

03/09/2024

Dear Melbourne City Council

The Community Housing Industry Association Victoria (CHIA Vic) welcomes the opportunity to provide feedback on Macaulay Amendment C417 (the Amendment).

## About CHIA Vic

CHIA Vic is the peak body that represents the not-for-profit community housing sector in Victoria. CHIA Vic's member community housing organisations (CHOs) are committed to providing safe and stable homes for people that can't afford another place to live. Members include the 49 CHOs registered as Housing Associations or Housing Providers under the Victorian regulatory framework for non-profit housing organisations.

## Purpose of this submission

CHIA Vic supports Melbourne City Council's (the Council) aim to provide more Affordable Housing<sup>1</sup> in the Macaulay precinct through the proposed Amendment, noting this is one of the objectives of the *Planning and Environment Act* (the Act). However, this submission outlines why this cannot be achieved through voluntary controls. It argues that only mandatory controls – as were initially proposed by the Council – will successfully deliver the Affordable Housing needed in Macaulay.

CHIA Vic has recently worked on a proposal to clearly and consistently define Affordable Housing in Victoria, to be more specific than the definition given in the Act, and one that is clearly distinct from social housing. That work was not finalised by the time of this submission, but CHIA Vic will gladly share it this once complete. In the meantime, we recommend that the Council carefully consider how any Affordable Housing generated through the Amendment would be designed and implemented. This includes thinking through specific policy aims and target cohorts.

This submission:

- profiles the local rental market for Macaulay,

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<sup>1</sup> Affordable Housing (capitalised) in this document refers to the Planning and Environment Act (1987) definition of Affordable Housing, which includes social housing.

- explains CHIA Vic's preferred treatment of Affordable Housing as essential infrastructure in precinct development, and the implied obligation for development proponents to contribute to this infrastructure,
- recommends an Affordable Housing contribution rate for application in the Macaulay precinct, and
- outlines CHIA Vic's preferred approach for enforcement of these contributions via the statutory planning system.

## Rental housing context and trends

Just over a fifth of households in Macaulay were renting as of the 2021 Census, with the number of renters growing more than two-and-a-half times as fast as outright homeowners from 2016 to 2021.<sup>2</sup> However, it should be noted that Macaulay's current population is only around 3,000 people, and is projected to rise to somewhere around 9,000-10,000 residents by 2051.<sup>3</sup>

SGS Economics & Planning's (SGS) Rental Affordability Index (RAI) tracks rental affordability trends across Australia over time. It has a particular focus on low-income households.

The postcodes of Kensington and North Melbourne, which cover Macaulay, are classified as 'acceptable' for the average rental household. However, for cohorts more at risk of housing stress the picture is much worse, as shown in Table 1 below.

**Table 1: Rental Affordability Index scores, 2023 – Kensington, North Melbourne and Greater Melbourne**

Category (average incomes for all of Greater Melbourne)	Kensington (postcode 3031)	North Melbourne (postcode 3051)	Greater Melbourne
Average rental household (annual income of \$108,955)	Acceptable	Acceptable	Acceptable
Hospitality worker (annual income of \$62,316)	Unaffordable	Severely unaffordable	Unaffordable

<sup>2</sup> Profile.id (2024), Macaulay - Housing tenure, accessed from <https://profile.id.com.au/melbourne/tenure?WebID=340>

<sup>3</sup> City of Melbourne, Macaulay Draft Structure Plan Refresh (2020), accessed at [https://hdp-au-prod-app-com-participate-files.s3.ap-southeast-2.amazonaws.com/5915/9427/1002/Macaulay\\_Draft\\_Structure\\_Plan\\_Version\\_9\\_Participate\\_opt\\_150\\_dpi.pdf](https://hdp-au-prod-app-com-participate-files.s3.ap-southeast-2.amazonaws.com/5915/9427/1002/Macaulay_Draft_Structure_Plan_Version_9_Participate_opt_150_dpi.pdf), 12.

Category (average incomes for all of Greater Melbourne)	Kensington (postcode 3031)	North Melbourne (postcode 3051)	Greater Melbourne
Single person on benefits (annual income of \$22,108)	Extremely unaffordable	Extremely unaffordable	Extremely unaffordable
Single working parent (annual income of \$99,812)	Moderately unaffordable	Unaffordable	Moderately unaffordable
Pensioner couple (annual income of \$58,136)	Severely unaffordable	Severely unaffordable	Severely unaffordable

Source: SGS Planning and Economics (2023), Rental Affordability Index, accessed from <https://sgsep.com.au/projects/rental-affordability-index>

The latest Homes Victoria Rental Report shows that the median rental price for Flemington-Kensington is \$500 per week (\$26,000 per year), and for North Melbourne-West Melbourne it is \$575 per week (\$29,900 per year).<sup>4</sup> These are increases of 11 per cent and 16 per cent respectively over the previous 12 months. This would place many cohorts in rental stress. For example, for:

- a hospitality worker, it amounts to 41 and 48 per cent of their income respectively
- a single worker on benefits, it's 118 and 135 per cent, and
- a pensioner couple, it's 48 and 51 per cent.

The vacancy rate for Flemington/Kensington (postcode 3031) in July 2024 was 1 per cent – it has been below this level since October 2022.<sup>5</sup> For North Melbourne it's 2 per cent, and hasn't been above 2.5 per cent since May 2022.<sup>6</sup> This reveals a tight rental market with few homes available for those in need.

## Affordable Housing need

CHIA Vic has sourced estimates of need for housing assistance across Victoria from SGS' Housing Assistance Demand (HAD) model.

<sup>4</sup> Homes Victoria Rental Report March 2024 quarter, accessed from <https://www.dffh.vic.gov.au/moving-annual-rent-suburb-march-quarter-2024-excel>

<sup>5</sup> [https://sqmresearch.com.au/graph\\_vacancy.php?postcode=3031&t=1](https://sqmresearch.com.au/graph_vacancy.php?postcode=3031&t=1)

<sup>6</sup> [https://sqmresearch.com.au/graph\\_vacancy.php?postcode=3051&t=1](https://sqmresearch.com.au/graph_vacancy.php?postcode=3051&t=1)

The need for housing assistance is measured as the number of lower income households who are either:<sup>7</sup>

- experiencing homelessness,
- residing in social housing, or
- experiencing rental stress (paying over 30% of income on rent).<sup>8</sup>

The table below summarises the total need for housing assistance in the City of Melbourne, Greater Melbourne, Rest of Victoria and all of Victoria.

**Table 1: Need for housing assistance, percentage of total households, 2021 and 2036**

	2021		2036		2021-2036	
	Households in Need	Households in Need (%)	Households in Need	Households in Need (%)	Number Change	Percentage Change
<b>City of Melbourne LGA</b>	22,215	26.9%	40,394	30.9%	18,179	81.8%
<b>Greater Melbourne</b>	221,655	11.7%	330,631	13.2%	108,976	49.2%
<b>Rest of Vic.</b>	70,387	10.1%	98,416	11.1%	28,030	39.8%
<b>Victoria</b>	<b>292,042</b>	<b>11.3%</b>	<b>429,047</b>	<b>12.7%</b>	<b>137,006</b>	<b>46.9%</b>

Source: SGS Economics & Planning (2024) Housing Assistance Demand Model

In 2021, 22,215 households in the City of Melbourne LGA were in need of housing assistance, representing 26.9 per cent of all households. By 2036, this is projected to grow by 81.8 per cent to 40,394 households if no action is taken.

Of the households in the City of Melbourne LGA needing housing assistance:

- Over 1,000 of those in need were experiencing homelessness, and
- 10,199 households were in severe rental stress, paying over 50 per cent of their income on rent.

Based on the current supply of social housing totalling 2,884 dwellings, there was an estimated shortfall of approximately 19,241 Affordable Housing dwellings across the LGA.

<sup>7</sup> The income bands used in the HAD model are those cited in the Planning and Environment Act (S3AB) and published via the Governor-in-Council for 2023. Source: State Government of Victoria (2023) [https://www.planning.vic.gov.au/\\_data/assets/pdf\\_file/0035/578645/Governor-In-Council-Order-1-July-2023.pdf](https://www.planning.vic.gov.au/_data/assets/pdf_file/0035/578645/Governor-In-Council-Order-1-July-2023.pdf)

<sup>8</sup> Note that this model excludes homeowners.

**Table 2: Estimated households in need of housing assistance, City of Melbourne LGA, 2021**

<b>22,215 households in need</b>			
8,117 in moderate rental stress	10,199 in severe rental stress	1,015 experiencing homelessness	2,884 living in social housing
<b>19,331 affordable housing shortfall</b>			

Source: SGS Economics & Planning (2024) Housing Assistance Demand Model

## Affordable Housing requirements in the planning system

To meet the Affordable Housing need in Macaulay, new development should include Affordable Housing infrastructure or an equivalent cash contribution to support off-site provision. This should be a planning requirement, applied at the precinct-scale to Macaulay, as part of this or any future Planning Scheme Amendment.

This section explains the statutory context and strategic justification for contributing Affordable Housing in new development, the steps for calculating an appropriate contribution rate, and the recommended implementation pathway in the planning system, which were developed for CHIA Vic by SGS in 2024.

### Strategic justification for Affordable Housing requirements

Affordable Housing is essential infrastructure that is necessary for sustainable development. Therefore, it is appropriate that part of the cost to provide Affordable Housing is met through the development process. Other types of essential infrastructure such as roads, open space and community facilities are similarly partly funded by development contributions, which are required at the planning permit application stage.

The external benefits generated by affordable housing as essential infrastructure fall within three broad categories:<sup>9</sup>

1. Mitigating risk of poverty experienced by low-income families after they have paid for their housing expenses.
2. Facilitating supply of key workers with relevant skills across key locations and regional economies.
3. Creating better neighbourhoods by supporting diversity and inclusion in placemaking.

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<sup>9</sup> SGS Economics & Planning (2023), 'National Housing Assistance Policy: Trends and Prospects', accessed from [https://sgsep.com.au/assets/main/SGS-Economics-and-Planning\\_Commonwealth-housing-policy\\_occasional-paper.pdf](https://sgsep.com.au/assets/main/SGS-Economics-and-Planning_Commonwealth-housing-policy_occasional-paper.pdf)

While all of these benefits are routinely cited in the research and policy literature, they are not weighted. It is appropriate, therefore, to assume that they carry equal importance in the planning process and are of equal value in the development of the Macaulay precinct.

The three sets of external benefits also map directly to the funding responsibilities of the Commonwealth, State Government and developers respectively:

- Commonwealth – poverty alleviation
- State Government – regional economic development
- Developers – placemaking

On this basis, the provision of an adequate amount of Affordable Housing infrastructure to support the sustainable development of the Macaulay precinct should be shared equally across these three parties. That is, they should each contribute one-third of the required Affordable Housing stock.

Affordable Housing provision will serve the whole community. It follows that all developers, including those producing commercial, retail and other non-residential uses, should pay their fair share towards this essential infrastructure.

### **The authorising environment in legislation and policy for Affordable Housing requirements in the planning system**

At present, the planning system seeks to “facilitate the provision of affordable housing”. However, there are no agreed Affordable Housing targets at the state level, and there is no guidance from state government about implementing Affordable Housing at the local level.

Within the planning system, the Council can facilitate Affordable Housing through voluntary agreements with a private developer or landowner, pursuant to Section 173 of the Act. To date, voluntary regimes have proven ineffective in achieving significant or equitable contributions. The outcomes of negotiations undertaken within such a framework are likely to vary considerably, leading to lack of delivery of housing and inconsistent treatment of developers.<sup>10</sup>

Building on this pathway to implement Affordable Housing requirements, several recent planning scheme amendments have successfully implemented a contributions policy or requirement at the site or precinct-scale in Victoria.<sup>11</sup> These contributions are required at

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<sup>10</sup> For some discussion of the challenges of a negotiation-based model see Katrina Raynor, Matthew Palm, and Georgia Warren-Myers, “Ambiguous, Confusing, and Not Delivering Enough Housing,” *Journal of the American Planning Association* 87, no. 4 (May 2021): 542–55.

<sup>11</sup> State Government of Victoria (2024), Examples of planning scheme clauses that facilitate affordable housing, accessed from <https://www.planning.vic.gov.au/guides-and-resources/strategies-and-initiatives/housing-strategy/accordion-1/examples-of-planning-scheme-clauses-that-facilitate-affordable-housing>

the planning permit application stage and enforced by a condition on the permit pursuant to Section 173.

It was therefore disappointing to see the Victorian Government reject the Council's proposed planning controls that included a mandatory contribution. This would have met some of the Affordable Housing need through the development process, just as it contribute to other essential infrastructure, such as community facilities and open space projects.

## How much Affordable Housing is required in the Macaulay precinct?

The Council previously proposed a mandatory contribution rate of 3.8 per cent of the Gross Realisation Value (GRV) of all marketable floorspace developed in Macaulay.<sup>12</sup> This included both residential and non-residential development.

The rate was calculated by first assuming a three-way responsibility for the delivery of Affordable Housing between the Commonwealth, Victorian Government, and development sector. It then calculated the specific rate required through development by forecasting the expected housing (both private and social) floorspace and employment floorspace to be developed by 2051.<sup>13</sup>

CHIA Vic supports this proposed rate, and advocates that the Amendment reinstates it. In particular, and regardless of any specific rate determined, it is essential for the controls to be mandatory to deliver meaningful numbers of Affordable Housing.

### Price impacts

The cost of Affordable Housing contributions is unlikely to be passed on to home buyers. Developers are 'price takers' not 'price makers'. They operate in competitive markets where their product is a small part of a large offering open to consumers, including turnover in the stock of existing housing.

Therefore, developers cannot operate on a 'cost-plus' basis where the sale price is determined by adding a mark-up to supply costs. Instead, they must work within the prices allowed by the market within which they are operating. Market prices will be determined by a range of factors beyond the control of the developer, including interest rates, the state of the economy and buyer sentiment.

Conventional practice shows developers consider development feasibility by working back from an anticipated market price for their product, deducting their costs, including a

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<sup>12</sup> SGS Economics & Planning (2022), Affordable Housing Contributions in the City of Melbourne, accessed at [https://hdp-au-prod-app-com-participate-files.s3.ap-southeast-2.amazonaws.com/9317/2188/7727/Macaulay\\_Affordable\\_Housing\\_final\\_report\\_June\\_2022.pdf](https://hdp-au-prod-app-com-participate-files.s3.ap-southeast-2.amazonaws.com/9317/2188/7727/Macaulay_Affordable_Housing_final_report_June_2022.pdf)

<sup>13</sup> For a full rundown of the calculation of this contribution rate, see Ibid., 13.

margin for profit and risk, to arrive at the maximum price they can pay for a site to build their project. A planning requirement for Affordable Housing would be duly factored into the developer's costs and deducted from the price they will be prepared to pay for the development site. This is comparable to what currently occurs for other contributions required through planning provisions, such as open space and parking.

In this way, the cost of the contribution will be passed back to the seller of development land, rather than forward to dwelling buyers.

## Implementation via planning scheme requirements

It is recommended that the originally proposed 3.8 per cent contribution be implemented across the Macaulay precinct as a planning requirement in the planning provisions for eligible development. Contributions can lawfully be collected by a condition on the planning permit, requiring the applicant to either make the contribution prior to development, or to enter into a Section 173 Agreement to make the contribution at an agreed time.

This is the same approach used for contributions of public open space (where nominated at clause 53.01) and cash-in-lieu contributions toward parking.

The precise choice of control will depend on the planning mechanism used:

- If precinct-wide zones are applied such as an Activity Centre Zone, the requirement could be placed in the schedule.
- If development is guided by an overlay such as a Development Plan Overlay, the relevant schedule could include the requirement.
- If there is no such single precinct-wide provision to "attach" the requirement to, the Specific Controls Overlay could be used to apply the requirement.

## Recommendations

The previously calculated 3.8 per cent contribution rate is a fair means of apportioning Affordable Housing requirements to the development sector in Macaulay. That contribution rate should be implemented as a planning requirement through a precinct-scale approach, on both residential and non-residential development.

To enforce the proposed Affordable Housing contributions policy, it must be incorporated into the Planning Scheme through the Planning Scheme Amendment process.

This policy should be implemented in the Planning Scheme by:

- Introducing precinct specific planning requirements for Affordable Housing contributions in the applicable planning provisions.



- Requiring that the GRV of a development be established either by certified declaration by the proponent, or by the Council requesting an independent valuer to provide this figure.
- Requiring contributions to be made directly to a registered CHO, or to Aboriginal Controlled Community Organisations, to ensure that the outcomes of contributions are easily monitored through existing regulatory systems. We recommend removing references to “Rental Housing Agencies” to avoid Affordable Housing being delivered through non-registered housing providers.

If there is no return to a mandatory contribution rate, CHIA Vic would support the voluntary controls as proposed in the current Amendment. Whilst not as effective as mandatory controls, it could lead to some delivery of Affordable Housing. It would also help focus attention on Affordable Housing need throughout the development of the Macaully precinct.

For a voluntary contribution policy to be effective, it must deliver rental Affordable Housing in perpetuity. In particular we support one of the proposed mechanisms for delivery, namely the transferring of homes to Registered Housing Agencies at nil consideration. However, as above we suggest removing references to “Rental Housing Agencies”, and including Aboriginal Controlled Community Organisations as preferred recipients.

We believe Registered Housing Agencies are the most appropriate vehicle to deliver affordable housing in this precinct because:

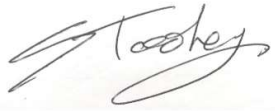
- CHOs have a strong history of working with the City of Melbourne, including Housing Choices Australia’s [Drill Hall](#) and [Queen Victoria Market](#) projects, and Unison Housing’s [Make a Room Project](#).
- CHOs are not-for-profit organisations that provide safe, secure, and affordable rental homes for people on low incomes.
- CHOs have a proven track record and are experienced in property management, tenancy management and community development. They are deeply committed to the communities in which they work.
- The community housing sector is highly regulated – registered CHOs are regulated by the Victorian Housing Act 1983. The regulatory system is managed by the Housing Registrar, which sits within the Department of Treasury and Finance. The Housing Registrar registers, monitors, and assesses the performance of registered CHOs utilising gazetted performance standards. These performance standards ensure high-quality rental housing services and the best outcomes for renters and prospective renters.

- Most renters who live in homes managed by CHOs access these homes through the Victorian Housing Register (VHR). The VHR is Victoria's single social housing waiting list, which sets out eligibility based on the household's income and assets.
- The community housing sector is highly diverse – from small specialised organisations to large organisations that operate across Victoria. This means that the Council will most likely be able to find a community housing partner to suit the Council and the partnership opportunity.

## Additional CHIA Vic support

CHIA Vic's Policy Officer, Stephanie Ng supports developers and local government to learn more about the community housing sector and identify community housing partners for Affordable Housing developments. Stephanie and the CHIA Vic team would be happy to assist the Council in Affordable Housing growth in your municipality. If you would like to discuss this submission further or ways in which CHIA Vic can assist in your Affordable Housing work, please contact [stephanie.ng@chiavic.com.au](mailto:stephanie.ng@chiavic.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Toohey', written over a light-colored rectangular background.

Sarah Toohey  
Chief Executive Officer, CHIA Vic