

International practice in planning for affordable housing: lessons for Australia

AUSTRALIA'S LAND USE PLANNING SYSTEM COULD BE ENHANCED TO BETTER SUPPORT AND PROMOTE AFFORDABLE HOUSING FOR LOW- AND MODERATE-INCOME HOUSEHOLDS.

KEY POINTS

- The land use planning system plays a central role in promoting housing affordability in many cities of the United Kingdom, Ireland, North America and the Netherlands, by ensuring that the planned supply of new housing matches demand. The planning system also plays an important role in preserving existing dwellings and creating new housing that is affordable for low- and moderate-income earners.
- Planning approaches for affordability and new affordable housing creation can be grouped under five key strategic objectives: increasing housing supply; reducing barriers to affordable housing development; preserving and offsetting the loss of low-cost housing; encouraging new affordable housing; and seeking a dedicated affordable housing supply in new developments.
- Different planning mechanisms will be effective in delivering these outcomes in different market contexts. For example, in high-growth areas, protective mechanisms may be required to retain existing levels of low-cost housing, whereas in areas of lower land value non-financial incentives could be introduced that encourage a proportion of the development to be set aside for purchase by social housing providers or low-income households.
- In contrast to international practice, to date there has been only sporadic and localised implementation of planning approaches for affordable housing in Australia. A strong, nationally coordinated and consistent approach is needed that incorporates overarching planning system improvements and includes a range of specific planning mechanisms to retain, promote and create new affordable housing.

*This bulletin is based on research by **Dr Nicole Gurrán, Dr Vivienne Milligan and Ms Laura Beth Bugg** (AHURI Sydney Research Centre), and **Associate Professor Doug Baker** (AHURI Queensland Research Centre). The research examined experiences in planning for affordable housing across 18 case studies from cities in North America, Europe and Australia.*



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CONTEXT

The relationship between planning and housing affordability is under intense scrutiny within Australia and internationally. In Britain, two recent reviews have focused attention on the need for a dramatic increase in new housing supply, to be facilitated through planning system enhancements. In the United States, there has long been concern about the potential for land use planning to exclude low cost-housing development. In the Netherlands, a shift to a market-led model of housing provision has been associated with a slump in housing production and doubts about the capacity of the planning system to deliver an adequate supply of housing. At the same time, the use of tools or levers for affordable housing production is well established in the United States and England, and gaining momentum in Canada, Ireland and the Netherlands.

Thus there are lessons to be learned from existing experience and practice in planning for affordable housing, both internationally and within Australia. The research examines this field as a basis for understanding opportunities to strengthen practice across the different Australian planning jurisdictions and housing markets.

RESEARCH METHOD

The research approach for this project combined a review of literature and documented practice on planning for affordable housing within Australia and in North America and Europe, using case studies of approaches used in 18 local planning jurisdictions in the six countries studied. The cases were selected to offer a range of approaches used within different geographical and governance settings.

The case studies enable an examination of the implementation conditions, success factors and/or constraints associated with each approach, and provide the evidence base for assessing potential transfer to Australian contexts. As well as an analysis of primary legislation, policy and planning instruments, this component of the study included structured interviews and consultations with policy officers and planners at state, regional and local levels.

FINDINGS

The planning system can be used to promote housing affordability and create new housing opportunities that are affordable for low- and moderate-income households

Planning approaches for affordability and new affordable housing creation can be grouped under five key strategic

objectives: increasing housing supply; reducing barriers to affordable housing development; preserving and offsetting the loss of low-cost housing; encouraging new affordable housing; and seeking a dedicated affordable housing supply in new developments. Table 1 outlines how planning approaches are used in the international jurisdictions reviewed.

Better connections between planning approaches and other government policies, funds and incentives can increase affordable housing supply

Planning mechanisms intersect with broader policy, legislative and financial frameworks for affordable housing supply across the international cases reviewed. In Ireland and the Netherlands, national, regional or local planning requirements for new residential development areas to include affordable housing are supported by funding for social housing development and acquisition.

In the United Kingdom, the strong national planning emphasis on affordable housing as a material consideration in planning and development assessment supports specific targets for affordable housing inclusion. The availability of national funding for social housing development has enabled jurisdictions such as the Greater London Authority to require new developments to meet targets for affordable housing inclusion of around 50 per cent.

In the United States, many cities specify planning targets for affordable housing inclusion of around 10 to 15 per cent of developments meeting specified criteria. These requirements are not directly linked to capital funding for affordable housing development, but are usually supported by the availability of planning bonuses (such as density increases) or concessions (such as reduced fees). Mandatory inclusionary requirements in the United States are also supported by the existence of federal and state tax incentives designed to stimulate private investment in housing for lower-income households (such as the Low Income Housing Tax Credit program).

By combining planning requirements for affordable housing with funding subsidies or incentives, strong not-for-profit housing developers have emerged in the United States, the United Kingdom and the Netherlands. They offer a sustainable 'delivery infrastructure' for affordable housing that is created or secured through the planning and development process.

TABLE 1: PLANNING STRATEGIES AND MECHANISMS FOR AFFORDABLE HOUSING

Strategic objective	Approach/mechanism
Increase housing supply	Audit of potential residential land Government dedication/acquisition of land Land development or renewal authority Land development incentives/penalties
Reduce barriers to affordable housing development	Audit existing planning controls; assess impact of proposed regulations on housing affordability Development controls permit diverse housing, in as many areas as possible Faster approvals for preferred development Overcome local barriers to affordable housing construction
Preserving and offsetting the loss of low-cost housing	Social impact framework Preserving particular house types at risk Assistance for displaced residents
Encouraging new affordable housing	Graduated planning standards relating to building use and context (e.g. boarding houses near transport require less parking). Planning bonuses/concessions on development standards for designated affordable housing creation or contribution Fast track approvals for affordable housing meeting defined criteria Fee discounts for affordable housing meeting defined criteria
Securing new dedicated affordable housing	Voluntary negotiated agreements for affordable housing contribution Inclusionary zoning – mandatory contributions for all identified development in the zone to contribute to affordable housing fund/supply Impact fees – mandatory contribution to offset impact of development on affordable housing needs

Planning approaches must be matched to housing market contexts

The findings of the study suggest that different planning mechanisms will be effective in different market contexts:

- Systemic planning process enhancements geared towards overall housing affordability have the greatest impact in contexts where there has been a long-term undersupply of new housing opportunities relative to demand.
- Barrier removal strategies will be effective in contexts where existing planning regulations preclude diverse and low-cost housing forms.
- Protective mechanisms to maintain existing levels of low-cost housing are important in high-growth regions characterised by rising house prices.
- Approaches to encourage new affordable housing, such as incentive or concession schemes, will be effective in contexts where land costs or building costs are high enough to generate a valuable bonus when prevailing controls are varied.
- Mandatory inclusionary housing schemes, where a proportion of the development is dedicated to affordable housing (either as an onsite contribution or a payment), will have greater impact within a high-value market characterised by significant development activity and limited development opportunity.

- Lower land values mean developers can offer dwellings at lower cost for social housing providers or low- or moderate-income households to purchase, often without the need for any additional subsidy. Affordability for target groups is secured by 'ring fencing' an agreed proportion of the total development (say 10 to 15 per cent) for eligible low- or moderate-income groups of affordable housing providers.

Enhancing planning practice for affordable housing in Australia

Each Australian state and territory government has undertaken or is undertaking planning system reform to reduce delays, complexity and red tape that may indirectly affect affordability. Metropolitan plans for all state capital cities include affordable housing or related goals, but lack concrete measures to implement these commitments.

In all of the Australian cases reviewed, with the possible exception of South Australia, the lack of a strong central government policy was viewed as a major limiting factor in planning for affordable housing. The few specific planning mechanisms for affordable housing that have been implemented within local jurisdictions in Australia have been largely divorced from broader national or state housing policy.

A variety of planning levers for affordable housing are used now within the high-value metropolitan context of Sydney (planning agreements for affordable housing,

protective mechanisms, incentives and limited inclusionary schemes), and to a lesser degree in the other Australian capitals. However, to date there has been insufficient public funding and too few incentives for private investment in affordable housing to make these approaches effective.

In comparison to the international examples reviewed, Australia lacks financial incentive schemes to encourage low-cost housing development (as opposed to relying on demand side subsidies such as the First Home Owner's Grant, and Commonwealth Rent Assistance). As a likely consequence, Australia lacks a strong not-for-profit or for-profit affordable housing development industry.

POLICY IMPLICATIONS

The findings of this study demonstrate the need for Australia to establish a strong, nationally coordinated policy framework emphasising housing affordability and dedicated affordable housing creation. Within this framework, state housing policy and planning legislation should promote affordability, and enable affordable housing creation, through:

- system-wide approaches to facilitate land supply in preferred locations, by making planning processes more efficient and through targeted infrastructure investment;
- better needs assessment and planning methodologies to forecast, monitor and respond to housing demand, supply and affordability trends; and
- specific planning levers or mechanisms to secure land for new affordable housing development and retain existing levels of low-cost housing.

International experience also helps to demonstrate the appropriate place of planning approaches in strategic policies aimed at addressing housing affordability challenges. They play a supportive role facilitating housing development, ensuring that affordable housing providers are able to access development opportunities and, in some cases, contributing to additional new affordable housing.

Used in conjunction with funds or incentives for affordable housing development, planning mechanisms help to maximise the benefits of such investment. Complementing planning levers for affordable housing

with financial incentives for construction also ensures that these incentives generate new housing in the right places, rather than subsidising land acquisition on premium sites or in low-value, poorly serviced areas.

Significant institutional support and development will be needed to introduce overarching planning system improvements for housing affordability and to enhance the range of specific planning mechanisms used to retain, promote and create new affordable housing. A nationally consistent approach to defining targets for new housing supply in priority regions, including targets for housing that will be affordable to low- and moderate-income households, would provide a much stronger basis for progress and implementation at state and local levels.

A dedicated national policy and planning unit, such as the new Australian Government's proposed National Housing Supply Research Council, could resource such work and fulfill a critical role in policy development, research and knowledge dissemination to bridge the professional chasms in Australia between the housing, urban planning and development sectors.

FURTHER INFORMATION

This bulletin is based on AHURI project 60322, *International practice in planning for affordable housing: lessons for Australia*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au

The following documents are available:

- Positioning Paper
- Final Report

Or contact the AHURI National Office on +61 3 9660 2300.



Australian Housing and Urban Research Institute

www.ahuri.edu.au

HEAD OFFICE Level 1, 114 Flinders Street Melbourne Victoria 3000 TELEPHONE +61 3 9660 2300
FACSIMILE +61 3 9663 5488 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

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