



North Sydney Council

Affordable Housing Strategy

July 2008



This report has been prepared for
North Sydney Council

by



Consultants working on this report include:

Dr Judith Stubbs	Principal
Mr John Storer	Senior Research Associate
Ms Colleen Lux	Senior Research Associate
Mr James Flinn	Research Associate

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Abbreviations and Glossary

ABS	Australian Bureau of Statistics
AH	Affordable Housing
AHIF	Affordable Housing Innovation Fund
DOP	NSW Department of Planning
ILU	Independent Living Unit
LGA	Local Government Area
NRAS	National Rental Affordability Scheme
NSC	North Sydney Council
NSCH	North Shore Community Housing
NSW DOH	New South Wales Department of Housing
OCH	Office of Community Housing
RFB	Residential Flat Building
SEPP	State Environmental Planning Policy

Executive Summary

North Sydney Council has long had significant involvement in affordable housing. After some 20 years of action on this important policy area, Council commissioned JSA to review the effectiveness of its current directions and advise on strategic directions to increase its effectiveness and ensure the sustainability of its involvement into the future.

Work on the North Sydney Council Affordable Housing Strategy 2008 has been conducted as a two-stage process. The Background Report represents Stage 1 of the project, and provides a 'diagnostic' on key housing needs and issues in the LGA and region. It provides a comprehensive analysis of current and historic trends in housing demand, supply, cost and affordability. It also details the extent of provision and losses of affordable housing since the mid-1990s, and describes the profile of residents who occupy and need affordable housing in the community. It provides an analysis of the nature of North Sydney Council's role in this area to date, and a review of the impacts of Council's involvement.

Stage 2 of the project is this Affordable Housing Strategy, which provides a range of proposals aimed to increase the effectiveness and long-term sustainability of Council's involvement in affordable housing. The overarching aim of the Strategy is:

To maintain and increase the amount of affordable rental stock in North Sydney LGA and ensure the long-term sustainability of Council's involvement in affordable housing

The Affordable Housing Strategy is divided into 2 parts.

Part A provides an overview of supporting data and information on local affordable housing issues and the policy context that supports the strategies proposed. For detailed discussion, the reader is referred to the Background Paper.

Part B sets out proposed strategic directions for Council's consideration that aim to retain and increase the amount of affordable rental stock in North Sydney LGA and ensure the long-term sustainability of Council's involvement in affordable housing. This includes a rationale, methods and recommendations to Council to take the proposed strategies forward.

A consolidated list of the proposed strategies and recommendations is provided here.

Affordable Housing Strategies & Recommendations

Strategy 1

Continue to seek mitigation for the loss of affordable housing through SEPP10 and Council's existing methods of negotiating with developers, particularly for the remaining stock of boarding houses and low cost flats and units, and to develop a program of works for the expenditure of affordable housing funds in a timely way.

Recommendations

- Council continue to collect contributions to its Affordable Housing Fund from the loss of boarding houses and low cost flats and units through redevelopment, conversion or strata subdivision, including the adoption of a future target for the creation of stock, and adapt its policies to the emerging legislative and policy regime.
- Develop a Planning Agreement Policy and Template in accordance with the provisions of Part 5B Division 4 of the *Environmental Planning and Assessment Act 2008* so as to ensure the legality of its collection regime.
- Council develop a detailed program of works for priority affordable housing projects for the expenditure of existing and anticipated funds held in trust for this purpose, and ensure the expenditure of these funds in a timely way so as to fulfil its legal requirements under the Act.

Strategy 2

Participate in debt-equity partnerships to leverage existing and future Council resources dedicated to affordable housing through commercial arrangements with public, community and/or private sector partners, which incorporate State and Federal government funding opportunities.

Recommendations

- Council provide in-principle support to increase the amount of affordable rental stock through debt-equity partnerships, and use existing resources dedicated to affordable housing in the most effective way.
- Council continue its management partnership with NSCH.
- Council extend its existing partnership with NSCH to a development partnership, subject to a review of preliminary investigations on feasibility of debt-equity approaches currently being undertaken by JSA.
- Council work with NSCH to identify potential debt-equity projects using Council resources dedicated to affordable housing, and partner in conducting more detailed feasibility assessments of such projects.

- Council support affordable housing funding applications or expressions of interest by local community housing providers to state and local government, including those under the NSW Affordable Housing Innovation Fund and the National Rental Affordability Scheme.
- Council also explore potential Public-Private or Public-Private-Community sector partnerships in relation to development or redevelopment projects.

Strategy 3

Reconfigure existing affordable housing stock where feasible to ensure the most appropriate and efficient use of resources including the development of a comprehensive asset management strategy.

Recommendations

- Council ensure the sustainable use of its affordable housing stock and funds through support for the development of an Asset Management Strategy by NSCH that takes into account current and projected housing needs, efficient use of resources, recurrent liabilities, and ability to leverage resources to achieve a net increase in affordable housing stock.
- Council give in-principle agreement to transfer of title on selected properties to NSCH to enable sale or redevelopment of appropriate properties in order to increase stock, build NSCH capacity, and reduce Council's maintenance liability pending review of stock to be transferred.
- Council give in-principle agreement to long-term leasing arrangements on properties where title is not transferred to enable NSCH to increase its income stream and its ability to redevelop stock where appropriate. This will also assist in future debt-equity partnerships that NSCH may enter with Council and /or other partners in order to increase the amount of stock available.

Strategy 4

Support a regional approach where it will lead to more effective ways of meeting local affordable housing needs.

Recommendations

- Council support a regional approach to the creation of additional stock of affordable housing where appropriate, and where it is demonstrated that this will benefit those in housing need/ housing stress in the LGA.
- Council support the development of EOIs and funding applications for State and Federal Government funding or subsidies where these increase opportunities to access such funding.
- Council enter into legal agreements that protect its interest in additional stock created through this process, including stock created in other LGAs.

- Council participate in the development of regional environmental planning provisions for affordable housing in accordance with the Standard LEP Template where appropriate.
- Council work with NSCH to develop local allocations criteria for stock created in areas outside its LGA where appropriate.

Strategy 5

Implement stronger Social Impact Assessment processes to assess and where appropriate refuse or seek stronger mitigation against the loss of low cost residential flats, units and boarding houses.

Recommendation

- Council implement stronger Social Impact Assessment processes to assess and where appropriate refuse or seek stronger mitigation against the loss of low cost residential flats and boarding houses given their importance in the local housing market and in housing special need groups.
- Council implement a notification policy to inform and invite a response from relevant community and human service providers when a Development Application (DA) is lodged regarding a boarding house, private hotel or other emergency accommodation that may result in the displacement, either directly or indirectly, of vulnerable residents.

Strategy 6

Use Planning Incentives to capture additional private benefit for use as affordable housing, supported by Planning Agreements under section 93F of the Act (or Part 5B Division 4 of the Amendment Act 2008, when gazetted).

Recommendation

- Council consider the development of a system of planning incentives based on density bonuses as outlined in Strategy 6, and undertake more detailed investigation and modelling regarding how this approach would best be utilised in the North Sydney LGA housing market.

PART A: BACKGROUND TO THE STRATEGY

Council's Commitment to Affordable Housing

North Sydney Council has a long-standing commitment to affordable housing in its local area. This includes research and advocacy, partnerships with local community and public housing providers, and levying developers against the loss of low-cost residential flats, units and boarding houses originally through a combination of Section 94 of the *Environmental Planning and Assessment Act 1979* and State *Environmental Planning policy No 10 – Retention of Low Cost Rental Accommodation*, with the latter now the principal mechanism for obtaining such funds. In recent years, Council has contributed its own resources to support affordable housing, including maintenance and upgrade of stock dedicated to this purpose.

Over the years Council has made an important contribution to meeting the need for affordable housing in the LGA through the contribution of land, partnerships with State Government authorities and funds levied. Through these strategies, Council has been able to partially or fully own 26 properties comprised of 41 multi-unit dwellings and houses, and two boarding houses, which are currently used for affordable housing. These properties include a multi unit Nursing Home and two services offering emergency accommodation to youth. Since 1998, when Council's contribution has been limited to partnerships and levies, 15 bed spaces have been replaced. Council currently holds significant developer contributions in trust to be used for future affordable housing projects.

The portfolio of affordable housing properties has a mix of implications for Council with regard to recurrent costs. Eleven are managed and maintained by the Department of Housing or other bodies at no cost to Council. The remaining 15 properties are managed by North Shore Community Housing, to which Council makes an annual contribution towards maintenance and upgrade. A strategic objective of this study is to develop mechanisms for enabling the community housing manager to be financially independent of Council, while proposing new strategies to increase the amount of affordable housing available to key target groups in the North Sydney community. In order for these strategies to be most effective, we first review key housing and policy issues that form a context to the development future strategic directions.

Local Housing Issues in Changing Policy Context

The affordable housing strategies employed by Council to date are still important, and may continue to yield a reasonable contribution to the development of new affordable housing under SEPP 10. However, these strategies may be less effective in the future, in part due to a significantly reduced stock of boarding houses and low cost, non-strata subdivided flats and units, as well as statewide changes to the way that developer contributions can be collected and used by

local government and potential future changes to SEPP 10. Ways of improving the effectiveness of current Council approaches to affordable housing also need to be considered, and this strategic review provides such an opportunity. It is worth highlighting some findings from the Background Paper in this regard.

Effectiveness of Existing Mechanisms

Despite the operations of state planning policies designed to address the loss and increase the provision of affordable rental accommodation (namely SEPP 10 and SEPP 70) the problem of affordable housing has continued to increase in North Sydney, and at an accelerated rate in the Sydney metropolitan area and many regions around the state.

The difficulty in protecting and/or replacing the low-cost housing stock lost in North Sydney has been apparent to Council for some time. Since 1984, Council records show that at least 2,000 low cost bed spaces in residential flat buildings and boarding houses have been lost in North Sydney LGA. As noted above, 15 bed spaces have been directly replaced through developer contributions under Section 94 and/or SEPP 10, though around \$2.6 million is held in trust for this purpose.¹

The loss of boarding houses has been particularly serious over the past two decades with at least 40 lost, generally to more up-market uses. Our investigations regarding the remaining 20 or so boarding houses show that they continue to fulfil an important and quite surprising role in the local housing market, accommodating not only some of the most vulnerable people in the North Sydney community (older asset poor people, those with disabilities and younger homeless people) but also a high proportion of single low to moderate income workers including 'key workers' who would be unable to find accommodation in the highly constrained local rental market. Generally, the redevelopment or conversion of such boarding houses to high value single residences or up-market apartments or tourist accommodation means the displacement of lower income 'key workers' and vulnerable people.

To illustrate the difficulty in replacing affordable housing stock that is lost, a boarding house (67 Upper Pitt Street, Kirribilli) recently changed hands for \$2.1 million and resulted in the loss of 9 units of low cost accommodation, with Council receiving \$119,422.17 (a rate of \$13,269.13 per unit) as a contribution to its Affordable Housing Fund. While any contribution to the fund is positive, the value received from the loss of this boarding house is estimated to replace approximately 0.3 units of low cost accommodation in the North Sydney LGA based on the purchase price of a first quartile unit.

North Sydney's Housing Affordability Context

The local housing market is very unaffordable for a high proportion of existing local residents as well as for those who work in the LGA. This includes long-term older asset-poor residents, younger

¹This is dependent upon a refund from the NSW Department of Housing for an joint venture affordable housing project that has been withdrawn.

families in the process of household formation, and low to moderate income 'key workers' in industries such as education, health and hospitality. Low to moderate-income workers, who are in lone person households and families on a single wage, are particularly vulnerable to 'housing stress'² in the local housing market.

Our research indicates that over time those on very low, low and moderate incomes have been largely 'priced-out' of the market in North Sydney, with the majority of such households remaining in the area likely to be already living in public or community housing, long-term tenants of boarding houses/private hotels, or renting privately and generally unaffordably. Another less advantaged group is the historical population who bought into in the LGA at a time when this was possible for a lower income resident, and so are generally older people.

There is a common misconception that 'affordable housing' means 'public' or 'social' housing. However, many of the residents facing affordability problems in North Sydney LGA would fall outside the eligibility criteria for public housing, or would be unlikely to meet criteria for priority housing allocation. Thus, future AH strategies should be geared towards low to moderate income people who are currently residing within the North Sydney LGA in unaffordable housing situations, those with strong links to the area who may have been recently displaced due to affordability issues, and those who work in the LGA on low to moderate incomes in 'key worker' positions who may be unable to rent or purchase a home in the area. The following trends detailed in the Background Report are most relevant.

Housing Cost

Overall, housing costs³ in North Sydney LGA are much higher than Sydney SD for both purchase and rental housing.

- The median purchase price for all dwellings in North Sydney LGA was \$580,000 in September Quarter 2007, compared with \$435,000 for Sydney SD.
- For Strata dwellings, the contrast was even starker with the median price of \$553,000 in North Sydney and \$370,000 for Sydney SD. However the gap between North Sydney and Sydney SD appears to be narrowing, with prices there increasing more rapidly than in North Sydney due mainly to the high starting base for North Sydney.

² Housing is considered to be 'affordable' when it is priced so that other essential costs like food, clothing, transport and services can be adequately met. This is generally where housing costs are less than 30% of gross household income for low to moderate-income households (those whose income is up to 120% of median household income for their LGA). Low to moderate income households paying more than this on housing costs are generally deemed to be in 'housing stress' (at risk of 'after housing poverty').

³ Housing '**cost**' and housing '**affordability**' are essentially two different measures. It is important to draw a distinction between 'low cost' housing and 'affordable' housing. The former relates to the relative price of housing (e.g. compared with other areas in absolute terms), whereas 'affordability' relates to the ability of residents of a particular area to rent or purchase housing without compromising their ability to afford other essentials, like clothing, transport, food, costs associated with schooling and the like. Thus, housing may be relatively 'low cost' but may not be 'affordable' to those who need it.

- Rental costs were also considerably higher in North Sydney compared to Lower Northern Sydney SD and Sydney SD, with median rental for a 2-bedroom dwelling \$480 for per week compared with \$350 for Sydney SD.

Affordability

Overall, housing affordability in North Sydney LGA is fairly comparable with Sydney SD, though this is generally due to the much higher median incomes of North Sydney residents and the high level of displacement of low-income North Sydney residents in an appreciating housing market.

- Approximately 20% of all low-income renting and purchasing households were in 'housing stress' in North Sydney, compared to 22% in Sydney SD.
- 569 low-income purchasers were in housing stress (61% of all low-income purchasers compared to 63% for Sydney SD). Of these, 32% were paying in excess of 50% of gross household weekly income on their mortgage (compared to 34% for Sydney SD), and so could be seen as being in 'housing crisis'.
- 1194 low-income renting households were in housing stress (64.2% of all low-income renting households), with 32.4% paying more than 50% of their income on rent.
- Moderate-income households (those likely to be in 'key worker' industry or occupation groups) also had high levels of housing stress with 476 moderate-income households in rental stress, which represents approximately 23% of all moderate-income rental households in the LGA, compared with 46% in Sydney SD.
- Only 1.9% of rented dwellings are rented from either a state or territory housing authority or community housing provider, compared to 3.0% for Lower Northern Sydney SD and 5.3% for Sydney SD and NSW respectively.

JSA Affordability Modelling

Additional modelling carried out by JSA also indicates that home purchase and rental are generally very unaffordable to a majority of existing residents of North Sydney LGA.

- Purchase of a first quartile dwelling (those in lowest 25% price range) would result in housing stress for around 65% of all households in North Sydney.
- If 50% of household income⁴ were taken as the outer limit of ability to pay off housing, then around 40% of all households in North Sydney would be excluded from the purchase market as first homebuyers, even if they were to purchase a first quartile dwelling. Using Sydney SD benchmarks, low to moderate-income households would be generally excluded from affordable purchase in North Sydney LGA.

⁴ As wealthier households have higher levels of disposable income after purchase of necessities.

- In another measure, based on spending 30% of household income on housing, purchase of a median priced dwelling in North Sydney LGA would be accessible to the upper 25% of households only. Using 50% of household income in repayments as a benchmark, a median dwelling would be accessible to the upper 50% of households only. Again, low to moderate-income households would be excluded from purchasing a median priced dwelling.
- Rental of a first quartile one bedroom flat or unit would result in housing stress to the bottom 30% of households.
- For a median two bedroom flat or unit, rental would be generally unaffordable to around 45% of households in North Sydney LGA, and would place all households on low to moderate incomes (using Sydney SD benchmarks) in housing stress.
- Using 50% of income spent on housing costs as a measure of severe housing stress or 'housing crisis', rental of a first quartile two-bedroom flat or unit would be inaccessible to around 20% of households in North Sydney LGA.

Social Housing Context

The provision of public rental housing by the NSW Department of Housing has also undergone significant changes including major cuts to Federal Government capital funding over the past decade, an increased reliance on demand-side strategies combined with an increasingly low-income and high need tenant group and an ageing stock profile that has resulted in a decrease in public housing stock in proportional and numerical terms. These types of drivers are in part leading to an increased role for the community housing sector. The changing policy landscape at the Federal and State level indicates that there may be increased opportunities for local government authorities and social housing providers who have positioned themselves through research and other preparatory work to increase their stock of affordable housing.

Need for Expanded Strategies

It is therefore timely for Council to consider its options for carrying its affordable housing strategy forward into the future, and particularly for sustainable use of its existing stock and of increasing this stock to meet growing need. Council is currently updating its Local Environmental Plan (LEP), Residential Strategy and Social Plan. These planning documents are vital in shaping the future of any revised affordable housing strategy. It is within this context that Judith Stubbs & Associates was engaged to identify a range of alternative options for North Sydney Council to develop a 'next generation' affordable housing strategy based on current data, a review of the effectiveness of past practices and an assessment of future opportunities.

The Role of Local Governments in Affordable Housing

Though there are clear limitations to the role of local government with regards to affordable housing, particularly in its relationship to State Government, there are a range of ways in which councils in NSW can and do affect the housing market. Councils can have direct and indirect impacts upon affordability. So what involvement do councils already have in housing affordability?

In general terms, local government has long played an important role in influencing the supply of housing, including its cost, timing, location and amenity. Some of the ways that local government influences housing and urban form include:

- Strategic planning policies and regulatory controls, including zoning, building and urban design standards, which impact where and how development can occur;
- Individual and cumulative planning decisions (such as permitting development and redevelopment of certain types over time), the use of restrictive covenants and other planning mechanisms to influence urban form and cost;
- Developer levies and voluntary planning agreements, which can also have an impact on cost, timing and rates of release; and
- Levying of rates and rating policy generally.

What Power does Council Have?

Councils have a number of powers and responsibilities in relation to the ensuring the maintenance or provision of affordable housing at the local level. The Environmental Planning and Assessment Act 1979 (NSW) was amended in 1999 to include an objective specifically related to affordable housing; **Section 5(a)(viii)** states that an objective is 'to encourage the provision and maintenance of affordable housing'. North Sydney Council has been one of the most proactive NSW councils in acting within its powers to create additional affordable housing stock under the existing regulatory scheme.

Councils are also charged with planning in the **Public Interest** under section **79C(1)(e)** of the Act.⁵ Recent case law indicates that this is achieved with regard to realising the objectives of the

⁵ Section 79C Evaluation states, "(1) Matters for consideration-general In determining a development application, a consent authority is to take into consideration such of the following matters as are of relevance to the development the subject of the development application:

(a) the provisions of:

(i) any environmental planning instrument, and

(ii) any draft environmental planning instrument that is or has been placed on public exhibition and details of which have been notified to the consent authority (unless the Director-General has notified the consent authority that the making of the draft instrument has been deferred indefinitely or has not been approved), and

(iii) any development control plan, and

(iiia) any planning agreement that has been entered into under section 93F, or any draft planning agreement that a developer has offered to enter into under section 93F, and

Act. In addition, Object 5(a)(vii) relates to implementing principles of ecologically sustainable development, which can be considered as bringing together economic, social and environmental considerations as part of planning for sustainable development. Affordable housing is a key component of social sustainability, for example through maintaining social diversity and a robust labour market.

Councils are also required to comply with **State Environmental Planning Policy No. 10** (Retention of Low Cost Accommodation). This SEPP aimed to limit the loss of low cost flats, units and boarding houses. Despite its existence, a majority of low cost flats and boarding houses have been lost through strata subdivision or redevelopment since the 1980s. The provisions of SEPP 10 were strengthened and extended to more council areas in 2000, but the impact of these changes are reported to be mixed to date, and most councils find it problematic to rely on this policy to safeguard stocks of affordable housing. Nonetheless, North Sydney Council should continue to use this SEPP to good effect where possible.

Under the Local Government (General) Regulation 2005 it is mandatory for all NSW councils to prepare social/community plans at least every 5 years. These plans include a human needs assessment that must consider the needs of seven 'target groups' in the community that may face disadvantage including Aboriginals and Torres Strait Islanders, people with a disability and older people, for which Affordable Housing issues are often central concerns. It is also mandatory for councils to prepare Management Plans (including an Access and Equity Statement), State of the Environment Reports and Local Environmental Plans. Housing is an important access and equity issue as well as part of the local 'environment', and it is therefore appropriate to consider this issue under these plans as well.

Councils must consider the social and economic impacts of a development under section **79C(1)(b)** of the EP&A Act. The loss of affordable housing may be a serious social & economic impact in a locality, particularly where housing is already unaffordable, or where the loss is substantial. 'Cumulative' impacts (small individual losses of affordable housing that lead to large loss over time) as well as individual, serious large-scale loss (e.g. closure of a large boarding house) can also be considered.

Finally, the *Environmental Planning and Assessment Amendment (Development Contributions) Act 2005*, introduced a statutory system of planning agreements, including the inclusion of 'affordable housing' as an identified public benefit. The *Environmental Planning and Assessment Amendment Act 2008* was assented to on 18 June 2008, but is yet to be gazetted. It introduces further changes to provisions related to the use of Planning Agreements to gain developer contributions for Public Infrastructure. It is important that Councils adopt a policy to manage the opportunities and

(iv) the regulations (to the extent that they prescribe matters for the purposes of this paragraph), that apply to the land to which the development application relates,

(b) the likely impacts of that development, including environmental impacts on both the natural and built environments, and social and economic impacts in the locality,

(c) the suitability of the site for the development,

(d) any submissions made in accordance with this Act or the regulations,

(e) the public interest.”

constraints of this new legislation. Such a policy, and an updated Planning Agreement Template, will provide Council with an efficient, fair and transparent framework in which to consider offers made by developers to enter planning agreements in the future.

Choosing the Right Approach for North Sydney

Council already has a high level of involvement in affordable housing in its local community. Local government's involvement in affordable housing can be thought of as a continuum, where it chooses from a suite of options, depending on how it sees its level of involvement. This is shown in the following diagram.

For years NSC has engaged in a 'Major level' of involvement, as it has utilised Council owned resources for affordable housing, developed ownership and management partnerships with DOH and NSCH, and has levied developers for the loss of affordable housing in order to fund the acquisition of additional properties. Nonetheless, the development of this Affordable Housing Strategy gives Council the opportunity to reflect on this level of involvement to date, and confirm the level of involvement in affordable housing which it sees as appropriate to meeting local needs.



Minor (Less Direct) Involvement

Major (More Direct) Involvement

1. Awareness Raising and Advocacy	2. Facilitation of Housing Outcomes through Planning & Regulatory Functions	3. Direct Provision and /or Management
<p>Activities are likely to include:</p> <ul style="list-style-type: none"> • Undertaking a housing study • Improving staff capacity to consider and respond to housing related social impacts and trends • Providing Councillor workshops on issues such as housing affordability, sustainable housing development and housing for target groups • Participation in or support for regional housing forums or councils • Advocate to other levels of Government for an increase in Affordable Housing resources and/or policy responses 	<p>Activities are likely to include 'Awareness Functions' outlined in column 1 PLUS some/all of the following:</p> <ul style="list-style-type: none"> • Streamlining approval processes the facilitate the efficient production of housing • Integrating the strategic planning process to recognise the importance of the interrelationships between housing, jobs, services, and transport, and the effect of these on access to appropriate and affordable housing • Developing planning and regulatory mechanisms to encourage or require contribution to housing outcomes (e.g. bonuses, incentives, contributions/levies, inclusionary zoning where permitted) • Use of Planning Agreements (and/or & s 94 F&G where permitted) to create desired outcomes • Sub-zones in LEP for housing for target groups 	<p>Key activities are likely to include 'Awareness Functions' (column 1) PLUS 'Planning and Regulatory Functions' (Column 2) PLUS some/all of the following:</p> <ul style="list-style-type: none"> • Undertaking a council owned land audit to identify sites with residential development potential • Entering into joint ventures to directly provide housing stock with other spheres of government, private or community partners • Recurrent support and or management of housing stock

Figure 1: Policy Options Along a Continuum of Local Government Involvement in Influencing Housing Outcomes

Source: JSA, 2007

PART B: PROPOSED AFFORDABLE HOUSING STRATEGIES

Council has substantial resources currently dedicated to affordable housing. However, as noted above, there may be limited future opportunities to substantially increase affordable housing resources due to limitations to collecting developer contributions through existing polices, the dwindling stock of boarding houses and low cost flats and units, as well as changes to how developer contributions can be collected and used by local government arising from recent legislative changes.⁶ As such, it is important that Council use its resources in the most effective and efficient way to increase the amount of affordable housing stock through other means.

Six Key Affordable Housing Strategies are recommended:

1. Continue to seek mitigation for the loss of affordable housing through SEPP10 and Council's existing methods of negotiating with developers, particularly for the remaining stock of boarding houses and low cost flats and units, and to develop a program of works for the expenditure of affordable housing funds in a timely way.
2. Participate in debt-equity partnerships to leverage existing and future Council resources dedicated to affordable housing through commercial arrangements with public, community and/or private sector partners, which incorporate State and Federal government funding opportunities.
3. Reconfigure existing affordable housing stock where feasible to ensure the most appropriate and efficient use of resources including the development of a comprehensive asset management strategy.
4. Support a regional approach where it will lead to more effective ways of meeting local affordable housing needs.
5. Implement stronger Social Impact Assessment processes to assess and where appropriate refuse or seek stronger mitigation against the loss of low cost residential flats, units and boarding houses.
6. Use Planning Incentives to capture additional private benefit for use as affordable housing, supported by Planning Agreements under section 93F of the Act (or Part 5B Division 4 of the Amendment Act 2008 when gazetted).

Each of these strategies is outlined below with a rationale, methods and recommendations for Council to consider.

⁶ For example, section 116V of the Environmental Planning and Assessment Amendment Act 2008 (NSW) requires that consent authorities will now require the consent of the Minister for Planning for Planning Agreements developed under Part 5B Division 4 of the Act (formerly section 93F) that propose contributions towards anything other than 'key community infrastructure' as set out in clause 31A of the Regulation (as amended). Notably, although 'affordable housing' falls under the definition of 'public infrastructure' at section 116C of the Amendment Act, it is not included in 'key community infrastructure'. As such, Council will require the consent of the Minister in relation to Planning Agreements that propose a contribution in cash or in-kind toward affordable housing. It is noted that, although the amendment Act was assented on 18 June 2008, it is yet to be gazetted, so the existing section 93F is still in force at the time of writing.

Strategy 1: Continue Current Approach and Develop Program of Works

Rationale

Council has substantial resources dedicated to affordable housing that have been created through its various affordable housing strategies to date. These are:

- Full or partial ownership of 26 properties comprised of 41 houses and multi-unit dwellings, and 2 boarding houses
- Around \$2.6 million⁷ levied by Council against the loss of low cost rental housing held in trust for the provision of affordable housing

Of the 26 affordable housing properties fully or partially owned by Council, the NSW Department of Housing manages 11 and North Shore Community Housing (NSCH) manages 15.

It is proposed that Council establish a realistic target for affordable housing over 25 years, to be created through various planning mechanisms. If developed and/or managed in partnership with a local community housing association (such as NSCH), this is likely to lead to significantly greater housing yield due to ability of the community housing association to leverage debt financing or additional government funding.

We note that Council's current stated goal with regards to affordable housing is a 5% replacement of affordable bed spaces lost, and to create 30 affordable bed spaces between 2003 and 2013. We understand that since 2003, 6 bed spaces have been created. Thus, the goal of creating 24 bed spaces by 2013 is a reasonable place to focus for the short term, with long-term goals to be discussed and determined by Council.

Strategies

It is important that Council continue its active involvement in affordable housing in the LGA by continuing to:

- Collect contributions to its Affordable Housing Fund from the loss of low cost flats, units and boarding houses to redevelopment, conversion or strata subdivision
- Commit existing and future funds to priority projects that will increase the stock of affordable housing for low- to moderate-income earners

⁷ Pending refund of funds committed to a joint venture project with the NSW Department of Housing from which the Department of Housing withdrew.

Recommendations

- Council continue to collect contributions to its Affordable Housing Fund from the loss of boarding houses and low cost flats and units through redevelopment, conversion or strata subdivision, including the adoption of a future target for the creation of stock, and adapt its policies to the emerging legislative and policy regime.
- Develop a Planning Agreement Policy and Template in accordance with the provisions of Part 5B Division 4 of the *Environmental Planning and Assessment Act 2008* so as to ensure the legality of its collection regime.
- Council develop a detailed program of works for priority affordable housing projects for the expenditure of existing and anticipated funds held in trust for this purpose, and ensure the expenditure of these funds in a timely way so as to fulfil its legal requirements under the Act.

Strategy 2: Increase Affordable Housing Stock Through Debt-Equity Partnerships

Rationale

Council has substantial resources dedicated to affordable housing that can be leveraged to create additional stock. Involvement in debt-equity partnerships is one of the best ways of leveraging existing resources to ensure that as much new affordable housing stock as possible is created in the coming years. The following are some things that Council can do under this type of approach.

Strategies

Council-NSCH Partnership using Debt Financing

Council can enter into a debt-equity (development) partnership with North Shore Community Housing (NSCH) where Council provides a portion of the equity and NSCH borrows the balance required to build additional affordable housing units. NSCH may also contribute some funding from its own reserves and surpluses. Council's contribution may be in cash or in kind, and is most likely to come from money held in trust for the purpose of affordable housing replacement collected under Section 94 or SEPP10, and/or through the redevelopment or more intensive use of dwellings/land currently dedicated to affordable housing. This is basically a commercial arrangement that does not assume any additional subsidy or capital funding from the State or Federal government.

NSCH would then manage the housing created under a Memorandum of Understanding or similar legal agreement with Council. Title to this housing could be held by NSCH, which would assist in

their future borrowings and organisational growth, or could be shared between Council and NSCH depending on the equity share contributed by each, including finance to be repaid by NSCH. Long-term leasing is also an option, where Council gives a 35-year lease to NSCH over existing or additional properties to give the organisation a guaranteed income stream, and enable it to more easily negotiate debt finance for additional units of accommodation with financial institutions.

JSA is currently conducting a preliminary analysis of how this type of approach could be implemented taking into account:

- Amount of equity available, where titles to property is vested
- Target group for the development and likely rental income available to service the loan (e.g. whether housing was provided as 'social housing' with rent capped at 25-30% of income for lower income earners, or whether it was 'affordable housing' for low to moderate income earners such as 'key workers' at discount market rent (At least 20% below the local median for that type of housing))
- Whether government funding or subsidies are obtained (e.g. NRAS and/or AHIF outlined below), and the likely impact of that funding on capacity to borrow/expand stock that can be created
- Type of housing constructed balancing local need and ability to service a loan (e.g. units, villas or family housing and quintile)
- Area/market in which the stock is constructed (e.g. there is considerable differentiation between land and housing markets across the North Sydney LGA, various LGAs in the region and areas within LGAs. As such, NSCH and NSC may choose to construct stock in LGAs adjacent to North Sydney LGA where there are good transport links to local employment nodes)
- Type of financing/interest rate scenario entered into

A more detailed feasibility analysis would need to be undertaken on individual projects, and work for Council is currently being augmented by other projects currently being undertaken by JSA for local Community Housing providers. **Case Study 1** provides an example of what is possible under this type of arrangement.

Council-NSCH Partnerships including a Private Sector Partner

Similarly, this type of partnering approach could also be undertaken with a private developer, alone or as part of a consortium between Council and NSCH. For example, Council (acting alone or in concert with NSCH) may call for expressions of interest on a development or redevelopment project using Council land and/or funds as well as contributions or borrowings from NSCH, where new affordable housing developed would be subsequently managed by NSCH.

Council-NSCH Partnerships using debt-equity + Government funding and/or subsidies

Debt-equity partnership strategies would be more effective in creating additional units of affordable housing if combined with federal or state government capital funding or subsidies. The main schemes currently available are the NSW Affordable Housing Innovation Fund (AHIF) and the recently announced National Rental Affordability Scheme (NRAS). These are briefly summarised below.

The NSW Affordable Housing Innovation Fund (AHIF) aims to encourage the growth of the community housing sector and enable community housing providers to attract private investment and financing, this maximising the amount of affordable housing that can be provided.⁸ Up to 60% of the total cost of a project is provided by the NSW State Government, with the balance provided through a mix of debt and equity. Often a partnering council provides the equity, either in kind (generally surplus land or housing) or in cash (from developer contributions including through Section 94, Planning Agreements and/or density bonuses). Finance is secured by the community housing providers, and only community housing providers can apply for this funding. Project grants for individual projects for the first two AHIF rounds have been in the order of \$1.3 million, with projects worth on average \$3.2 million, and average number of dwellings per project around 12. A total of \$22 million is available over the next two funding rounds and competition for this funding is likely to be strong.⁹

The National Rental Affordability Scheme (NRAS) aims to significantly increase the stock of affordable or low cost rental housing financed through large institutional investors, private developers and not for profit organisations. It aims to create a total of 100,000 new rental properties across Australia renting for at least 20% below market rent over the next 5-10 years. The main mechanism is an annual refundable tax credit for private developers of \$6,000 per annum from the Federal Government, and cash or in-kind contribution from the NSW State Government of \$2,000 per annum, a total subsidy of \$80,000 over 10 years. The scheme seeks to enable properties to be rented at below market rent. The stock created must be retained as low cost rental accommodation for at least 10 years, after which time it may be sold. The subsidy can only be applied to new private rental, and scale is important – the Federal Government will generally only consider applying the subsidy to proposals of 100 or more dwellings for private developers and 30 dwellings for not-for-profit organisations, though it appears that a 'proposal' may apply to more than one 'project', and may cover several LGAs and be stage over time to achieve the required scale.

Neither of these sources of funding are assured, though it seems likely that the Federal Government will be keen to fund early proposals to make sure the NRAS targets are met. There are several funding rounds before the end of 2008, and also in early to mid-2009. These funding and subsidy opportunities are likely to make more marginal projects viable in certain circumstances.

⁸ NSW Department of Housing, NSW Affordable Housing Initiatives, accessed online 6 June 2008.

⁹ Presentation Will Rodin, NSW Centre for Affordable Housing, Byron Shire, 4 June 2008.

Case Study 1: Potential Redevelopment Partnership on Council-Owned Land



Figure 2: Cremorne Early Childhood Centre & Parking Area, 108 Parraween Street, Cremorne
Source: JSA 2008

This site is 2,640 square metres and currently contains a building of around 170 square metres used as a community health centre and a ground level council car park for about 80 cars. The land is zoned special use however medium density is allowable with a three-storey height limit. Approximately 60% landscaping is required. We understand that Council is considering the construction of an underground car park using Section 94 funds to enable the provision of a park.

Two three story buildings, with a footprint of about 200 square metres each, could be constructed on the site, with the ground floors used for the existing health centre and for another use such as a pre-school or child care centre, and with the buildings providing eight dwellings for use as affordable housing. Alternatively, one of the ground floors could be used for affordable housing as well, and so providing ten dwellings.

Based on a build rate of \$2,000 per square metre, construction of the buildings would cost around \$2.4 million, equivalent to the current estimated affordable housing fund. This equates to \$300,000 per dwelling for eight dwellings or \$240,000 for ten dwellings. Part of this money could be borrowed, with rental income used to repay the amount borrowed. It may also be possible to access funding under the AHIF or under NRAS, however it is likely that partnering would be required with a housing provider to access this funding. The development would need to be combined with other developments to meet the NRAS minimum project size of 20 dwellings.

Recommendations

- Council provide in-principle support to increase the amount of affordable rental stock through debt-equity partnerships, and use existing resources dedicated to affordable housing in the most effective way.
- Council continue its management partnership with NSCH.
- Council extend its existing partnership with NSCH to a development partnership, subject to a review of preliminary investigations on feasibility of debt-equity approaches currently being undertaken by JSA.
- Council work with NSCH to identify potential debt-equity projects using Council resources dedicated to affordable housing, and partner in conducting more detailed feasibility assessments of such projects.
- Council support affordable housing funding applications or expressions of interest by local community housing providers to state and local government, including those under the NSW Affordable Housing Innovation Fund and the National Rental Affordability Scheme.
- Council also explore potential Public-Private or Public-Private-Community sector partnerships in relation to development or redevelopment projects.

Strategy 3: Ensure Sustainability of Council's Affordable Housing Stock to Meet Future Needs

Rationale

A number of the affordable housing properties either partially or fully owned by Council are older stock with relatively high maintenance or upgrade liabilities. In the last two years, Council's recurrent costs include a contribution to cyclical or major maintenance of the properties managed by NSCH of around \$70,000 per year.

Furthermore, a number of these properties are of high capital value, but may only house one tenant. Whilst using one detached dwelling on a block of land may be useful for accommodating families or those with special housing needs, it is not always the most effective or efficient use of the resource in a very high land value area like North Sydney LGA. Importantly, the needs of current and future local social and affordable housing tenants will be best met by reconfiguring some of this low density stock into higher densities close to transport and services given the high proportion of older one and two person households currently housed and on the waiting list.

As such, the development of a comprehensive Asset Management Strategy would be valuable in ensuring that Council's resources are used in a sustainable way that ensures changing needs are met and that the amount of stock available continues to grow in appropriate locations.

Opportunities to reconfigure some existing stock in terms of location and housing type are considered as part of this strategy (See **Case Studies 2 and 3**). Reducing or eliminating Council's recurrent asset maintenance liabilities would also be desirable. The main target groups for affordable housing include:

- Low to moderate-income workers, including 'key workers'
- Older, asset poor renters in rental stress
- Low income earners including those with special needs and working single people currently being displaced from boarding houses and low cost flats in the process of redevelopment or conversion to more upmarket uses
- Young people in the process of household formation
- Young families who wish to stay in the area as their families grow
- People on fixed incomes including residents with a disability and those with special needs
- People whose life circumstances change unexpectedly including those who face divorce or unemployment/under-employment

In light of recommendations regarding debt-equity partnerships with NSCH outlined above, Council could meet these various objectives by transferring title to selected properties to NSCH and entering into long-term leases on other properties (e.g. 35 year leases). This would be subject to a legal agreement with NSCH that guaranteed the continued use of these properties or resources for affordable housing including their reversion to Council ownership in the event of NSCH ceasing to trade.

Council's decisions to transfer title or otherwise share equity would need to be linked to an asset management strategy prepared by NSCH and approved by Council that showed how this stock would be used in the future. For example, if the stock were to be sold and money reinvested to increase appropriate stock, developed, upgraded or added to. Such an Asset Management Strategy should have as its priority growth in the amount of existing stock in appropriate locations to meet the needs of target groups for affordable housing. This would achieve a number of outcomes including:

- Reconfiguring stock to meet changing needs
- Making the most efficient use of scarce resources
- Reducing Council's recurrent maintenance and upgrade liabilities
- Positioning NSCH to grow stock through obtaining commercial finance, and/or obtain funding or subsidies through state and federal government programs

Strategies

Develop an Asset Management Strategy with NSCH

It is proposed that Council support the development of an Asset Management Strategy for Council properties under management by NSCH with appropriate criteria for determining:

- Properties to be retained for their current use and upgraded based on a cyclical maintenance schedule and capital works plan (likely to be the majority of properties)
- Properties suitable for future re/development, or intensified use such increased density or additions
- Properties to be sold, with reinvestment and leverage to create additional affordable housing stock
- Properties where title can be transferred to NSCH and/or where long-term leasing arrangement may be put in place

Relevant criteria is likely to include zoning and development controls, heritage constraints, land values, efficiency measures such as stock to land or tenant ratios, and impact on overall stock portfolio to meet current and future needs.

In-principle Support for Transfer of Title or Long-term Leasing on Selected Properties

It is proposed that Council give in-principle support to the transfer of title on selected properties identified as suitable for sale or redevelopment leading to the creation of additional and more appropriate affordable housing stock in North Sydney LGA. It is further proposed that Council give in-principle approval for the identification of properties where long-term leasing arrangements with NSCH may be put in place. Note that these would be subject to appropriate legal guarantees as to their continued use for affordable housing. We understand that a preliminary assessment of potential properties has been undertaken by Council staff in consultation with NSCH. This is being investigated further, and a preliminary list will be available for Council's review in the near future.

In-principle Support to Transfer of Maintenance on selected properties

Where title is transferred or long-term leasing arrangements possible, it is proposed that Council hand responsibility for responsive and cyclical maintenance on identified properties to NSCH, pending a more detailed assessment of the impacts of the transfer of these responsibilities including whether title is also transferred

Case Study 2: Reconfiguring Council Stock through Sale

There are a number of North Sydney Council affordable housing properties of high value but providing only one dwelling. Based on first quartile sale prices for North Sydney, these dwellings could be conservatively expected to be sold for around \$900,000 each. Based on median house prices, the properties could be expected to be sold for \$1.1 million. The realised capital could be reinvested in more efficient ways of providing affordable housing. This money could buy two first quartile strata dwellings in North Sydney LGA (\$445,000 as at December 2007) or three first quartile strata dwellings in Lane Cove (\$345,000 as at December 2007).

An example of such a dwelling is 3 Oak Street, North Sydney, with details shown below.



Figure 3: Photo and 2001 LEP Zoning for 3 Oak Street, North Sydney
Source: JSA 2008, NSC website

This property is a two-bedroom cottage fully owned by NSC and managed by NSCH. Council also owns two similar neighbouring cottages at 7 and 9 Oak Street, also managed by NSCH. By way of comparison, 5 Oak Street was sold for \$980,000 in January 2004.

Case Study 3: Reconfiguring Council Stock through Redevelopment

Single detached dwellings in residential B zoning could be redeveloped to increase the number of dwellings on the site. An example is a council property at 23 Nicholson, Wollstonecraft.



that NSCH may enter with Council and /or other partners in order to increase the amount of stock available.

Strategy 4: Adopt a Regional Approach where appropriate to Meet Local Need

Rationale

Housing markets across the Lower North Shore Region show significant differentiation in housing type, standard, tenure and price point, this is described in detail in the Background Paper that informs this Strategy. Migration patterns also show a quite 'fluid' relationship between the housing markets in the region, with people moving into and out of North Sydney LGA largely depending on the needs and aspirations of residents at different ages and stages in the lifecycle. As such, it makes sense to view the North Sydney housing market as part of a wider regional system, and to work with other Councils and peak bodies, not only to plan for future provision of affordable housing but also to locate future housing stock where appropriate and efficient.

Strategies

A regional approach to provision could include some or all of the following strategies.

- Developing some additional affordable housing stock in areas outside North Sydney LGA where this is efficient (e.g. where land prices are more affordable and/ or adding to existing stock is more feasible), and where there are logical links to North Sydney LGA (for example, good transport connections for 'key workers' working in the LGA, proximity to regional hospitals for older North Sydney residents, etc). North Sydney Council could retain or share title to affordable housing created outside its area, and have input to local allocations criteria for this stock (e.g. to be allocated to those with a long-term association with the LGA).
- Supporting and/or providing affordable housing resources (e.g. developer contributions held in trust for this purpose) for joint EOIs/ funding applications for cross-border projects. As noted above, the National Rental Affordability Scheme requires at least 30 new dwellings be developed as part of a 'proposal'. This may be best achieved in a collaborative relationship brokered by NSCH acting in concert with other community housing providers in the region, where some stock is developed in North Sydney LGA and some in other areas to achieve critical mass. Again, Council's interests can be protected in any stock created through appropriate legal agreements.
- Supporting the development of regional planning provisions to facilitate the creation of affordable housing through the planning system to strengthen the position of individual local councils in their negotiations with the Department of Planning and developer.

Case Study 4: Efficiencies through Creating Stock in Adjoining LGAs

Available funds can be used for the spot purchase of stock in adjoining LGAs such as Lane Cove. Lane Cove LGA has the lowest median strata prices in the region with prices equivalent to the Sydney median. For the December quarter 2007, the first quartile strata price was \$345,000 and the median strata price was \$417,000 compared to \$445,000 and \$550,000 respectively for North Sydney.¹⁰

Recommendations

- Council support a regional approach to the creation of additional stock of affordable housing where appropriate, and where it is demonstrated that this will benefit those in housing need/ housing stress in the LGA.
- Council support the development of EOIs and funding applications for State and Federal Government funding or subsidies where these increase opportunities to access such funding.
- Council enter into legal agreements that protect its interest in additional stock created through this process, including stock created in other LGAs.
- Council participate in the development of regional environmental planning provisions for affordable housing in accordance with the Standard LEP Template where appropriate.
- Council work with NSCH to develop local allocations criteria for stock created in areas outside its LGA where appropriate.

Strategy 5: Increased Protection of Remaining Affordable Housing Stock in the LGA

Rationale

The stock of boarding houses and private hotels in North Sydney LGA continues to decrease over time. Our review of this stock, detailed in the Background Paper, confirms that a number of boarding houses have recently been lost due to conversions primarily to single dwellings, and others to strata subdivision and in one instance an aged-care facility. The loss of boarding houses is due to a range of factors, most likely a combination of the declining profitability of running a boarding house, the soaring value of the property, and the likely high return of selling the property without restrictions on its use (such as a single dwelling or strata subdivision).

¹⁰ Housing NSW (2008), *Rent and Sales Report No 83*.

The amount levied for the loss of bed spaces in boarding houses may be well-below their value if we consider cases where the DA to convert the premises to a single dwelling acts in essence as a change in zoning and the property is then sold for a much higher price as a single dwelling. There is also a concern that some low-cost accommodation in boarding houses and private hotels is being lost but not counted as some have argued successfully that they are a 'backpacker's accommodation' and therefore exempt for the application of SEPP 10. As a result, these developments are neither levied for the loss of affordable bed spaces, nor are the bed spaces counted based on Council's system of tracking this loss over time.

Regardless of the loss of stock of this type of accommodation, the profile of the residents who are 'counted at home' on census night in boarding houses, private hotels and other emergency accommodation types is relatively unchanged since the late 1990s. Whilst tourists and backpackers undoubtedly make up a proportion of those counted in such accommodation, there is a relatively robust proportion that appear to be middle aged and working – or at least earning more than \$400 per week – and count no other address in Australia or overseas as their 'home'. Therefore, we conclude that boarding house style accommodation continues to fill a necessary niche for low-cost and 'affordable' accommodation for a range of members of the North Sydney community.

Our analysis also shows that boarding houses and private hotels are also utilised by some of vulnerable members of the community including older asset poor individuals and those with a disability or dependency issue. The closure of boarding houses and private hotels has an inevitable externality these vulnerable residents who are often displaced and forced to seek alternative accommodation within or outside of the area.

Strategies to Protect Affordable Rental Stock

It is proposed that Council aim to protect affordable rental stock and promote appropriate housing and urban development through a requirement for applicants to conduct Social Impact Assessments at Council's discretion under section 79(C)(1)(b) of the Act, including for the redevelopment of existing low cost housing developments (e.g. flats and units, boarding houses/private hotels, and other emergency accommodation); and requirements for mitigation of adverse impacts arising.

It is proposed that Council implement a notification policy to inform and invite a response from relevant community and human service providers when a Development Application is lodged regarding a boarding house, private hotel or other emergency accommodation that may result in the displacement, either directly or indirectly, of vulnerable residents. Such providers may include but are not limited to NSCH, NSW DOH, Phoenix House Youth Accommodation, Shelter NSW, National Council of Social Services (NCOSS), St Vincent's De Paul, Mission Australia and Wesley Mission.

It is proposed that the Planning, Development and Community Services departments within Council communicate regarding pending closures of boarding houses, private hotels and emergency accommodation such that presence of vulnerable residents who may be at risk of displacement is identified in a timely manner.

It is proposed that Council’s Community Services department continue to work proactively with NSCH, NSW DOH, other community housing providers in the region, and other social service organisations in order to facilitate appropriate assistance with relocation to suitable accommodation, ideally within the local area.

Case Study 5: Protection and Mitigation of Remaining AH Stock

Arguably, all of the remaining boarding houses in the North Sydney LGA are at risk of closure to future redevelopment and change of use. To illustrate the likely future loss, we can look at two boarding houses with the same owner. The first was a large boarding house at 17-19 Wycombe Road, Neutral Bay that has been redeveloped into strata-subdivided units (DA 1465/91). In the 2000/2001 FY Council records show that the owner contributed \$182,000 to Council’s Affordable Housing fund for the loss of 98 bed spaces (\$1,861.22 per bed space). Five units developed on the site have sold in recent years for between \$2.2 and \$6.25 million, equating to \$18.3 million in sales.

The second boarding house located at 12-14 Wycombe Road, Neutral Bay. While there are no current development applications pending with regards to this property, the successful outcome of the redevelopment at 17-19 Wycombe is likely to make redevelopment of this property an attractive option for the owner in the future.



Figure 5: Boarding House at 12-14 Wycombe Road, Neutral Bay
Source: JSA 2008

Recommendations

- Council implement stronger Social Impact Assessment processes to assess and where appropriate refuse or seek stronger mitigation against the loss of low cost residential flats and boarding houses given their importance in the local housing market and in housing special need groups.
- Council implement a notification policy to inform and invite a response from relevant community and human service providers when a Development Application (DA) is lodged regarding a boarding house, private hotel or other emergency accommodation that may result in the displacement, either directly or indirectly, of vulnerable residents.

Strategy 6: Incorporate Affordable Housing Objectives and Provisions into Planning Instruments

Rationale

One of the most important things that Council can do to increase the stock of affordable housing is to incorporate objectives and mechanisms for creating and retaining Affordable Housing into its planning instruments (LEP and DCP). North Sydney Council's current housing research process will ideally position it to develop such responses to affordable housing issues in the LGA. As detailed in the Background Report, it is very positive that North Sydney's current LEP and draft LEP already contain provisions for the inclusion of affordable housing in a range of zones across the LGA.

Strategies

Benefits Capture through Planning Incentives

It is proposed that Council capture a reasonable proportion of additional private benefit (profit) created through Council's planning and approvals processes for use as a public benefit of affordable housing. This can be achieved through the following mechanisms.

Provisions for Precincts Suited to Increased Density (FSR Incentives)

It is proposed that Council identify zones, precincts and/or sites where an increase in density or variation of FSR may be possible without unduly compromising amenity or creating adverse environmental impacts. Incentives to vary floor space would be permitted where an applicant nominated to contribute an agreed % of additional benefit (profit) created by the increase in floor space to Council's Affordable Housing Program under a Voluntary Planning Agreement.

These incentives would be most effective in high amenity areas within major centres, within easy walking distance (e.g. within 400 metres) from shops, transport and services. Zones, precincts and sites could be identified through a Public Benefits layer in the LEP, a schedule to the LEP, and/or set out as a simple 'additional' FSR variation to the 'maximum permissible' FSR in the LEP and in an Affordable Housing section of an amended DCP.

This contribution (cash or in-kind) will be calculated on the **additional** private benefit created should the developer choose to make use of the density incentive, so as not to jeopardise the viability of development and in consideration of equity.

It is further proposed that Council will seek 50% of additional 'private benefit' (additional profit) that is created when an applicant chooses to take up this opportunity. Council will allow additional floor space in response to a dedication by the developer that constitutes an identified public benefit, either at a specified or unspecified rate.

It is important to note that the dedication toward a public benefit will only be calculated on that portion of the private benefit (profit) that results from the additional floor space created through taking up the density incentive.

The calculation of additional benefit created will take into account a realistic if somewhat conservative assessment of sale price within different local markets in the North Sydney LGA, a relatively generous development/building cost, and an appropriate method of indexation to account for market variation over time. The formulae applied in the calculations are:

$$\begin{aligned} \text{Additional Private Benefit (APB) per m}^2 &= \\ \text{Sell Rate (SR)} - (\text{Build Rate (BR)} + \text{Lift Rate (LR)}) & \\ \text{Dedication Rate (DR) per m}^2 &= \text{APB} \times 50\% \end{aligned}$$

In each case the Total Dedication will be calculated by the formula:

$$\begin{aligned} \text{Total Dedication (TD)} &= \\ \text{Site Area (SA) in m}^2 \times \text{Dedication Rate (DR) per m}^2 &\text{ for Precinct X variation to FSR} \end{aligned}$$

The Build Rate (BR), Lift Rate (LR) and Sell Rate (SR) will be set by Council for a reference quarter on an area by area basis as discussed above. The Dedication Rates (DR) will be indexed every quarter to allow for inflation and changing market conditions over time. The Build Rate (BR) and Lift Rate (LR) will be adjusted using the Housing Construction Index (4111) published by the Australian Bureau of Statistics in its publication *Producer Price Indexes-6427.0*. The adjusted rate will be the BR or LR determined by Council multiplied by the index for the most recent quarter and divided by the index for the quarter ending the year during which the BR or LR were determined by Council.

The Sell Rate (SR) will be adjusted every quarter. The SR will be adjusted using the Strata Median Sale Price for the relevant Post Code (eg, 2060) published by the NSW Department of Housing in its publication *A8. Median Sales Prices – Greater Metropolitan Region by SSD/Postcodes*. The

adjusted SR will be the sell rate determined by Council multiplied by the Strata Median Sale Price for the most recent quarter and divided by the Strata Median Sale Price for the quarter determined by Council as the reference quarter. The DR will be adjusted by subtracting the adjusted BR and LR from the adjusted SR, and multiplying by 50%.

Recommendation

- Council consider the development of a system of planning incentives based on density bonuses as outlined in Strategy 6, and undertake more detailed investigation and modelling regarding how this approach would best be utilised in the North Sydney LGA housing market.