currently in place for NRAS. As a further level of compliance, it is recommended that the State conducts annual random audits for all tenancies listed on the Affordable Rental Housing Register to ensure the compliance with the Section 173.

  e) Affordable Rental Housing Register - the State Government creates an Affordable Rental Housing Register (ARHR) to record all affordable housing units that have been negotiated between councils and developers. The ARHR is important as it records both the commitments made by developers with councils (which still need to be delivered) and the affordable housing actually built and tenanted.

## HOUSING SYSTEM RELATIONSHIP DIAGRAM –
## Housing All Australians: 'Permanent Rental Affordability Development Solution' (PRADS)




* Based on one adult 2018/2019 income limits

**Figure 1**

Updated 11th April 2020

- **Legal mechanism** – In Victoria, a section 173 Agreement is registered on title to lock in affordability. Whilst it has its shortcomings, it is the best instrument currently available in that state to enforce the obligations listed below.

  Obligations:

  The agreement requires that the dwelling be

  a) Rented and not owner occupied

  b) Rented for no greater that a specified percentage below market rent

  Defaults: If the owner/ developer defaults on the affordability provisions in the section 173 Agreement, the following options are available / to be further investigated to enforce the provisions:

  Enforcement by VCAT orders in order to require compliance with the obligation of the Agreement- to minimise risk of a successful challenge, the Agreement needs to have clear, comprehensive and water tight provisions that are difficult to successfully challenge at VCAT, to ensure compliance can be enforced.

  Financial penalty - a penalty needs to be imposed of a sufficient size to act as a disincentive for dwelling owners to default on the affordability requirement. The legal mechanism for enforcing a penalty is to be investigated.

  Resale - if an owner of an affordable housing dwelling wishes to sell, the affordability requirement is automatically transferred to the new owner via the section 173 Agreement, which is declared as an encumbrance on the title in the section 32 Statement.

**EQUITY AND FAIRNESS – How all stakeholders can all play a part**

To further enhance the market embracing affordable housing, it is important that it be considered "fair" and that all stakeholders are seen to be shouldering some of the burden. We believe that it is important that it passes the "pub test' for equity and fairness in respect to the role accepted by other stakeholders. Let's explore what this means:

The model has two distinct phases. The first is when the developer agrees with the percentage reduction in rental for the economic life of the dwelling. This is effectively an upfront capital subsidy by the developer as they will be receiving a lower sales price for the dwelling as a result of the encumbrance.

The second phase is when the dwelling is rented by the owner/investor. The investor will consider the investment based on income received, the capital growth expected less costs to be paid. In terms of creating a level playing field when referenced to a traditional residential property investment, the outgoing costs for the encumbered dwelling should be reduced by the % reduction in rental. This would be a fair and equitable outcome and demonstrate that ALL stakeholders accept responsibility for encouraging this housing type. This reduction should be applied to all property outgoings such as owner's corporation fees, council and water rates, land tax etc.

It is not unreasonable to expect all stakeholders to assume a similar position if they want to encourage the creation of more affordable housing. This burden must be shared and more importantly, must be perceived to be shared. This will be an objective that will be pursued with the State as the governance structure for the PRADS model is developed.

From the developer's perspective, under the PRADS model, where there is an owner's corporation over the development, the owner's corporation fees for the affordable dwellings should to be reduced in line with the percentage discount in rent. Where the PRADS model is used in a land subdivision, unless there is a body corporate involved, there are no owner related fees other than rates and taxes.

**BENEFITS OF THIS MODEL**

In general, this model has the capacity to engage the private sector in the delivery of affordable housing, at scale, by attracting two players: developers in the delivery of affordable housing and investors in the ownership of affordable housing.

There are eight key benefits of the model:

1. **Increased Affordable Housing supply –** Firstly, it increases the certainty for a developer of negotiating an affordable housing solution with council. Supply is increased as a direct result of a greater number of affordable discounted rental dwellings being able to be made available, compared with the reduced number of "whole" dwellings being 'gifted' to a registered Housing Association or Housing Provider (The level of discount rent is negotiable between the developer and council and can vary somewhere between 80% and 50% of market rent. Each one has a different cost to the developer. As a comparison, the 'cost' to a developer of 1 gifted "whole" dwelling is effectively the same cost as providing somewhere between 4 - 5 dwellings with a rent restriction of 80% of market rent for its economic life).

2. **Reduced Housing system bottlenecks** - It directly targets the source of the problem (the unaffordable private rental market created by the inability to afford home ownership), providing an alternative to home ownership and reducing demand for social housing created by increased rental stress and homelessness.

3. **Speed –** It has the capacity to establish an agreed, transparent model that addresses the perceived concerns of the private sector and can be negotiated faster than the alternative of gifting units or discounting sales to Housing Associations or Housing Providers. It can also facilitate a level of pre-sales by the developer to smaller 'mum and dad' investors to perhaps a new category of property trust. This can accelerate the bank financing for developers. This can result in developers starting to drive affordable housing outcomes.

4. **Multipurpose** - It can equally apply to both apartment projects and land subdivisions. With a land subdivision, the capital subsidy is off the initial land price and therefore the affordable housing can be made in perpetuity rather than for the economic life of the building.

5. **Long Term affordability** -It creates effectively perpetually affordable housing for apartments linked to the economic life of the building and in perpetuity affordable housing for land subdivisions. This avoids the shortcomings associated with other similar models which defer an affordability problem to the future, ie:

    - NRAS, that provided Commonwealth and State subsidies for private affordable rental housing at 20% below market rent for only 10 years, after which these units revert to market rents or can be sold.

- Regulatory agreements in the USA, which are commonly negotiated between municipalities and developers under mandatory Inclusionary Zoning planning provisions. These require developers to maintain affordable rent to designated income cohorts for periods of between 15 and up to 50 years, after which they revert to market prices or can be sold.

6. **Strengthens the current housing provider framework in Victoria** particularly with respect to the social and public housing system and NRAS funded rental arrangements.

7. **Market perception and management** – having the option to use a private rental manager to manage the rental dwelling allows the developer with a choice in property managers as the use of a community housing manager can be a disincentive to some developers. Rightly or wrongly, the use of a community housing provider creates an additional sales risk for a developer as they would be concerned with the market perception of having social housing within their development. This model also:

   - creates a commercial operating return for a private rental manager managing affordable dwellings for the investors

   - creates a commercial return to the community housing provider or NFP who provides the rental value governance and oversight.

8. **Broader investor market** - it provides an investment opportunity that may be more attractive to small 'mum and dad' investors, due to the lower purchase price commensurate with the discounted rental returns. This seeks to create a new private sector source of investment in affordable housing, in contrast with the challenges of attracting institutional investment (eg. superannuation industry), or social housing, which relies on government and/or philanthropic funding.

**BENEFITS TO COUNCILS USING THE PRADS MODEL**

Working with progressive local governments, the PRADS model will create the environment to increase private sector investment in the delivery of affordable rental housing, through identifying the incentives that would:

(a) Attract private developers to enter into voluntary planning agreements;

(b) Create the opportunity to unlock superfunds to invest, at scale, in affordable housing. The principles underlying the PRADS model apply nationally and by diversifying the location of affordable housing, mitigates a state concentration risk for the superfunds. To maximise the opportunity of superfunds investing in a national affordable housing fund, consistency of the governance structure is critical. In lieu of a legislated governance structure, to provide confidence to local governments that the affordable housing commitments negotiated will be implemented in perpetuity, an affordable housing fund would be created with the governance arrangements established through the corporations' law. This fund will pre-purchase all affordable dwellings at a price that achieves the required rental yield. The fund would be structured in a manner that the governance regime cannot be altered. This arrangement would unlock the investment by superfunds into affordable housing.

(b) If legislation is eventually introduced, then a new and larger market for investors in affordable housing would be created. A federal legislated governance structure. like NRAS, would allow the involvement of "Mum and Dad" investor's into affordable housing would and will accelerate the delivery of affordable housing at scale. Given the rental encumbrance on a property is for the economic life of the dwelling and the fact that it cannot be occupied by the investor, if the % below market rent is high, the sale price of the property would be reduced quite considerably. It is therefore probable that a "Mum and Dad" investor might be able to own an investment property under the PRADS model, but not able to afford to buy a house for their own occupation.

**The model's intended focus is on moderate income households**, in contrast with low to very low-income households that are commonly assisted by the provision, by Government, of social housing. Incomes will be defined under in accordance with the Affordable Housing Income Levels (as amended from time to time by the Minister for Housing), and are currently as follows:

Table 1 – Greater Capital City Statistical Area of Melbourne

| | Very low income range (annual) | Low income range (annual) | Moderate income range (annual) |
|---|---|---|---|
| Single adult | Up to $25,220 | $25,221 to $40,340 | $40,341 to $60,510 |
| Couple, no dependant | Up to $37,820 | $37821 to $60, 520 | $60,521 to $90,770 |
| Family (with one or two parent) and dependent children | Up to $52,940 | $52,941 to $84,720 | $84,721 to $127,080 |

**ADDITIONAL INCENTIVES TO DRIVE MORE AFFORDABLE HOUSING**

**Additional incentives can be offered by local governments, through negotiation, to extend the number of affordable housing outcomes.**

Additional incentives could include the value benefit of:

- **Incentivised floor area uplift planning controls -** where the floor area can be increased above a specified range and a proportion of the floor area translates into number affordable housing units (percentage fixed through planning controls) as set out under PRADS model via a section 173 agreement.
- **A greater speed for processing a rezoning or development permit approval -** The value benefit of a possible fast-tracked rezoning's or development approval process for proposals incorporating a component of affordable housing (subject to the provision by the applicant of all information reasonably required by Responsible Authorities for assessment of applications) could be considered.
- **A reduction or waiver of the requirement for car parking space**s – could be allocated to the affordable housing.
- **Any associated, existing but underutilised tax arrangements** - that could attract investment by 'mum and dad' investors (or institutional investment) in the model of discounted rent for the economic life of the building, with or without any financial structure. Investigate

implications for packaging the model and a structure with potentially relevant, existing tax concessions.

**FURTHER AREAS TO BE EXPLORED**

- **Private tax ruling 2016 - HomeGround Real Estate**

  The ruling stated that for the management of private rental flats for investors (with social housing tenants), investors can claim the difference between social housing rent and assessed market rent as a tax offset. Does the tax ruling have broader implications for similar other arrangements, or only if the assets are managed by HomeGround real estate or via organisations acting as a subsidiary to HomeGround Real Estate?

- **Federal change to rules for Managed Investment Trusts**

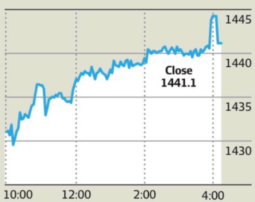
  Grounds for claiming tax concessions became limited only to affordable housing (and commercial property) from 1 June 2018. Affordable Housing created by using the PRADS model may help support the creation of a new investment asset class associated with affordable housing.

- Any other incentives that provide a sufficient saving to a developer to increase the housing outcome.




## Property snapshot

**S&P/ASX 200 REITS Monday (pts)**




| Best | Close ($) | Change (%) |
|---|---|---|
| Abacus Prop Grp | 3.47 | +2.06 |
| Stockland | 4.18 | +1.70 |
| SCA Prop Grp | 2.44 | +1.67 |
| Vicinity Centres | 2.70 | +1.50 |
| Mirvac Grp | 2.44 | +1.24 |
| **Worst** | | |
| Unibail Rodamco Wfld | 14.06 | -1.33 |
| Natl Storage REIT | 1.685 | -0.59 |
| Charter Hall Long W | 4.34 | -0.23 |
| Charter Hall Grp | 7.06 | -0.14 |
| Cromwell Prop | 1.11 | Stdy |

Go to afr.com for live updates

# Affordable housing helps green light $800m project

**Nick Lenaghan**

A three-tower apartment project with an end value nearing $800 million in the Melbourne CBD has won government approval after inclusion of a small element of affordable housing.

The affordable housing – just 20 units out of as many as 700 in total – has been welcomed by advocates including industry veteran Robert Pradolin as pointing the way to a broader private sector solution.

"I see this as game changer for the private sector across the country," the former Australand senior executive who now works on affordable housing solutions told *The Australian Financial Review*.

The green light for the Flinders Bank project follows changes to planning legislation making it easier for parties to negotiate agreements to include affordable homes in residential developments.

The three-tower project on Flinders Street, at the old convention centre site overlooking the Yarra River, is the first such agreement since the legislative changes.

The approval also comes amid ongoing community unrest over access to affordable housing, particularly in inner-city areas close to jobs.

Slowing property markets have done little to dampen those concerns. Housing affordability worsened in every state and territory in the June quarter as first home buyers found themselves borrowing larger sums to purchase new dwellings.

The 20 affordable homes, mandated under the approval from Planning Minister Richard Wynne, will be available for people on low and middle incomes at below 50 per cent market rents, for the life of the building, under an agreement by the developer.

"He's using his discretion to approve something that in normal circumstances wouldn't see the light of day, but he sees the value in getting the private sector focused on affordable housing," Mr Pradolin said.

It is to be expected that such units would be sold down to private investors for a lower capital value, reflecting the lower rental income, but thereby achieving comparable overall returns.

The project is being developed by Century Group Aus, a joint venture between two Chinese developers, China Century Group and Exhibition and Travel Group.

The Flinders Bank project will include a St Regis hotel with 168 rooms, along with as many as 700 apartments.

The developer submitted an amended proposal in March this year, going upmarket and reducing the overall number of apartments after acquiring the site for $97 million two years ago with approval for 1060 units.

The Century Group apartment and hotel complex on Melbourne's Spencer Street.

# NZ REITs on red alert for cap gains tax

**Matthew Cranston**

Real estate investment trusts (REITs) in New Zealand would be about $130 million worse off if that country's Labour government proceeds with the introduction of capital gains taxes, according to a new analysis.

New Zealand's Tax Working Group is due to make recommendations next year on whether the tax should be implemented, but UBS's Jeremy Kincaid and Marcus Curley have run the numbers on the basis that there will be a capital gains tax for companies selling assets.

"We believe the Tax Working Group is leaning towards a system where tax will be due on sale," they said in a note to clients.

"This benefits the REITs as the sector only disposes of about 3 per cent of its asset base per annum."

The analysts noted that in the past nine years the REITs sector has revalued total assets up 19 per cent.

"If we apply these gains to assets disposed of over the period, it implies the sector's tax bill would have been about $130 million higher."

The number is based on the REITs not having what is called roll-over relief.

Many asset disposals by REITs may be exempt due to roll-over relief, which means that if the proceeds from an asset sale are reinvested into a replacement asset, those gains may not be subject to the capital gains tax.

In the second stage of ISPT's project 13,000 solar panels will be laid across 75,000sq m of roof space above 12 retail properties.

"We are generating rooftop power and we're selling it to our retailers through an embedded network," Alicia Maynard, ISPT's general manager, told *The Australian Financial Review*.

"We are able to offer them low-carbon, reliable energy avoiding the grid power.

"Now that we are able to sell that power to our retailers it has significantly enhanced our return on investment. If we were just focused on powering our own base building usage, then we could only install enough solar power to cover that.

"That relationship between us and our tenants is helping get the scale to what it is now."

The first stage of the program resulted in 20,000sq m of solar panels installed across 13 properties. It exceeded benchmark targets on electricity production by 12 per cent.

In the second stage 13,000 solar panels will be laid across 75,000sq m of roof space above 12 retail properties in NSW, Victoria and the ACT.

The second stage alone is delivering cost savings of $1.5 million. The project will pay for itself within five years and is expected to deliver as much as $30 million in savings over its life.

For ISPT's corporate footprint the solar power is cutting costs by 8.5 per cent, with around 9.5 per cent reduction in power usage.

Micro-inverters help reduce the unreliability of power generation caused by cloudy days. In further stages, ISPT hopes to extend the roll-out to as many as 50 properties and introduce battery storage within one to two years as it becomes economically feasible.

"We need to have that battery storage to scale up the size of the system," Ms Maynard said.

An increasing number of commercial property landlords are introducing solar arrays to defray power costs. While shopping centres and large industrial assets are especially amenable with their large roof spaces, the boom is spreading to a wide variety of properties from aged care facilities to apple-packers and abattoirs.

Stockland has committed to installing 39,000 solar panels across 10 shopping centre rooftops for $23.5 million, for example.

Coca-Cola Amatil decided to install solar across three of its bottling plants in 2018. It expected to save $1.3 million in energy costs.

FinReview 6th December 2019

# New scheme aims to boost affordable rental housing

**Michael Bleby**

Local councils could boost the supply of affordable rental housing by cutting approval times on projects and creating savings that would allow developers to sell cut-price stock to investors, under a scheme conceived by former Australand boss Rob Pradolin and backed in a report by consultancy PwC for a handful of Melbourne councils.

A new asset class of privately rented affordable housing – not reliant on government subsidy or tax breaks – could emerge if local councils made agreements with developers that cut approval times to as short as three months, under the so-called Permanent Rental Affordability Development Solutions model.

Developers who saved money on the shorter approval time – which in Victoria can take up to two years – could sell a number of homes in a given development at lower price at no net loss. They could be bought and sold freely, but with a requirement – from an encumbrance placed on the title –to be leased at a fixed discount to the prevailing market rate.

The lower purchase price would leave the yield little different from that of a higher-priced, higher-rent apartment under the model, which seeks to tackle Australia's shortage of secure and affordable rental housing stock and do so at scale, with the backing of large institutional investors.

"This particular model can scale up into the billions of dollars of housing as a residential asset class," said Mr Pradolin, the driving force behind Housing All Australians, a not-for-profit organisation. "Super funds want to be spared their risk geographically.

"This could be a thousand different homes and apartments scattered across Australia."

It's not a random thought bubble. Officials from the City of Melbourne and the councils of Port Phillip, Stonnington, Yarra and Maribyrnong received a briefing on the model and the PwC report at a meeting last week, and will spend the first half of 2020 considering how it could be implemented.

There is a lot to consider.

"The theory's great – the challenges lie in the implementation," said PwC real estate advisory partner Ross Hamilton, a co-author of the report.

"The first one is how does council compress the planning approval time frame. The planning piece is the most material element."

While the time savings could deliver cost reductions that could price rental homes at a range of discounts to the commercial market, councils would need the capacity to assess development applications faster and to do so without compromising the quality of the projects.

To complete approvals within three months would also mean curbing third-party objection rights, such as residents' ability to challenge a proposed scheme in a planning tribunal. This would be politically sensitive and also require the state government to change planning processes.

Developers themselves would also need to be convinced such a scheme could work.

"The development market would be a little sceptical about the ability of council to deliver on those promises," Mr Hamilton said. "If councils can deliver on the time frames, it would be quite appealing for developers."

www.pwc.com.au

# PwC Analysis of the PRADS Model

*As an example of a Private Market Affordable Rental Housing Delivery Model*

**Inner Melbourne Action Plan**

November 2019

# Disclaimer

This Report was produced for the Inner Melbourne Action Plan "(IMAP)" Councils, defined as the Cities of Melbourne, Port Phillip, Stonnington, Yarra and Maribyrnong.

We prepared this Report solely for IMAP's use and benefit in accordance with, and for the purpose set out in, our engagement letter with the City of Port Phillip (on behalf of IMAP) dated 14 May 2019 and Section 1 of our Report. In doing so, we acted exclusively for IMAP and considered no-one else's interests or individual needs.

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The analysis in this Report does not constitute financial advice and is not representative of any individual project or market segment.

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# Executive summary

Housing affordability has become an ever-increasing problem across Australia, both from the perspectives of home ownership and affordable rental. This has become relevant for local government ("Council") due to changes in the Victorian Planning and Environment Act 1987 which includes a new objective "to facilitate the provision of affordable housing in Victoria", as well as the social and moral value of creating diverse communities. Councils are now exploring how to create mechanisms that provide affordable housing options within their municipalities. One way that this can be supported is by reducing the cost of delivery of new housing, and, in turn, enforcing that these cost savings are passed on to the tenant as affordable housing. A collaborative partnership was formed between the IMAP Councils - Melbourne, Port Phillip, Stonnington, Yarra and Maribyrnong to strengthen the liveability, attractiveness and prosperity of the inner Melbourne region. These Councils have identified the need to have a proactive response to affordable housing. As a result, IMAP collectively agreed to engage PwC to investigate the Permanent Rental Affordability Development Solutions developed by Housing All Australians ("PRADS Model" or "PRADS" or "the Model") as one response to Melbourne's current housing affordability crisis.

The intent of the PRADS Model, as quoted in a Housing All Australians ("HAA") report, *"is to deliver affordable housing through a mechanism which does not require government subsidy but merely uses local government to facilitate the delivery of affordable dwellings through voluntary planning mechanisms. These mechanisms will not be dependent on government and therefore will ensure continued supply."*

The PRADS Model, in its broader context being developed by HAA, is also looking at a range of incentives beyond the scope of the IMAP project, such as rezoning and capturing value uplift under discretionary planning controls. Rezoning and value uplift incentives are beyond the scope of this Project, but this does not preclude IMAP Councils from considering them in tandem when opportunities arise.  PwC's investigation involved a qualitative and quantitative analysis of the key incentives ("incentives" or "mechanisms") that facilitate the delivery of the PRADS Model, through two (2) hypothetical apartment development scenarios located in Windsor and Fishermans Bend. Below highlights the key findings from our analysis:

- **Timing (fast-track planning approval process)** – This incentive demonstrated the most substantial financial impact on the delivery of PRADS units. However, the key consideration for the application of this incentive is the practicality of implementing a process whereby town planning decisions will be granted within 3 months of submission. We note that this 3 month period is for Council decision making, only, and not for any potential VCAT appeal process. To be effective as an incentive, each Council would need to consider whether it wishes to abolish third party appeal rights. Our analysis has also demonstrated that both the developer and local government will need to implement robust processes and design mechanisms to minimise the risk of poor planning and decision making.

- **Car parking dispensation** – The quantitative analysis suggests this incentive does not provide a large financial impact for the developer. However, we acknowledge that on sites with stacked car parking requirements, like the Fishermans Bend area, this mechanism may allow for the reduction in car parking density to be replaced with residential apartments, without exceeding the density limit of the site. This topped-up residential component has the ability to produce an uplift in revenue from sales, therefore acting as a supplementary incentive to car parking dispensation. Conversely, another key consideration in the implementation of this incentive is the impact on the project's marketability for the developer. If car parking is not provided, there may be a financial impact resulting from reduced sale prices and/or extended sales periods, thereby impacting project feasibility.

- **Council rates exemption** – The key consideration for council rates exemption is that it does not offer significant leverage as a cost saving for developers to deliver affordable housing for both small-scale and large-scale sites. It is important to note, that while this incentive may not work for the private sector, such as for the PRADS model, it plays an important role in the community housing sector as a supportive financial mechanism for their business operating model. We understand that it is at the discretion of local councils in determining if they apply rates exemptions to community housing organisations.

- **Taxation incentives** – Taxation incentives may be available to retail investors or institutional investors to stimulate their investment in the PRADS Model. Within our scope of work, IMAP has asked us to provide specific commentary on the application of the HomeGround Private Tax Ruling and, more broadly, Managed Investment Trusts ("MITs"). We do not see application for the HomeGround Private Tax Ruling to the PRADS Model and, whilst we acknowledge the intent of the MIT changes introduced by the Federal Government to stimulate the production of affordable housing, we have to date not seen a material increase in affordable housing supply by large local property investors/fund managers or overseas investors.

We conclude that, from a theoretical perspective, the PRADS Model has appeal. Based upon our understanding and review of the Model, it is the practical implementation of the Model (not unlike the implementation of any new Model) that presents matters that may require further investigation and consideration by stakeholders. We detail these implementation considerations below.

- **Role of local government**
  - Local government will need to have streamlined planning processes in place to facilitate the effective fast tracking of PRADS town planning applications, noting that our quantitative analysis indicated that the strongest housing outcomes are likely to be driven, principally, by the compression in the planning timeframe and additional certainty that developers can, in turn, "rely" on. This may require dedicated resources and defined procedures being established within local government to ensure that approval timeframes are met whilst ensuring that "quality" of decision making and development and urban design outcomes are not compromised as a consequence of compressed timeframes. We note the private sector stakeholder feedback and scepticism about the ability of the planning system and local government to work within compressed timeframes.
  - Local government will need to develop a framework by which it "negotiates" with developers/applicants. This process will need to be transparent, well understood, very easy to implement and have the necessary safeguards to ensure that negotiations are not structured to derive gamed outcomes. This is a critical consideration for local government. For example, on what basis will local government negotiate and how will it know it is getting a fair deal?
  - Local governments should invest to further understand their tenant demand profiles and the depth of the required subsidy/ies within their respective municipalities.
  - Local government should consider the legislative and/or other approval frameworks that may be required to enable rate relief. We note that our quantitative analysis has shown that the application of local government rate relief provides minimal impact in terms of the supply of affordable housing stock.
- **Branding and promotion of PRADS Model**

  The internal and external branding and promotion of the PRADS Model needs to be carefully positioned and understood by all stakeholders. Certainty of timing, outcome and risk profile will vary for each stakeholder and be fundamental to the success of PRADS. For example, developers will require certainty of timing, the retail property investor market may need educating and, frustratingly, delineation between social and affordable housing may need to be reinforced. External financiers will require a detailed understanding of the risk profile of a PRADS housing product and the application of the restriction placed on title.
- **Retail investor market**
  - In theory, the investment in a PRADS housing product should generate the same investment yield for the same investment housing product without PRADS. We speculate that the, on balance, lower level of equity required to fund the purchase price of an investment property may broaden the depth and appetite from the retail investor market. However, the marketing and promotion of the PRADS Model to the retail investment market will require careful positioning.
  - Consistent with the point above, it is unclear what additional impact, if any, the application of a restriction on title (for the effective life of the property) may have on the underlying value of the property; for example, would a hypothetical purchaser seek an additional purchase price discount because of the title encumbrance? PRADS would represent a "new" variant on the residential

property investment class which is untested. We note that the NRAS obligation applies for a period of <u>only</u> 10 years, at which point the property becomes unencumbered. We suggest that a level of investor sounding be undertaken to better understand how retail investors may respond to the PRADS structure.

- Unlike NRAS, the PRADS product does not provide a refundable tax off set for investors. There is no taxation incentive inherent in the Model which is intended to enhance investment returns. We understand that the private tax ruling obtained by HomeGround Real Estate allows the landlord/owner to claim a tax deduction for the rental shortfall (between market and actual). We don't see the direct application of this ruling for PRADS, as the tax deduction applied relates to owners with properties that are valued on an "unencumbered basis" (i.e. full market value) – a PRADS housing product proposes a discounted rental as a function of a discounted capital value.

- **Institutional investor market**
  - The NRAS model failed to garner institutional (superannuation, listed and unlisted funds) appetite for residential investment product. There were a wide number of reasons for this including (but not restricted to): lack of understanding relating to the historical performance of the residential sector (and apportionment of income and capital returns), the dilution of portfolio investment returns (residential attracting lower yields relative to other asset classes), the inability to secure scale and the perceived risks associated with property management, asset management and brand damage should tenants default and be evicted.

    In more recent times, we are seeing a much greater appreciation of the residential sector as an institutional asset class, with investor interest increasingly given the compression in yields across traditional asset classes and the emergence of the build to rent sector in Australia. Notwithstanding this, we suspect that without scale, institutional appetite and investment, in the short term, may be limited. We acknowledge the existence of MITs and other recent changes by the Federal Government to stimulate the provision of affordable housing, however, to date, we have not seen material uplift in the provision of affordable housing through the MIT platform. This, therefore, may leave the PRADS Model as a principally retail or "mum and dad" style of investment.
  - Detailed market sounding to establish the investment appetite of retail (and institutional investors) is regarded as a prudent next step should stakeholders wish to move forward with the PRADS Model into an implementation phase.

- **Scalability of PRADS**
  - Our quantitative analysis (using the Fishermans Bend project example) illustrates that, theoretically, a total of 27 PRADS dwellings (out of a total project of 277 dwellings) could be provided at 80% of market rent, whilst keeping the developer financially neutral. Note, this was achieved by compressing an assumed 2-year planning allowance into 3 months. The achievability of this will be clearly a function of local government approval frameworks. It is also pertinent to highlight that should the approval timeframe be extended to, say, 6 or 12 months this would reduce the achievable affordable housing yield. Similarly, this analysis was prepared assuming the developer is willing to effectively pass over 100% of any "gain" as affordable housing. It is not unreasonable to think that the developer may need to be further incentivised to participate in PRADS. We note within our analysis that additional modelling was undertaken to show the impact of a greater rental subsidy at 60% and 50% of market rent, and this is detailed further within the Report.
  - We believe the PRADS Model is capable of providing scale. Our analysis has shown that on smaller sized projects the impact of incentive application is minimal, however, for larger scale projects it could be material. For example, in a larger urban regeneration precinct and via rudimentary extrapolation of our analysis, within an overall development yield of, say, 5,000 dwellings, we believe it may be possible to secure between 400-600 dwellings (at 80% of market rental and leveraging the incentives considered). At 50% and 60% of market rent we expect a total outcome of between 150-200 dwellings could be provided. The resolution of the implementation challenges (detailed herein) would be key factors to achieving these outcomes.

We would strongly encourage the City of Port Phillip, City of Melbourne and the State government, in particular, to undertake further analysis to consider the application of PRADS for regeneration areas such as Fishermans Bend.

- **Governance processes and outcomes**
  - We concur with the general governance processes and outcomes proposed within the PRADS Model.
  - The PRADS Model contemplates the creation of an Affordable Rental Housing Register by the State government which identifies all affordable rental obligations and is randomly audited annually to ensure satisfactory compliance with the rental condition. We agree with this approach, however, we anticipate that considerable dialogue will be required with the State government relating to the model's implementation. A key concern we have relates to the enforceability of PRADS - put simply, what is the consequence for a private sector owner if they don't adhere to their below market rental obligations? For example, should a Section 173 Agreement be used as the legal instrument to enforce PRADS? in a practical sense, what are the legal consequences for non-compliance of PRADS?

- **Property management**
  - We note that the PRADS Model contemplates the appointment of a qualified property manager which could either be a private sector real estate agency, or a community housing association or provider. We expect that ultimately this decision will rest with the developer, initially, and then the investor, with the selection decision being based on matters such as perceived competence, pricing etc. We do, however, regrettably recognise that there remains a general level of confusion and misunderstanding in the market about the difference between social and affordable housing and, similarly, between different tenant cohorts managed by community housing associations. This may need to be further considered and dispelled in the marketing and brand promotion of PRADS, together with building an appreciation of whether the nature of the tenancy manger gives rise to adverse pricing or investment decisions.

The PRADS Model is an innovative approach to addressing the supply of affordable housing. We remain supportive of the Model and believe that it is capable of being scalable within the market and, by consequence, would improve the lives of many Melbournians. The principal challenge for the Model is traversing the line from theory to practice and hence the implementation challenges we foresee should be very carefully considered and worked through with all relevant stakeholders.

[redacted]

**Ross Hamilton**
Partner
[redacted]

[redacted]

**George Housakos**
Director
[redacted]

# Contents

# 1 Introduction

## 1.1 Purpose

The City of Port Phillip, on behalf of the Inner Melbourne Action Plan ("IMAP") Councils, engaged PricewaterhouseCoopers ("PwC") to investigate a private sector affordable rental housing delivery model, based on the Permanent Rental Affordability Development Solutions ("PRADS Model" or "PRADS" or "the Model"). The purpose of this Report is to:

a) investigate a broad range of planning and financial incentives, as instructed by IMAP, which could be used in negotiating Voluntary Planning Agreements between IMAP Councils and the private sector; and

b) observe the implementation of these incentives through the application of the PRADS Model. The Model constitutes a "negotiation between the developer and local government around the number of dwellings and the percentage below market rent for which these dwellings could be rented. It is intended that this obligation would be secured on title via a Section 173 Agreement" under the Victorian Planning and Environment Act 1987.[1] Our analysis is based on information provided by IMAP on the background of the PRADS Model.

## 1.2 Engagement overview

A collaborative partnership was formed between the IMAP Councils - Melbourne, Port Phillip, Stonnington, Yarra and Maribyrnong to strengthen liveability, attraction and prosperity of the inner Melbourne region. As a result, IMAP collectively agreed to engage PwC to investigate PRADS as one response to Melbourne's current housing affordability crisis. This Report is intended to provide clarity on the purpose of the PRADS Model in enabling the private sector to facilitate the delivery of affordable housing through planning mechanisms controlled by local government. In conducting this study, PwC has qualitatively and quantitatively analysed the incentives attached to the PRADS Model through two (2) hypothetical apartment development scenarios, as agreed with IMAP, located in Windsor and Fishermans Bend. These incentives include:

- Timing – fast-track planning approval process (qualitative and quantitative analysis);
- Car parking dispensation (qualitative and quantitative analysis);
- Council rates exemption (qualitative and quantitative analysis); and
- Taxation considerations (qualitative analysis).

In addition, we have provided high level commentary around the governance and implementation mechanisms associated with PRADS.

[1] Content sourced from Housing All Australians Report, (12 June 2019).

## 1.3 Housing affordability context

The housing affordability problem has broadened and deepened over the last 10 – 20 years in the Inner Melbourne Region. This has resulted in a larger spectrum of people affected by a lack of housing affordability and rental stress, ranging from the very low, low and moderate income households. As a result, many households are now locked out of home ownership and are forced to remain permanently in private rental housing.

The dynamics that are emerging include:

- The increasing gap between social housing and private market rents which has resulted in greater rental stress for low income households; and
- The resulting interest in affordable housing products that target a broader spectrum of housing need, including moderate income households.

Broader government interventions to address the changing dynamics of housing affordability include:

- Local governments being tasked with greater responsibility to respond to housing affordability in a positive way;
- State government implementing housing strategies such as 'Homes for Victorians' and the refresh of 'Plan Melbourne', which includes committing money to targeted programs to address homelessness and to increase the supply of social and affordable housing; and
- Federal government policy and affordability packages targeting low to moderate income earners.

The deteriorating housing affordability situation in Melbourne sparked interest from the IMAP Councils, collectively, to investigate a range of strategies and initiatives to increase affordable housing supply. Fundamental to the ability to respond to the affordability crisis is the aligned partnership between the private and public sectors, as well as not for profits. In responding to these affordability challenges, an initiative the IMAP Councils are investigating through PRADS is the multiplicity of planning and financial mechanisms to facilitate an increase in affordable housing and to enhance Melbourne's and Victoria's housing affordability, in general.

A greater need for affordable housing products across the housing continuum is necessary, in particular those targeting moderate income households and key workers. Examples of these existing products/housing models include (but are not restricted to):

- Rent to Buy;
- Shared Equity Housing; and
- Community Land Trusts.

IMAP has concluded that without a greater level of supply provided by private affordable housing products, social and economic problems will increase, resulting in:

- Greater social polarisation: between social housing (very low and low income) and market rate private housing (upper moderate – high income);
- Limited housing choice for moderate income households and key workers, and households moving up or down the housing spectrum as their circumstances and life cycles change, creating bottlenecks in the housing system;
- Economic inefficiencies for regions that have unaffordable housing and which rely on key workers (and low income wage earners) who need to travel long distances to work; and
- Increasing demand for social housing from households unable to sustain private rents and which are, at risk of ultimately, moving into housing poverty.

## 1.4 PwC's commitment

PwC Australia has a large focus on homelessness and testament to this commitment is The Constellation Project. The four founding members of The Constellation Project: Australian Red Cross, Centre for Social Impact, Mission Australia and PwC Australia, are harnessing their respective skills, resources and networks to drive change in addressing homelessness in Australia. By harnessing our collective intelligence and activating our networks, we will turn information into action and make headway on our ambitious vision to end homelessness in a generation.

The PwC Real Estate Advisory team has also made its own commitment to dedicate a material portion of our business efforts towards housing affordability, recognising it is a long term structural problem in the property market. Our team comprises subject matter experts and we understand that the affordability crisis now impacts the spectrum of very low, low and moderate income earning households. We have tackled various issues through working with government, private sector and not-for-profits. We work with government to develop policy, with the private sector to improve strategy, supply and to develop delivery models, and with NFPs on advocacy issues, supply and strategy. Beyond our commercial activities, we see the value in providing pro-bono work to the sector.

A more detailed overview of The Constellation Project and the nature of the work that PwC is undertaking in an effort to tackle homelessness is included as Appendix A to this Report.

# 2 Outline of PRADS Model

The following outline of the PRADS Model has been based on the HAA report provided to us and included as Appendix B to this Report.

*"The intent of the PRADS Model is to deliver affordable housing through a mechanism which does not require government subsidy but merely uses local government to facilitate the delivery of affordable dwellings through voluntary planning mechanisms. These mechanisms will not be dependent on government and therefore will ensure continued supply.*

*The effect of this Model is the creation of privately owned rental housing, rented at below market rents to tenants with incomes that satisfy the definition of affordable housing under Section 3AB of the Planning and Environment Act 1987, the "Affordable Housing Income Levels". This obligation will exist on title for the economic life of the dwelling. The Model is deliberately created to assist key workers and is positioned within the housing continuum.*

*The developer and Councils negotiate the number of dwellings and the percentage below market rent for which these dwellings can be rented. This obligation will be secured via a Section 173 Agreement (under the Victorian Planning and Environment Act 1987). The developer will sell these dwellings to investors in the private market with the rental encumbrance and an obligation to comply with an appropriate governance process. Through an approved private sector property manager, the private investor then rents the dwelling to an approved tenant that is means tested through verification mechanisms.*

*As an additional level of governance, PRADS proposes to include the creation of an Affordable Rental Housing Register by the State which identifies all affordable rental obligations and is randomly audited annually to ensure satisfactory compliance with the rental condition.*

*This Model, if scaled up for delivery through a variety of voluntary planning agreements, has the potential to create a significant supply of long-term affordable private rental housing at a faster rate, compared with negotiating developer contributions for community housing, which require a greater 'subsidy' per unit. From a governance perspective, this Model was based on a similar process that existed up until recently and was intended to use a similar management style as the National Rental Affordability Scheme (NRAS) properties. If implemented, IMAP should investigate existing similar processes to ensure these dwellings are operated appropriately."*

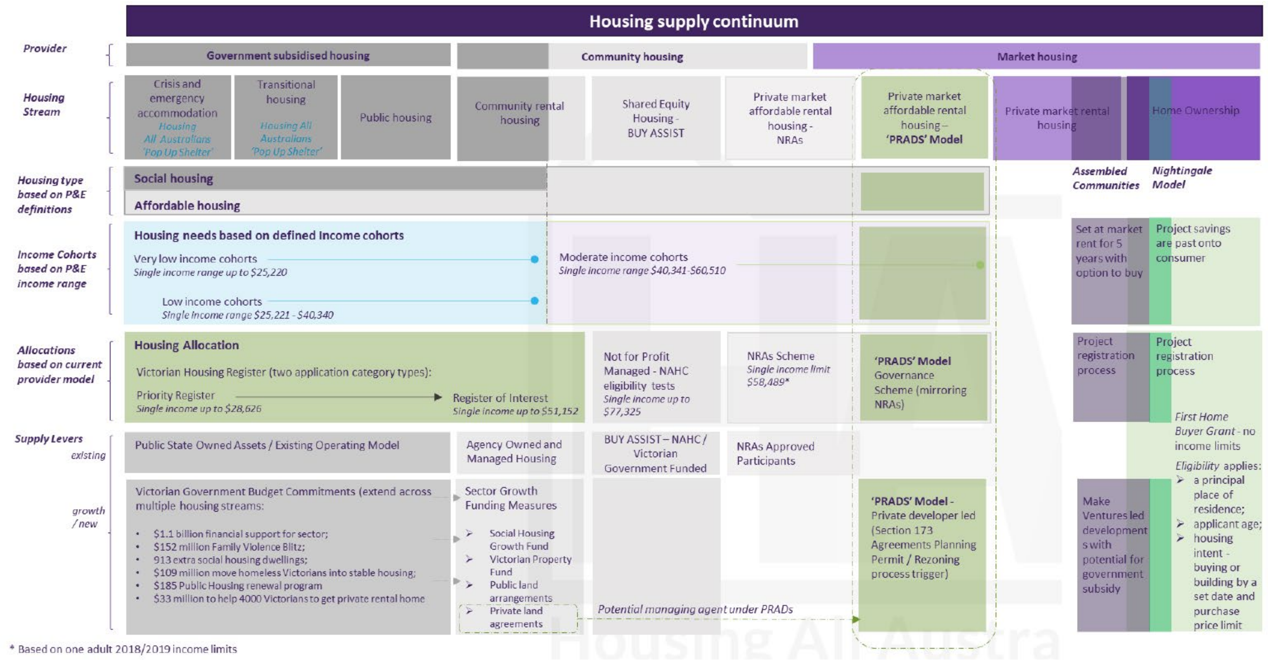
More detail on the PRADS Model is provided in Appendix B.[2]

[2] Content sourced from Housing All Australians Report, (12 June 2019).

## 2.1 PRADS and the housing continuum

The HAA report outlines the relationship between PRADS and the housing supply continuum. Figure 1 illustrates the housing continuum and where PRADS would potentially deliver the greatest impact.

**Figure 1: PRADS relationship with the housing supply continuum**




*Note: This diagram is sourced from the Housing All Australians Report, (12 June 2019).*

## 2.2 PRADS tenancy targets and incentives

An important consideration for PRADS, and the provision of affordable housing in general, is the existence of key workers who fall within a specific income threshold. Broadly defined, they can be employees of the public and private sectors that provide an essential service to the community and are typically associated with lower to moderate incomes. The PRADS Model aims to target those who fall within the moderate annual income range (see Figure 2) to occupy the affordable dwellings.

**Figure 2: Income thresholds for Greater Capital City Statistical Area of Melbourne**

| | Very low income range (annual) | Low income range (annual) | Moderate income range (annual) |
|---|---|---|---|
| Single adult | Up to $25,220 | $25,221 to $40,340 | $40,341 to $60,510 |
| Couple, no dependant | Up to $37,820 | $37821 to $60, 520 | $60,521 to $90,770 |
| Family (with one or two parent) and dependent children | Up to $52,940 | $52,941 to $84,720 | $84,721 to $127,080 |

*Note: This diagram is sourced from the Housing All Australians Report, (12 June 2019).*

The PRADS Model seeks to target moderate income earners, in which housing in well serviced areas, within close proximity to their place of work is often inaccessible. PRADS would enable these moderate income earners to access housing in well-connected locations, additionally creating greater diversity within these communities. The discounted rent that the PRADS Model is proposing may only be feasible through the addition of a suite of incentives including (but not restricted to):

- Timing (fast-track planning approval process);
- Car parking dispensation;
- Council rates exemption; and
- Taxation considerations.

These incentives are the key themes of this Report.

# 3 PwC Analysis

## 3.1 Approach

In undertaking our review, PwC was instructed to assess PRADS through a qualitative and quantitative analysis.

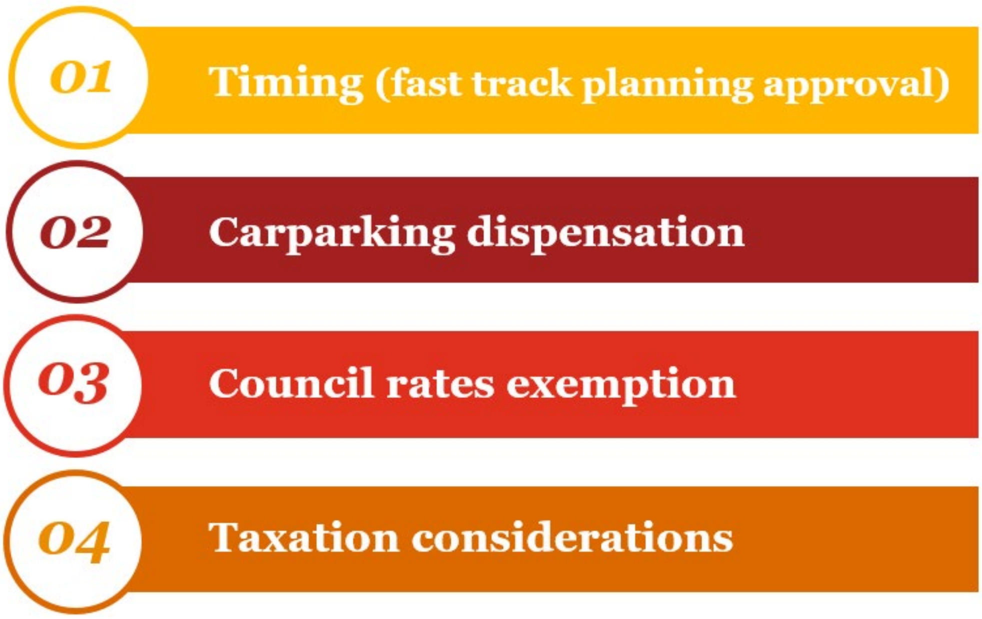
The qualitative analysis examined the practicality of implementation under each incentive. The quantitative analysis examined the trade-off between the level of discount and the number of dwellings that may be delivered by leveraging the incentives whilst maintaining developers' returns. The quantitative analysis conducted references two (2) hypothetical apartment development examples. These examples, situated in Windsor and Fishermans Bend, were selected in consultation with IMAP representatives, based on their relevant location within inner Melbourne local government areas the City of Stonnington and the City of Port Phillip, respectively. The analysis was undertaken with respect to a low density development in Windsor and a high density development in Fishermans Bend to understand how scale impacts the outcome of each incentive.

In conjunction with our desktop analysis, multiple interviews were undertaken with private residential developers and representatives from the Affordable Housing Industry Advisory Group, which included members from the Community Housing Industry Association ("CHIA"), Common Equity Housing Limited ("CEHL") and the Urban Development Institute of Australia ("UDIA"). Their combined knowledge and experience of the sector informed the practicality of implementing these incentives. PwC believed it was important to understand the views of different stakeholders in conducting its research. The views of the various groups are detailed further within this Report.

## 3.2 Qualitative analysis of PRADS

PwC has conducted a qualitative analysis of the planning incentives under the PRADS Model to assess the practicality of implementation. The qualitative analysis, in conjunction with the feasibility assessment of PRADS, is a crucial step in understanding the behaviour of this Model in a holistic and practical sense. Figure 3 defines the incentives PwC has analysed in this section:

**Figure 3: List of incentives qualitatively analysed**



### 3.2.1 Timing (fast track planning approval)

The application of the timing incentive leverages a fast-track planning approval process. In Victoria, a typical planning application process has a process timeline of up to 24 months. We understand from the IMAP Councils that the fast-track process for planning would ensure a guaranteed planning decision within three (3) months, subject to the provision of all information reasonably required by Responsible Authority for the assessment of an application. We note this three (3) month period is for Council decision making, only, and does not allow for any potential VCAT appeal process. This concept would align with a Victorian State Government initiative called 'VicSmart'[3], for example, which currently exists for the purposes of streamlining planning applications for small scale projects. Development applications using the VicSmart fast track process are only successful if they abide by a specific criteria.[4] The IMAP Councils may wish to consider replicating the VicSmart initiative and develop a set of criteria that can deliver the desired outcomes for Councils and the developer. We also refer to the Moreland Design Excellence Scorecard trial which we understand is an example of this type of voluntary incentive that offers a time saving for planning approvals. PwC notes that VCAT appeal rights may restrict the legitimacy of the planning decision approval, potentially reducing the effectiveness and likelihood of the implementation of this incentive. To be effective as an incentive, each Council will need to consider whether it wishes to abolish third party appeal rights. For example, Fishermans Bend has all appeal rights exempt, supporting the practicality of this incentive in this precinct. IMAP should seek to identify additional areas and/or circumstances where appeal rights could be removed. PwC recognises this will need to be approached on a case by case basis, as the removal of VCAT appeal rights will need to be considered in conjunction with the development controls of certain locations and stakeholder interests.

Whilst fast tracking planning approvals is an incentive local government can leverage for PRADS, further work is required by local government in developing an internal capability that equips them with the requisite skills to negotiate with developers. Councils need to develop planning and design review processes for fast-tracking development approvals which don't impact the integrity of development and urban design outcomes.

### 3.2.2 Car parking dispensation

The application of car parking dispensation involves a reduction or waiver of car parking requirements across a development. Car parking is a large cost input into a developer's feasibility and, if the option of reducing this cost was available, developers may elect to use this incentive as it reduces costs and, in some instances where car parking is above ground, results in greater density (as net saleable "NSA" area) that may result in an increase in development profits.

Figure 4 illustrates current provisions for car parking under the Victoria Planning Provisions. Column A applies unless Column B applies.[5] Column B applies if:

- Any part of the land is identified as being within the Principal Public Transport Network Area as shown on the '*Principal Public Transport Network Area Maps'* (State government of Victoria, August 2018); or
- A schedule to the Parking Overlay or another provision of the planning scheme specifies that Column B applies.

**Figure 4: Residential car parking requirements, State Governement of Victoria**

| Column A | Column B | Car parking measure |
|---|---|---|
| 1 | 1 | To each one or two bedroom dwelling |
| 2 | 2 | To each three or more bedroom dwelling (with studies or studios that are separate rooms counted as a bedroom) |
| 1 | 0 | For visitors to every 5 dwellings for developments of 5 or more dwellings |

*Note: This table is sourced from* http://planningschemes.dpcd.vic.gov.au/schemes/vpps/52_06.pdf

3 https://www.planning.vic.gov.au/planning-permit-applications/vicsmart

4 https://www.planning.vic.gov.au/planning-permit-applications/vicsmart

5 http://planningschemes.dpcd.vic.gov.au/schemes/vpps/52_06.pdf

Local governments in Victoria, through the application of Parking Overlays, can control, at a local government level, the car parking provisions for new developments. As such, a number of Councils within IMAP have within their local planning frameworks potential dispensation for zero car parking provision.

The feasibility analysis undertaken across the two hypothetical development sites, to reduce car parking by 50 percent, demonstrated a lack of viability associated with the application of the car parking incentive, as the reduction in revenue was greater than the construction cost savings associated with the reduction in car parking.

In developments where car parking is above ground, the exemption from providing car parking would allow for a residential density uplift producing an uplift in project revenue due to residential revenue being greater than that of car park revenue. In this instance, car parking dispensation would be considered a substantial incentive for developers electing to voluntarily use the PRADS Model.

Whilst this mechanism may be an effective lever for development sites with above ground car parking, realistically it is constrained for projects that are not well-serviced by public transport as it impacts on the marketability of the dwellings, and the end sale price on completed product due to reliance on cars by the prospective purchasers.

### 3.2.3 Council rates exemption

This incentive focusses on providing Council rates exemption for developments that incorporate a required level of affordable housing. We understand that the City of Melbourne has a rates reduction policy for new affordable housing development.

The rates Councils collect reflect a form of property tax. The value of each property is used as the basis for calculating what each property owner will pay[6]. Rates contribute to local government for the cost of providing facilities and services to the community, including maintenance of parks, library services, roads and recreational facilities, etc.

Within the Victorian Local Government Act (1989), under sub-section 154(2)(c), any part of land used **exclusively** for charitable purpose is rates exempt. Moreover, affordable housing is referred to in the Local Government Act, with sub-section 169(1D) stating that "a Council may grant a rebate or concession in relation to any rate or charge, to support the provision of affordable housing to a **registered agency**" (a registered agency being a housing association or housing provider registered with the Victorian Department of Housing).

Therefore, based upon our interpretation of the Victorian Local Government Act (1989), an exemption from Council rates would likely need legislative change to extend the application of the exemption to the private sector. The Council rates exemption, as an incentive on its own, will not be a substantial lever that will incentivise participation from the market, and the effort of undertaking legislative change to enable the application of the mechanism by the private sector may not justify its use as an incentive for PRADS.

### 3.2.4 Taxation considerations

Taxation incentives may be available to retail investors and/or institutional investors to stimulate their investment in the PRADS Model. Within our scope of work, IMAP has asked us to provide specific commentary on the application of the HomeGround Private Tax Ruling, and more broadly, Managed Investment Trusts (MITs). We provide specific comment on these matters below.

**HomeGround Real Estate Private Tax Ruling**

HomeGround Real Estate is a not for profit real estate agency which we understand is owned by Launch Housing, a Victorian community housing association. In 2016, HomeGround sought, and the Australian Tax Office granted, a Class Ruling (CR 2016/42) which, in effect, allows landlords who list their property at a discounted rental rate with HomeGround to claim the gap (between market rent and rents charged) as a tax deduction at the end of the financial year. The tax ruling is not designed as a financial incentive for landlords, as such, but is designed to recognise the contribution made by the owner by allowing them to claim the gap between market rent and the discounted rent they decide to offer to the tenant. We understand that HomeGround provides landlords with a tax deductible donation receipt at the end of each financial year to facilitate the taxation deduction.[7]

[6] Subsection 154(2)© of the Local Government Act 1989 (Victoria)

[7] https://www.homegroundrealestate.com.au/news/ato-ruling-information/

Based upon our understanding of CR 2016/42, it is difficult to see a direct application to the PRADS Model. The tax deduction applies to owners who lease their properties at below market rent, noting that these properties reflect an "unencumbered basis" (i.e. full market value) – a PRADS housing product proposes a discounted rent as a function of a discounted capital value.

**Managed Investment Scheme**

"Managed Investment Schemes ("MIS") are also known as 'managed funds', 'pooled investments' or 'collective investments'. Generally, in a managed investment scheme:

- people are brought together to contribute money to obtain an interest in the scheme ('interests' in a scheme are a type of 'financial product' and are regulated by the Corporations Act 2001 (Corporations Act))
- money is pooled together with other investors (often many hundreds or thousands of investors) or used in a common enterprise
- a 'responsible entity' operates the scheme. Investors do not have day to day control over the operation of the scheme." [8]

MIS cover a wide variety of investments including **property trusts**. A MIT structure essentially allows local and foreign investors to invest in Australia through passive investments such as land for the purposes of deriving rent. On 9 May 2017, the Federal government announced that for income years starting on or after 1 July 2017 it would introduce rules to enable MITs to acquire, construct or redevelop property that is **affordable housing**.[9] On 14 September 2017, an Exposure Draft of the proposed legislation was released, clarifying that from September 2017 MITs could not acquire residential property, other than affordable housing. Following consultation, the Bill was introduced and approved so that MIT distributions that are attributable to investments in residential housing that **are not** used to provide affordable housing will be non-concessional MIT income that is subject to a final MIT withholding tax at a rate of 30%.

The underlying intent of the Federal government initiating these changes was to seek to stimulate large local and foreign property players to add special purpose affordable housing MITs to their suite of investment funds available to investors. Under the changes, the capital gains tax discount for resident individuals has increased from 50% to 60% where the MIT has used residential real estate to provide affordable housing for at least 3 years prior to sale; and for non-resident investors a 15% withholding tax rate can be applied if the MIT has used residential real estate to provide affordable housing for at least 10 years. We further note, under these changes the property must be managed by a community housing provider.

To date, we have not seen a material uplift in the provision of affordable housing through the MIT platform and we highlight further comments regarding institutional appetite for the residential sector elsewhere within this Report. We also note that the MIT legislation excludes long term rental products such as Build to Rent.

## 3.3 Quantitative analysis of PRADS

PwC has conducted a quantitative feasibility analysis based on hypothetical apartment developments within selected IMAP Local Government Areas. The analysis was undertaken in the form of development feasibility modelling using the Estate Master software. The sites were selected to provide a contrast in scale and location. The provision of affordable housing in these examples was tested against the specified PRADS incentives. The sites included:

**Figure 5: Two hypothetical apartment developments**

| Windsor | Fishermans Bend |
|---|---|
| 47 units | 277 units |

[8] ASIC website

[9] https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-on-capital-gains/Encouraging-Managed-Investment-Trusts-(MITs)-to-invest-in-affordable-housing/

The feasibility models for each site include a Base Case (100% private) analysis which was used to derive the baseline of the analysis. Alternative scenarios to evaluate the impact of the incentives based on the discount of market purchase price were also modelled. This is in line with the incentives detailed in this document, and determine which ones have greater ability to incentivise private sector uptake of the PRADS Model. This modelling seeks to determine the trade-off between the level of discounted rent and the number of affordable dwellings provided.

The financial feasibility modelling has included consideration of the following scenarios.

**Figure 6: Feasibility modelling scenarios**


*Note: PwC has included a scenario that combines timing and car parking dispensation as a test to determine the returns created from combining two incentives.*

### 3.3.1 Approach to analysis

To determine the impact of the incentives for each project, the analysis undertaken by PwC followed the approach set out below to determine the trade-off between:

- The level of discounted rent/value, and
- The number of affordable units.

The analysis involved the following steps:

**Step 1.**

The base case development metrics[10] of each project were assessed through a highest and best use analysis.

**Step 2.**

The development profit/risk margin from the base case scenario was adopted as the control variable, to assess the trade-off between the level of discount and the number of affordable dwellings, whilst retaining the integrity of the profit/risk margin for the development.

**Step 3.**

- The number of affordable units was extracted from the Step 2 analysis and used to assess the quantum of discount that could be applied to each unit as a percentage of market purchase price. The discounted unit therefore represents an affordable unit.
- The annual rent was derived from the affordable unit purchase price using the current rental yield relevant to each of the project sites.
- A validation process was undertaken to assess the correlation between the discounted rent derived from a discount to market purchase price and a direct discount in market rent.

For example, the below hypothetical scenario represents the approach to Step 3. We have taken an apartment market purchase price of $500,000 as an example. The annual rent calculated in both scenarios is identical, therefore validating the integrity of the rental yield across both cases.

**Figure 7: Financial analysis (Step 3)**

| Discounted rent derived from a discount to market purchase price | |
|---|---|
| **Purchase Price @80% of market** | $400,000 |
| **Yield** | 4.0% |
| **Annual rent** | **$16,000** |
| | |

| Direct discount in market rent (validation process) | |
|---|---|
| **Purchase Price** | $500,000 |
| **Yield** | 4.0% |
| **Annual rent** | $20,000 |
| **Rent @80% of market** | **$16,000** |

This analysis was conducted over three (3) discounted purchase scenarios, involving the hypothetical sale of affordable dwellings at 50% purchase price, 60% purchase price and 80% purchase price. The following section illustrates the findings from this analysis for both the Windsor and Fishermans Bend sites.

[10] Development metrics such as total revenue for private dwellings, development profit, profit and risk hurdle, project IRR, etc, were used to determine the projects' viability and to establish a baseline for comparison.

### 3.3.2 Summary of findings

*Windsor feasibility outputs*

The table below illustrates the number of affordable dwellings that can be delivered by leveraging each incentive. For each incentive, three discount scenarios were tested to assess the trade-off between the depth of the rental discount provided and the number of affordable dwellings that could be delivered out of the total 47 dwellings. The below figures outline the outcomes from step one and step two, previously described.

**Figure 8: Windsor feasibility outputs**

| Windsor dwelling metrics | | Discount Scenario (# and %) | | | | | |
|---|---|---|---|---|---|---|---|
| | | 80% | | 60% | | 50% | |
| | | *No. of units* | *% of units* | *No. of units* | *% of units* | *No. of units* | *% of units* |
| Incentive | **Base Case** | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Timing** | 4 | 8.6% | 2 | 3.8% | 1 | 3.0% |
| | **Timing / Car parking** | 4 | 9.1% | 2 | 4.0% | 1 | 3.1% |
| | **Car parking** | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| | **Council Rates** | 0 | 0.9% | 0 | 0.4% | 0 | 0.3% |

The following tables illustrate the outputs from the revenue assessment detailed in Step 3 of our adopted approach. Each table indicates the market purchase price of each unit, the discount value (calculated as an output of the incentive applied), the affordable purchase price of each unit and the rental yield. The incentives providing the greatest leverage are Timing and Timing/Car parking (which is predominantly attributed to the cost savings by reducing the planning timeframe). We have summarised the findings from each discounted purchase scenario over the following three tables.

**Figure 9: Windsor feasibility outputs (continued)**

| Windsor revenue metrics | | Discount Scenario ($) | | | |
|---|---|---|---|---|---|
| | | 80% | | | |
| | | *Average Market Purchase Price ($K)* | *Discount applied per unit ($K)* | *Affordable unit purchase price ($K)* | *Rent p.a. (calculated 4% yield) ($K)* |
| Incentive | **Base Case** | $713K | - | - | $29K |
| | **Timing** | $713K | $143K | $570K | $23K |
| | **Timing / Car parking** | $684K | $137K | $547K | $22K |
| | **Car parking** | $684K | $0 | $684K | $27K |
| | **Council Rates** | $713K | $25K | $688K | $28K |

*Note: All scenarios involving car parking dispensation have a different market purchase price resulting from the reduced car parking within the development.*

**Figure 10: Windsor feasibility outputs (continued)**

| Windsor revenue metrics | | Discount Scenario ($) | | | |
|---|---|---|---|---|---|
| | | 60% | | | |
| | | *Average Market Purchase Price ($K))* | *Discount per unit ($K)* | *Affordable unit purchase price ($K)* | *Rent p.a. (calculated 4% yield) ($K)* |
| Incentive | **Base Case** | $713K | - | - | $29K |
| | **Timing** | $713K | $284K | $429K | $17K |
| | **Timing / Car parking** | $684K | $273K | $411K | $16K |
| | **Car parking** | $684K | $0K | $684K | $27K |
| | **Council Rates** | $713K | $10K | $703K | $28K |

**Figure 11: Windsor feasibility outputs (continued)**

| Windsor revenue metrics | | Discount Scenario ($) | | | |
|---|---|---|---|---|---|
| | | 50% | | | |
| | | *Average Market Purchase Price ($K)* | *Discount per unit ($K)* | *Affordable unit purchase price ($K)* | *Rent p.a. (calculated 4% yield) ($K)* |
| Incentive | **Base Case** | $713K | - | - | $29K |
| | **Timing** | $713K | $356K | $358K | $14K |
| | **Timing / Car parking** | $684K | $342K | $342K | $14K |
| | **Car parking** | $684K | - | $684K | $27K |
| | **Council Rates** | $713K | $7K | $706K | $28K |

### *Fishermans Bend feasibility outputs*

Similarly, the table below illustrates the number of affordable dwellings that can be delivered by leveraging each incentive. For each incentive, three discount scenarios were tested to assess the trade-off between the depth of the rental discount provided and number of affordable dwellings that could be delivered out of the total 277 dwellings.

**Figure 12: Fishermans Bend dwelling metrics**

| Fishermans Bend dwelling metrics | | Discount Scenario (# and %) | | | | | |
|---|---|---|---|---|---|---|---|
| | | 80% | | 60% | | 50% | |
| | | *No. of units* | *% of units* | *No. of units* | *% of units* | *No. of units* | *% of units* |
| Incentive | **Base Case** | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Timing** | 27 | 9.6% | 12 | 4.3% | 9 | 3.2% |
| | **Timing / Car parking** | 23 | 8.2% | 10 | 3.6% | 8 | 2.8% |
| | **Car parking** | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Council Rates** | 2 | 0.8% | 1 | 0.3% | 1 | 0.3% |

The following tables illustrate the Fishermans Bend outputs from the revenue assessment detailed in Step 3 of our adopted approach. Each table indicates the market purchase price of each unit, the discount value (calculated as an output of the incentive applied), the affordable purchase price of each unit and the rental yield. The incentives providing the greatest leverage are Timing, Timing/Car parking (which is predominantly attributed to the cost savings by reducing the planning timeframe) and Council Rates. We have summarised the findings from each discounted purchase scenario over the following three tables.

**Figure 13: Fishermans Bend revenue metrics**

| Fishermans Bend revenue metrics | | Discount Scenario ($) | | | |
|---|---|---|---|---|---|
| | | 80% | | | |
| | | *Average Market Purchase Price ($K)* | *Discount per unit ($K)* | *Affordable unit purchase price ($K)* | *Rent p.a. (calculated 4% yield) ($K)* |
| Incentive | **Base Case** | $702K | - | - | $28K |
| | **Timing** | $702K | $141K | $562K | $22K |
| | **Timing / Car parking** | $673K | $135K | $538K | $22K |
| | **Car parking** | $673K | $132K | $541K | $22K |
| | **Council Rates** | $702K | $139K | $563K | $23K |

*Note: All scenarios involving car parking dispensation have a different market purchase price resulting from the reduced car parking within the development.*

**Figure 14: Fishermans Bend revenue metrics**

| Fishermans Bend revenue metrics | | Discount Scenario ($) | | | |
|---|---|---|---|---|---|
| | | 60% | | | |
| | | *Average Market Purchase Price ($K)* | *Discount per unit ($K)* | *Affordable unit purchase price ($K)* | *Rent p.a. (calculated 4% yield) ($K)* |
| Incentive | **Base Case** | $702K | - | - | $28K |
| | **Timing** | $702K | $281K | $421K | $17K |
| | **Timing / Car parking** | $673K | $270K | $403K | $16K |
| | **Car parking** | $673K | $264K | $409K | $16K |
| | **Council Rates** | $702K | $277K | $425K | $17K |

**Figure 15: Fishermans Bend revenue metrics**

| Fishermans Bend revenue metrics | | Discount Scenario ($) | | | |
|---|---|---|---|---|---|
| | | 50% | | | |
| | | *Average Market Purchase Price ($K)* | *Discount per unit ($K)* | *Affordable unit purchase price ($K)* | *Rent p.a. (calculated 4% yield) ($K)* |
| Incentive | **Base Case** | $702K | - | - | $28K |
| | **Timing** | $702K | $351K | $351K | $14K |
| | **Timing / Car parking** | $673K | $337K | $336K | $13K |
| | **Car parking** | $673K | $338K | $336K | $14K |
| | **Council Rates** | $702K | $351K | $351K | $14K |

## 3.4 Summary

The quantitative development feasibility analysis of the two hypothetical apartment developments in Windsor and Fishermans Bend examined the impact of each incentive on the affordable dwelling yield. Figure 16 illustrates, at a high-level, the viability of each incentive across the range of discounts through a traffic light test with 'green' signifying positive impact, 'amber', moderate impact and 'red', minimal impact.

**Figure 16: Summary of financial analysis**


From a pure quantitative analysis, it is evident the incentives, as a general observation, play a similar role across both small and large scale developments. The difference being, however, incentives are more effective on large scale developments as larger affordable dwelling production occurs. Whilst PRADS proves to be most effective when associated with fast-tracked timing, consideration needs to be given to the practicality of implementation, where the application of the incentive is reliant on changes to processes within local government, as discussed within this Report.

# 4 Governance and Legal Considerations

## 4.1 Proposed governance processes

The table below outlines the proposed governance processes for PRADS, as outlined in the HAA report with relevant observations by PwC.

**Figure 17: Overall governance processes and outcomes**

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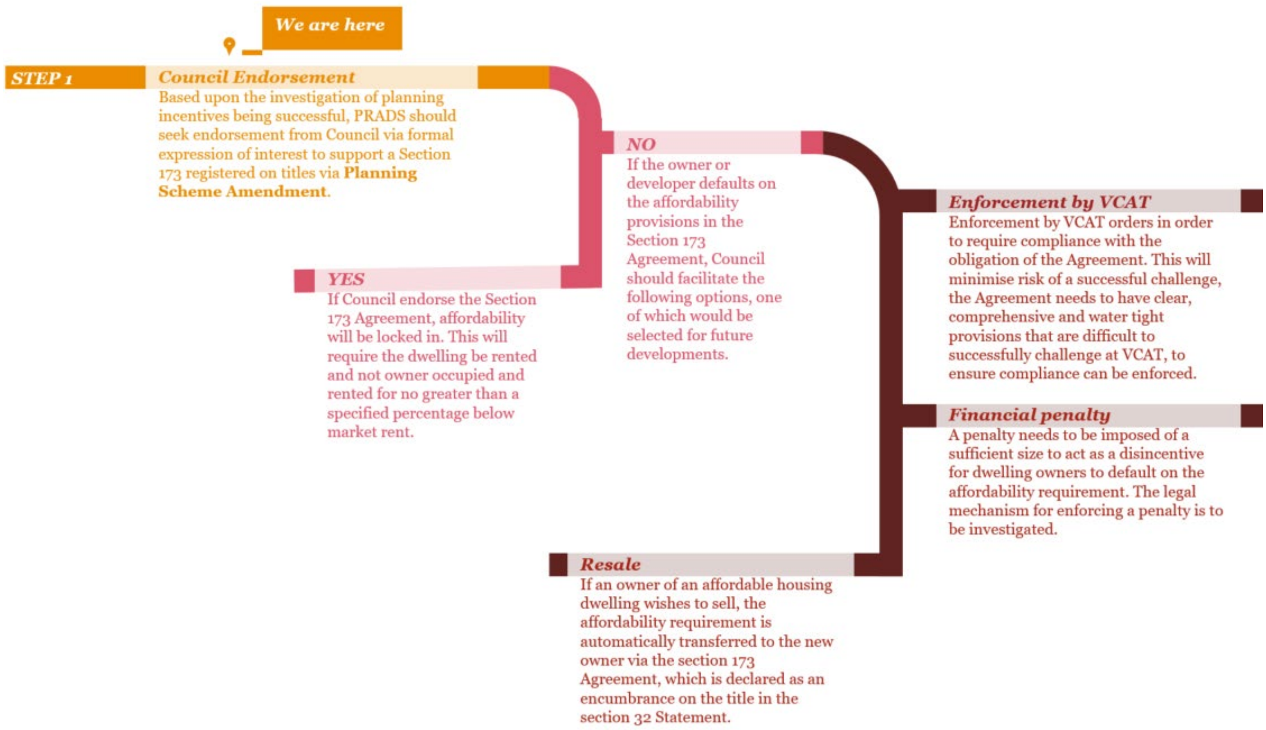
| Theme | HAA Processes | PwC Comments/Outcomes |
|---|---|---|
| **Property management** | • *An appointment of a qualified property manager of the investor or developer's choice. This could either be a private sector real estate agency or a community housing provider.*<br>• *The property manager needs to understand and agree to follow specific processes and governance requirements similar to NRAS.* | • The option of choice, being either a community housing association or provider, charitable organisation or the private sector, may impact investor appetite for the Model (positively/negatively). Accordingly, branding and promotion of the PRADS Model to developers and investors will be critical. |
| **Affordable rent levels** | • *The property manager requests from an approved CHP or CHA the maximum rental to be charged for the designated dwellings.*<br>• *This will be based on a sworn valuation of market rent which will then be reduced by the agreed percentage below market rent negotiated with Council.*<br>• *A fee for service will be paid to the CHP or CHA to conduct this process.* | • Having appropriate rent mechanisms in place protects the interest of the affordable housing tenant.<br>• Provides the property manager with the most accurate and up to date rental amount.<br>• local/state government will need to be bound by robust processes and independent reviews to monitor individual property managers, to ensure they are compliant with the obligations of this Model.<br>• Further consideration should be undertaken as to whether this compliance could be achieved via the use of community housing associations/providers which are currently regulated entities. |
| **Tenant selection** | • *The property manager reviews each tenancy application based on income selection criteria as defined under Affordable Housing Income Levels and the dwelling is then leased to the tenant.* | • This will guarantee the most appropriate tenant is selected for the affordable dwellings. |

| Theme | HAA Processes | PwC Comments/Outcomes |
|---|---|---|
| **Verification** | • *The property manager submits required documentation (incomes and rents) to the community housing provider to verify affordability compliance.*<br>• *The housing provider checks documentation and submits it to the State Government (the relevant department is yet to be determined).*<br>• *This process is currently in place for NRAS. As a further level of compliance, it is recommended that the State conducts annual random audits for all tenancies listed on the Affordable Rental Housing Register to ensure compliance with the Section 173.* | • This will ensure compliance and verification for the tenant, the community housing association/provider and the developer.<br>• The verification process outlined in the HAA Report is reliant on hypothetical processes. If PRADS is to undergo an implementation stage, local government will need to consider and prioritise the practicality of this governance process.<br>• Compliance is undertaken by the community housing sector because it is linked to a Regulatory Act. In this case, an independent compliance system should be established to protect the interest of the tenant, local government and the investor.<br>• S173 Agreements are normally prepared by each respective Council. Consideration could be given for a standardised template across all Councils. |
| **Affordable Rental Housing Register** | • *The State Government creates an Affordable Rental Housing Register (ARHR) to record all affordable housing units that have been negotiated between Councils and developers.* | • The ARHR will be important as it records both the commitments made by developers with Councils and the affordable housing built and tenanted.<br>• Similarly to verification, this step will require significant stakeholder engagement with the Victorian government.<br>• Further discussions should be held with the Victorian Housing Registrar about the PRADS Model.<br>• **A key concern we have relates to the enforceability of PRADS. Put simply, what is the consequence for a private sector owner if they don't adhere to their below market rental obligations? From an implementation perspective this needs to be carefully considered.** |

## 4.2 Legal considerations

Below is a flow chart representing the legal considerations that we understand will need to be put in place and directed by local government for successful implementation of the PRADS Model. These have been interpreted from the HAA document, and should be explored further from a legal perspective.

**Figure 18: Potential legal mechanisms for local government implementation**




We understand HAA is currently working with its legal advisors to further explore enforcement mechanisms relating to the compliance of PRADS.

# 5 Preliminary Stakeholder Feedback

In conjunction with our desktop analysis, multiple interviews were undertaken with private residential developers and representatives from the Affordable Housing Industry Advisory Group, which included members from the Community Housing Industry Association (CHIA), Common Equity Housing Limited (CEHL) and the Urban Development Institute of Australia (UDIA). **The collective feedback from the stakeholder discussions has been summarised below:**

- Incentives investigated through the PRADS Model already exist but are limited in take-up from the private sector. Further analysis and engagement with the private sector is needed to assess the effectiveness of these incentives.

- The planning levers that provide the greatest incentive for private sector uptake of the Model are: density uplift (not considered in the analysis), car parking dispensation and public open space. Public open space exemption or a reduction in levy would potentially act as a significant incentive for developers as typically there is a large cost attributed to it.

- The Victorian Planning system is not designed to turn around approvals in three months, as proposed. There needs to be a greater level of confidence for developers that local government can modify existing processes to fast-track development applications. Unless there is significant change to planning approval processes, developers may not leverage this mechanism voluntarily.

- The Model should only focus on providing affordable rental for key worker housing, where there is no requirement for Government intervention to fill the rental gap.

- Alternative property management options for affordable dwellings would incentivise the private sector to deliver affordable dwellings.

- The Housing Associations need to be involved in the process to ensure compliance with policy.

- The ‘perception’ of Community Housing Association/Provider management as a disincentive needs to be addressed. Why? Developers need to be educated, however they understand that this will be a mindset change and may take time as the sector matures.

- The marketability of a dwelling with an encumbrance on title restricting its use for affordable rental may reduce the pool of private investors who purchase it. This will have a flow on effect on the re-sale value and remove the flexibility to on-sell by investors if there is a limited depth of market.

# 6 Findings

In consideration of the factors outlined in this report, the IMAP Councils are now exploring the PRADS Model developed by Housing All Australians. The theoretical construct of the PRADS Model is relatively straightforward whereby local government facilitates the delivery of affordable dwellings through planning mechanisms negotiated with the private sector (developers). The PRADS Model is the creation of privately owned rental housing, rented at below market rents to tenants with incomes that satisfy the definition of affordable housing under Section 3AB of the Planning and Environment Act 1987. Unlike the National Rental Affordability Scheme (NRAS), this obligation is intended to be registered on title (via a section 173 Agreement or other legal instrument) for the economic life of the dwelling.

The PRADS Model requires the developer and respective local government to “negotiate” the number of dwellings and the percentage below market rent for which the dwellings can be rented. The developer will, in turn, sell these dwellings to investors in the private market, thus creating a supply pipeline of affordable housing stock.

Critical to motivating favourable behaviour from the developer market will be the use of incentives to effectively off set the value lost (from a gross realisation perspective) due to the provision of the affordable housing stock. The developer market would not expect to be financially disadvantaged by providing PRADS housing in their projects. As part of our quantitative analysis, we have been able to demonstrate how PRADS housing stock could be provided, leveraging incentives such as reduced planning timeframes and car parking dispensation (as examples) whilst maintaining the financial integrity of the developer model. The PRADS Model, in its broader context being developed by HAA, is also looking at a range of incentives such as rezoning and capturing value uplift under discretionary planning controls. These incentives are beyond the scope of this Report, but this does not preclude IMAP Councils from considering them.

Based upon our understanding and review of the Model, it is the practical implementation of the Model (not unlike the implementation of any new model) that presents matters that may require further investigation and consideration by stakeholders. We detail these implementation considerations below.

- **Role of local government**
  - Local government will need to have streamlined planning processes in place to facilitate the effective fast tracking of PRADS planning applications, noting that our quantitative analysis indicated that the strongest housing outcomes are likely to be driven, principally, by the compression in the planning timeframe and additional certainty that developers can “rely” on. Councils will need to consider whether they wish to abolish third party appeal rights, which has the potential to prolong the approval process.
  - Local government may require dedicated resources and defined procedures being established within local government to ensure that approval timeframes are met, whilst ensuring that “quality” of decision making and development and urban design outcomes are not compromised as a consequence of compressed timeframes. We note the private sector stakeholder feedback and scepticism about the ability of the Victorian planning system and local government to work within compressed timeframes.
  - Local government will need to develop a framework by which it “negotiates” with developers/applicants. This process will need to be transparent, well understood, very easy to implement and have the necessary safeguards to ensure that negotiations are not structured to derive gamed outcomes. This is a critical consideration for local government. For example, on what basis will local government negotiate and how will it know it is getting a fair deal?
  - Local governments should invest to further understand tenant demand profiles and the depth of the required subsidy/ies required within their respective municipalities.
  - Each local government needs to inform, via policy amendments or through public announcements, what the specific design and planning criteria are for developers that want to participate in the Model. PwC’s analysis only considers the moderate income thresholds applicable to a PRADS product, not a specific LGA catchment analysis. Therefore, this is a built-form analysis, not a catchment demand analysis indicating the requirement for a demand analysis in each IMAP LGA to confirm demand assumptions in the next phase of the PRADS investigation. For example, demand assumption investigations would consider dwelling mix and type.

  - Local government should consider the legislative and or other approval frameworks that may be required to enable rate relief. We note that our quantitative analysis has shown that the application of local government rates relief provides minimal impact in terms of the supply of affordable housing stock.

- **Branding and promotion of PRADS Model**
  - The internal and external branding and promotion of the PRADS Model needs to be carefully positioned and understood. Certainty of timing, outcome and risk profile will vary for each stakeholder and be fundamental to the success of PRADS. For example, developers will require certainty of timing, the retail property investor market may need educating and delineation between social and affordable housing may need to be reinforced. External financiers will require a detailed understanding of the risk profile of a PRADS housing product and the application of the restriction placed on title. Each Council would need to make its own decision about the application of PRADS within its municipality.

- **Retail investor market**
  - In theory, the investment in a PRADS housing product should generate the same investment yield for the same investment housing product without PRADS. We speculate that the, on balance, lower level of equity required to fund the purchase price of an investment property may broaden the depth and appetite from the retail investor market. However, the marketing and promotion of the PRADS Model to the retail investment market will require careful positioning.
  - Consistent with the point above, it is unclear what additional impact, if any, the application of a restriction on title (for the effective life of the property) may have on the underlying value of the property; for example, would a hypothetical purchaser seek an additional purchase price discount because of the title encumbrance? PRADS would represent a "new" variant on the residential property investment class which is untested. We note that the NRAS obligation applies for a period of **only** 10 years at which point the property becomes unencumbered. We suggest that a level of investor sounding be undertaken to better understand how retail investors may respond to the PRADS structure.
  - Unlike NRAS, the PRADS product does not provide a refundable tax off set for investors. There is no taxation incentive inherent in the Model which is intended to enhance investment returns. We understand that the private tax ruling obtained by HomeGround Real Estate allows the landlord/owner to claim a tax deduction for the rental shortfall (between market and actual). We don't see the direct application of this ruling for PRADS as the tax deduction applied relates to owners with properties that are valued on an "unencumbered basis" (i.e. full market value) – a PRADS housing product proposes a discounted rental as a function of a discounted capital value.

- **Institutional investor market**
  - The NRAS model failed to garner institutional (superannuation, listed and unlisted funds) appetite for residential investment product. There were a wide number of reasons for this including (but not restricted to); the lack of understanding relating to the historical performance of the residential sector (and apportionment of income and capital returns), the dilution of portfolio investment returns (residential attracting lower yields relative to other asset classes), the inability to secure scale and the perceived risks associated with property management, asset management and brand damage should tenants default and be evicted.

    In more recent times, we are seeing a much greater appreciation of the residential sector as an institutional asset class and investor interest increasingly given the compression in yields across traditional asset classes and the emergence of the build to rent sector in Australia. Notwithstanding this, we suspect that without scale, institutional appetite and investment, in the short term, may be limited. We acknowledge the existence of the MITs and other recent changes by the Federal Government to stimulate the provision of affordable housing, however, to date, we have not seen material uplift in the provision of affordable housing through the MIT platform. This, therefore, may leave the PRADS Model as a principally retail "mum and dad" style of investment.
  - Detailed market sounding to establish the investment appetite of retail (and institutional investors) is regarded as a prudent next step should stakeholders wish to move forward with the PRADS Model into an implementation phase.

- **Scalability of PRADS**
    - Our quantitative analysis (using the Fishermans Bend project example) illustrates that theoretically, a total of 27 PRADS dwellings (out of a total project of 277 dwellings) could be provided at 80% of market rent, whilst keeping the developer financially whole. Note, this was achieved by compressing an assumed 2 year planning allowance into 3 months. The achievability of this will be clearly a function of local government approval frameworks. It is also pertinent to highlight that should the approval timeframe be extended to say 6 or 12 months this would reduce the achievable affordable housing yield. Similarly, this analysis was prepared assuming the developer is willing to effectively pass over 100% of any "gain" as affordable housing. It is not unreasonable to think that the developer may need to be further incentivised to participate in PRADS. We note within our analysis that additional modelling was undertaken to show the impact of a greater rental subsidy at 60% and 50% of market rent, and this is detailed further within the Report.
    - We believe the PRADS Model is capable of providing scale. Our analysis has shown that on smaller sized projects the impact of incentive application is minimal however for larger scale projects it could be material. For example, in a larger urban regeneration precinct and via rudimentary extrapolation of our analysis, within an overall development yield of say 5,000 dwellings, we believe it may be possible to secure between 400-600 dwellings (at 80% of market rental and leveraging the incentives considered). At 50% and 60% of market rent we expect a total outcome of between 150-200 dwellings could be provided. The resolution of the implementation challenges (detailed herein) and the volatility of the retail investor market would be key factors to achieving these outcomes.

      We would strongly encourage the City of Port Phillip, City of Melbourne and the State government in particular to undertake further analysis to consider the application of PRADS for regeneration areas such as Fishermans Bend.
- **Governance processes and outcomes**
    - We concur with the general governance processes and outcomes proposed within the PRADS Model.
    - The PRADS Model contemplates the creation of an Affordable Rental Housing Register by the State government which identifies all affordable rental obligations and is randomly audited annually to ensure satisfactory compliance with the rental condition. We agree with this approach, however, we anticipate that considerable dialogue will be required with the State government relating to the Model's implementation. A key concern we have relates to the enforceability of PRADS - put simply, what is the consequence for a private sector owner if they don't adhere to their below market rental obligations?. For example, should a Section 173 Agreement be used as the legal instrument to enforce PRADS? In a practical sense what are the legal consequences for non-compliance of PRADS?
- **Property management**
    - We note that the PRADS Model contemplates the appointment of a qualified property manager which could either be a private sector real estate agency, or a community housing association or provider. We expect that ultimately this decision will rest with the developer, initially, and then the investor, with the selection decision being based on matters such as perceived competence, pricing, etc. We do, however, regrettably recognise that there remains a general level of confusion and misunderstanding in the market about the difference between social and affordable housing and hence the management options for different tenant cohorts managed by community housing associations. This may need to be further considered and dispelled in the marketing and brand promotion of PRADS, together with building an appreciation of whether the nature of the tenancy manger gives rise to adverse pricing or investment decisions.

The PRADS Model is an innovative approach to addressing the supply of affordable housing. We remain supportive of the Model and believe that it is capable of being scalable within the market and, by consequence, would improve the lives of many Melbournians. The principal challenge for the Model is traversing the line from theory to practice and hence the implementation challenges we foresee should be very carefully considered and worked through with all relevant stakeholders.

# 7 Implementation Considerations

Our analysis of the PRADS Model has identified several focus areas that will require further investigation by the IMAP Councils as part of the implementation strategy. We detail these implementation considerations below:

- Local Government
  - Framework for fast tracking of planning applications to deliver an outcome within three months
  - Consideration by Council on whether it wishes to abolish third party appeal rights
  - Framework for negotiating with developers/applicants
  - Preparation of a Section 173 template standardised for all Councils
- Legal advice
  - Framework for enforcement of penalties if owners of the PRADS properties do not adhere to their below market rental obligations
  - Further examination of whether the application of a S173 Agreement on title will negatively impact value.
- State Government
  - Advice on the development and maintenance of a potential Affordable Housing Register
- Housing market
  - Market sounding on the PRADS Model structure
- Operational
  - Framework for the compliance and verification process of tenants
  - Framework to ensure that individual property managers are compliant with the obligations of the PRADS Model.

# Appendix A Constellation Project

***Every Australian deserves the right to a safe, affordable and secure home***

The Constellation Project shares a vision to end homelessness in a generation.

It is a growing group of organisations collaborating across sectors, founded by the Australian Red Cross, Centre for Social Impact, Mission Australia and PwC Australia.

***Only through collaboration can we move towards ending homelessness in a generation.***

By combining its collective intelligence, resources, networks and power, it seeks to generate practical solutions that will create more homes and better journeys for people at risk of, or experiencing, homelessness.

A Social Lab designed to accelerate progress is already underway. The Lab will operate in 4-6 month cycles with a team of 30-40 people who will test and prototype ideas and, importantly, translate them into action along the way.

The Lab process is enabled by PwC's The Impact Assembly via design, facilitation, project management and backbone coordination.

The four founding members of The Constellation Project - Australian Red Cross, Centre for Social Impact, Mission Australia and PwC Australia - will harness their respective skills, resources and networks to drive change in addressing homelessness in Australia.

THE CONSTELLATION PROJECT
TOWARDS ENDING HOMELESSNESS IN A GENERATION

# Appendix B PRADS Model detail (HAA report)

The model is summarised as follows:

- Affordable dwellings - a number of affordable dwellings that will be allocated/negotiated to be provided within a development.
- Affordable rent - the affordable dwellings are to be leased to households on low to moderate incomes, as defined under the Affordable Housing Income Levels, at 80% of market rents for the economic life of the building. This creates long term affordable private rental housing. This is purely a rental product. As with student housing, these dwellings will not be available for owner occupation.
- Discounted rent - a valuation will be undertaken by an approved valuer to determine the market rent from which the agreed discount can be applied. This rental figure will be conveyed to the private sector property manager and will become the maximum rental which can be charged. The developer can sell the dwelling to the investor market at a lower value reflecting the lifetime encumbrance of the reduced rental agreement. The number of affordable dwellings and the percentage below market rent is a commercial decision for the developer. The number of affordable dwellings is imposed by a planning permit condition. The investor will be paying a lower price for the dwelling and they too will view the investment from a commercial perspective based on the expected rental income and capital growth.
- Eligible households - have to meet the income tests for very low, low and moderate incomes as defined under the Affordable Housing Income Levels (as amended from time to time by the Minister for Housing).
- Management Framework / Process - this will involve:
    a. Property management - appointment of a qualified property manager of the investor or developer's choice. This could either be a private sector real estate agency or a community housing provider. The property manager needs to understand and agree to follow specific processes and governance requirements similar to NRAS. The appointment of a private sector property manager will remove the market perception (rightly or wrongly) associated with community housing management.
    b. Affordable rent levels – the property manager requests from an approved housing provider (a community housing organisation) the maximum rental to be charged for the designated dwellings. This will be based on a sworn valuation of market rent which will then be reduced by the agreed percentage below market rent negotiated with council. A fee for service will be paid to the community housing provider to conduct this process.
    c. Tenant selection - the property manager reviews each tenancy application based on income selection criteria as defined under Affordable Housing Income Levels and the dwelling is then leased to the tenant.
    d. Verification - the property manager submits required documentation (incomes and rents) to the community housing provider to verify affordability compliance. The housing provider checks documentation and submits it to the State Government (the relevant department is yet to be determined). This process is currently in place for NRAS. As a further level of compliance, it is recommended that the State conducts annual random audits for all tenancies listed on the Affordable Rental Housing Register to ensure the compliance with the Section 173.
    e. Affordable Rental Housing Register - the State Government creates an Affordable Rental Housing Register (ARHR) to record all affordable housing units that have been negotiated between Councils and developers. The ARHR is important as it records both the commitments made by developers with Councils (which still need to be delivered) and the affordable housing actually built and tenanted.
- Legal mechanism - a section 173 Agreement is registered on title to lock in affordability:

  Obligations:

  The agreement requires that the dwelling be:

    a. Rented and not owner occupied
    b. Rented for no greater that a specified percentage below market rent

  - Defaults – If the owner/ developer defaults on the affordability provisions in the section 173 Agreement, the following options are available / to be further investigated to enforce the provisions.
  - Enforcement by VCAT orders in order to require compliance with the obligation of the Agreement – to minimise risk of a successful challenge, the Agreement needs to have clear, comprehensive and water tight provisions that are difficult to successfully challenge at VCAT, to ensure compliance can be enforced.
  - Financial penalty – a penalty needs to be imposed of a sufficient size to act as a disincentive for dwelling owners to default on the affordability requirement. The legal mechanism for enforcing a penalty is to be investigated.

- Resale – If an owner of an affordable housing dwelling wishes to sell, the affordability requirement is automatically transferred to the new owner via the section 173 Agreement, which is declared as an encumbrance on the title in the section 32 Statement.

# Appendix C PwC Engagement Letter

**Private & Confidential**

Gary Spivak
Housing Development Officer
City of Port Phillip
St Kilda Town Hall
Victoria 3182

14 May 2019

Dear Gary,

***Appointment to undertake the IMAP project - investigation of a private market affordable rental housing delivery model for use in negotiating voluntary planning agreements***

We are pleased to provide this letter setting out our proposal to provide pro bono real estate advisory services (**"Services"**) to the City of Port Philip on behalf of the Inner Melbourne Action Plan (**"IMAP", "Client" or "you"**) Councils in relation to conducting an independent review of an innovative affordable rental housing model known as the Permanent Rental Affordability Development Solution (**"PRADS model" or "the Model"**), for use in negotiating voluntary planning purposes.

This engagement letter sets out the scope of the services that PricewaterhouseCoopers Australia (**"PwC" or "we"**) propose as well as the terms and conditions on which we will provide them to you.

## *1. Background*

Based on our discussions with you, we understand that:

- IMAP wants to investigate a private sector affordable rental housing delivery model, based on the core model developed by Rob Pradolin known as the Permanent Rental Affordability Development Solutions "PRADS";
- IMAP wants to investigate a broader range of potential incentives that could increase private sector take-up of the Model under voluntary planning agreements;
- The PRADS model involves negotiation with developers to deliver a proportion of private dwellings in residential/mixed use developments that are sold to investors and then rented at a discounted level for the life of the building;
- The Model will be based on a similar process that currently exists and is used with managing National Rental Affordability Scheme (NRAS) properties;
- If scaled up for delivery through voluntary planning agreements, the Model has the potential to create a significant supply of long-term affordable private rental housing at a faster rate than existing developer/community housing provider (CHP) negotiations; and
- In general, this Model has the capacity to engage the private sector in the delivery of affordable housing, by attracting two players: developers in the delivery of affordable housing, and investors in the ownership of affordable housing.

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## 2. *Scope of Services*

PwC will investigate the capacity of the Model, to increase private sector involvement in the delivery of affordable rental housing, through identifying the various supporting incentives that would:

- Attract private developers to enter into voluntary planning agreements; and
- Create a market for developers offering discounted rental dwellings, through targeting small investors who pay a reduced purchase price, based on the discounted rent.

## 3. *Approach and methodology*

To deliver the scope of services, we propose undertaking a 4 month period of work. We aim to deliver a report to be reviewed by the IMAP Project Reference Group (PRG), that sets out the framework and approach intended for assessing the capacity of the PRADS Model in delivering affordable housing.

Our approach and methodology directly addresses the Project Tasks that are set out in your Project Brief (see Appendix B). Our approach consists of the following steps:

| Approach | | Project Task *(according to IMAP Project Brief)* | Methodology |
|---|---|---|---|
| 1 | Project inception meeting | The PwC Engagement Team will conduct a project kick-off meeting with the Project Manager and members of the PRG. We will prepare an agenda for the meeting that will cover the following items:<br>– IMAP's objectives;<br>– Project plan for the creation of the report, including the scope and methodology;<br>– Project timeline;<br>– Assessment framework;<br>– Communication protocols; and<br>– Council and data requirements. | |
| 2 | Engagement: modelling | Provide modelling that determines the trade-off between the level of discounted rent and the number of affordable dwellings provided, and consequently, the level of housing need that the model can address. | – We will aim to gather demographic data from reliable sources such as the ABS and RP Data, using multiple research platforms to validate the analysis undertaken.<br>– We will use outputs from the demographic overview such as age, gender, household composition, support and disability requirements and income levels to determine the various tenant cohorts.<br>– Our analysis will also include a dwelling pricing analysis which will cover the sale and rental data of various dwelling types i.e. detached townhouses, units and configurations, and housing |

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| | | | |
|---|---|---|---|
| | | | affordability for key workers and the very low, low and moderate income households. For this, we will reference reliable websites like RP data, realestate.com, domain.com and gproperty. |
| | | Identifying the affordable housing products most applicable to the model. | – Using the above outputs, we will determine the housing needs of each cohort to ensure that the future supply is able to meet the housing demands of the various cohorts, through the hypothetical implementation of the PRADS Model. |
| | | Defining the minimum necessary development margin (relative to risk) to achieve development viability under hypothetical development scenarios. | – This task will involve scenario modelling, where we will compare up to 3x hypothetical development scenarios in consultation with IMAP's PRG. We will analyse the different impacts that alternative margins and risks have on development. |
| 3 | Engagement: report | Identify incentives that may be sufficient to bridge the gap between the market rent and a discounted rent. | We will qualitatively consider the impacts of different development incentives including:<br>– A greater speed for negotiating conditions for development permit approval;<br>– An enhanced 'market' perception of property management;<br>– Any associated, existing but underutilised tax arrangements;<br>– Any Commonwealth and State policies and programs that could be used to bridge the gap between a discounted rent and a market rent; and<br>– Any other incentives that may be needed to achieve a sufficient margin / viable development. |
| | | Modelling how the model could be scaled up, without relying on / being associated with the affordable housing offer being a rationale for development approval, when there are planning barriers associated with non-compliance of planning controls. | – We will set a timeline for an example development that will look at implementing the PRADS model;<br>– We will discuss operational milestones in consultation with your PRG; and<br>– We will highlight critical pathways required to turn the model into a widely accepted market mechanism for social and affordable housing. |

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| | | | |
|---|---|---|---|
| | | Recommend the governance process for establishing and maintaining safeguards to ensure that the affordable housing is maintained for the life of buildings. | We will create two operational criteria's including:<br>1. Developer / Council relationship interface; and<br>2. Tenant / Council relationship interface. |
| 3 | Draft report | PwC will consolidate the findings from our own engagement analysis as well as the outcomes from various stakeholder meetings, and compile them into a draft report. We will conduct a meeting with the Project Manager and PRG to:<br>– Present and discuss the draft report;<br>– Present and discuss our recommendations; and<br>– Test the draft findings with key private sector stakeholders. | |
| 4 | Final report and IMAP briefing | PwC will consider all review comments from the PRG and refine the PRADS report. The final report will be issued to IMAP at the end of August/early September, through a presentation at the IMAP Executive Forum Briefing. | |

### *4. Deliverables*

PwC will deliver an outline of the report structure including approach, options and evaluation criteria to the PRG in mid-June. We will then deliver the draft and final report relating to the deliverability and scalability of the PRADS model. The final report will be provided in the following format:

- A4 size
- No foldouts
- 1 bound coloured copy and 1 unbound coloured copy
- Electronic Copy in MS Word and PDF format.

PwC will also attend a Briefing of the IMAP Executive Forum to present on the draft project recommendations and answer questions.

### *5. Professional fees*

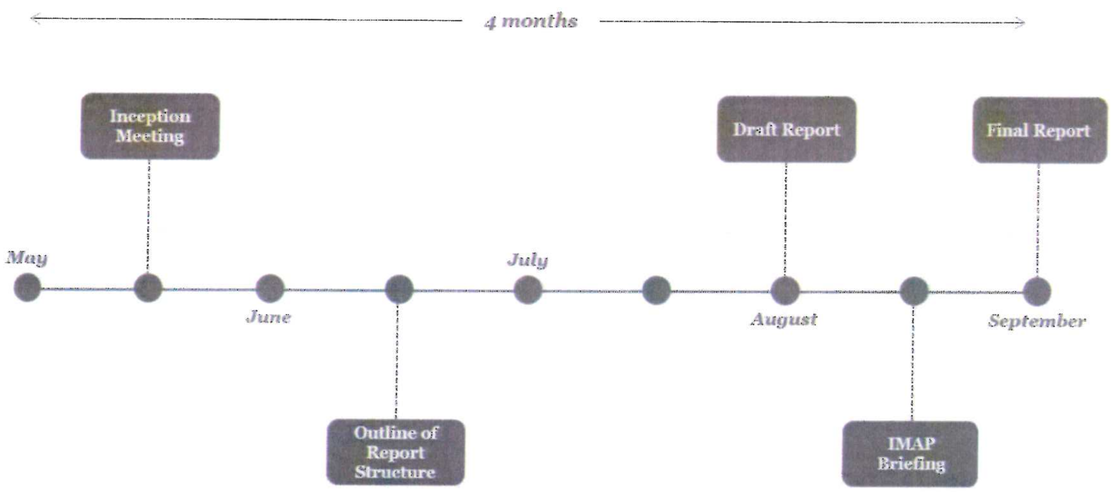
This project is being undertaken by PwC on a pro bono basis.

### *6. Intellectual property and confidentiality*

Intellectual property created as a result of the project (the consultant report and associated modelling / assessment spread sheets, etc.) will be in the public domain.

## *7. Timing*

We are available to commence the engagement Mid-May 2019 according to your Project Brief (see Appendix B) and commit the relevant resources to complete the engagement, so as to fit in with your program timelines. The following engagement timeline is proposed below.




## *8. Our Team*

The work will be led by Ross Hamilton, Partner of PwC's Real Estate Advisory practice, with George Housakos and Ari Kraemer taking day to day responsibility of the engagement.

| | | |
|---|---|---|
|  | ***Ross Hamilton***<br>Partner<br>Real Estate Advisory | Ross will have ultimate carriage and oversight of the engagement, and will assist in stakeholder engagement as well as quality assurance. |
|  | ***George Housakos***<br>Director<br>Real Estate Advisory | George will be provide insights around model development and strategy, and the development of the operational structure. He will be actively involved in workshopping and stakeholder engagement. |
|  | ***Ari Kraemer***<br>Manager<br>Real Estate Advisory | Ari will be responsible for the day-today management of the deliverables. |
|  | ***Annabelle Gall***<br>Consultant<br>Real Estate Advisory | Annabelle will assist Ari in the day-today management of the deliverables. |

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### *9. Limitation of Liability*

Our liability in respect of the services provided under this letter will be provided in the Terms of Business (see Appendix A).

### *10. Conflict of interest*

We are not presently aware of any circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective assistance to you in this engagement. We are however currently in the process of completing our internal conflict of interest investigations and hence we issue this letter subject to the completion of these enquiries.

We will notify you if we become aware of a conflict of interest or a conflict of interest arises during this engagement. On notification of a conflict of interest to you, we would discuss with you our continued involvement in this engagement and/or any additional procedures required to preserve confidentiality and to ensure independence of advice to you.

### *11. Terms of Business*

A copy of our Terms of Business (see Appendix A) and forms part of this engagement letter. This letter and the Terms of Business comprise the entire agreement (Contract) between us for the provision of the Services.

This Contract shall be governed by and interpreted in accordance with the laws of Victoria.

### *12. Acknowledgement of terms*

Please acknowledge your agreement to the scope and terms of our engagement as set out in this engagement letter and the attached Terms of Business (Appendix A) by signing the copy of the engagement letter in the space provided and returning it to us.

Should we not receive such a signed copy, but you continue to instruct us, you will be taken to have accepted the terms and conditions of this engagement letter including the Terms of Business set out in Appendix A.

Please take the time to review this Engagement Letter in consideration of your needs. We thank you again for engaging us and we look forward to working with you on this project.

If you have any questions or would like to discuss anything in this letter, please contact Ross Hamilton [redacted] directly.

Yours Sincerely

[redacted]

Ross Hamilton
Partner
Real Estate Advisory

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### *13. Client Acceptance and Confirmation of terms of the contract*

I have read and understood the attached letter of engagement from PwC together with the Terms of Business, which together constitute the Contract between City of Port Philip (on behalf IMAP Councils) and PwC. We agree with and accept the terms of the Contract and agree to engage PwC on those terms.

[redacted]

Name

[redacted]

Signature

HOUSING DEVELOPMENT OFFICER

Position

The signatory warrants that he/she has the authority to sign on behalf of the City of Port Philip and IMAP Councils.

15-5-2019

Date

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## 14. Appendix A: Terms of Business

These terms of business apply to the services you have engaged us to provide under the attached engagement letter. Our engagement letter and these terms of business form the entire agreement between us about those services. They replace any earlier agreements, representations or discussions. If anything in these terms of business is inconsistent with our engagement letter, our engagement letter takes precedence.

### Contents



### 1 Our services

1.1 **Scope** – We will perform the services described in our engagement letter with reasonable skill and care.

1.2 **Changes** – Either of us may request a change to the services, or anything else in this agreement. A change will not be effective unless we have both agreed to it in writing.

1.3 **Oral advice and draft deliverables** – You may only rely on our final written deliverables. If you wish to rely on something we have told you, please let us know so that we can prepare a written deliverable on which you may rely.

1.4 **Services for your benefit** – Our services are provided solely for your use for the purpose set out in our engagement letter or the relevant deliverable. Except as stated in our engagement letter or the relevant deliverable, as required by law, or with our prior written consent, you may not:

a) show or provide a deliverable to any third party or include or refer to a deliverable or our name or logo in a public document
b) make any public statement about us or the services.

We consent to you providing copies of deliverables to your legal advisers provided they have agreed:

(i) the deliverables are not for their use or benefit
(ii) we accept no responsibility or liability to them
(iii) they may not do any of the things referred to in paragraph (a) or (b) above.

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1.5 **No liability to third parties** - We accept no liability or responsibility to any third party in connection with our services. You agree to reimburse us for any liability (including reasonable legal costs) we incur in connection with any claim by a third party arising from your breach of this agreement.

1.6 **Additional terms for legal services** – Our services are not legal services unless expressly identified as legal services in the engagement letter. The additional terms of business for legal services apply to legal services (in addition to these terms of business).

## 2 *Your responsibilities*

2.1 **Generally** – You agree to:

a) provide us promptly with all information, instructions and access to third parties we reasonably require to perform the services, including letting us know if you want us to use information we hold from other engagements we have performed for you

b) ensure we are permitted to use any third party information or intellectual property rights you require us to use to perform the services

c) provide adequate and safe facilities for us when we work at your premises.

2.2 **Information** – You are responsible for the completeness and accuracy of information supplied to us. We may rely on this information to perform the services and will not verify it in any way, except to the extent we have expressly agreed to do so as part of the services.

2.3 **Interdependence** – Our performance depends on you also performing your obligations under this agreement. You agree we are not liable for any default to the extent it arises because you do not fulfil your obligations or because information supplied is, or becomes, inaccurate or incomplete, except to the extent we have expressly agreed to verify its accuracy and completeness as part of the services.

## 3 *Fees, expenses and costs*

3.1 **Payment for services** – You agree to pay us fees for our services on the basis set out in our engagement letter.

3.2 **Expenses** – You agree to pay any reasonable expenses we incur in connection with the services (other than expenses covered by the administration charge in clause 3.3).

3.3 **Administration charge** – You agree to pay an administration charge equal to 2% of our fees to cover costs such as telecommunications, stationery, printing, photocopying, mail and administrative support.

3.4 **GST** – Our fees, expenses and charges exclude GST (unless stated otherwise). If a supply to you under this agreement is a taxable supply under *A New Tax System (Goods and Services Tax) Act 1999*, you agree to pay us an amount equal to the GST we are required to pay on the taxable supply.

3.5 **Invoices and payment** – We will invoice you monthly, unless we have agreed something different in our engagement letter. You agree to pay the invoiced amount within 14 days of the invoice date.

3.6 **Fee scales** – If we calculate our fees based on time spent at hourly or other rates, we may increase those rates once every six months. The increase takes effect when we notify you.

3.7 **Compliance costs** – If we are required to provide information regarding you or the services to comply with a statutory obligation, court order or other compulsory process, you agree to pay the reasonable costs and expenses we incur in doing so. This includes time spent by professional staff and our reasonable legal costs. This clause does not apply to the extent a compulsory process relates to our alleged wrongdoing.

## 4 *Confidentiality and privacy*

4.1 **Confidential information** – We each agree not to disclose each other's confidential information, except for disclosures required by law or confidential disclosures under our respective policies.

4.2 **Referring to you and the services** – We may wish to refer to you and the nature of the services we have performed for you when marketing our services. You agree that we may do so, provided we do not disclose your confidential information.

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4.3 **Privacy** – Our approach to privacy is set out in our Privacy Policy, available at www.pwc.com.au/privacy. You agree to comply with the Privacy Act 1988 (Cth) when providing us with information. We agree to co-operate with each other in addressing our respective privacy obligations in connection with the services.

## 5 *Liability*

5.1 **Accountants scheme** – Our partners are members or affiliate members of the Institute of Chartered Accountants in Australia (ICAA). Where ICAA schemes have been approved under professional standards legislation in force in Australian states or territories, our liability in connection with the services (other than legal services) is limited in accordance with those ICAA schemes. Legislation providing for apportionment of liability also applies.

Please let us know if you would like a copy of a relevant scheme.

5.2 **Liability cap where no scheme** – Where our liability is not limited by a scheme, you agree our liability for all claims connected directly or indirectly with the services (including claims of negligence) is limited to an amount equal to 10 times the fees payable for the services, up to an overall maximum of $20 million.

5.3 **Aggregate cap** – Where more than one client is identified in our engagement letter, the limits on our liability in this clause 5 must be allocated between them. We do not need to know how a limit is allocated and, if it is not, you agree not to dispute a limit on our liability on the basis that you have not agreed how it is to be allocated.

5.4 **Consequential loss** – To the extent permitted by law, we exclude all liability for:

a) loss or corruption of data
b) loss of profit, goodwill, business opportunity or anticipated savings or benefits
c) indirect or consequential loss or damage.

5.5 **No claims against employees** – You agree not to bring any claim against any of our employees personally in connection with the services. This includes claims in negligence but excludes claims of fraud or dishonesty. This clause is for the benefit of our employees. You agree that each of them may rely on it as if they were a party to this agreement. Each of our employees involved in providing the services relies on the protections in this clause 5.5 and we accept the benefit of it on their behalf

## 6 *Electronic communications and tools*

6.1 **Electronic communications** – We each agree to take reasonable precautions to protect our own information technology systems, including implementing reasonable procedures to guard against viruses and unauthorised interception, access, use, corruption, loss or delay of electronic communications.

6.2 **Electronic tools** – We may develop or use electronic tools (eg spreadsheets, databases, software) in providing the services. We are not obliged to share these tools with you, unless they are specified as a deliverable in this agreement. If they are not a specified deliverable, and we do share them with you, you agree that:

a) they remain our property
b) we developed them solely for our use
c) you use them at your own risk
d) you may not provide them to any third party.

## 7 *Subcontractors (including other PwC firms)*

7.1 **Subcontractors** – We may use subcontractors, including other PwC firms (in Australia or overseas) to perform or assist us to perform the services. Despite this, we remain solely responsible for the services.

7.2 **No claims against other PwC firms** - No other PwC firm has any liability to you in connection with the services or this agreement and you agree not to bring and to ensure none of your affiliates brings any claim (including in negligence) against any other PwC firm or its partners or employees in connection with the services or this agreement. Any partner or employee of another PwC firm who deals with you in connection with the services does so solely on our behalf.

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7.3 **Benefit of clause 7.2** - Clause 7.2 is for the benefit of other PwC firms and their partners and employees (each a *beneficiary*). You agree each beneficiary may rely on clause 7.2 as if they were a party to this agreement. Each beneficiary that provides or assists in providing the services relies on the protections in clause 7.2 and we accept the benefit of clause 7.2 on their behalf.

## 8 *Transfer of information*

We use contractors or suppliers located in Australia and overseas to provide us with services we use in performing services and in our internal functions. Other PwC firms may be involved in our client relationship management and other admin systems and in quality reviews. You consent to information provided to us by you or on your behalf (including personal information and your confidential information) being transferred to those contractors and suppliers and to other PwC firms and our subcontractors, so long as they are bound by confidentiality obligations. Filing and destruction of documents

If you leave documents or material with us, we may destroy them after seven years (except to the extent we are required to retain them by law).

## 9 *Performing services for others*

Provided we do not disclose your confidential information, you agree that we may perform services for your competitors or other parties whose interests may conflict with yours.

## 10 *Termination*

10.1 **By notice** – Either of us may terminate this agreement by giving the other at least 14 days notice in writing (unless it would be unlawful to do so). This agreement terminates on expiry of that notice.

10.2 **Changes affecting independence** – Changes to the law or other circumstances beyond our reasonable control may mean that providing the services to you results in us ceasing to be independent of an audit client. If that happens, we may terminate this agreement immediately by giving you notice in writing.

10.3 **Fees payable on termination** – You agree to pay us for all services we perform before termination, within 14 days after receipt of our invoice. Where we agree a fixed fee for services, and the services are not completed before termination, you agree to pay us for the services that we have performed on the basis of the time spent at our then current hourly rates, up to the amount of the fixed fee.

10.4 **Clauses applying after termination** – The following clauses continue to apply after termination of this agreement: 1.3, 1.4, 1.5, 2.3, 3, 4, 5, 6.2, 7, 8, 9, 10.3, 10.4, 11, 12, 13, 14, 15, 16 and 17.

## 11 *Relationship*

We are your independent contractor. You agree that we are not in a partnership, joint venture, fiduciary, employment, agency or other relationship with you. Neither of us has power to bind the other.

## 12 *Corporations Act and SEC prohibitions*

Nothing in this agreement applies to the extent that it is prohibited by the Corporations Act 2001 (Cth) or the rules of the US Securities and Exchange Commission.

## 13 *Force majeure*

Neither of us is liable to the other for delay or failure to fulfil obligations (other than an obligation to pay) to the extent that the delay or failure arises due to an unforeseen event beyond their reasonable control which is not otherwise dealt with in this agreement. Each of us agrees to use reasonable endeavours to remove or overcome the effects of the relevant event without delay.

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## 14 *Assignment*

Neither of us may assign or deal with our rights under this agreement without the other's prior written consent.

## 15 *Applicable law*

Unless our engagement letter states otherwise,
the law applying to this agreement is the law of
New South Wales. Both of us submit to the exclusive jurisdiction of the courts of that state and waive any right either of us may have to claim that those courts do not have jurisdiction or are an inconvenient forum.

## 16 *Definitions*

In this agreement the following words and expressions have the meanings given to them below

16.1 **affiliate –** an entity which, directly or indirectly, controls or is controlled by or under common control with you

16.2 **PwC firm** – an entity or partnership which carries on business under a name which includes all or part of the name 'PricewaterhouseCoopers', or is otherwise within or a correspondent firm of the global network of PricewaterhouseCoopers firms, each of which is a separate and independent legal entity

16.3 **this agreement** – these terms of business and the engagement letter to which they are attached

16.4 **you –** client identified in our engagement letter

16.5 **we –** the Australian firm of PricewaterhouseCoopers, a partnership formed in Australia.

## 17 *Confidentiality for certain tax services*

17.1 **When clauses 17.2 and 17.3 apply –** Clauses 17.2 and 17.3 apply only if the services are tax services regarding a transaction and either:

a) you are an SEC registrant (or an affiliate of and SEC registrant) which is audited by a PwC firm or

b) our tax services could give rise to a tax benefit within the meaning of US Income Tax Regulation 1.6011-4 or a similar provision enacted by a US state.

17.2 **Permitted disclosure** – You may disclose to any person any information and materials we give you regarding the tax treatment and structure of the transaction (PwC materials).

17.3 **Consequences of disclosure** – If you make disclosure under clause 17.2, you agree to:

a) tell us the name and address of the person to whom you disclose PwC materials and the PwC materials you disclose

b) tell the person to whom you make the disclosure that they may not rely on any PwC materials and that we have no liability or responsibility to them in connection with the PwC materials

c) use your best efforts to obtain the person's agreement to release and indemnify all PwC firms from and against all liabilities (including legal costs) arising from or in connection with the disclosure of the PwC materials or the person's reliance on them.

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## 15. Appendix B: IMAP Project Brief

Inner Melbourne Action Plan
Making Melbourne More Liveable

City of Port Phillip - on behalf of the Inner Melbourne Action Plan

**Project Brief – April 2019**

# Investigation of a Private Market Affordable Rental Housing Delivery Model for Use in Negotiating Voluntary Planning Agreements

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# Investigation of a Private Market Affordable Rental Housing Delivery Model for Use in Negotiating Voluntary Planning Agreements

## 1.0 Background and policy context

*Background policy and housing affordability context*

This project is being undertaken in the context of:

- **New Victorian State Government Policy and Funding:**
  - Introduction of *Homes for Victorians* policy, which provides funding to address homelessness, community housing and public housing renewal.
  - Refresh of *Plan Melbourne* which proposes a range of initiative to facilitate the delivery of affordable housing.

- **Funding and Financing Opportunities:**
  - New and innovative financial structures for leveraging bank finance.
  - Commonwealth Government initiatives including -
    - Affordable Housing Bond Aggregator
    - Capital gains Tax incentives for investors in Affordable Housing
  - The Federal Labor Party's proposed incentive program, similar to the current National rental Affordability Scheme (NRAS)

- **Planning system changes:**
  - Amendments to the *Planning and Environment Act 1987*, that:
    - Include a definition of Affordable Housing
    - Make facilitation of affordable housing an object of the Act, and
    - Provide the use of section 173 Agreements to facilitate the (voluntary) provision of affordable housing as part of development applications.
  - New Planning Controls for Fishermans Bend that set a 6% target for affordable housing and, in addition, incentivise the delivery of social housing through a dwelling density 'uplift' control.

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- **The increasing and deepening of the affordable housing challenge**, and the resulting interest in affordable housing products that target a broader spectrum of housing need, including moderate income households.

*Inner Melbourne Action Plan (IMAP)*

In December 2016 IMAP adopted the *IMAP Three Year Implementation Plan 2017/18 - 2019/20*. Project G3. P2 - Affordable Housing Controls and Targets, originally intended to focus on progressing an inclusionary zoning amendment to the Victorian Planning Provisions, with a strong emphasis on achieving this while also providing planning incentives for the private sector.

On 22 February 2019 IMAP resolved to:

- Refocus the project to investigating a private sector affordable rental housing delivery model, based on the core model developed by Rob Pradolin, Permanent Rental Affordability Development Solutions (PRADS); and investigating a broader range of potential incentives that could increase private sector take-up of the model under voluntary planning agreements.

- Engage PricewaterhouseCooper (PWC) to undertake this investigation based on its offer to undertake the project on a pro bono basis.

## 2.0 Project Purpose

The purpose of this project is to investigate use of the PRADS model and a broader range of planning and financial incentives to increase private sector take-up of the model under voluntary planning agreements.

The model involves negotiation with developers to deliver a proportion of private dwellings in residential/mixed use developments, that are sold to investors and then rented at a discounted rent for the life of the building. The model would include several safeguards for ensuring ongoing affordability.

This model, if scaled up for delivery through voluntary planning agreements, has the potential to create a significant supply of long-term affordable private rental housing at a faster rate, compared with negotiating developer contributions for community housing, which require a greater 'subsidy' per unit. From a governance perspective, it will be based on a similar process that currently exists and is used with managing National Rental Affordability Scheme (NRAS) properties.

**The model**

This model is summarised as follows:

- **Affordable apartments** - a number of affordable housing apartments will be allocated in a development.

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- **Affordable rent** - the affordable housing apartments are to be leased to households on moderate incomes at a proportion of market rents for the life of the building (eg. 50%, 70%, 80%), creating perpetually affordable private rental housing. The model takes a different approach providing greater certainty of income for investors, compared with social housing that is based on rent levels up to 30% of household income (which varies depending on tenant). Similar to student housing, these dwellings will not be available for owner occupation, as they are purely a rental product.

- **Discounted rent** - a valuation will be undertaken by a not-for-profit housing provider to determine the market rent from which a discount percentage is applied. This rental figure will be conveyed to the private sector property manager and will become the maximum rental which can be charged. The developer can sell the apartment to the market at a lower value reflecting the lifetime encumbrance. This aims to provide a more cost neutral approach for investors, where the discounted purchase price is balanced by lower rental returns.

- **Eligible households** - have to meet the income tests for moderate incomes as defined under s 3AB of the P&E Act.

- **Management Framework / Process** - this will involve:

  - Property management - appointment of a Property Manager of the owner or developer's choice. This does not need to be a community housing organisation. This will remove the market perception (rightly or wrongly) associated with the community housing management.

  - Affordable rent levels - Property Manager requests from an agreed Housing Provider (a community housing organisation) the maximum rental to be charged for the designated apartments. This will be based on a sworn valuation of market rent which will then be reduced by 50% (in the above case) by the community housing organisation. A fee for service will be provided to the Community Housing Provider.

  - Tenant selection - the Property Manager reviews tenancy applications based on NRAS income selection criteria and dwellings are then leased to tenants.

  - Verification - the Property Manager submits required documentation (incomes and rents) to the Housing Provider to verify affordability compliance. Housing Provider checks documentation and submits it to the State Government (the relevant department is yet to be determined). It also does it annually for all tenancies.

  - Affordable housing register - the State Government creates an affordable housing register to record all affordable housing units (subject to consideration by the State and identification of a department to manage the register).

  - Owners Corporation fees - are not charged to the tenants or included in the rent, and are paid by the owner/investor.

- **Legal mechanism** - a section 173 Agreement is registered on title to lock in affordability:

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- Defaults: If the owner/ developer defaults on the affordability provisions in the section 173 Agreement, the following options are available / to be further investigated to enforce the provisions:
  - Enforcement by VCAT orders - to minimise risk of a successful challenge, the Agreement needs to have clear, comprehensive and water tight provisions that are difficult to successfully challenge at VCAT, to ensure compliance can be enforced.
  - Financial penalty - a penalty needs to be imposed of a sufficient size to act as a disincentive for dwelling owners to default on the affordability requirement. The options and process for pursuing a legal mechanism for enforcing a penalty are to be outlined.
- Resale - if an owner of an affordable housing dwelling wishes to sell, the affordability requirement is automatically transferred to the new owner via the section 173 Agreement, which is declared as an encumbrance on the title in the section 32 Statement.

- **Mortgagee in possession - impact of encumbrance**

  - The intent of the conditions of the section 173 agreement are deliberately designed to provide and preserve a below normal market rental in the long-term (for the economic life of buildings).
  - This encumbrance reduces the market value of the asset because it fetters the title for mortgagees seeking to enforce their mortgage in a default situation.
  - To reduce the risk profile of banks, and make it easier for them to lend and create more affordable housing, consideration should be given to allow the banks, with consequential obligations, to have the section 173 lifted only in the case of a mortgagee exercising its power of sale situation. This allows the mortgagee to:
    - 1. Freely offer the asset to the market with no restrictions.
    - 2. Override the recognised 'mark down' impact afforded by the initial valuation.
  - Given the affordable housing was part of municipal planning permit conditions, it is essential that after the bank equity has been paid, the remaining funds (which represents the balance of the previously unfettered 'value') would be used to create more affordable housing.
  - To preserve and protect this 'value', it is proposed that a formula be devised which enables the section 173 encumbrance to be lifted on transfer of a mortgagee enforced sale, with remaining funds being paid to a special purpose vehicle or trust. This ensures that the 'value capture' is retained and used for replacement affordable housing within the LGA/planning authority.
  - As the bank will be able to then consider the asset as unencumbered, this model will allow the market to use less equity as the loan to value ratio (LVR) will increase. This arrangement will incentivise the market to invest in this asset class. This incentivisation will be enhanced if the model

could become eligible for long - term National Housing Finance and Investment Corporation (NHFIC) 'Bond Aggregator' loans, which currently target registered community housing organisations.

**Benefits of the model**

In general, this model has the capacity to engage the private sector in the delivery of affordable housing, by attracting two players: developers in the delivery of affordable housing, and investors in the ownership of affordable housing.

There are eight key potential benefits of the model:

1. **Housing supply -** it increases supply by creating greater certainty of negotiating an affordable housing outcome with a developer, through removing a number of perceived risks. It also significantly increases supply, as a greater number of affordable discounted rental dwellings will become available, compared with the number of dwellings that can be generated through 'gifting' to a registered Housing Association or Housing Provider. For example, while the level of discount will vary and could be up to, say 50%, by comparison the 'cost' of one gifted apartment is effectively the same as five apartments with a rent restriction of 80% of market rent.

2. **Housing system bottlenecks** - directly targets the source of the problem - the unaffordable private rental market created by the inability to afford home ownership - which provides an alternative to home ownership and reduces demand for social housing created by increased rental stress and homelessness.

3. **Speed -** has the capacity to establish an agreed, transparent model that can be negotiated faster than the alternative of developers gifting units or discounting sales to Housing Associations or Housing Providers; and can facilitate pre-sales to smaller 'mum and dad' investors to accelerate bank finance for developers. This may result in developers starting to drive affordable housing outcomes.

4. **Perpetual affordability** - it creates perpetually affordable housing, as there is a mechanism to maintain affordability for the life of the building. This avoids the shortcomings associated with other similar models which defer an affordability problem to the future, ie:

   - NRAS, that provided Commonwealth and State subsidies for private affordable rental housing at 20% below market rent for only 10 years, after which these units revert to market rents or can be sold.

   - Regulatory agreements in the USA, which are commonly negotiated between municipalities and developers under mandatory Inclusionary Zoning planning provisions. These require developers to maintain affordable rent to designated income cohorts for periods of between 15 and up to 50 years, after which they revert to market prices or can be sold.

5. **Market perception and management** - private management avoids use of community housing management, which can be a disincentive with developers, but involves a community Housing Provider in the verification and monitoring process. This also:

   - Creates a commercial operating return for a private manager managing affordable dwellings for the investors on a commercial basis.

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6. Avoids the inclusion of Owners Corporation fees in discounted rents, which otherwise applies to gifted units for community housing and reduces community housing viability.

7. **Broader investor market** - it provides an investment opportunity that may be more attractive to small 'mum and dad' investors, due to the lower purchase price commensurate with the discounted rental returns. This seeks to create a new private sector source of investment in affordable housing, in contrast with the challenges of attracting institutional investment (eg. superannuation industry), or social housing, which relies on government and/or philanthropic funding.

8. **Debt sourcing** - the relaxations of the encumbrance impact of the s173 on value when a mortgagee is seeking enforcement of its mortgage will allow lenders more comfort in participating by reducing their risk profile and retaining Gross Realisable Value, and not impacting the LVR when determining risk and facility assessments.

9. **LGA/Planning Authorities** - the concept of preserving the affordable housing value capture (outlined in the model 'mortgagee in possession - impact of encumbrance' and in benefit 7 above) that will provide municipalities / planning authorities comfort that, in releasing the encumbrance in a mortgagee sale situation, the value of the affordable housing will remain in the municipality and applied to creating more affordable housing.

## 4.0 Key Tasks and Outputs

The proposed project will investigate how the model could be scaled to increase the supply of private affordable housing through negotiating discounted market rents for the life of new residential buildings.

The project would investigate the capacity of the model, and variations of it through a broader range of incentives, to increase private sector involvement in delivery of affordable rental housing, through identifying the incentives that would:

(a) Attract private developers to enter into voluntary planning agreements; and

(b) Create a market for developers offering discounted rental dwellings, through targeting small investors who pay a reduced purchase price, based on the discounted rent.

The expected Project Tasks are as follows:

### *4.1* Provide modelling that determines the trade-off between the level of discounted rent and the number of affordable dwellings provided, and consequently, the level of housing need that the model can address.

Whether the model's intended focus on moderate income households is most suitable, in contrast with low to very low-income households that are assisted by social housing, as defined under section 3AB of the Planning and Environment Act 1987, as follows:

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**Greater Capital City Statistical Area of Melbourne**

| | Vary low income range | Low income range | Moderate income range |
|---|---|---|---|
| Single adult | Up to $25,220 | $25,221 to $40,340 | $40,341 to $60,510 |
| Couple, no dependent | Up to $37,820 | $37,821 to $60,520 | $60,521 to $90,770 |
| Family (with one or two parents) and dependent children | Up to $52,940 | $52,941 to $84,720 | $84,721 to $127,080 |

This would require assessment as to whether a broader range of incentives, as listed in section 4.4, would deepen the level of discount to market rent, and enable the model to also target households in, say, the upper end of the low-income range, or the low-income range.

This recognises that the deeper the discount to market rent sought, the fewer the units a developer would be prepared to discount. Thus, a greater number of units would be hypothetically provided at an 80% discounted rent, compared with say a 50% discounted market rent.

As such, the model has the capacity to negotiate the trade-off between:

- the level of discounted rent
- the number of negotiated units.

*4.2* **Identifying the affordable housing products most applicable to the model,** eg. the capacity for the model to:

- Attract / be used by developers providing Build to Rent developments; or
- Enable volume leasing of some of the large numbers of private, vacant apartments that exist in particular locations of Melbourne, including the inner Melbourne areas of Docklands, South Bank, Abbotsford and South Melbourne.

*4.3* **Defining the minimum necessary development margin (relative to risk) to achieve development viability under hypothetical development scenarios** - through variations in factors such as the proportions / numbers of dwellings with discounted market rents, and the level of discounted rent.

*4.4* **Identify incentives that may be sufficient to bridge the gap between the market rent and a discounted rent -** in the current foreseeable future housing market. These rents are to be affordable to moderate income households, and potentially whether the model could be extended to lower income households. Incentives include the value benefit of:

- **A greater speed for negotiating conditions for development permit approval -** in addition, assess the value benefit of a guaranteed fast-tracking of development approval (eg. within three months, subject

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to the provision by the applicant of all information reasonably required by Responsible Authorities for assessment of applications). This would apply to Council's decisions, not any VCAT appeals, however, the benefit of seeking developments using this model (and social and affordable housing generally) to become VCAT priority cases under the Major Projects List, should be investigated.

- **An enhanced 'market' perception of property management** - via a private (not community housing) property manager, and the potential for a future income stream from the property management of the affordable housing dwellings owned by investors. This may require identification of liability for property operating costs and their apportionment between the developer, the owner/investor, and the tenant. These costs include Owners Corporation fees (except in the case of Build to Rent developments), Council rates, land tax and utility costs, and cyclical maintenance and long-term upgrading.

- **A reduction or waiver of the requirement for car parking space**s - allocated to the affordable housing.

- **Any financial arrangements** or 'structures' - that may provide investors and philanthropists with tax and other offsets to invest in the purchase of affordable private rental housing (and community housing) that is valued on the basis on a discounted market rent for the life of the building. Options include but are not limited to:

  - A unit property trust - a traditional property trust that will ensure that the accommodation units are retained within the (financial) Trust unless traded with the intent of replacing or increasing unit numbers.

  - Social impact bonds - also known as 'Pay for Success Financing', 'Pay for Success Bond', or a 'Social Bond' - a contract with the Government in which a commitment is made to pay for improved social outcomes that result in public sector savings. The Victorian government has a program for Social Impact Bonds with Anglicare Victoria, VincentCare and Sacred Heart Mission.

  - Long term lease - the model of discounted rent for the economic life of the building in lieu of a traditional long-term lease of property. The issue with such investments in private affordable rental housing or community housing is the gap between subsidised rent and the market rent expected by the investor. The attraction of the model (or a long-term lease) can offset the gap to some extent for an ethical investor.

- **Any associated, existing but underutilised tax arrangements** - that could attract investment by 'mum and dad' investors (or institutional investment) in the model of discounted rent for the life of the building, with or without any financial structure. Investigate implications for packaging the model and a structure with potentially relevant, existing tax concessions:

  - Private tax ruling 2016 - HomeGround Real Estate

  The ruling stated that for the management of private rental flats for investors (with social housing tenant), investors can claim difference between social housing rent and assessed market rent as a tax offset. Does the tax ruling have broader implications for similar other arrangements, or only if the assets are managed by HomeGround Real Estate or via organisations acting as a subsidiary to HomeGround Real Estate?

- Federal change to rules for Managed Investment Trusts

Grounds for claiming tax concessions became limited only to affordable housing (and commercial property) from 1 June 2018. This may help support creation of a new investment asset class associated with affordable housing.

- **Any Commonwealth and State policies and programs that could be used to bridge the gap between a discounted rent and a market rent** sought by developers. investors.

  In particular, the potential for advocacy that may result in the model becoming eligible for the following two programs:

  - The Commonwealth Government's 'Bond Aggregator' loans being established through its National Housing Finance & Investment Corporation (NHFIC). This is in the process of introducing a $1 billion line of credit from 10-year bonds, to consolidate current and proposed debt for capital growth across the community housing sector, and support this growth via reduced interest loans (approximately 1% lower) over longer loan periods. This currently targets registered community housing organisations.

  - The Federal Labor Party's proposed new incentive scheme similar to NRAS, which proposes to provide $8,560 per year per dwelling for 15 years, totalling $127,500 per property. Draft policy indicates this is currently targeting 'registered Housing Providers', but this may still be evolving policy.

  If there is an opportunity for the model to be eligible for either or both programs, based on its long-term affordability and proposed robust affordability safeguards, what impact would this make to its viability?

- **Any other incentives that may be needed to achieve a sufficient margin / viable development.**

  It is noted that the focus of this project is not to rely on the use of development 'yield' incentives, such as the 'floor area uplift' controls now established in Fishermans Bend and the CBD.

  Whilst such planning leavers are recognised as potential incentives, the application of these will generally require a lengthy revision of established planning controls. This is made more complex by the 'regime' of existing controls that are typically based on maximum building heights, rather than a combination of density and height controls applicable to FAU mechanisms. There may be perceived conflict in negotiating additional development yield for affordable housing, against built-form environmental objectives / controls.

For this reason, this project seeks to investigate a range of incentives without including reliance on providing a floor area uplift / development yield incentive. However, while this does not preclude a range of incentives being used in tandem with 'yield' incentives, such as 'floor area uplift', this incentive is not to be included in the range of incentives.

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**_4.5_ Modelling how the model could be scaled up, without relying on / being associated with the affordable housing offer being a rationale for development approval, when there are planning barriers associated with non-compliance of planning controls.**

**_4.6_ Recommending the governance process for establishing and maintaining safeguards to ensure that the affordable housing is maintained for the life of buildings.**

**Outputs**

The consultant will provide the following documents for review by the Project Reference Group during the project:

1. An outline of the proposed structure and approach for the report - setting out the framework and approach intended for assessing the project tasks.

2. Draft Report for review and comments.

3. Final Report.

**Proposed Project Meeting Schedule**

1. **Project Initiation Meeting**: Participate in an inception meeting with the Project Manager and members of the IMAP Project Team to confirm the scope of work, methodology and assessment framework.

2. **Engagement**: engage as required with key private sector stakeholders, including Rob Pradolin, the Victorian Planning & Environmental Law Association, The Urban Development Institute of Australia (Vic), and the Community Banking Sector (Bendigo and Adelaide Bank), The National Australia Bank, The Property Council.

3. **Draft Report:** Meeting with Project Manager and Project Team to present and discuss the Draft Report and Recommendations. Test the draft findings with key private sector stakeholders.

4. **IMAP briefing:** Attend a Briefing of the IMAP Executive Forum to present on the draft project recommendations and answer questions.

## 5.0 Project Management

The City of Port will manage the project on behalf of IMAP.

Council's Project Manager and primary contact for this project will be:

Gary Spivak
Housing Development Officer
Ph: 9209 6752
Email: Gary.Spivak@portphillip.vic.gov.au

The following IMAP officers will form a project team:

- Katrina Terjung, Strategic Advisor, City of Port Phillip
- Andrea Kleist, Team leader Strategy & Advocacy, City of Melbourne
- Malcolm McCall, Unit manager Social Policy & Research, Yarra City Council
- Susan Price, Manager City Strategy, City of Stonnington
- Justin Burgess, Senior Strategic Planner, City of Maribyrnong
- Virginia Howe, Co-ordinator Strategic Planning, City of Maribyrnong.

The Project Manager will also seek the advice of these officers at key stages of the feasibility study.

## 6.0 Timeframes

The project shall be completed in the following timeframes, unless otherwise agreed:

| Milestones | Finish Date | Meetings / Sign-off<br><br>Key stages |
|---|---|---|
| Appointment of consultant | Mid-May 2019 | |
| Inception meeting | Mid-late May 2019 | ✓ IMAP Project Team |
| Outline of report structure and approach / Options / Evaluation Criteria | Mid-June 2019 | ✓ IMAP Project Team |
| Draft report | Early August 2019 | ✓ IMAP Project Team |
| IMAP briefing | Mid-August 2019 | ✓ IMAP Executive Forum / Implementation Committee |
| Final report | Late August / early September 2019 | |

## 7.0 Council Input / Support

The City of Port Phillip will provide:

- Clarification of the project context at the inception meeting.
- Engagement with private sector stakeholders.
- Assistance with preparation of an IMAP Briefing Paper and / or PowerPoint presentation.

## 8.0 Budget

This project is being undertaken by PWC on a pro bono basis.

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## 9.0 Project Outputs

The consultant is required to provide outputs in the following format:

- A4 size
- No foldouts
- 1 bound coloured copy and 1 unbound coloured copy
- Electronic Copy in MS Word and PDF format.

## 10.0 Intellectual property and confidentiality

Intellectual property created as a result of the project (the consultant report and associated modelling / assessment spread sheets, etc.) will be in the public domain.

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