

Planning mechanisms to deliver affordable homes

Based on AHURI Final Report No. 297:
Supporting affordable housing supply: *inclusionary planning in new and renewing communities*



Australian Housing
and Urban Research Institute

What this research is about

This research examined how land use planning mechanisms, such as inclusionary zoning, support the supply of affordable housing in the UK and USA, and how they may help in Australia.

The context of this research

There is growing interest in the potential for land use planning mechanisms to help deliver affordable housing in Australian cities and regions. Within wider government strategies for affordable housing supply, this research uses the term inclusionary planning to examine approaches which can play a role in incentivising dwelling units, land or financial contributions towards affordable housing projects.

Inclusionary planning—terminology and key concepts

'Inclusionary planning' refers to approaches for securing or leveraging affordable housing through the planning and urban development process, including:

- 'inclusionary zoning (IZ)'—where development within a designated zone makes a contribution towards supplying affordable housing according to a prescribed percentage of the affordable housing development
- 'density bonuses'—where development at a density greater than what is usually permitted is

offered in return for an affordable housing contribution

- 'planning concessions'—where planning rules are varied for affordable housing development or to enable low-cost market housing
- 'negotiated agreements'—where affordable housing contributions are negotiated on a case-by-case basis (although a policy framework to inform these negotiations may still apply)
- 'impact fees'—where financial contributions from developers are paid to offset the impact of a project on affordable housing demand or supply.

inclusionary planning schemes and consistency across local jurisdictions.

Affordable housing requirements should reflect evidence of local housing need, as well as market context and consideration of economic viability. Affordable housing requirements that are scaled to take account of the 'depth' of subsidy required to deliver housing at different price-points can maximise outcomes while also taking account of the costs of provision.

Government grants, subsidies, planning bonuses and incentives that support or work in conjunction with mandatory inclusionary housing requirements, can extend overall supply and affordability outcomes.

The key findings

International findings

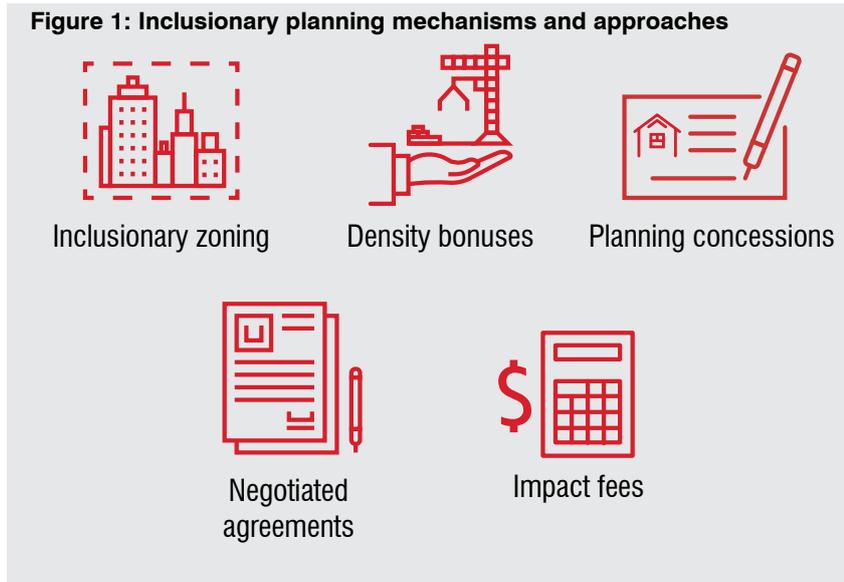
In both the US and UK inclusionary planning schemes gain traction over time. Private developers accept inclusionary requirements when they are known in advance and levied in a consistent way.

Strong housing mandates at the national and state level supports a strategic framework for local

In the UK (England and Scotland)

In England and Scotland, the general expectation is for 20 to 40 per cent of new housing developments to be affordable across the continuum of needs and options, that is from social housing to affordable rental accommodation and low-cost home ownership.

In England, local planning authorities identify a level of unmet housing need which forms the evidence base for

Figure 1: Inclusionary planning mechanisms and approaches

seeking contributions of affordable housing. Private housing developments beyond a certain size are then required to make a contribution to that unmet need, with exact requirements determined in relation to site-specific considerations, including financial viability.

The number of affordable homes delivered solely through this process has risen from 6,390 new dwellings per year in 2005–06 to 14,370 in 2014–15; although falling to 9,640 new dwellings in 2015–16. About 30 per cent of all affordable homes were delivered through local planning contributions (known as ‘Section 106 agreements’ under the UK Town and Country Planning Act 1990) between 2015–16. However, the types of housing generated through this system has shifted from social housing to affordable home ownership and rental.

Affordable rented housing is let by local authorities or private registered providers of social housing to eligible households at up to 80 per cent of the local market rent.

Between 2005–16, 83,790 affordable dwellings were secured solely through S106 planning agreements.

In the USA

There are 512 inclusionary planning schemes across the US. These are mainly mandatory inclusionary zoning programs, voluntary incentives, and impact fees for affordable housing inclusion.

The City of San Francisco in California combines an inclusionary zoning requirement with density bonus incentives under Section 415 of the city’s Planning Code. It requires new private housing developments with 10 or more housing units to include affordable housing units (on-site provision of 12 per cent of total units or off-site provision at a rate of 20 per cent of the total project) or pay a fee based on the number of units in the project and the estimated difference in cost between what target groups can afford and the cost of construction.

The inclusionary requirements have delivered around 150–250 affordable units per annum in recent years (2012–16), representing around 12 per cent of annual new housing supply.

The San Francisco case study provides a number of potential lessons for Australia:

- density bonus regimes are only effective where existing density is not being taken up, and most appropriate where there is an

argument for selective densification rather than wholesale area rezoning.

- urban renewal activities can create significant value. The challenge is to secure affordable housing within lower value markets while also stimulating housing supply in these locations.
- Inclusionary planning requirements can help reduce inflationary pressure on residential land values.

In Australia

Major inclusionary planning schemes in Australia have been limited to South Australia and NSW. While NSW approaches have focused on affordable rental housing, most dwellings secured through the South Australian model are offered for sale to eligible moderate income earners.

Outcomes in South Australia

The South Australian Government’s inclusionary planning requirement, introduced in 2005, requires that 15 per cent of all housing in significant residential developments (including urban renewal and greenfield contexts) should be affordable to low or moderate-income earners. Since inception to 2016, 2009 affordable homes have been built and a further 3,476 homes committed under the 15 per cent affordable housing requirement.

The 15 per cent target has been progressively introduced through local plan amendments and on major development sites when areas are rezoned for residential or higher density homes. State policy and local planning law now provide a framework for both a mandatory inclusionary zoning model to secure affordable housing in major new development and renewal contexts, as well as planning incentives and concessions to encourage affordable homes in contexts where it is not compulsory.

Table 1: Summary of Australian approaches for supporting affordable housing supply through the planning process

State/ territory	Inclusionary zoning	Density bonus/planning concessions/ negotiated agreements	Govt. land able to support affordable housing schemes*
ACT	15–25 per cent target, new land release	Yes, applying to affordable home ownership	Yes
NSW	In designated parts of inner Sydney	Statewide policy, to encourage affordable rental housing	On an ad hoc basis
NT	No	Smaller lot sizes in Multiple Dwelling Residential zones	Yes
QLD	No	Small lots able to support more diverse / affordable housing supply	Limited
SA	15 per cent target for residential zones (applied on rezoning)	Incentives and concessions to support achievement of target	Yes
TAS	N/A	N/A	Limited
VIC	Pilot to be introduced (2017)	Negotiated agreements used to deliver affordable housing in some areas of inner Melbourne	Limited
WA	No	Local authorities enabled to introduce planning concessions and incentives; for example, Density Bonus included in Fremantle Planning Scheme (2017)	Yes

Note: *including via government land development organisations

Source: adapted from Gurran and Bramley 2017.

Outcomes in NSW

A suite of voluntary provisions and incentives have been introduced in NSW since 2005, the most notable of which is a density bonus for infill affordable rental housing (introduced in 2009).

Despite much greater population growth and housing affordability pressures than in South Australia, voluntary planning incentives have delivered a small proportion of affordable homes (between 0.5–1% of Sydney's housing supply in 2009–17, approximately 1,300). In relation to the continuum of housing needs, only affordable rental accommodation is able to be delivered under this mechanism, and the dwellings are only required to remain 'affordable' (offered at up to 80% of market rent) for 10 years.

Voluntary planning agreements (VPAs) are entered into by a planning authority and a developer under which the developer is required to make a land or monetary contribution for a public purpose or provide a material public benefit. VPAs can be entered into when a change to an environmental planning instrument is sought or a development application is made.

VPAs can include provision for, or funding of recurrent costs for, public amenities or services, transport or other infrastructure, and affordable housing. They can also be entered into for conservation purposes and to monitor the planning impacts of development.

A review of the VPAs contained in Sydney Metropolitan Region council registers revealed considerable differences in the overall number of VPAs that have been negotiated, and in the extent to which they have been used to secure affordable housing. Only four registers (Canada Bay, Leichhardt, Ryde and Penrith) included VPAs for affordable housing, and in each case the number of units or monetary contribution was relatively small.

'Mandatory' affordable housing requirements versus 'market-enabling' approaches

Mandatory approaches seek to secure affordable housing supply by embedding requirements within the process of land rezoning, such that cost impacts should be borne by landholders, rather than by developers.

Voluntary (including market-enabling) approaches seek to ensure that affordable housing requirements are

not perceived as a land or development cost, but rather, that incentives operate to encourage residential development overall while including affordable and lower cost market housing in particular.

What this research means for policy makers

There is potential to extend inclusionary planning approaches across Australia. Affordable housing inclusion can be mandated when land is rezoned for residential development, when planning rules are varied for particular projects, or following significant infrastructure investment.

Voluntary planning incentives can encourage affordable housing inclusion as part of incremental residential development within the existing planning and development control framework. Incentives can also provide more flexible options to support delivery of mandatory affordable housing requirements. When planning rules are varied to allow for development of lower cost housing forms (e.g. boarding houses), an affordable housing requirement ensures that benefits are passed on and homes are affordable to target groups.

Defining the affordable housing requirement

Inclusionary requirements can support varying proportions of affordable housing as part of mixed developments, depending on the availability of other subsidy, the target group, and the market context. The objective of the inclusionary requirement is to help address the (locally defined) 'affordability gap', which is the difference between the market value of appropriate dwellings, and the affordable price/rent threshold for the target household.

By securing access to land at 'pre-zoned' values, or by generating 'free' land (through increased development potential), planning system mechanisms should reduce the subsidy required to meet the difference between affordable housing production costs and the affordable price/rent.

The 'affordability gap', and the subsidy requirements to meet this gap, will differ depending on the target group and the local housing market. For moderate income groups, an implicit planning subsidy might be the only intervention required to secure an affordable outcome because moderate income groups are able to meet the construction and related costs associated with producing their home. But for low and very low-income

groups, inclusionary planning can ensure access to well-located land and help reduce the overall costs (including other subsidy) of social and affordable rental housing provision.

Preserving affordability created through inclusionary planning

Schemes can be designed so that the implicit affordable housing planning subsidy is retained. When the housing is to be provided as affordable rental accommodation, there can be a requirement that the affordability obligation is maintained in perpetuity or for a defined period of time. The longer the affordability requirement is to be maintained, the higher the affordability contribution, so this needs to be recognised when undertaking a viability assessment.

When the housing is to be provided as low-cost or discounted home ownership, there are different arrangements for preserving affordability or preserving the subsidy (rather than the dwelling). The most common and flexible approach is to implement an equity sharing arrangement where the 'planning subsidy' is calculated and converted to an equity share which is then retained by an affordable housing entity. The equity share is then purchased back by the household over time or repaid when the unit is sold.

Other approaches include a community land trust model, where the dwelling is owned by the household but the land held in trust. This approach is not yet common in Australia. Restrictive covenants can also be used to maintain the unit as an affordable home ownership product; for instance, by limiting future sales to eligible owners, and/or by limiting price increases to a pre-determined range. However, restrictive covenants may raise problems for households seeking home finance.

Methodology

This research focussed on inclusionary planning schemes used in South Australia and in NSW, with reference to inclusionary planning approaches in the UK and US.

Key data was collected from reviews of policy and program documents in addition to a manual collection of statistics on development applications and dwelling approvals. A total of 19 interviews were held with state and local planning officers, affordable housing developers, and urban planning consultants in Australia and four planners in the USA, between May 2016 and April 2017.

Further information

TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

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