

Relevant Information for Council

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TO: Lord Mayor and Councillors

FROM: Graham Jahn AM, Director City Planning, Development and Transport

SUBJECT: Information Relevant To Item 8.4 – City of Sydney Affordable Housing Contribution Plan

For Noting

This memo is for the information of the Lord Mayor and Councillors.

Background

At the meeting of the Housing For All Committee on 4 March 2024, further information was requested about key elements of the City of Sydney Affordable Housing Contribution Plan.

How can we maximise the amount of affordable housing from the Distribution Plan?

The Distribution Plan sets out the allocation of developer contributions in accordance with the affordable housing framework (Act, SEPP, LEP, Ministerial Guidelines, Program).

Given the urgent need for more social and affordable housing, maximising the amount of affordable housing by capitalising on existing opportunities and capabilities to facilitate certain and timely delivery of stock, is the primary task of the Distribution Plan.

For developer funds, the recommended (draft) Distribution Plan is the best way to achieve this because:

- it allocates funds to Tier 1 Community Housing Providers (CHPs), who are the best organisations to deliver affordable housing at scale because:
 - CHPs can deliver housing more cost effectively than for profit organisations or government organisations because they attract favourable tax settings and concessions and can access low-cost finance; and
 - CHPs have access to various funding sources, the most recent being the Housing Australia Future Fund (HAFF), that can be paired with contributions and used to further leverage more affordable housing; and

- the CHPs identified in the draft Distribution Plan have an existing pipeline of works in the City of Sydney where land has been purchased and funding from contributions can immediately be allocated to deliver affordable housing outcomes quickly, including:
 - City West Housing has a pipeline of over 400 dwellings planned for delivery in the local area. As noted in the Council report, there is a significant shortfall in available funds to deliver this pipeline which will require leveraged funding from different sources. The allocation of contribution funds to City West Housing will ensure the delivery of the existing pipeline of works. It is also noted City West Housing is part of a consortium tendering for the delivery of affordable housing as part of the Waterloo Estate South redevelopment. Funds could also be used to maximise outcomes on the site. An announcement about the successful tenderers is not expected till later in 2024;
 - Bridge Housing is the lead developer for the redevelopment of 600 Elizabeth Street. Currently the site will deliver about 240 dwellings, with 39 of those expected to be retained as affordable housing dwellings. Funds from different sources (including from Housing Australia) could be immediately allocated to convert more market dwellings to affordable housing dwellings on this site; and
 - St George Community Housing is developing land on Botany Road corridor. Funds could be immediately allocated to assist in the delivery of this project. St George Housing is also part of a consortium tendering for the delivery of affordable housing as part of the Waterloo Estate South. Either way, City West Housing or St George Housing will be part of the successful consortium for this redevelopment once announced.

If contribution funds were allocated to other Tier 1 CHPs without experience or land in our Local Government Area (LGA), it could take more than five years before any affordable housing would result. This is because of the time required for a CHP to amass the required funds, purchase and develop a site. Indicative timeframes are set out in Table 1 below.

Step	Timeframe	Explanation
Amass funds required for site purchase	About two years	Assuming a CHP is allocated \$10 million per year in contribution funds, it might take more than two years to amass funds in the region of \$20 million (indicative cost of a medium density site capable of yielding approximately 50 apartments)
Site purchase	Estimated six to 12 months	The right site of the right size, and the right cost, needs to be found and purchased
Design and all approvals	Up to two years	Plan the development, including design and undertaking technical studies, document the development, secure financing (and/or wait for additional contribution funds) and seek development approval.

Step	Timeframe	Explanation
Construction and tenanting	One to two years	

If funds were allocated to Tier 2 CHPs without new development capacity, increasing the stock of affordable housing dwellings in the local area would be heavily reliant on purchasing market dwellings. Assuming an average \$40 million income over the five-year period of the Distribution Plan and assuming that funds are used to purchase median priced strata dwellings (\$950,000 in September 2023 quarter), then a maximum of 210 dwellings could result from the scheme (42 dwellings every year). There are other implications arising from this approach that are discussed in more detail later in this Information Relevant To Memorandum.

Given the above, it is considered the draft Distribution Plan is the best approach to maximising the affordable housing outcomes and ensuring the quick and certain delivery of affordable housing.

How can we be sure the recommended approach will maximise the amount of affordable housing if we have not asked all of the CHPs what they could deliver?

There is a known pipeline of affordable housing projects over the next five years that are either in, or approaching, the mature planning phases of detailed design and delivery. Securing this pipeline and maximising the outcomes on existing projects will deliver the most affordable housing in the shortest period possible.

In June 2022, Council notified in writing all 24 Tier 1 and Tier 2 CHPs operating in the Sydney metropolitan area, as well as peak housing bodies, including Shelter NSW and the Community Housing Industry Association (CHIA), and the then Land and Housing Corporation and NSW Department of Communities and Justice, about the Interim Distribution Plan. No CHP, other than those identified on the Interim Plan, made a submission or indicated an interest in being identified on the Distribution Plan.

No other CHP currently has significant land holdings in the City of Sydney. As described above, where contribution funds are allocated to other Tier 1 CHPs (who are not currently identified on the Distribution Plan), the delivery of affordable housing will potentially be delayed beyond the term of the Distribution Plan.

Were funds to be allocated to Tier 2 CHPs and used to buy existing dwellings rather than develop, a peripheral increase in affordable dwelling stock over the next five years is likely due to the shear expense of market dwellings. Stock increases from market conversion are unlikely to exceed those that can be achieved from the existing pipeline projects. It is also not considered the best and most efficient allocation of funds to maximise affordable housing outcomes in the long term (see further information elsewhere in this Information Relevant To Memorandum).

Why are the three community housing providers (CHPs) listed on the Distribution Plan recommended?

As above, maximising the affordable housing outcomes from contribution funds is the key objective of the recommended Distribution Plan.

The three CHPs recommended for this first five-year iteration (to be reviewed at Year 4) of the Distribution Plan because they:

- all are Tier 1 providers, with demonstrated capacity and capital to develop affordable / diverse housing in our local area;
- all have sites within the local area ready to develop affordable housing, establishing a significant pipeline of affordable dwellings which can be realised during the five-year period;
- are the three largest CHPs operating in the LGA, all operating at the scale needed to support high-risk development in a dense urban environment;
- all have relevant and well-established development and procurement expertise and infrastructure to support development;
- all are able to leverage existing assets to borrow funds, ensuring the City's contributions can have maximum impact;
- all have experience working within the limitations and requirements of the City's affordable housing program and NSW legislative requirements, can operate under the constraints imposed by the required rent model which restricts rental revenue, and have an ability to 'quarantine' City funds for their continued use in the local area;
- experience will be essential given the challenging economic conditions in which development is taking place (escalating costs, labour shortages, contraction of building companies and reduction of sub-contractors);
- all have established, successful relationships partnering with the City to deliver affordable housing in the LGA;
- all expressed an interest in growing their operations in the City of Sydney;
- no other Tier 1 or Tier 2 CHP operating in Sydney made comment or expressed an interest during the exhibition of the Interim Distribution Plan;
- all have an opportunity/eligibility to secure HAFF funding to pair with the City's contribution funds, due to their demonstrated capability and project-readiness and delivery timeframes;
- all prioritise the allocation of dwellings to priority cohorts in the local area, including Aboriginal and Torres Strait Islander people and families, those at risk of and leaving family violence, and those with a disability; and
- all are actively working in partnership with Aboriginal Community Housing Providers.

Three is the maximum distribution. Distributing the funds to *more than* three Tier 1 providers risks spreading the monies too thinly, diluting their impact for affordable housing delivery and reducing efficiencies of scale. As a result, the Distribution Plan restricts the number of recommended CHPs to three providers.

The Distribution Plan will be reviewed prior to the end of its five-year implementation period (Year 4) to explore new opportunities and new providers. It will allow for the consideration of other CHPs who can demonstrate capacity to participate in the next term of the distribution plan.

The review will be informed by an Expression of Interest process to Tier 1 CHPs who operate, or express a desire to operate, in the local area. The review will consider, amongst other factors:

- development capacity and delivery experience;
- capacity to leverage contributions and to bring co-contributions to development projects;
- success in partnering with and growing the Aboriginal CHP sector; and
- where the CHP is already identified on the Distribution Plan, their demonstrated performance in using contributions.

Can a less than 5-year commitment be considered to assist other CHPs sooner?

Where the scale of future funding is known, with as much certainty as possible, CHPs can plan out for the longer term and confidently commit to new project opportunities when they arise. Longer-term certainty allows for funding to be secured, co-funding arrangements to be made, applications for government funding (such as HAFF) to be secured, sites to be purchased when they are available (particularly important in the City where competition for sites is high), development partners to be sought, and operations to be scaled up when needed.

As shown above, it takes time to realise an affordable housing project, from amassing funds then site acquisition, funding arrangements, through design and development and to construction and finalisation for tenants. Reducing the life of the Distribution Plan from five years would bring diminished and insufficient certainty for those CHPs listed on it to confidently plan for affordable housing delivery. This would place the delivery of already sizable and mature pipeline of affordable dwellings at significant risk.

Under the current proposal, review of the Distribution Plan will begin early in Year 4 of its five-year life. This provides sufficient certainty for those CHPs identified in the Distribution Plan with two years advanced-warning of a potential change in funding arrangements - both important aspects for certainty in the operations of each CHP.

It also provides time for other CHPs with the ability to participate in the City's affordable housing program to work towards demonstrating capacity, experience and housing delivery opportunities as part of the EOI process at year four, which will be open to Tier 1 providers.

Can we adopt a more flexible approach to using contribution funds?

Certainty for CHPs about future funding will result in more affordable housing. Pursuing a more flexible approach to funding, such as an annual allocation of funds via a competitive or decision-making process, as opposed to committing funds to particular CHPs over a set timeframe, provides no certainty to any CHP that they will receive funding and is therefore clearly not recommended.

In consultation with the CHPs on the draft Distribution Plan, all expressed the view that allocation of funds via a grants approach for core affordable housing (within the aforementioned affordable housing framework) would create a significant administrative burden on CHPs and would limit the certainty with which they could operate. An example cited by one CHP is that they would not be able to buy land as it became available without certainty that funding was coming. If they had to wait for an opportunity to apply for funding, then wait for a decision to be made about the allocation of that funding, the opportunity would more than likely have passed.

Alongside the tightly managed developer contributions stream, the City uses other approaches to support the involvement of CHPs and other organisations as well as the delivery of more *diverse forms* of affordable housing. This includes co-contributions through selling land below cost where affordable housing is to be provided, as well as providing grants for affordable housing projects that are more innovative bespoke purposes that are aligned with the City's strategic housing objectives. Such housing projects also help to develop capacity and experience within the community housing sector for future iterations of the Distribution Plan.

Can CHPs purchase market housing and convert it to affordable housing?

Yes - there is no impediment to contribution funds being used to buy market housing and 'create' additional affordable housing under the affordable housing framework (Act, SEPP, LEP, Ministerial Guidelines, Program). However, in most cases, spot purchases would not be the best use of developer contributions because:

- where new housing is being purchased in a market transaction, CHPs are generally paying more for the same floor area compared to where they develop housing themselves. This is because the costs will include a developer profit margin as well as embodied GST costs, that are not otherwise payable when a CHP develops;
- in the instance where older market housing is purchased at a lower or comparable cost of new development, it may not suit all cohorts (i.e., walk up flats), and will be subject to higher maintenance requirements in the medium to longer term;
- depending on circumstance, CHPs may be required to pay significant strata fees where affordable housing is purchased as part of a market housing development. For new builds with lifts, gyms and pools, or even with more modest older developments with significant maintenance issues, strata costs can exceed \$1,500 per quarter. This does not include any special levies that might be applied for large maintenance projects. Given the CHP is only able to charge 30 per cent of income under the requirements of the City of Sydney Affordable Housing Program (as little as \$186 per week), there would be little, if any, residual rent available to service any debt on the property (limiting leveraging opportunities) and any future maintenance requirements; and
- the administrative and maintenance burden on a CHP is much greater where their property portfolio is spread out across multiple buildings, as opposed to being contained in stand-alone apartment blocks wholly owned by the CHP. For example, CHPs are required to deal with multiple stratas; have no ability to intervene in arising conflicts; have no role in maintaining common spaces; and can only undertake piecemeal maintenance, for example, they can't replace kitchens all at the same time like they may choose to do in a 15 year old building fully owned by them.

Notwithstanding the above, a recent example of such a development undertaken by Bridge Housing in 2020 was where they were allocated \$7.8 million in contribution funds collected under the City of Sydney Southern Employment Lands Affordable Housing Program.

Bridge Housing assembled the contribution funds with other funds to purchase and refurbish an existing block of 20 units in Glebe for Aboriginal women. This project need emerged from consultation undertaken by Bridge Housing with their Aboriginal Tenant Advisory Group and through other local housing initiatives.

The Bridge Housing project is a very good example of an innovative use of contribution funds to deliver more affordable housing given the opportunity. It is noted however that opportunities to purchase run-down whole apartment blocks (to be held and maintained by one owner) at the right price and the right size are quite limited, and while cheaper in this one instance than developing an apartment building, also come with a more significant maintenance cost over time.

Does the Distribution Plan require the resulting affordable housing be provided in the local area?

The Distribution Plan requires that contributions "must be used to provide affordable housing in accordance with the Program."

The Program sets out detailed principles for how contributions must be used. These principles are derived from the Housing State Environmental Planning Policy (Housing SEPP). The affordable housing principles require that resulting affordable rental housing:

- is to be provided and managed in the City of Sydney local government area so that a socially diverse residential population, representative of all income groups, is maintained;
- is to be made available to a mix of households on very low to moderate incomes;
- is to be rented to very low to moderate income households at no more than 30% of gross household income;
- is managed so as to maintain their continued use for affordable rental housing; and
- consists of dwellings constructed to a standard which, in the opinion of the City, is consistent with other dwellings in the LGA.

It is also noted the funding agreement to be prepared with receiving CHPs will include reporting requirements to ensure developer contribution funds, including any additional funds raised by rents, are used for the purpose of maintaining, building, acquiring or converting ('creating') additional permanent affordable housing in the local area.

Why does the Distribution Plan not allocate funds to Aboriginal and Torres Strait Islander CHPs?

No - it is not recommended for the first term. Unlike the three recommended providers in the draft Distribution Plan, no Aboriginal and Torres Strait Islander CHPs have a pipeline of development projects in the City area. By allocating contribution funds to CHPs who already own land and have progressed developments, this expedites the delivery of new affordable housing in the City.

The allocation of contribution funds will come with an expectation that receiving CHPs deliver substantial and timely amounts of regulated affordable housing within the life of the Distribution Plan. Currently, this would be a challenging task for Aboriginal and Torres Strait Islander CHPs (or any Tier 2 CHPs not already operating in the City of Sydney) because of:

- the challenging housing delivery climate, in part due to abnormally high post-Covid construction costs and development costs;
- currently, the limited capacity and development experience in the Aboriginal and Torres Strait Islander CHP sector (partnership or collaboration opportunities will help shift this);

- the limitations of the Tier 2 status (with regards to borrowing and developing); and
- the lack of any current development opportunity in the local area other in partnerships in relation to Homes NSW (LAHC) sites.

All three CHPs to be allocated contribution funds in the Distribution Plan are actively engaged in partnerships with Aboriginal and Torres Strait Islander providers. Each of them has a Reconciliation Action Plan and have created identified positions in their organisations.

- City West Housing has committed to a minimum percentage (12.35%) of Aboriginal and Torres Strait Islander tenants within their portfolio. Using a points based system to prioritise applicants on their wait list, there is capacity to expedite applicants and to draw on the formal partnerships with Deadly Connections to facilitate access to affordable housing for Aboriginal and Torres Strait Islander applicants.
- City West Housing also has formal partnerships with Deadly Connections and Babana Men's Group. They also run a Yarning Circle for Aboriginal and Torres Strait Islander residents to voice their concerns and participate in decision-making processes to ensure and enhance culturally safe service delivery.
- Bridge Housing has partnerships with several Aboriginal and Torres Strait Islander support services. This includes managing transitional housing for Aboriginal Women and Children's Crisis Services, support for tenancies at risk by the Aboriginal Corporation for Homeless and Rehabilitation Community Services as well as Tribal Warrior. In addition, they have a tenant advisory group specifically for Aboriginal and Torres Strait Islander tenants.
- St George Community Housing has referral links with the Aboriginal Medical Service, Tribal Warrior, BlaQ and Mudgin-Gal. They have a target allocation of 25% of housing for Aboriginal and Torres Strait Islander people. Meeting this target is assisted by their referral partnerships.
- St George Community Housing's 11 Gibbons Street, Redfern property (supported by the City as a subsidised land sale) has achieved an approximately 45% Aboriginal and Torres Strait Islander tenant mix.

In addition, all three providers have entered into a partnership to support an identified position – Aboriginal Housing Manager (funded by the City of Sydney) to promote affordable housing to Aboriginal and Torres Strait Islander communities and to help to ensure the cultural appropriateness of affordable housing.

The redevelopment of Waterloo Estate will also create opportunities to deliver housing outcomes for Aboriginal and Torres Strait Islander people. City West Housing is in a consortium with Birribee Housing in their bid for the Waterloo public housing re-development and are in the process of finalising a memorandum of understanding with them. St George Community Housing will also have an Aboriginal partner organisation involved in the Waterloo project if they are successful in their bid to deliver the Waterloo public housing re-development. Bridge Housing has a memorandum of understanding with Tharawal Housing (an Aboriginal and Torres Strait Islander CHP).

How can the City support more Aboriginal and Torres Strait Islander CHPs in the local area

The City is eager however to work with and proactively seek opportunities to grow and support the Aboriginal and Torres Strait Islander CHP sector in the local area. A particular focus over the next three years (prior to the commencement of the review for the next iteration of the Distribution Plan) will be to explore the developing capabilities of Aboriginal and Torres Strait Islander CHPs and their willingness and/or aspirations to establish a presence in the City of Sydney.

Should opportunities emerge with Aboriginal and Torres Strait Islander CHPs in the meantime, there is capacity to provide funding assistance through the Affordable and Diverse Housing Fund, that provides more flexibility in terms of how funds can be used, as opposed to the constraints on developer contribution funding.

CHPs recommended to receive contribution funds under the first term of the Distribution Plan will be actively encouraged to continue their partnerships with Aboriginal and Torres Strait Islander CHPs and service providers. Partnering with CHPs who have a proven development track record and experience of delivering housing at scale helps to strengthen the capacity of Aboriginal and Torres Strait Islander CHPs for the future, when they wouldn't otherwise have the development experience or capacity to leverage assets to fund new affordable housing projects.

The Distribution Plan sets out criteria that will be considered when the Distribution Plan is renewed in 5 years. It includes consideration of the "success of the CHP in partnering with and growing the Aboriginal and Torres Strait Islander CHP sector" as one of the assessment criteria.

The performance of CHPs who receive contribution funds will influence the likelihood of receiving future contribution funding under the next iteration of the Distribution Plan and will assist the City to understand the most effective ways to build the capacity of the Aboriginal and Torres Strait Islander CHP sector. When the review commences, the re-development of the Waterloo public housing estate will be underway. An Aboriginal and Torres Strait Islander CHP will be a delivery partner in this project. Their development capabilities will be enhanced through this putting them in contention to receive future contribution funds.

What are the current challenges for Aboriginal and Torres Strait Islander CHPs?

CHPs are regulated under a national regulatory scheme. Property development activity is high risk and accordingly is restricted under the national regulatory code to Tier 1 CHPs. At present there are no Tier 1 Aboriginal and Torres Strait Islander CHPs operating in metropolitan Sydney. There are six Aboriginal and Torres Strait Islander Tier 2 CHPs in NSW, two of which operate in metropolitan Sydney.

Under the national regulatory code, Tier 2 CHPs can undertake small scale development activities. The cost of land in the City means it is most cost effective to undertake larger medium density projects which effectively excludes Tier 2 CHPs from property development in the City area.

The Aboriginal Housing Office (AHO) has a property transfer program in place and is strategically growing the capacity of the Aboriginal CHP sector. It is preferable for an organisation with visibility of the sector's capacity and capability be responsible for transferring properties to providers.

Why are social housing tenants excluded from affordable housing?

The eligibility criteria for affordable housing generally requires that applicants for affordable housing cannot already be affordably and appropriately housed by another housing provider. This is to ensure that scarce housing resources are targeted at those who need them most and not accessed by people who are already stably housed.

Existing social housing tenants are generally urged to resolve any issues regarding the suitability of their housing with their housing provider. This may result in a transfer application to another social housing property.

Social housing tenants who exceed the income eligibility limit for social housing and who also meet the other eligibility criteria set by providers, could transition from social to affordable housing. This transition is contemplated in the Ministerial Guidelines (8.3) and if successfully housed with affordable housing, then the tenant to be removed from the NSW Housing Register.

Memo from Graham Jahn AM, Director City Planning, Development and Transport

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Approved



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