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## Executive Summary

# Strategic planning, ‘city deals’ and affordable housing

From the AHURI Inquiry

Urban productivity and affordable rental housing supply

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# Executive summary

## Key points

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This project examined how strategic spatial planning and funding interventions such as ‘city deals’ can leverage affordable rental housing choices near employment centres, enhancing urban productivity.

- Place-based deals, such as Australia’s emerging City Deal model, offer unique opportunities for enhancing urban and regional productivity by reconfiguring spatial relationships between employment, affordable rental housing and transportation.
  - ‘Satellite cities’ such as Wollongong and Geelong, near capital city employment centres like Sydney and Melbourne, can play an important role in providing affordable rental housing for Q2 workers (i.e. in the second-lowest income quintile).
  - Strategies for connectivity should support new and skilled employment opportunities within satellite cities, to ensure that Q2 renter households are not forced to commute long distances.
  - Overall, the study finds that specific mechanisms are needed to create or preserve affordable rental housing in areas benefiting from new investment and improved connectivity to employment opportunities. Such mechanisms are largely absent in capital city strategic plans and regional planning frameworks.
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Internationally, and increasingly in Australia, strategic funding interventions such as city deals have emerged as targeted place-based models for catalysing economic development through investment and infrastructure supporting jobs, housing and connectivity.

Australian cities and regions are defined by a growing mismatch between the locations of employment and the geography of affordable rental housing, which has important implications for urban productivity. Lower-income workers, who play a critical role in urban labour markets, are finding it increasingly difficult to access affordable rental housing near major employment centres.

This study examines international and Australian practice in using place-based deals, within wider strategic planning frameworks, for supporting employment and housing growth. It assesses how strategic interventions can best leverage affordable rental housing choices near employment, enhancing urban productivity.

This is the third of four project reports for the Australian Housing and Urban Research Institute (AHURI) Inquiry into *Urban productivity and affordable rental housing supply*. The Inquiry’s overall research question is: How does affordable rental housing supply support labour markets and urban productivity, and what are the implications for strategic funding and planning interventions in metropolitan and non-metropolitan Australia?

This report addresses the following research question.

- How can strategic spatial planning and funding interventions leverage affordable rental housing choices near employment, enhancing urban productivity?

Within this overarching research question, a series of more detailed questions guided the project.

- 1 What are the key features of strategic city- or place-based funding approaches and practice used in the United Kingdom (UK), Europe and North America in terms of governance, funding, implementation, performance measures and housing? How might these approaches be instructive for Australia?
- 2 To what extent do current Australian capital city/regional planning frameworks integrate strategies for housing affordability, transport connectivity and employment growth, including strategies for increasing affordable rental housing supply near employment opportunities and for increasing connectivity/employment opportunities in lower-cost housing markets?
- 3 Where are the housing supply and job opportunity mismatches for low-income (Q2) households in Sydney, Melbourne and the satellite cities of Wollongong and Geelong? What are the potential strategies to support more balanced housing supply and employment growth in those areas?

## Key findings

### International evidence: place-based deals as strategic funding interventions

Against the international backdrop of decentralisation and multilevel governance, place-based deals are being deployed to catalyse new investment; support employment and housing growth; and improve planning and policy coordination across different tiers of government.

This study examined international experience in developing and implementing place-based deals across North America, Europe, and the UK. Three primary lessons emerged through the analysis.

- First, a focus on infrastructure funding in place-based deals to support economic development has meant that benefits to disadvantaged groups are often unclear.
- Second, to the extent that housing is considered in place-based deals, the emphasis is often on overall housing supply targets, which have not translated into improved outcomes for low-income households in private rental. There is a need to consider the potential impact of transport or other major infrastructure investments on housing markets and the potential displacement of low-income renters when housing markets rise due to improved connectivity.
- Third, the primary objectives of funding deals, as well as frameworks for monitoring and measuring performance, need to be made explicit, and governance arrangements should be robust and transparent. Additional capacity funding for local governments is often needed.

### Australian strategic planning and policy frameworks, and funding interventions

Place-based funding interventions intersect with wider strategic planning frameworks. In Australia, capital city planning frameworks establish the spatial objectives and policies for future growth and change within established and new development areas. Findings of this study's review of these strategic frameworks are as follows.

- Employment growth, transport connectivity and housing choice/affordability are all key objectives emphasised by Australia's capital city strategic plans. However, strategies for integrating these elements are underdeveloped and depend on high levels of coordination and collaboration between state and local agencies.

- Overall, capital city strategic planning frameworks emphasise: improving transport connectivity to existing and planned growth areas; providing and protecting employment lands; increasing housing densities near existing employment centres and transport nodes; and encouraging jobs growth in subregional and local centres.
- There is strong potential for strategic funding interventions such as city deals to catalyse key elements of these strategic frameworks—as is occurring through the Western Sydney City Deal and the planned Geelong City Deal—bringing employment closer to existing and planned housing. However, specific strategies are needed to ensure that rental accommodation remains affordable and available for low-income (Q2) households.

### **The potential role of satellite cities**

This study considered the existing and potential role of satellite cities in addressing growth and housing affordability pressures in major cities such as Sydney and Melbourne. Satellite cities—such as Wollongong in New South Wales (NSW) and Geelong in Victoria, which were a focus in this study—are located in close proximity to metropolitan areas, and have close economic and transport connections with a major city but remain physically separate. Satellite cities typically offer more affordable rental housing supply but lower job accessibility than major cities, with weaker local employment opportunities and long commuting times to metropolitan centres.

The study drew on interviews with state and local planners and economic development officers. Findings of the analysis include the following.

- Satellite cities have lower-cost housing markets and can play a role in offering affordable rental accommodation for lower-income workers. However, it is important to ensure that housing growth is balanced by local employment and transport opportunities, to ensure that Q2 renter households are not forced to commute long distances.
- Strategic planning frameworks for both Wollongong and Geelong seek to stimulate new job creation in central areas, improve local transport connectivity, and diversify housing options. Existing ‘anchor’ institutions, particularly medical facilities and universities, provide a strong basis for establishing new knowledge industry ‘clusters’, while relatively lower-cost housing markets are an incentive for firms and employees to relocate from metropolitan areas.
- Lifestyle and amenity benefits offer competitive advantages for these ‘second-tier’ cities. However, these cities often have high car dependency and there is a risk that new residential release areas will be poorly served by public transport, undermining affordable living objectives.
- The Geelong City Deal represents an important opportunity to catalyse local jobs and investment, both in the central business district (CBD) as well as across the Greater Geelong region. A similar strategic funding intervention in Wollongong would support ongoing efforts to diversify the local and regional economy within Wollongong and Illawarra-Shoalhaven.

### **Addressing housing supply and job opportunity mismatches**

Building on key findings from the first two projects in this Inquiry (Hulse, Reynolds et al. 2019; Dodson, Li et al. forthcoming), which highlight the shortage of affordable rental housing available to Q2 renters in accessible areas, this project examined barriers to and opportunities for addressing this spatial mismatch. The analysis focussed on four case studies: Sydney, Melbourne and satellite cities Wollongong and Geelong. Findings include the following.

- There is potential to increase the supply of housing affordable and available to Q2 renter households in key areas of Sydney and Melbourne. These areas include locations where low-income workers are currently experiencing affordability stress, as well as where the ‘market’ offers rental housing that is affordable to Q2 households but availability remains

limited (due to competition for these dwellings with Q1 and Q3 households). Locations include Liverpool and Blacktown in Sydney.

- Complementary strategies include sustaining and increasing social housing investment (for Q1 households) and affordable home ownership products (for Q3 households) in these locations.
- Similarly, there is an opportunity to prioritise strategic transport and infrastructure investment for areas that offer affordable rental housing but have lower accessibility to jobs—as demonstrated by the Western Sydney and Geelong City Deals. Preserving and increasing the supply of rental housing affordable to lower-income workers in areas benefiting from such investment remains critical.
- Satellite cities such as Wollongong and Geelong, which are linked to Sydney and Melbourne by high-quality transport connections, can provide affordable rental housing opportunities. However, interviewees described the paradox in government strategies that are designed to improve connectivity to capital city employment centres while also seeking to attract and retain a local labour market to live and work in the local area. Hence, strategies that aim to support jobs growth within satellite cities, while preserving affordable rental supply and providing a spectrum of other housing choices, should be prioritised.

## Policy development options

This project's review of strategic policy interventions and funding 'deals' used internationally—and increasingly in Australia—suggests that these 'bespoke' models offer some promise as a vehicle for catalysing new economic opportunities, and for supporting collaboration across and beyond government. However, explicit levers for affordable housing are needed to ensure that Q2 renters are able to access accommodation in proximity to employment opportunities, particularly in higher-value capital city markets.

Overall, international and Australian interviewees emphasised that place-based funding deals should exhibit the following characteristics.

- Defined aims and objectives, with strategies and funding packages reflecting an accurate and contestable evidence base.
- Strategies to ensure that existing affordable rental housing supply is preserved, and/or new opportunities created, in contexts where new infrastructure or other investments may inflate local house prices or rents.
- Clear governance structures, with defined roles for each partner.
- Structured opportunities for public engagement and consultation, including recognition of local communities of interest, such as Indigenous communities, and representation of disadvantaged and/or vulnerable groups.
- Defined implementation arrangements that are closely aligned with local planning and other decision-making processes.
- Funding arrangements with achievable time frames.
- Meaningful performance measures, a monitoring framework, and time frames for review.

The study's review of Australian capital city strategic planning frameworks identified a need for specific levers to preserve and deliver affordable housing in accessible locations. City deals, as a strategy for fostering new economic opportunities in metropolitan or regional areas, provide an opportunity to more closely link these funding packages with defined approaches for delivering affordable rental housing supply.

In identifying options for addressing employment/housing spatial mismatches, this study found that opportunities for supporting the supply of rental housing affordable to Q2 households exist in both Sydney and Melbourne. Such opportunities include the following.

- Supporting more market-driven affordable rental housing in accessible areas through provision of density bonuses. This currently occurs in Sydney, where developers can achieve additional floorspace in return for ensuring that a proportion of dwelling units are rented to eligible households at a 20 per cent market discount for at least 10 years.
- Preserving affordability, in areas benefiting from new investment, through inclusionary planning requirements for new development. These requirements should be 'matched to market' and could include mechanisms to maintain affordable home ownership for lower- and moderate-income earners (as seen in the South Australian model); or to ensure that a proportion of new dwellings are available to lower-income households at an affordable rent.
- Ensuring that City Deals or similar funding interventions require substantive affordability outcomes, in addition to overall housing supply targets, including planning reforms (where needed) to implement local inclusionary zoning schemes.

## The study

The research approach for this study combined three elements: an evidence review of international practice, to develop a typology of models of strategic spatial investments or 'deals', supported by a review of Australian capital city planning frameworks; interviews with planners and economic development officers in Sydney, Melbourne, Wollongong and Geelong; and targeted spatial analysis of rental affordability and employment accessibility.

Fieldwork and analysis for this study were carried out during 2018 and 2019.

- **Stage 1 (evidence review)** involved a review of international practice (spatial funding and city deal programs) in the UK, Europe and North America. This review was supplemented by interviews with academic and practitioner experts.
- **Stage 2 (interviews)** comprised an analysis of capital city planning frameworks, particularly in terms of strategies for connecting employment and housing growth, and the role of strategic funding interventions (such as the Western Sydney City Deal). This aspect of the study involved 18 interviews with 20 state and local planners and economic development officers. Sydney, Melbourne and the satellite cities of Wollongong and Geelong were used for case study analysis.
- **Stage 3 (spatial analysis)** drew on evidence from Inquiry Projects A and B regarding the geography of private rental housing affordable and available for Q2 renter households (Hulse, Reynolds et al. 2019); and the commuting patterns of Q2 workers (Dodson, Li et al. forthcoming). We conducted spatial analysis of median rents relative to affordable levels for Q2 households across Sydney and Melbourne, and compared this with the location of jobs. We used this data, as well as the interviews with state and local planners and economic development officers, to identify existing and potential strategic interventions for creating more balanced housing and employment growth in the case-study areas (Sydney, Melbourne, Wollongong and Geelong).

The spatial analysis of existing (and potential) affordable rental housing markets and employment accessibility provided a basis for identifying priority locations for increasing rental housing affordable to Q2 households or improving jobs accessibility.

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AHURI undertakes evidence-based policy development on a range of priority policy topics that are of interest to our audience groups, including housing and labour markets, urban growth and renewal, planning and infrastructure development, housing supply and affordability, homelessness, economic productivity, and social cohesion and wellbeing.

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