Item 9.3
At Council
16 December 2024

Relevant Information for Council

FILE:	**X099241**	**DATE:**	13 December 2024
TO:	Lord Mayor and Councillors		
FROM:	Graham Jahn AM, Chief Planner / Executive Director Planning, Development and Transport		
THROUGH:	Monica Barone PSM, Chief Executive Officer		
SUBJECT:	Information Relevant To Item 9.3 – Public Exhibition - Planning Proposal - Affordable Housing Contributions Review - Sydney Local Environmental Plan 2012, Sydney Local Environmental Plan (Green Square Town Centre) 2013, Sydney Local Environmental Plan (Green Square Town Centre - Stage 2) 2013 and Draft City of Sydney Affordable Housing Program 2024		

For Noting

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

Purpose

To provide further detail about the indexation of contribution rates and to respond to a question about the potential for a mechanism to be included in the planning proposal to increase the affordable housing contribution rates as market conditions improve.

Background

At the meeting of the Equity and Housing Committee on 9 December 2024, further information was sought about the indexation of affordable housing contribution rates. In addition, a question was asked about the potential for a mechanism to be included in the planning proposal to increase the affordable housing contribution rates dynamically as market conditions change (up or down).

Indexation

At the meeting of the Equity and Housing Committee on 9 December 2024, the City's Chief Planner / Executive Director Planning, Development and Transport referred Councillors to page 24 of the Draft City of Sydney Affordable Housing Program Amendment 2024 (draft Program), at Attachment C to the Council report, for an explanation of how equivalent monetary contribution rates (dollar rate) are indexed. The Council report, at paragraph 61, also refers to this.

The dollar rates are indexed annually with reference to movements in the median strata dwelling price in the City of Sydney LGA as detailed in NSW Government Rent and Sales Report, Table: Sales Price – Greater Metropolitan Region – Strata. The Consumer Price Index (CPI) is not used for indexation.

This approach means that dollar rates are responsive to changes in the cost of housing in our local area. For example, where the median sale price of an apartment increase or decrease in the local area by 10%, the dollar rate will increase or decrease by 10%.

This approach to indexation is current practice and not proposed to change.

Increasing monetary contribution rates in response to market conditions

The proposed changes to affordable housing contributions, and the phasing-in of increased equivalent monetary contribution rates (dollar rates), aims to maintain development viability and not negatively impact housing supply.

The dollar rates need to be predictable, clear, and provide certainty, so that developers can genuinely factor future cost into their residual land valuations, that inform how much they will pay for development sites. This ensures the cost of the increase to contribution rates generally falls to the land seller and does not impact the developer's viability of the project.

The proposed dollar rates are taken to be equivalent to the cost of building and dedicating affordable housing. The indexation mechanism established in the Program allows for the movement of contribution rates in response to movements in housing prices. The indexation approach also provides certainty to developers, landowners and community housing providers on likely contribution rates over time.

Increasing the LGA contribution rates in the LEP in response to market conditions

Councillors sought advice about the potential to build in a mechanism in the City's local environmental plans (LEP) so that, where market conditions change, the LGA DA approval contribution requirement for 1% of non-residential and 3% of residential floor space might also change.

The condition of the market, its impact on feasibility and ultimately the impact on development supply is a nuanced issue. Higher costs are more likely to be tolerated in a rising market with supportive market conditions helping to mitigate any impact, allowing the contributions to be absorbed within ‘naturally-occurring’ price increases.

In a flat market, developers may still proceed with development and accept the increase in contributions subject to acceptable reduction in development margin. If the impact to development return is not acceptable (making the project no longer bankable), the development will not proceed.

The *Review of Affordable Housing Contribution Rates*, prepared by Atlas Urban Economics, at Attachment C to the subject report, acknowledges that a number of headwinds currently make it very challenging for development to be feasible under current circumstances, noting higher contributions are unlikely to be tolerated by many developments today.

There is no certainty about how long the current market conditions will persist, or what the pathway to full recovery or indeed further downturn for the market may look like. While the significant rise in labour and construction costs has slowed, it is still increasing, albeit at a rate closer to historical growth rates. Construction and labour costs are not reducing. Inflation, the cost of money, availability of labour, planning polices, subsidy schemes, international influences, interest rates and many other factors will heavily impact market performance and development viability over time. Further, these factors will impact different types of development, in different locations, in different ways. The housing market is also cyclical and goes through 'boom' and 'bust'. After a period of recovery and increased supply it will likely fall and supply will reduce.

There is no one indicator that will signal the market has "improved" or "recovered" and that development viability is such that higher affordable housing contribution rates can be tolerated. Understanding this requires detailed economic modelling and analysis of market conditions at that time.

Moreover, while an LEP clause may include a time trigger for commencement, for example a clause may say that a specific rate will apply from a specific date to enable phasing in of a contribution, it cannot reasonably include a trigger that relies on contestable market indicator/s, with no clear timeframes as to when the new rate may come into effect. Such a clause would not be accepted in an LEP as it does not meet the necessary criteria of being legally certain and enforceable. In any case, to include this in a planning proposal would introduce significant uncertainty for developers, who cannot know what costs they should factor into their residual land valuations, that inform how much they will pay for land.

To achieve market certainty, and ensure development viability is maintained, and contributions are made, the contribution rate cannot be dynamic. Further, it is recommended that, once introduced, contribution requirements must be left to operate for some time so that their impact can be absorbed by the market over time which is the purpose if the phase-in.

This does not mean however that rates cannot be reviewed in future, with detailed economic analysis, such as we have done, in the future

Graham Jahn AM, Chief Planner / Executive Director Planning, Development and Transport

Prepared by: Tamara Bruckshaw, Manager Green Square and Major Development Projects

---

Approved

P.M. Barone

MONICA BARONE PSM

Chief Executive Officer