

Dear Committee

Please see below and attached some information which I hope the committee finds useful in responding to your supplemental questions.

What are the benefits of delivering essential worker housing via inclusionary zoning policies? Are there any changes to policy, guidelines or the planning system that would facilitate the use of inclusionary zoning to deliver essential worker housing?

In this submission, Essential Worker housing is assumed to be housing which is offered to rent at a discount to eligible tenants. Eligible tenants are expected to fit within a job description or circumstance and have income capacity constraints. For assets like this to be created sustainably, investors funding these assets must receive some additional return or compensation other than the rental income. 3 forms of subsidy can be considered.

1. Direct subsidy – each project is selected by Government or an agency for direct government support in either capital grant or income support. The HAFF procurement process falls into this subsidy type.
2. Conforming project / licenced subsidy – subsidy licences are granted to eligible parties and applied to conforming projects at the election of the licence holder. The holder of the licence receives a known subsidy for each active licenced project. NRAS falls into this category of subsidy.
3. Inclusionary zoning – housing projects within a defined area are required to produce minimum affordable housing outcomes. Project developers must produce these homes and typically sell them to an eligible buyer (usually a CHP) who must then agree to operate as affordable rental housing for a minimum period

Considering each of these subsidy types and their market implications, shows some of the key benefits to government and the economy from the inclusionary zoning approach.

1. Direct subsidy

- a. Cost to the taxpayer: high. The subsidy needs to be raised in taxes by government before being administered to an individual project
- b. Administration cost: very high. Each project needs to compete in a tender process which is expensive to government and the private sector. Long delays in selection adds to the cost of developments resulting in lost economic value to the economy
- c. Demand/price impact: very high. Due to the tender process, demand for available sites in order to participate in the process amplifies demand beyond the true demand. i.e. 3 sites need to be secured to participate and only 1 is successful. Access to sites competes against highest and best use outcomes

2. Licenced subsidy

- a. Cost to the taxpayer: high. The subsidy needs to be raised in taxes by government before being administered to an individual project
- b. Administration cost: moderate. Projects do not need to tender but can be identified by licence holders over a period of time. Initial licencing phase has some costs which need to be considered
- c. Demand/price impact: moderate. Whilst not having the amplifier impact of a tender process, access to sites competes against highest and best use outcomes

3. Inclusionary Zoning

- a. Cost to the taxpayer: nil. The subsidy is generated by the project. The source of the subsidy is a lower land value due to the requirements which compete with

alternative highest and best use. This could be considered to be what's often described as "value capture" as part of the development project

- b. Administration cost: very low. Mandatory planning requirement results in no incremental costs in procurement. Regulation over time that the encumbered assets are being used for the purpose intended will have some costs.
- c. Demand/price impact: very low. All projects must produce the same outcome for affordable housing. There is no incremental demand or competition with highest and best use from this form of initiative.

By way of example, please find attached **Development Policy 9** from Western Australia which has worked well in WA. Through this Policy, Foundation Housing (a leading WA CHP) has recently acquired 37 apartments in Perth Hub and has another 39 under contract for the FINBAR Garden Towers project that will be completed mid next year. Through the gazetted construction cost table, Foundation Housing has capitalised circa 35% valuation uplift (equity) on settlement. We estimate that this will enable Foundation to operate these assets for a minimum of 20 years as affordable housing with no direct government contribution. Implementation of a similar scheme in NSW would produce similar outcomes alongside private sector developments.

Also attached is some high-quality work prepared by SGCH on a bonus scheme which is largely consistent with recent government initiatives. I encourage the committee to consider the second half of the report and the staged implementation of mandatory inclusionary zoning. Allowing the system to transition is important to enable such impacts to be "priced in" to land values. Whilst the free market has produced significant benefits to existing landowners, this has come at the cost of depriving the next generation of affordable outcomes.

In some instances, in situ delivery of Essential Worker / Affordable Housing may not be practical under the inclusionary zoning. Government should consider a transferrable development rights system which enabled off site delivery of essential worker housing or financial contributions to a fund. However, the regulations should ensure that:

- there should be an economic disincentive to elect to adopt this approach. i.e. more costly for the developer overall;
- election of this approach should be subject to difficult criteria

Other Submissions

I believe you would have received multiple submissions on the support for planning bonuses, the first step in inclusionary zoning. There is broad support for this approach. Two submission worthy of citing on this topic are:

The Urbis submission:

The Housing SEPP provides developers with floor space and height bonuses of 30% where at least 15% of the dwellings are affordable for at least a 15 year period. These developer floor space and height

bonuses could be enhanced by an additional 5% to incentivise affordable dwellings that are exclusively for essential workers for at least 15 years. This will require the Housing SEPP to be amended, and rules to be established for registered community housing providers to manage these dwellings. This approach will enable the state government and local councils to monitor the development pipeline for essential worker housing.

The Property Council Submission:

Height and floor space bonuses

Voluntary inclusionary zoning incentives, such as the height and floor space bonuses introduced in State Environmental Planning Policy (Housing) 2021 (Housing SEPP) in December 2023, promote in-fill development and encourage private developers to deliver more affordable housing and market housing. Incentives like this are typically a more effective mechanism for delivering affordable housing than requiring in-perpetuity contributions.

Recommendations:

- Expand the height and floor space bonuses for affordable housing under the Housing SEPP to capture essential worker housing.

Progressing with a few smaller but important initiatives

Clearly all of the above is focussing on the broader issues and frameworks associated with inclusionary zoning but a few additional practical and immediate steps that could be taken:

- Formally recognise Essential Workers as a designated beneficiary group in the NSW Planning Act
- Define Essential Worker in the Act
- Require councils to adopt consistent definitions and inclusionary zoning requirements
- Immediate incentives combined with increasing requirements. Land tax concessions or reduced infrastructure contributions could be practical options
- Establish a register of affordable housing as a practical means to regulating the industry

Regards

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