



# A NEGOTIATOR'S TOOL: AN AFFORDABLE HOUSING CALCULATOR FOR PLANNERS

European Real Estate Society  
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2019, Cergy-Pontoise,  
France

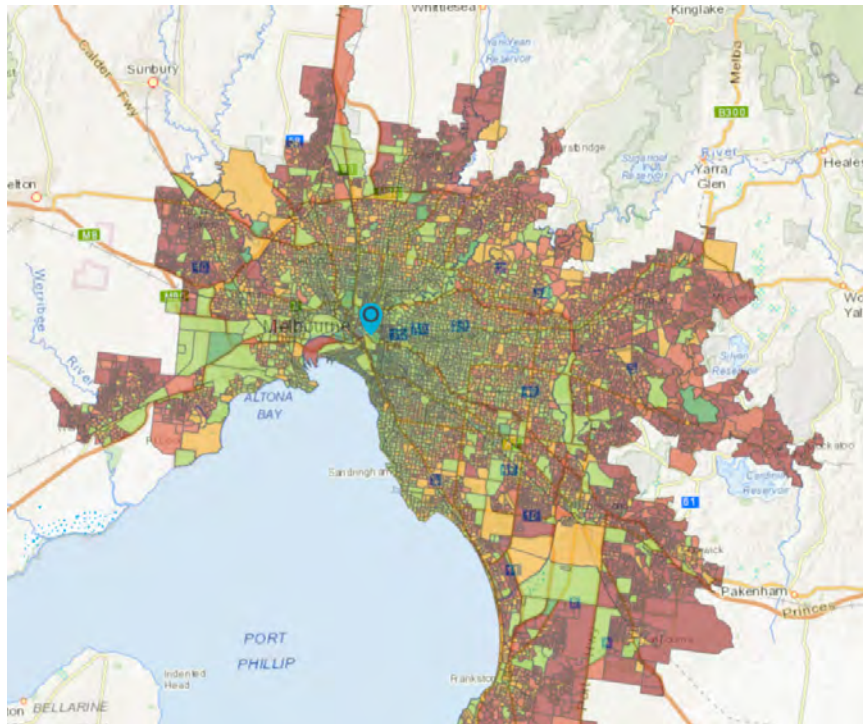
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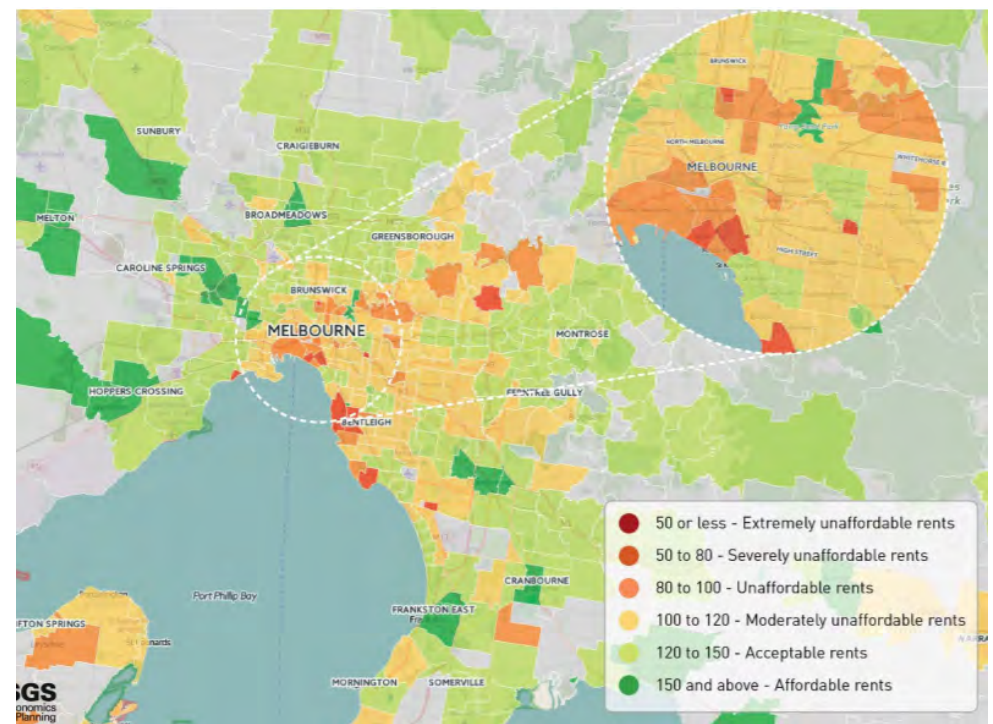
# AGENDA

1. Brief introduction to affordability challenges in Australia/ Victoria/ Melbourne
2. Definition of affordable and social housing
3. Multiple mechanisms for affordable housing delivery
4. Developer-led affordable housing
5. Research Approach
5. Using the Affordable Housing Calculator

# HOUSING AFFORDABILITY CONTEXT: SPATIAL



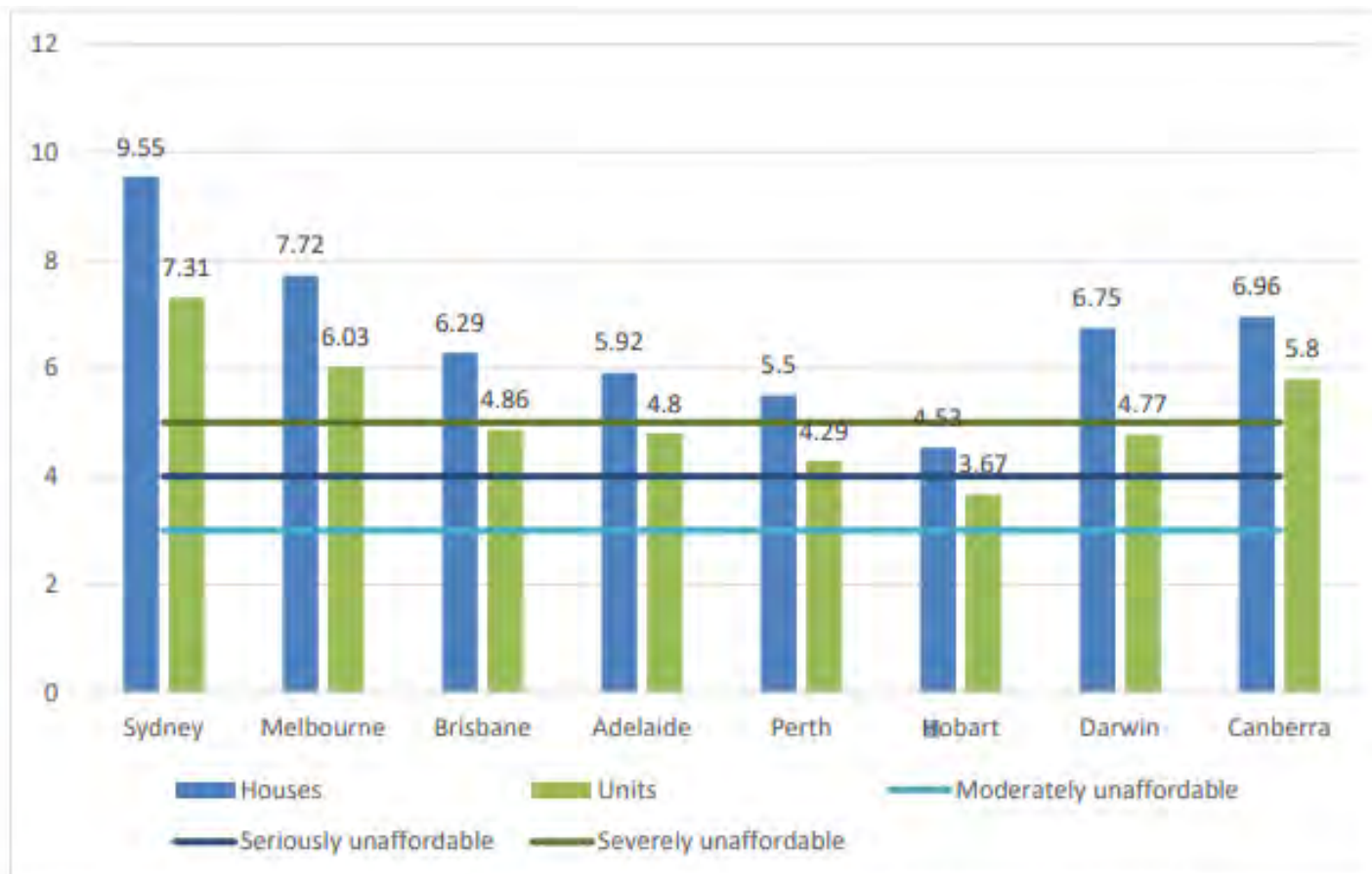
Vulnerability Assessment for Mortgage, Petroleum and Inflation Risks and Expenditure (VAMPIRE) (Dodson & Sipe 2008)



SGS Economics and Planning Rental Affordability Index  
(SGS Economics and Planning, 2018)

# I Stopped Eating Smashed Avocado And Now I Own A Castle





Source: HIA Economics (2016) *Dwelling Prices: What's the current state of play?* Campbell, HIA Economics, August, p. 8.

# CHANGING AFFORDABILITY

Median dwelling costs are now 7.1 times the median household income (up 4.7 times from 2001)

# HOUSING AFFORDABILITY CONTEXT: TENURE

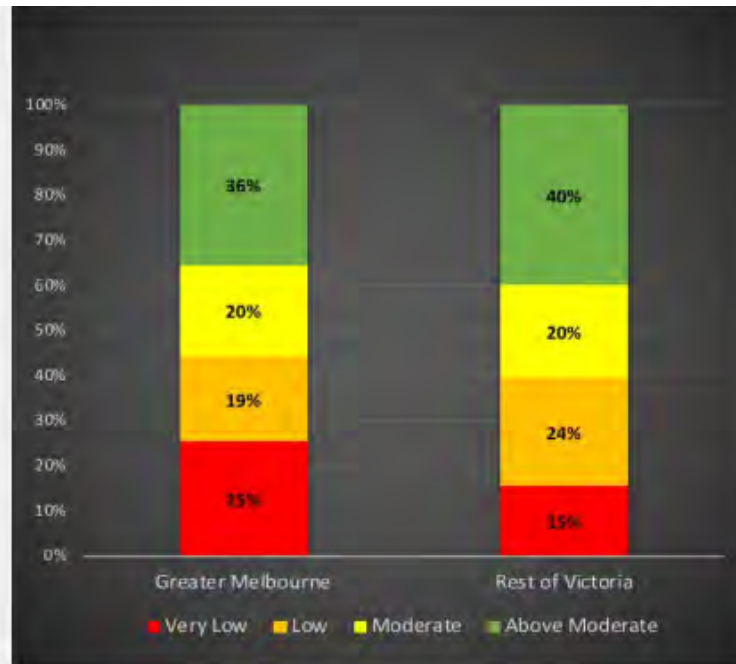
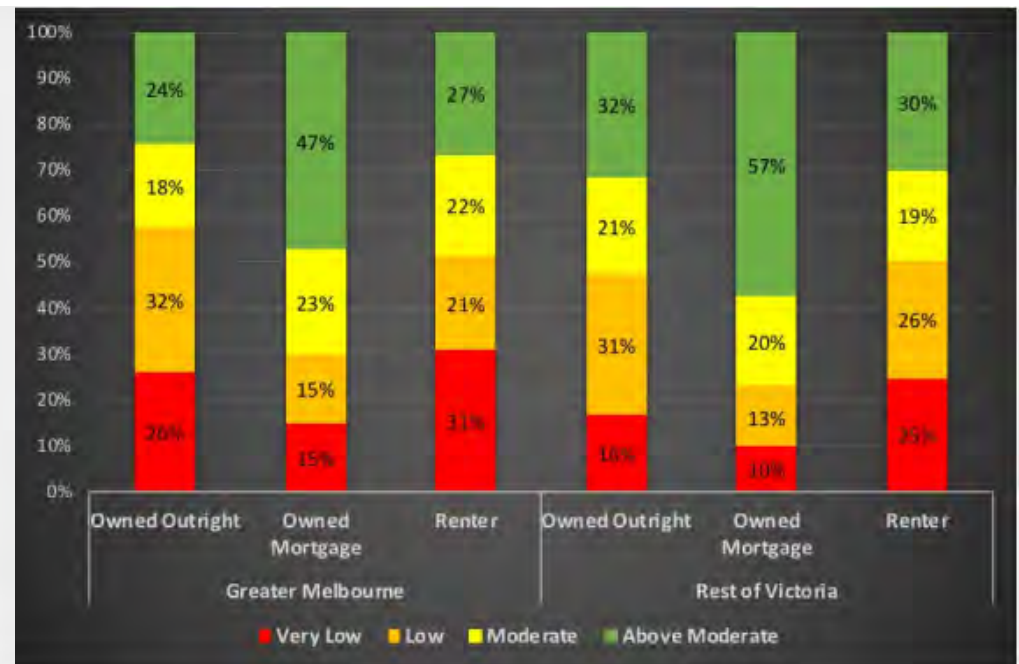


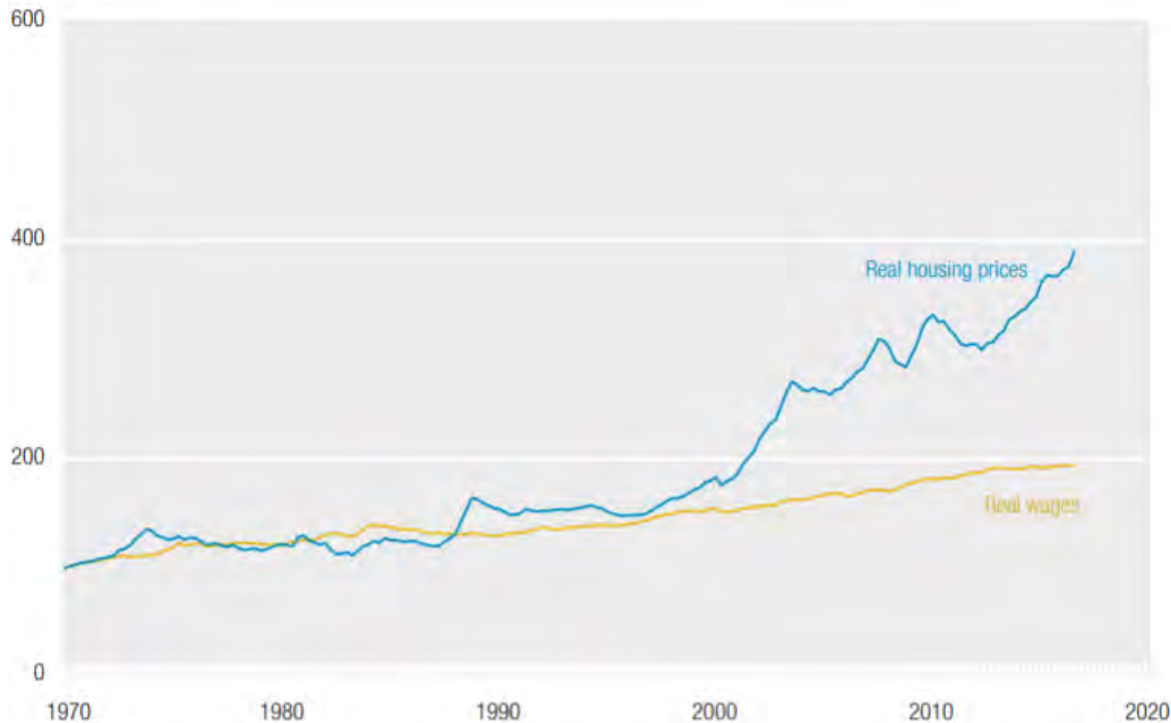
FIGURE 1: INCOME DISTRIBUTION OF ALL HOUSEHOLDS USING PLANNING ACT INCOME BANDS



(Palm & Raynor, 2018)

## REAL HOUSING PRICE AND WAGE INDEXES: AUSTRALIA, 1970–2016

Index 1970=100



Source: Treasury, ABS; CPI adjusted.

## REASONS FOR LACK OF AFFORDABILITY

Demand has out-stripped supply

Deregulation of the financial sector in 1980s and low inflation and low interest rates in early 1990s

Long-run economic growth during the 1990s based on the mining boom

Tax incentives like negative gearing and Capital Gains Tax create incentives to invest in property

Increases in quality of housing

Planning regulation

Decreased household sizes

Oligopoly of developers

Loss of social housing

Political imperatives

Shift from 'use value' to 'exchange value'

No multifamily asset class

# SOME DEFINITIONS



**Affordable housing:** Housing that is appropriate for the needs of a range of very low to moderate income households, and priced so these households are able to meet their other essential basic living costs.



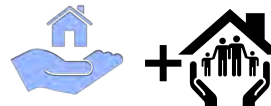
**Housing Affordability:** A aggregated measurement, usually expressed as the ratio of housing costs to gross household income



**Public Housing:** Housing owned and managed by the State and provided to eligible disadvantaged Victorians



**Community Housing:** Housing owned or managed by community housing agencies for low income people, including those eligible for public housing. Community housing agencies are regulated by the Government.



**Social Housing** = public + community housing



**Direct Government Provision**  
Prevalent in the 1960s

le. Flemington Estate, Carlton Estate



**Public-Private Renewal Projects**  
Prevalent in 2000s and now

le. Kensington Estate



**Community Housing Provider-Driven**  
Prevalent now

le. Abbotsford Demonstration Project

# MULTIPLE MECHANISMS FOR AFFORDABLE HOUSING DELIVERY

- Direct government provision
- Public-private renewal projects
- Community Housing Provider-driven

# INCLUSIONARY ZONING OR VOLUNTARY AFFORDABLE HOUSING

Inclusionary zoning is a land use planning intervention by government that **either mandates or creates incentives** so that a proportion of a residential development includes a number of affordable housing dwellings.



# VOLUNTARY AFFORDABLE HOUSING NEGOTIATIONS

## Three changes made to the Planning and Environment Act 1987

1. Affordable housing became an objective within urban planning
2. The State Government defined affordable housing and provided income limits for households in Very Low, Low and Moderate Income brackets
3. The Act now allows for affordable housing to be negotiated through 'Section 173' agreements



## Planning mechanisms for affordable housing

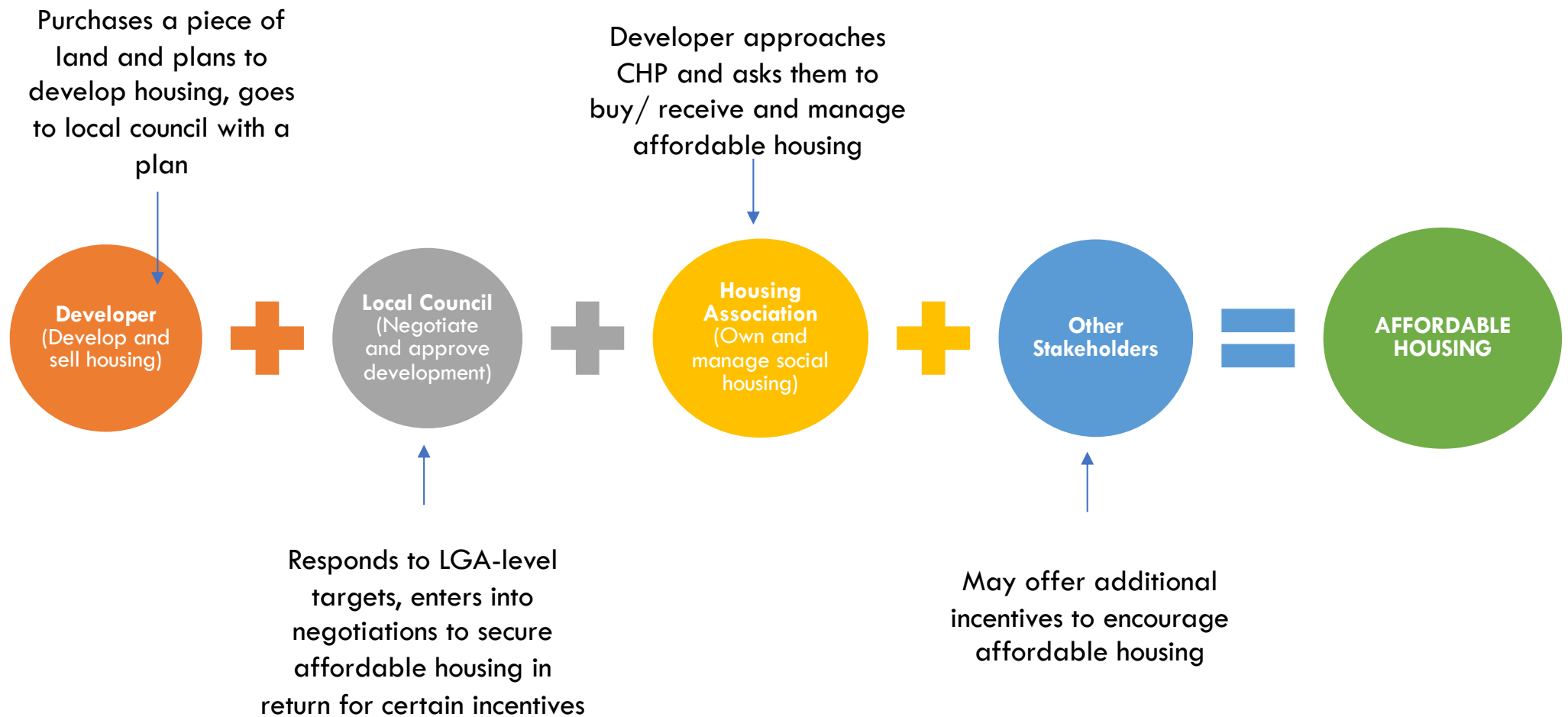
Guidance for seeking and negotiating affordable housing agreements

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The purpose of this guidance is to give direction to Responsible Authorities, landowners or planning applicants that are considering voluntarily entering into an agreement for an affordable housing outcome.

It aims to assist parties involved navigate their way to a successful affordable housing agreement that increases the supply of affordable housing. It needs to be read in conjunction with the following documents:

- [Governor in Council Order](#)
- [Specified Matters Under Section 344\(2\) - Ministerial Notice](#)
- [Example Affordable Housing Agreement](#)



# THE NEGOTIATION DEVELOPMENT PROCESS

The new landscape in  
Victoria

	Motivations	Mechanisms	Barriers
	<ul style="list-style-type: none"> <li>Develop housing/ other land uses</li> <li>Generate a profit</li> <li>Manage risk</li> <li>Manage public image and contribute social outcomes</li> </ul>	<ul style="list-style-type: none"> <li>- Section 173 Agreement negotiations</li> <li>- Choose to enter negotiations or not</li> <li>- Negotiate dwellings, land or money</li> <li>- Negotiate number, size, location, affordability level etc</li> <li>- Negotiate incentives</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Lack of understanding of affordable housing</b></li> <li>- Risk of stigma for other units</li> <li>- Risk of greater housing complexity or reduced profit</li> <li>- Lack of relationship with a housing association</li> </ul>
	Motivations	Mechanisms	Barriers
	<ul style="list-style-type: none"> <li>Meet affordability goals</li> <li>Respond to State legislation</li> <li>Manage community expectations</li> <li>Balance with other obligations</li> </ul>	<ul style="list-style-type: none"> <li>- Section 173 Agreement <ul style="list-style-type: none"> <li>- Car park waiver</li> <li>- Expedited planning process</li> <li>- Rate Reimbursement</li> <li>- [Density Bonus]</li> <li>- [Land gifting/ leasing]</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- <b>Lack of in-house capacity</b></li> <li>- Lack of political will</li> <li>- Small incentives</li> <li>- Difficult to enforce/ monitor</li> </ul>
	Motivations	Mechanisms	Barriers
	<ul style="list-style-type: none"> <li>- Provide housing and services for target tenants</li> <li>Viable business model</li> <li>Expand portfolio and attract long-term funding</li> <li>Strategic decisions about location, number and type of housing</li> </ul>	<ul style="list-style-type: none"> <li>- Purchasing/ receiving dwellings through negotiations</li> <li>- Receiving funds through negotiations</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of debt or equity to purchase units at market or at discounted rates</li> <li>- Ongoing operating costs of units (Body corporate, tenancy management, finance, maintenance)</li> <li>- <b>Lack of internal capacity (skills or resources)</b></li> </ul>

# KEY STAKEHOLDERS

# OTHER STAKEHOLDERS



Federal  
Government

- Commonwealth Rental Assistance
- Access to land

National  
Housing  
Finance and  
Investment  
Corporation

- Cheaper access to finance

State  
Government

- Capital Grants like Social Housing Growth Fund
- Access to land

Philanthropy  
and Social  
Impact  
Investors

- Debt and Equity at concessionary rates
- Capital Grants

Other Stakeholders



THE UNIVERSITY OF  
MELBOURNE

# Affordable Housing Negotiations Calculator

Which type of development do you want to start with?



The Affordable Housing Calculator is an educational tool designed to model the likely impact of various incentives and affordable housing contributions on residential project feasibility.

## Conceptual Theory & Model - Calculator Development

Turner approach as the base model

Adapted to incorporate Affordable housing requirements and incentives

Creation of the calculator



## Piloting with industry and other stakeholders

Focus Group 1 - Developers and AH providers

Focus Group 2 - Councils, government and developers



## Validation

Model testing using worked case studies

Application of various scenarios

Stress-testing of calculator



## Online Calculator

Education program

Tracking of users

Follow up of calculator use and practical application

# THE TURNER APPROACH TO FEASIBILITY

*'A 'feasibility study' is defined as the process of undertaking an assessment to identify the opportunities and risks of a property development project and to estimate the projected costs, revenues and profit potential of the project'*

(Australian Property Institute, 2018, sec. 11.5)

$$V = L + B + F + P$$

$$P = V - (L+B+F)$$

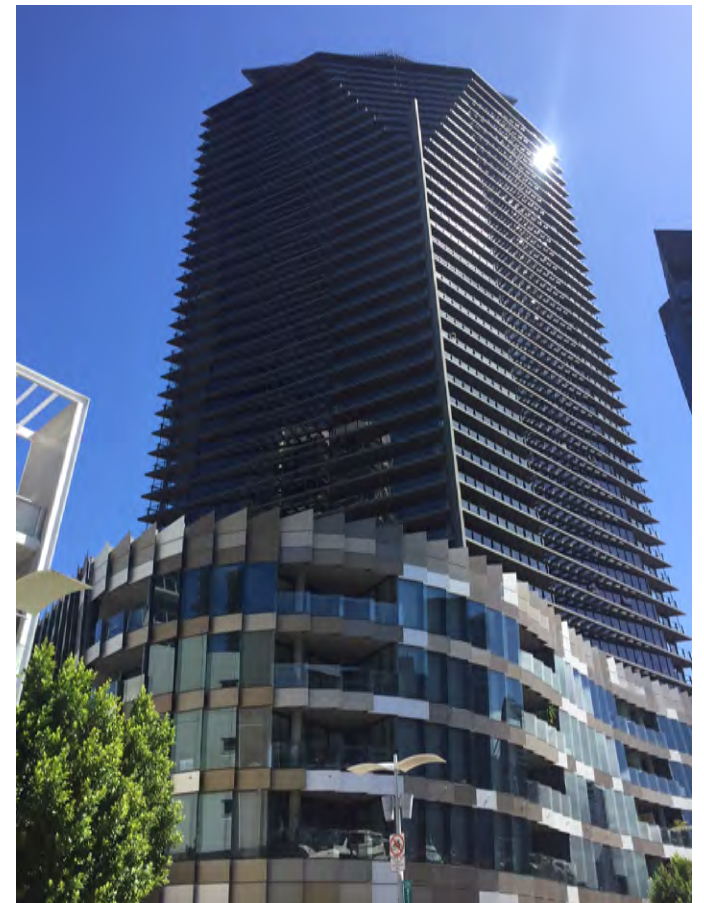
V= Value of the project on completion

L = Land costs and expenses associated with acquiring land

B = Costs and expenses associated with construction

F = Financing costs

P= Developer's Profit



<b>Gross Realisation</b>	24 Apartments @ \$500,000	\$12,000,000
<b>Less</b>	Agents commission	\$360,000
	Legal on sales	\$120,000
<b>Net Realisation</b>		\$11,520,000
<b>Less</b>		
<b>Project Costs</b>		
	Construction costs	\$6,000,000
	Consultants	\$300,000
	Contingency	\$180,000
		\$6,480,000
	Interest on Construction @ 9 %	\$437,400
	Total Construction costs	\$6,917,400
	Land purchase	\$2,000,000
	Transfer costs	\$100,000
	Council rates and Land Tax	\$150,000
	Interest on Land @9%	\$405,000
	Total Land costs	\$2,665,000
<b>Total Project costs</b>		\$9,572,400
<b>Indicated Profit</b>		\$1,947,600
<b>Allowance for Profit and Risk (on costs)</b>		20%

# STATIC FEASIBILITY

Turner Approach

# FEASIBILITY WITH AFFORDABLE HOUSING

Developer Affordable Housing  
Contribution of 20%

## Incentives:

Carpark reduction  
Council rates and Land Tax  
waivers  
Reduced planning time  
Land incentives  
Affordable housing subsidy

<b>Gross Realisation</b>	21 Apartments @ \$500,000	\$10,500,000
	10% Density Bonus = 27 Apartments Affordable Housing Contribution @ 20% = 6 apartments	
<b>Less</b>	Agents commission	\$315,000
	Legal on sales	\$105,000 \$420,000
<b>Net Realisation</b>		\$10,080,000
<b>Less</b>		
<b>Project Costs</b>	Construction costs - increase	\$6,750,000
	Carpark Reduction (50%) of Costs	\$270,000
	Consultants	\$337,500
	Contingency	\$202,500
		\$7,020,000
	Interest on Construction @ 9 %	\$368,550
	Total Construction costs	\$6,917,400
	Land purchase	\$2,000,000
	Transfer costs	\$100,000
	Council rates and Land Tax Waivers	\$0
	Interest on Land @9% Reduced planning time	\$405,000
	Total Land costs	\$2,665,000
	Land Incentive	\$1,000,000
<b>Total Project costs</b>		\$8,803,550
<b>Indicated Profit</b>	Affordable Housing Subsidy \$80,000/unit	\$480,000
		\$1,756,450
<b>Allowance for Profit and Risk (on costs)</b>		20%

Which type of development do you want to start with?



In which suburb / area will your development be?



# THE CALCULATOR ONLINE

Specific to Metropolitan  
Melbourne

# NEXT STEPS

- Analyse usage and application of the model in practice
  - Survey of users in Melbourne
  - Training programs for planners and developers
  - Tracking of negotiations – failed and successful
- Identify opportunities for improvement
- Create a rental model
  - Consideration of time value of money



# REFERENCES

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# THANK YOU

Questions?

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