Shelter
NEW SOUTH WALES

April 2021

SUBMISSION

The draft Bays West Place Strategy

About Shelter NSW

Shelter NSW is a non-profit organisation that conducts housing research and advocacy on behalf of households on ordinary incomes—those in low- and moderately-paid work, in casual or part-time employment, or getting by on government support payments. We were founded in 1975 as a member-based organisation that today represents a diverse network of other organisations and individuals who share our vision of a sustainable housing system that provides a secure home for all. To advance our vision, we engage our members, experts, and partners and advocate on housing reforms that aim to benefit our economy, our society, and our environment.

About our submission

Shelter NSW (Shelter) appreciates the opportunity to comment on the draft Bays West Place Strategy. We have reviewed the draft Strategy from the perspective of households on lower incomes, who struggle to afford good quality housing that suits their needs, and from that of lower paid workers who may be employed on the site in the future and need access to secure housing.

Shelter's ongoing review of the planning system has presented evidence that the majority of planning strategies are failing to deliver solutions to the existing lack of housing affordability, amenity and choice that can adequality address the unmet housing needs of current and future residents. As such, we will make a series of comments on and recommendations regarding this Strategy which aim to address these shortfalls and provide potential solutions for consideration.

Thank you for reviewing our submission. To discuss any part of it, please contact our CEO, John Engeler, on 02 9267 5733 or by email at john@shelternsw.org.au.

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The Draft Bays West Place Strategy

The draft Strategy has 5 key Strategic themes linked to 14 Strategic Directions. Shelter is primarily concerned with the Land Use and Functions theme and the housing-related strategic Direction to:

1. Deliver a range of housing, including affordable housing, to support the jobs created in the precinct.

This direction is related to Action 4b, which promotes master planning for each sub-precinct to facilitate the delivery of an appropriate number of residential dwellings, ensuring diversity of types and tenure, including affordable housing.

Comments and Recommendations

Affordable Housing refers to a spectrum of housing options including social, affordable rental, and specialist housing. Unaffordability has been a growing issue over the last two decades as the household income-to-house price ratio has increased from 4:1 in 1994 to 12:1 in 2016. At present, the suburbs surrounding the Bays West precinct, Lilyfield-Rozelle, are severely unaffordable. The average rent for all dwellings in the area is 1.6 times higher than the Sydney average. Greater Sydney has been assessed as one of the least affordable housing markets globally and the least affordable Australian city. This has been exacerbated in the past five years by rapid home price growth.

With the majority of residents being renters, it's important to deliver housing products that can support a diverse population ranging from singles through to couples and families. According to the ABS data, the area around Bays West is dominated by semi-detached row or terrace houses and townhouses, followed by flats and apartments. Delivering a diverse mix of housing types on the Bays West land can provide a greater range of housing options to address changing household needs. The Inner West Council Affordable Housing Policy (2017) has clear housing targets to encourage different dwelling types. A clear criterion, similar to that of the Inner West Council, around the mix of dwelling types needs to be included in the Bay West Place Strategy.

Shelter does not accept the premise that housing supply alone will deliver appropriate affordable housing, as evidenced in recent research by Cameron Murray called 'The Australian Housing Supply Myth' 2019. Based on this, Shelter sees the redevelopment of Government owned land as a rare opportunity to deliver housing types such as social, affordable and specialist housing. These types of products can be delivered directly by government and/or through joint-venture arrangements with Not-for-Profit community housing providers. A recent study by Professor Bill Randolph from City Futures Research Centre and Dr Laurence Troy describes a Not-for-Profit (NfP)-led redevelopment model for the renewal of the Waterloo South estate. This approach demonstrates the feasibility of delivering private, public, affordable and specialist housing while retaining the surpluses generated by market sales. This work is based on a cross-subsidy model, with a percentage sold to the private sector then delivering a proportion of Social and Affordable Housing. By adopting an NfP approach for these Government driven redevelopment sites, housing mix tenure targets are achievable while potentially generating a surplus return to government. This study can be found attached as Appendix A.

The need for Affordable Housing targets in the Bays West Place Strategy

The draft Bays West Place Strategy mentions that it gives effect to the Eastern City District Plan (ECDP) by aligning its directions with the region and district framework of infrastructure, liveability, productivity, and sustainability. However, it falls short in setting affordable housing targets in line with the ECDP. Under the Greater Sydney Metropolitan Plan (GSRP), Objective 11 provides a suite of measures that address housing affordability, with the implementation of Affordable Rental Housing Targets focused on locally based initiatives. The GSRP clearly states that Affordable Rental Housing Targets needs to be applied in defined precincts before rezoning. Similarly, the ECDP also promotes the inclusion of local Affordable Housing targets and more Social Housing under Planning Priority E5 which ensures that people can change housing type within the District. Including housing targets linked to mix and affordability is essential in achieving a diverse mix of housing and is missing in the proposed draft Bays West Place Strategy. If targets are not set, supply will not meet the relevant demand for affordable housing.

Including an Affordable Housing target would align with the ECDP (5-10% affordable housing target) and also align with both the Inner West and the City of Sydney Council targets. Based on this, Shelter would like to see the inclusion of clear targets for delivering Affordable Housing, at least equivalent to those outlined in the ECDP.

Recommended Actions

Shelter recommends that Direction 2 in the draft Bays West Place Strategy be amended to say: "Deliver a range of housing, including at least 10% mandatory Affordable Housing across the site, to support the accommodation needs of all future employees in the precinct, in addition to encouraging the provision of more social and specialist housing."

Thank you

Shelter NSW appreciates the opportunity to comment on the draft Bays West Place Strategy. We hope that the comments and insights we have provided bring some value to considerations in the housing policy space. We are also happy to engage on the issues raised in our submission.

If you wish to discuss our submission in more detail, please contact **Stacey Miers** on **0410 633 272** or by email at **stacey@shelternsw.org.au**.

Sincerely Yours,

Principal Policy Officer Shelter NSW

Stacey Miers

Sincerely Yours,

Chief Executive Officer Shelter NSW

John Engeler

Appendix A

Making the Case for a Not-for-Profit Renewal Approach for the Waterloo South Estate Renewal

A Submission to Waterloo South Independent Expert Advisory Panel

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Executive Summary

1. This submission describes a modelling of the 'hypothetical' renewal of the Waterloo South estate as a Not-for-Profit (NfP)-led redevelopment. The key feature of this approach would be that scheme feasibility would be achieved by retaining the surpluses generated from the market sales component through recycling to cross-subsidise the social and affordable housing component and maximising the benefits of a NfP status.

2. The intent is to show how a NfP approach would achieve the housing tenure mix targets of the City of Sydney's preferred dwelling mix as per the Planning Proposal of February 2021 and the net benefits to government of such an approach in terms of the value of housing stock retained for social use as well as contributing to infrastructure provision.

3. The modelling assumes a mixed tenure outcome providing 50% market sales, 30% social housing and 20% affordable housing from an estimated 3,067 dwellings constructed on LAHC-owned land.

4. Land value is assumed to be inputted at nil-cost to the developer.

5. The modelling generates a substantial return to government through an uplifted valuation of the retained social housing of $0.849bn from an estimated land value input of $0.626bm (at 2021 prices).

6. The additional affordable housing component is valued at a further $0.645bn.

7. The modelling also allows for a $0.5bn contribution for infrastructure requirements to support the development (in addition to standard development levy arrangements).

8. The NfP provider moves into a net income-positive position after 19 years – or 9 years after completion – allowing incomes surpluses to be recycled into further social or affordable housing.

Making the Case for a Not-for-Profit Renewal Approach for the Waterloo South Estate

Introduction and Context

The present debate over the future of the Waterloo public housing estate in Sydney has centred around competing urban designs for the precinct. The government preferred option, submitted by the NSW Land and Housing Corporation (LAHC) in July 2020, has been countered by a contrasting concept plan from the City of Sydney (COS) in February 2021 with the latter arguing for an alternative claiming to offer better design outcomes and better public amenity. Crucially however, the COS concept plan proposes a slightly lower development yield compared with the LAHC proposal, which potentially creates some challenges in ensuring that no public housing is lost, and simultaneously create a financially viable project from a private sector delivery point of view.

The City of Sydney has also questioned the ambition to deliver only 30% social and affordable housing, with no gain on present numbers of dwellings in the area, in a context a context of extreme unaffordability in this part of Sydney. Their proposal also has set a more ambitious target of 30% social housing and 20% affordable housing. Arguments over volume of social and affordable housing and volume of new housing broadly, largely boils down to a contest between the feasibility of each proposal when delivered through a private sector delivery vehicle as is the preferred option. While it is not publicly clear what return the NSW Government expects from the LAHC proposal, other than it should be undertaken on a 'no net cost' basis to government, this issue appears to be central to the reluctance of the State Government to support the City of Sydney plan and its higher social and affordable housing aspirations.

What has not been debated at all in this context is the desirability of the private sector delivery model as the *only* mechanism through which either plan is enacted. However, there is a clear alternative to private sector delivery that would offer both financial benefits to the NSW Government, as well as allow for a greater social outcome in terms of social and affordable housing. Not-for-profit (NfP) housing developers offer a clear alternative to the public-private partnership development model pursued under the current Communities Plus scheme.

Analysis of NfP developments in Australia show that central to the success of viable development projects for the delivery of social of affordable housing are six key dimensions, with access to land, market-based cross subsidy and not-for-profit delivery being the critical aspects[1]. The redevelopment of the Waterloo area offers the opportunity to pursue an approach that brings these benefits to bear on a larger scale that could overcome some of the key tensions in the competing models.

The following analysis utilises the Affordable Housing Assessment Tool (AHAT) developed as part of AHURI funded research on affordable housing developments in Australia[1], and demonstrates the power of using NfP delivery vehicles to deliver social and affordable housing. Critically, it requires NfPs to play a key role in the delivery of a mixed tenure renewal program suggested by both LAHC and CoS plans compared to the simple housing management role envisaged in current proposals.

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[1] Randolph, B., Troy, Milligan, V. and van den Nouwelant, R. (2018) *Paying for affordable housing in different market contexts*, AHURI Final Report 293. Melbourne: Australian Housing and Urban Research Institute.

Key principles of the proposal are:

- Cross-subsidies from market sales support the non-market housing component;
- All development profit margins are internalised to subsidise the non-market housing;
- NFP can leverage tax concessions for greater social outcomes;
- A return to LAHC based on the uplift in value of the social housing component.

In the following modelled example, we seek to show how a NfP-led renewal program could achieve significant increase in the non-market housing proportion to meet CoS housing targets, as well as potentially return a significant uplift in asset value for the social housing returned to LAHC and provide funds to meet substantial infrastructure costs, with the further possibility of the affordable housing component being vested with the NfP to allow further strengthening of their balance sheet.

We believe the outcomes generated from the modelling are compelling enough to warrant further consideration, notwithstanding the obvious requirement for proposals around the actual model of the renewal process itself, including the form of the NfP arrangement (for example, through a consortium arrangement) to be subject to much greater scrutiny and development.

The following uses the City of Sydney Planning Proposal from February 2021 as the basis for the modelling. This proposed a total of 3,067 apartments on LAHC-owned land with a required tenure mix of 50% market, 30% social and 20% affordable housing. The proposal incorporated an estimated 249,000 sqm of floor space of which 229,000 sqm would be net residential lettable space. The assumptions in the modelling are explained in the workings below.

Housing Need and Development Cost Assumptions

The specific matrix of household types assumed in the City of Sydney or LAHC plans is unclear. However, part of the justification for redevelopment made by both LHAC and the CoS is the perceived need for more diverse housing in the precinct including a requirement for more smaller dwellings. The approach taken here is to create a dwelling profile that is diverse but generally smaller (i.e. more studio and 1 bed units) compared with normal expectation in the City of Sydney DCP. The final matrix of dwellings is as follows.

Dwelling Summary	Studio	1-bed	2-bed	3-bed	TOTAL
Social Rental	*62*	*416*	*308*	*138*	
Affordable Rental		*231*	*215*	*169*	
Total Social/ Affordable Rental	**62**	**647**	**523**	**307**	**1,539**
Total market sales	**77**	**461**	**1322**	**507**	**1,537**

A variety of tenanted households are included, but for the purposes of this analysis we have assumed that all rental households in non-market housing will derive all their income from government pensions and have income rates set accordingly. Rents for social housing are generally set to 30% of household incomes with maximum Commonwealth Rent Assistance in addition to this amount, in line with current rent setting policies for Community Housing Providers. Rents for the affordable housing component has been split relative equally between 1, 2 and 3 bed units as noted above and are usually set to a maximum of 74.9% of market rents for the Waterloo area or 30% of income, whatever is lower. This rental stream essentially determines the overall income to be derived for the entire rental stock and available to meet development and ongoing operational costs. Rent income figures for this model have been based on average actual rental figures ($ per week) received by a Tier 1 CHP in the Sydney area, as follows:

Dwelling Summary	Studio	1-bed	2-bed	3-bed
Social Rental ($ per week)	*$168*	*$168*	*$232*	*$290*
Affordable Rental ($ per week)		*$360*	*$446*	*$533*

Market dwelling size mix has been based on the City of Sydney DCP requirements. Overall, the number of dwellings modelled can be broken down as follows and is consistent with the City of Sydney proposal for Waterloo redevelopment.

Tenure Share (% Dwellings)	Dwellings	Share
Social Rental Housing	924	30%
Affordable Rental Housing	615	20%
Market Sale Housing	1,537	50%
TOTAL DWELLINGS	**3,076**	**100%**

Using floor areas typical of market delivered apartments in central Sydney, the dwelling typology mix adopted for the modelling results in the following allocation of total floor space (in square metres) across the precinct. This is broadly in line with that set out on the City of Sydney Concept Plan.

Floor Area and Development Outcomes	Sq mtrs
Residential Net Lettable Area	**229,425**
Social/Affordable floor area	*114,713*
Market floor area	*114,712*
Commercial Net Lettable Area	**18,354**
Net Lettable Area Total	**249,375**

Housing market context

Market sales and rent prices have been set based on transaction values in calendar year 2021 in the Waterloo suburb, derived from Domains API service. Price figures have been based on the 75th percentile of sales in 2021 by dwelling type (i.e., they assume a sales product aimed at a premium market), while market rent figures are set at the 50th percentile. They are as follows:

Market Context	Sale	Rent
Dwelling Type	$/dwelling	$/dwelling/week
Studio	$520,000	$400
1-bed	$695,000	$500
2-bed	$1,000,000	$650
3-bed	$1,593,000	$810
Commercial Area	$/sq m	$/sq m/week
General commercial	n/a	$20

Development Costs

Development costs have been based on estimates in the Rider Levett Bucknall Riders Digest 2020. A per square metre cost value based on the 10-20 storey development category was derived based on the midpoint between the lowest ($3,150) and highest ($4,200) costs (see RLB Digest 2020, page 23). Allowance was also made for underground car parking at a provision rate of approximately 0.5 per dwelling. Additional costs for demolition and landscaping have been included.

A 10% contingency was included on top of all development costs (including standard infrastructure contribution, consultant fees and other charges).

Additionally, $500 million spread over 5 years has been included to go towards enabling infrastructure. It is not currently known the extent of the requirement or state of existing infrastructure under the surface, so this figure cannot be easily verified. However, it would be expected that government would need to contribute to any substantial works regardless of delivery mechanism (private sector or NfP).

Total development costs can be summarised as follows:

Project Costings	
Construction (inc GST, prof. fees, council fees)	$1,352,000,000
Enabling infrastructure	$500,000,000
Total Project Cost	**$1,852,000,000**

Timing and indexation

The development is assumed to occur across a 10-year period, in 2 stages. Within each stage it is assumed that that 50% of dwellings will be sold at stage completion and 50% retained for non-market rental (30% social; 20% affordable) in line with the final expected tenure distribution.

Costs, revenues, and property values have been indexed at an annual rate of 2% across the 30-year modelled period.

Operating costs

Operating costs are summarised in the following table, at a total cost of $9,194 per dwelling per year and applied to all retained social and affordable dwellings. Please see Randolph et al (2018) for full explanation.

Maintenance Costs of Dwellings	Annual as a % of Replacement Value	Annual per Dwelling
Repairs	0.1%	$400
Operational Maintenance	0.5%	$2,000
Replacement/Sinking Fund	0.5%	$2,000
Total Maintenance Costs	*1.1%*	*$4,399*
Other Costs	**Annual as a % Rental Income**	**Annual Average per Dwelling**
Vacancy Rate	2.0%	$312
Bad Debt Rate	2.5%	$383
Management Costs		$1,600
Water Rates		$1,000
Council Rates		$1,000
Insurance		$500
Total Other Costs		*$4,795*
Total Costs Per Dwelling		**$9,194**

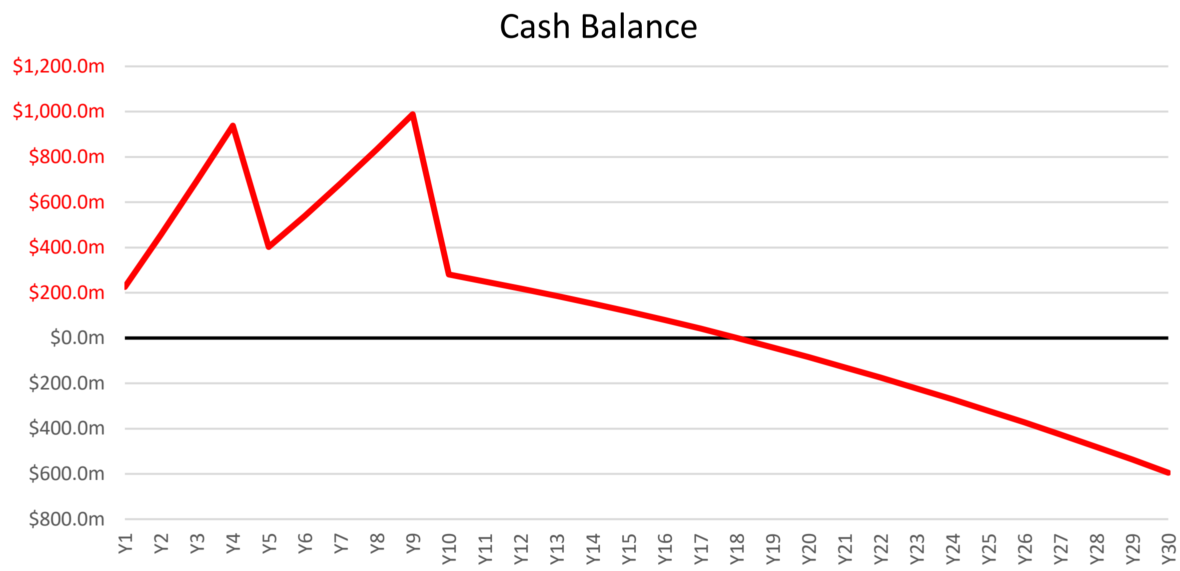
Policy support context

This model assumes no direct financial input from Government, but includes indirect subsidy in three domains, which have been well established within the NfP housing model. They are:

- GST concessions across the entire development
- Commonwealth Rent Assistance being applicable on all social and affordable housing dwellings
- Access to NHFIC finance. Modelled interest rates were 2%, which is based on interests received in a recent commitment made to a Sydney-based CHP.

Modelling Outcomes

The modelling seeks to assess whether the proposed development offers a financially viable 'break even' outcome within the 30-year projection of the model. This is expressed as a debt curve over time, which in effect, charts the capacity of the income steam from the development to meet its the outstanding debt required to fund the development costs as well as cover the ongoing operating costs. The model using the above assumptions delivers a final cash flow outcome as follows:



Overall, the project will reach a cash flow neutral point in year 19, or approximately 9 years after the project is complete. From a finance point of view, at year 10 when the project enters full 'operation' the debt service coverage ratio would be 2.8, which is well above the minimum normally required for financing of community housing providers.

This particular model assumes land would be input at no cost to the developer, which is the working assumption for the current Communities Plus private sector led delivery model. The final arrangement in asset ownership is not intrinsic to the model, however for the sake of this example, we could assume the 30% social housing is return to the State Government as an asset and the affordable housing is retained by the NfP developer, with rights to the income stream over the social housing tenancies for an extended period of time.

This would mean that the value of the social housing asset returned in today's dollar terms to be $850 million, with NfP retaining ownership of assets to the value of $645 million, plus income from social housing rental for 30 years. The modelling also shows that cash flows would be positive 9 years after completion, providing additional cash equity to CHP after this time which could be leveraged into further social housing investment.

From this analysis we conclude that a NfP-led development process would be both feasible and also provide a positive return to the State Government.

Tenure Share	Dwellings	Share	Market Value (2021)
Social Rental Housing (retained by LAHC)	924	30%	$849,000,000
Affordable Rental Housing (vested to NfP)	615	20%	$645,000,000
Market Sale Housing	1,537	50%	$1,478,000,000
TOTAL DWELLINGS	**3,076**	**100%**	**$2,972,000,000**

Summary and Conclusions

The modelling shows that as well as delivering a 50% social and affordable housing outcome on the Waterloo South site, a fully NfP-led redevelopment which internalised market sale surpluses would generate a substantial return to government in terms of asset valuation of the retained social housing of $0.849bn on an initial land value input of $0.626bn, and affordable housing valued at a further $0.645bn. The modelling also incorporates a $0.5bn contribution to infrastructure requirements to support the development (in addition to standard development levy arrangements).

For the NfP provider, the development moves into a net income-positive position after 19 years – or 9 years after completion.

There would also be obvious additional benefits for government (State and Local) in terms of the 'halo' effect on surrounding property values leading to land tax and stamp duty uplift as well as rateable value uplift.

We would be pleased to discuss the modelling and out conclusions with the Expert Panel at their convenience.

Bill Randolph
Laurence Troy

23 April 2021