



# Inquiry into increasing affordable housing supply: Evidence-based principles and strategies for Australian policy and practice

## FOR THE

**Australian Housing  
and Urban Research Institute**

## PUBLICATION DATE

May 2018

## DOI

10.18408/ahuri-7313001

## AUTHORED BY

**Nicole Gurrán**  
*University of Sydney*

**Steven Rowley**  
*Curtin University*

**Vivienne Milligan**  
*University of New South Wales*

**Bill Randolph**  
*University of New South Wales*

**Peter Phibbs**  
*University of Sydney*

**Catherine Gilbert**  
*University of Sydney*

**Amity James**  
*Curtin University*

**Laurence Troy**  
*University of New South Wales*

**Ryan van den Nouwelant**  
*University of New South Wales*

<b>Title</b>	Inquiry into increasing affordable housing supply: Evidence-based principles and strategies for Australian policy and practice			
<b>Authors</b>	Nicole Gurrán	University of Sydney		
	Steven Rowley	Curtin University		
	Vivienne Milligan	University of New South Wales		
	Bill Randolph	University of New South Wales		
	Peter Phibbs	University of Sydney		
	Catherine Gilbert	University of Sydney		
	Amity James	Curtin University		
	Laurence Troy	University of New South Wales		
	Ryan van den Nouwelant	University of New South Wales		
<b>ISBN</b>	978-1-925334-64-7			
<b>Key words</b>	Affordable housing, housing stock, housing finance, supply, urban planning			
<b>Series</b>	AHURI Final Report	<b>Number</b>	300	<b>ISSN</b> 1834-7223
<b>Publisher</b>	Australian Housing and Urban Research Institute Limited Melbourne, Australia			
<b>DOI</b>	10.18408/ahuri-7313001			
<b>Format</b>	PDF, online only			
<b>URL</b>	<a href="http://www.ahuri.edu.au/research/final-reports/300">http://www.ahuri.edu.au/research/final-reports/300</a>			

### Recommended citation

Gurrán, N., Rowley, S., Milligan, V., Randolph, B., Phibbs, P., Gilbert, C., James, A., Troy, L. and van den Nouwelant, R. (2018) *Inquiry into increasing affordable housing supply: Evidence-based principles and strategies for Australian policy and practice*, AHURI Final Report 300, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/300>, doi: 10.18408/ahuri-7313001.

### Related reports and documents

Rowley, S., James, A., Phibbs, P., Nouwelant, R. and Troy, L. (2017) *Government led innovations in affordable housing delivery*, AHURI Final Report No. 289, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/289>, doi:10.18408/ahuri-8113101

Randolph, B., Troy, L., Milligan, V. and van den Nouwelant, R. (2018) *Paying for affordable housing in different market contexts*, AHURI Final Report No. 293, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/293>, doi:10.18408/ahuri-7113301.

Gurran, N., Gilbert, C., Gibb, K., van den Nouwelant, R., James, A. and Phibbs, P.  
(2018) *Supporting affordable housing supply: inclusionary planning in new and renewing communities*, AHURI Final Report No. 297, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/297>, doi:10.18408/ahuri-7313201.

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Paul McBride	Department of Social Services, Australian Government
Caryn Kakas	Family and Community Services, NSW Government
Scott Langford	SGCH Group
Mike Scott	Development Consultant
Marion Thomson/James Yuen	Department of Planning, WA Government
David Tow/Janet Chappell	Urban Growth NSW
Julian Wright	Housing Authority WA

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## **Acknowledgements**

This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

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## Acronyms and abbreviations used in this report

ACT	Australian Capital Territory
AHAP	Affordable Housing Action Plan
AHAT	Affordable Housing Assessment Tool
AHURI	Australian Housing and Urban Research Institute Limited
AHWG	Affordable Housing Working Group
ARHSEPP	Affordable Rental Housing State Environmental Planning Policy (NSW)
AVP	Asset Vesting Program
CEO	Chief Executive Officer
CHC	Community Housing Canberra
CHP	Community Housing Provider
C-M-O	Context – Mechanism – Outcome (evaluation framework)
CSHA	Commonwealth State Housing Agreement
DSS	Department of Social Services
NAHA	National Affordable Housing Agreement
NDIS	National Disability Insurance Scheme
NFP	not-for-profit
NHFIC	National Housing Finance and Investment Corporation
NHHA	National Housing and Homelessness Agreement
NHIF	National Housing Infrastructure Fund
NRAS	National Rental Affordability Scheme
NSW	New South Wales
QLD	Queensland
SAHF	Social and Affordable Housing Fund (NSW)
SA	South Australia
SHI	Social Housing Initiative
UK	United Kingdom
US	United States
VIC	Victoria
VPA	Voluntary Planning Agreement
WA	Western Australia

## Glossary

A list of definitions for terms commonly used by AHURI is available on the AHURI website [www.ahuri.edu.au/research/glossary](http://www.ahuri.edu.au/research/glossary).

## Executive summary

### Key points

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Australia's housing system is failing to deliver a sufficient supply of affordable homes and wider affordability pressures are affecting household wellbeing. A national strategic framework is needed to address these failures. By integrating and enhancing the public subsidies, financial settings, policy levers and programs that exist across the three levels of government, a national framework for housing will drive outcomes across the continuum of housing needs and help deliver long-term growth of affordable housing supply.

- Strong political leadership must advance holistic strategies for housing and affordable housing supply, ideally leading to longer term and bipartisan positions, supported by bureaucratic expertise.
  - All levels of government can contribute within a national framework, common vision and purpose, with specific strategies developed and implemented by state/territorial and local governments to address their different housing pressures.
  - A key focus of these strategies should be to drive wider supply agendas through an expanded affordable housing industry able to operate counter cyclically, maximising the value of public investment and contributing to more stable housing production over time.
  - Secure and long-term finance, including adequate public subsidies, are essential to enable the affordable housing sector to address the scale of Australia's unmet housing need and provide wider benefits to the housing system.
  - States should enable greater use of inclusionary planning mechanisms to be tailored to local market conditions, supported by evidence of local housing need.
- 

### Key findings

This is the Final Report of an AHURI Inquiry into the range of strategies and initiatives that governments have used to leverage affordable housing supply in a constrained funding and increasingly market-driven context. With existing levels of social housing insufficient to meet current and projected needs, an estimated deficit of over 200,000 affordable dwellings, and mounting barriers to first home ownership, the need for significant reform and innovation across the governance, policy and financial parameters framing affordable housing supply is widely recognised (Yates 2016, Ong, Dalton et al. 2017, Rowley, Leishman et al. 2017).

Through three interlinked research projects and engagement with policy and industry through panel meetings and during the research itself through interviews and dialogue, this Inquiry examined how governments have sought to increase the supply of affordable housing across the continuum of housing needs; and the implications for transferring policy and practice to

different jurisdictions and market contexts. Drawing on recent, but established, cases these projects examined:

- how governments have sought to catalyse market activity and generate industry innovation through investment, partnerships, institutional support, financial products and tenure arrangements
- the outcomes of planning system approaches to boost the supply of affordable homes or overcome barriers to their development, and
- the ways in which different subsidy levers and financial arrangements come together in a series of case study exemplar projects that address local housing need, and the demonstrable affordability outcomes for given policy scenarios in different market contexts.

Key findings are summarised below.

***How have governments sought to catalyse market activity and generate industry innovation, to support affordable housing supply?***

- Australian Government funding has proved critical in delivering affordable housing at scale, for example social housing delivered as part of the Nation Building Initiative, and affordable rental housing delivered under the National Rental Affordability Scheme (NRAS). Although not ongoing, these national funding schemes catalysed greater industry innovation and diversified the range of affordable rental housing options delivered in Australia.
- Some jurisdictions have developed comprehensive strategic frameworks for increasing affordable housing supply (such as Western Australia (WA) and the Australian Capital Territory (ACT)). Notably, these strategic frameworks unite housing and housing supply targets, programs and initiatives across the private and affordable housing sectors, addressing the continuum of housing need.
- Some states have been more innovative and comprehensive in their approaches to supporting affordable housing outcomes across the continuum than others, with shared equity schemes, low deposit home loans, and mixed tenure development delivered in partnership with the private sector—core elements of housing strategy in only a few jurisdictions.
- Innovative affordable housing strategies and programs rely on strong political leadership, adopt a whole-of-housing industry approach to consultation and implementation and communicate objectives effectively to all stakeholders.
- Effective leadership and innovative individuals are key components of a successful strategy/program and the most effective leadership creates the conditions within which innovation can flourish.
- A strategy or program must be resilient, with clear targets and measurable outcomes. It must be able to survive a change of government and must be able to maintain its initial momentum through continual reinforcement of key messages and regular communication of achievements.

***What have been the outcomes of planning system approaches to boost affordable supply or overcome development barriers?***

- Inclusionary planning tools leverage significant quantities of affordable housing supply in many parts of the UK and US. Around 43 per cent of total affordable housing output (12,866 units) was delivered through inclusionary planning requirements in England

between 2015–2016, and inclusionary housing schemes apply to more than 500 cities across the United States.

- Inclusionary planning for affordable housing remains limited in Australia. However, South Australia (SA) delivered 5,485 affordable rental and low cost home ownership dwellings between 2005–2015 through an inclusionary planning target applying to new residential areas, amounting to around 17 per cent of SA’s total housing supply.
- In New South Wales (NSW), a planning incentive scheme introduced in 2009 has yielded around 2,000 affordable rental dwellings in Sydney, equivalent to less than 1 per cent of the city’s total supply over the period. Planning concessions to enable more diverse and lower cost housing development, such as accessory dwellings ('granny flats') and boarding houses (small rental units sized at around 12 square metres) have produced a greater supply response (around 11,000 accessory dwellings and at least 2,280 boarding house 'rooms').
- Currently, only affordable rental dwellings can be delivered as part of the inclusionary planning provisions applying in NSW. Despite provisions of the NSW Affordable Rental Housing State Environmental Planning Policy 2009, affordable housing developers still face barriers and delays in obtaining development approval in NSW.
- There is a lack of systematic data collection and reporting on affordable housing outcomes across the Australian jurisdictions. This creates difficulties in measuring the outcomes of inclusionary planning approaches.
- There is significant potential to expand the use of inclusionary approaches in Australia as a means of integrating affordable homes within wider planning and development processes. However, approaches must be tailored to local market conditions.
- Inclusionary planning approaches should never be seen as an alternative source of funding for social and affordable rental housing provision.

### ***How do policy and financial levers come together to enable affordable housing projects?***

In examining the ways in which different policy and financial levers come together through a series of case study exemplar affordable housing projects, the Inquiry Program findings show that:

- The current fragmented patchwork of subsidy streams drives an opportunistic approach to affordable housing development. What gets built often relies on one-off project level arrangements which are largely non-replicable, rather than reflecting a clear long-term strategy that would generate efficiencies in production and management.
- Government-facilitated access to land is central to generating development opportunities and a key means of improving long-term project viability. This includes land delivered by government land organisations or through inclusionary planning processes.
- Government equity investment in the form of land offers considerable potential for delivering feasible projects and net benefit to government.
- Reducing upfront debt loads and lowering finance costs and risks are critical to long-term project viability.
- Projects that include housing options across the housing needs continuum provide opportunities to improve project viability through cross subsidy and also help to meet broader social and tenure mix objectives.
- Planning policies (such as the inclusionary zoning scheme in central Sydney) can deliver additional sources of cash or land. However, the financial benefit of planning bonuses is

limited for not-for-profit (NFP) developers if no market sales are occurring as part of the project. Mixed tenure projects or projects involving cross subsidy through market or discounted market housing may find bonuses more valuable.

- Increasing the scale of NFP housing provision will offer financial benefits for the sector, supporting the long-term delivery of affordable housing supply.

## **Policy development options**

The following policy implications arise from the Inquiry research program findings.

### ***Whole-of-government strategic frameworks for affordable housing supply***

- A holistic national housing strategy is needed to drive outcomes across the entire housing system, integrating the different financial settings, subsidies/grants, policy levers and programs to address the continuum of housing needs.
- This national strategy should set high level targets and provide operational definitions of housing need and affordable housing to ensure that all policy levers and available resources are able to complement and support outcomes across the social and affordable housing sector.
- In requiring states to prepare 'credible' housing strategies (Parliament of Australia 2018), the national framework should set clear criteria for delivery targets, implementation levers, and performance measures across the continuum of housing needs.
- Requirements at state and/or federal levels for annual data collection, monitoring and review of outcomes should refer to targets within this continuum which in turn should inform funding, program development, and planning processes.
- Local authorities should develop their own local housing strategies, underpinned by a strong evidence-base on local housing need and market capacity, including locally specific targets for affordable housing as part of wider housing supply programs. State planning legislation should enable greater use of inclusionary planning levers in response to local market conditions and housing needs.

### ***Integrating government policies, levers, financing and resources for affordable housing supply***

- The intersection of complementary government policies, levers and resources to support affordable housing outcomes across the spectrum of needs is as critical as the design of any single program or initiative. It is through the layering of diverse policy and subsidy levers that affordable housing projects become viable. For instance, federal funding through the former Social Housing Initiative (SHI) and NRAS helped secure innovative joint venture projects which in turn gained support from inclusionary housing provisions in SA and in NSW. Later, inclusionary planning schemes for affordable home ownership in SA were also supported by assistance with marketing and sales, as well as government finance for eligible purchasers.
- It is critical to develop a substantially larger and consistently regulated NFP sector with the scale and capacity to propel growth, maintain/ensure continuity of development (a pipeline) and adjust their portfolios to changing needs and opportunities. These are community focused, social purpose organisations that will strive to preserve affordable housing for the long term and help to integrate services at a local level. Enterprising third sector models have proven capacity to innovate and to catalyse and capture socially oriented investment. The allocation of \$1.5 million within the 2017–18 Budget for strengthening Community

Housing Provider (CHP) business and financial capability will provide some institutional support for the sector.

- Secure and long-term debt finance is essential to enable an affordable housing strategy to achieve the growth needed to address the scale of Australia's unmet housing need and provide wider benefits to the housing system (such as an industry sector able to operate counter cyclically). The impending National Housing Finance and Investment Corporation (NHFIC), which will source lower cost and longer-term finance for registered providers of affordable housing, will be important for scaling up the sector. However, as in other countries, government subsidy will still be needed to deliver low-income rental housing (AHWG (Affordable Housing Working Group) 2017, p. 2).

### ***Financing affordable housing in different market contexts***

- Successful affordable housing supply strategies are able to take advantage of weak housing market conditions, securing good deals with developers and builders to maximise public investment. In WA, early success in counter cyclical affordable housing supply initiatives (from 2010) led to further innovative joint ventures with the private sector and created the basis for an ongoing program of private sector collaboration. The scale and mix of public investment in affordable housing must be determined by the level and profile of local housing needs, not left to opportunistic development opportunities. This requires that affordable housing strategies should be underpinned by effective and regular assessments of housing need requirements.
- There is scope to increase the use of mandatory inclusionary planning mechanisms in high growth residential areas of metropolitan and potentially regional Australia. These mechanisms should be targeted to local market conditions and designed to work in conjunction with planning incentives which support and encourage overall housing supply.
- Land costs and the ability to access land appear to make the greatest impact on overall feasibility for individual affordable housing projects in capital cities—which has implications for the use of public land and discounted private land (via inclusionary planning approaches) as a key component of affordable housing production.
- Public land acquisition outside market competition, even at market value, lowers the risks associated with scheme viability and therefore also supports a more secure and affordable development outcome. Government retention of land ownership in the form of equity can both support the achievement of affordable housing and enhance the value of that equity to government through the improved land value that the development creates.

### ***System governance and the roles and responsibilities of different levels and agencies of government***

- Strong political leadership is needed to drive effective affordable housing strategies and outcomes, ideally building towards longer term and bipartisan positions, supported by bureaucratic expertise. All governments can contribute within a national framework, common vision and purpose, with specific strategies developed and implemented by state/territorial and local governments to respond to particular housing needs and market contexts.
- Within this framework, all levels of government can catalyse market change through funding and demonstration programs, providing equity and long-term stability for affordable housing developers, and steering longer term public policy outcomes.
- An independent national level advisory body should be established to advise on housing need, affordability and supply, and to guide the ongoing development of the affordable housing industry.



- Enhanced capacity is needed at the local government level—where housing strategies depend on local champions and where overarching housing supply targets are planned and implemented.
- In particular, planning and built environment professionals need skills in undertaking local housing needs assessments, as well as understanding the financial viability of developments and their ability to support affordable housing, and in designing viable strategies for accommodating population growth which includes and supports affordable housing as part of wider supply.
- Local political representatives need to articulate the case for affordable homes to serve their communities.

Overall, the findings of this Inquiry Program highlight the importance of addressing the continuum of housing need, beyond traditional distinctions between public/social, intermediate (assisted), and private housing sectors through holistic and comprehensive strategies that integrate affordable homes as part of wider planning and residential development processes, and support the affordable housing sector through funding arrangements that can be tailored to different market contexts. In line with these findings we note that other countries such as the United Kingdom (UK) and Canada, have recently progressed new national, whole-of-government strategies for housing (Communities and Local Government 2017, Government of Canada 2018). These approaches provide clear directions for addressing affordability through a comprehensive, whole-of-housing system framework.

## The study

This study examines strategies to increase affordable housing supply. We recognise that there are different ways to define what is meant by ‘affordable housing’. For this Inquiry, ‘affordable housing’ is housing provided subject to access and affordability requirements set by government. This may include rental housing priced at below market rents and earmarked for eligible low to moderate-income households; and owner-occupied housing for eligible households that is provided under a subsidised or low deposit loan or shared equity arrangement and/or is legally encumbered with covenants that impose an affordability requirement.

To examine the ways in which governments have sought to increase the supply of affordable housing, this Inquiry research program was informed by three projects that built a progressive evidence-base from an overarching government strategy to support affordable housing supply, through to ways the planning system supports or impedes housing development and dedicated affordable housing supply (across both private and social/government sectors). The findings of these research projects came together at project scale in detailed modelling, which examined the financial parameters and affordability outcomes of selected exemplar schemes in different market contexts (inner/middle ring, greenfield, and non-metropolitan).

Information collected across each of the three supporting projects included quantitative and qualitative data on the affordability outcomes of different government approaches to boost affordable housing supply, and the financial parameters and subsidy arrangements of exemplar projects. Primary sources included strategy/program/project documentation, progress and annual reports, interviews with key informants, and available published/unpublished data on housing unit delivery outcomes. Secondary data relating to the local/regional housing market and policy and legislative parameters provided contextual information.

The research also included a modelling component to examine how given policy scenarios might perform in different market contexts (for instance, inner city renewal versus greenfield development settings). Geographically, the research covered all of the Australian jurisdictions,

with a specific focus on strategies in WA, the ACT and NSW, and additional case studies in SA, Victoria and Queensland.

The 'continuum of housing needs and options' provided an important conceptual reference for determining affordability outcomes for different target groups (from very low-income groups and those with high support needs through to low and moderate-income families). In addition, the continuum provided a framework for analysing the effectiveness of the particular strategies, programs and projects examined in this Inquiry, having regard to government resources and particular market contexts.

# 1 Introduction: Examining strategies for increasing affordable housing supply in Australia

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In the context of acute housing affordability pressures in Australia, this Inquiry research program examined the range of strategies and initiatives that governments have used to leverage affordable housing supply in a constrained funding and increasingly market-driven context.

- Through three interconnected research projects, the Inquiry examined holistic state-wide strategies for increasing affordable housing supply; the ways in which affordable housing can be integrated with wider market-driven housing supply through inclusionary planning; and how different financial levers can be tailored to deliver specific affordable housing projects across different market contexts.
- The Inquiry program focused particularly on how overarching government strategies, planning or policy levers, and tailored funding approaches, can support affordable outcomes across the continuum of housing needs.

This introductory chapter sets out the conceptual framework, policy context and data collection methods for the Inquiry research program.

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## 1.1 Why this research was conducted

Australia's housing system has undergone significant transition over the past two decades. Unprecedented increases in house and land prices, and a shortage of affordable rental accommodation near major employment centres, means that a wider range of households now experience housing stress or, importantly, are unable to form because they cannot access housing options that are affordable (NHSC 2014). With existing levels of social housing insufficient to meet current and projected needs, mounting barriers to first home ownership and intergenerational tenure change, governments will be under increasing pressure to support growing numbers of low and moderate-income households in the private rental market.

Following on from a recently completed AHURI Inquiry, *Developing the scale and capacity of Australia's affordable housing industry* (Milligan, Pawson et al. 2017), this research turns to the wider governance, policy, and financial parameters framing affordable housing supply.

Through three interlinked research projects and engagement with policy makers and industry through panel meetings, this Inquiry asked:

*How have governments sought to increase the supply of affordable housing across the continuum of housing needs; and what are the implications for transferring policy and practice to different jurisdictions and market contexts?*

The Inquiry focused particularly on recent but well-established and replicable strategies and projects in Australia that can provide a basis for longer term learning. The overarching research question was broken down into three components, each addressed by a specific research project:

- 1 How have governments sought to catalyse market activity and generate industry innovation through investment, partnerships, institutional support, financial products and tenure arrangements?

- 2 How have governments used the planning system to boost the supply of affordable homes or overcome barriers to their development, and what have been the outcomes of these approaches?
- 3 How have these different levers and financial arrangements come together in a series of case study exemplar projects, and what are the demonstrable affordability outcomes for given policy scenarios in different market contexts?

More broadly, the Inquiry sought to consider the extent to which these efforts may form part of a holistic government strategy to support the housing system and address the continuum of needs in an integrated way, beyond traditional distinctions between public/social, intermediate (assisted), and private housing sectors and with alignment across the different scales of government.

## **1.2 Policy context—National, state and local approaches to increasing affordable housing supply**

Nationally, since 2009 primary sources of funding for new affordable housing supply have flowed through the National Affordable Housing Agreement (NAHA) and the associated National Partnerships Agreements on Social Housing and Remote Indigenous Housing. At its instigation, the NAHA represented a shift away from previous Commonwealth State Housing Agreements (CSHA) which, since the 1990s, have focused predominantly on social housing. The objectives of the NAHA are broader—to ensure 'that all Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation' (DSS 2009). However, there was a mismatch between the wide scope of the NAHA, which set broad targets for enhancing housing outcomes across the market, and funding limitations which necessitate focused prioritisation of specific housing assistance services.

Beyond the NAHA, two other concluded national level initiatives have provided important funding for affordable housing supply. The former Social Housing Initiative (SHI), introduced under the Nation Building and Jobs Plan in response to the global economic crisis injected \$5.7 billion into the social housing sector between 2009 and 2012. This initiative delivered over 19,700 new social housing dwellings nationally, and refurbished over 80,000 existing dwellings (DSS n.d.). The National Rental Affordability Scheme (NRAS) was introduced in 2008 to boost the supply of affordable rental housing for low-to-moderate-income tenants, by providing a tax incentive for up to 10 years for investors to provide new housing offered at 20 per cent below market rates. The NRAS delivered over 36,700 new, privately-owned dwellings for which below market rents will endure for up to 10 years and, for those dwellings owned by NFP providers, possibly longer. The scheme was discontinued in 2014 (Australian Government 2018).

A new source of public funding for specific purpose affordable housing will flow via the National Disability Insurance Scheme (NDIS). This scheme has a national target of supplying an additional 16,000 housing units that are purpose-designed for people with severe functional impairment and/or very high support needs. Funding of around \$700 million annually over 10 years from 2017 will subsidise the financing and upkeep of this specialist accommodation.

### 1.2.1 A changing national policy and funding landscape

Over the course of this Research Inquiry, significant changes to the funding of housing assistance emerged. Described as a 'comprehensive housing affordability plan', the 2017–18 Australian Budget announced a new three-year National Housing and Homelessness Agreement (NHHA) to combine funding currently provided under the NAHA and National Partnership Agreement on Homelessness (NPAH), to commence from 2018–19. Other commitments announced in the context of this plan relate to the potential use of Australian Government land for housing; the negotiation of a new 'City Deal' for Western Sydney; superannuation first home buyer savings and downsizer incentives; additional tax incentives for investment in affordable housing and a tightening of foreign real estate investment rules.

#### ***A new National Housing and Homelessness Agreement***

The Treasury Laws Amendment (National Housing and Homelessness Agreement) Bill 2018 received the Governor General's assent on 28 March 2018. The Bill heralds new funding arrangements for the provision of housing and homelessness services. To receive funding for their housing and homelessness services, states and territories will need to enter into new arrangements with the Australian Government:

- A multi-party primary housing agreement will be entered into by the Australian Government and all states and territories to support 'the delivery of programs, services and reforms with respect to housing (including social and affordable housing), homelessness and housing affordability matters' (Parliament of Australia 2018, p. 4). 'Housing affordability matters' are defined as 'a range of factors that impact the supply and cost of housing. For example, financial capacity to access suitable housing (to purchase or rent) and planning and zoning arrangements'.<sup>1</sup> The Primary agreement will set out funding arrangements and any national objectives and outcomes.
- Supplementary housing agreements will be made on a bilateral basis between the Australian Government and individual states and territories, recognising differences in housing markets and policy priorities. Funding made under primary and supplementary agreements would be subject to new legislative conditions, including:
  - having 'credible' housing and homelessness strategies in place
  - providing housing and homelessness information to enable more transparent and consistent data collection for reporting 'across the housing spectrum' (Parliament of Australia 2018, p. 17).
- Designated housing agreements could be made between the Australian Government and one or more states and territories, on housing matters (including affordable housing, social housing, homelessness or housing affordability). No legislated conditions are attached to these agreements.

The Bill specifies that state housing strategies must 'indicate the level of housing supply needed to respond to projected housing demand', and outline 'the reforms and initiatives that will contribute to meeting this need'.<sup>2</sup> Key elements of state housing strategies, including 'the accuracy of the level of housing supply' and the 'quality or effectiveness' of 'reforms and initiatives' are to be matters for each state (Parliament of Australia 2018, p. 7)

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<sup>1</sup> Revised explanatory memorandum to the Treasury Laws Amendment (National Housing and Homelessness Agreement) Bill 2018.

<sup>2</sup> Treasury Laws Amendment (National Housing and Homelessness Agreement) Bill 2018, s15C (5) (a) (i).

However, the budget announcement foreshadowed linking state funding to 'outcomes in priority areas' such as:

- aggregate supply targets, including targets for social and affordable housing
- residential land planning and zoning reforms
- inclusionary zoning arrangements (land use planning intervention requiring or incentivising affordable housing including dedicated first home buyer stock)
- renewal of public housing stock and transfer of public housing to community housing providers (CHPs), and
- homelessness services (Australian Government 2017).

The NHHA provides no additional federal funding aside from a widely supported extension of previously time-limited funding for front line homelessness services, meaning that improved housing outcomes will depend on the better use of existing funding and initiatives or reforms to be adopted by the states and territories. An anticipated benefit of the new arrangements is increased transparency on expenditure by states and territories and on performance information and benchmarks for activities within the scope of the primary and secondary housing agreements.

The expansion of the housing assistance budget to potentially extend to 'planning or zoning arrangements' raised sector concerns that funding will be diverted to wider market reforms that seek to lift overall housing supply, rather than providing direct assistance for those in highest need. This reflects a wider view that 'a greater emphasis on increasing housing supply (including through planning and zoning reform) is the best way to improve outcomes across the housing spectrum' (Economics Legislation Committee 2018, p. 24).

At the same time, recent evidence in Australia has shown that in an environment of decreasing interest rates and rising prices, the housing system has delivered record housing supply (Ong, Dalton et al. 2017) that has increased vacancy rates in most capital city markets. The primary supply challenge appears to be maintaining supply levels when house prices are soft and when interest rates are increasing. Greater reliance on the NFP sector to deliver supply, when the for-profit sector is restricted by a softening of demand, is an important supply strategy.

### ***The National Housing Finance and Investment Corporation***

The National Housing Finance and Investment Corporation (NHFIC) will source lower cost and longer-term finance for registered providers of affordable housing, commencing from July 2018. This is an important initiative for financing affordable housing at scale that is similar to those successfully applied in several comparable countries (Lawson and Milligan 2008; Lawson, Gilmour et al. 2010; Gibb, Maclennan et al. 2013; Lawson 2013; Milligan, Pawson et al. 2015). However, government subsidy will still be needed to deliver low-income rental housing (AHWG 2017: 2). In a separate funding allocation, \$1 Billion will be provided over five years as grants and concessional loans to governments, government corporations, or registered community housing providers for housing-related infrastructure to overcome 'supply bottlenecks' (transport, site remediation, and power and water infrastructure). A small portion of the fund is available for capacity building activities. This 'National Housing Infrastructure Fund' (NHIF) will be administered by the NHFIC (Australian Government 2017).

### **1.2.2 States and territories**

Within and beyond the framework of the National Affordable Housing Agreement and associated National Partnerships Agreements (2008–2018), the states and territories have developed different strategies and programs to deliver affordable housing supply. These include state subsidised rental housing schemes; partnership and joint venture initiatives; low deposit

loans, share equity and ownership schemes; planning regulations requiring affordable housing; sale of public land and housing in return for replacement and additional social and affordable housing; and transitional housing programs (see Rowley, James et al. 2017: Table 1 and Milligan, Pawson et al. 2017: Appendix 1 for scope and examples).

There is no reliable source of data confirming how much affordable supply these varied efforts have produced. A 2016 assessment predicted total additionality (net of demolitions and sales) of around 32,000 affordable dwellings of all forms across jurisdictions between 2015 and 2020 (Milligan, Martin et al. 2016).<sup>3</sup> Based on current annual dwelling completion rates, this would amount to around 3 per cent of Australia's total new housing supply over that period.

By comparison, projections of need for affordable housing range between 200,000 and 550,000, depending on how housing need is measured and over what time period (Hulse, Reynolds et al. 2015, Milligan, Pawson et al. 2017: 11, Rowley, Leishman et al. 2017).

### **1.2.3 Local initiatives and inclusionary planning**

Many local governments in parts of Australia have been active in seeking to support affordable housing delivery within their own communities. In some jurisdictions, these initiatives occur within the framework of a local or regional housing strategy for integrating existing and potential forms of affordable housing provision with an evidence-base on local needs. As examined more closely in this Inquiry, some jurisdictions, such as South Australia (SA), require local governments to use their planning tools to ensure that affordable housing is included within new residential communities. In New South Wales (NSW), state policy enables local authorities to seek affordable rental housing through some planning and development assessment processes. The NSW model also includes some planning system incentives to promote lower cost market housing, such as boarding houses. In other states, planning concessions are able to support affordable housing development, although on a limited basis (Gurran, Gilbert et al. 2018 ). There is a need to assess the outcomes of existing planning approaches to affordable housing, if these practices are to be extended.

## **1.3 Existing research**

As in other countries, limited funding and resources for housing assistance in Australia means that governments and the NFP sector must develop ever more innovative approaches to leverage increased supplies of affordable housing (Milligan, Gurran et al. 2009, Landis and McClure 2010, Mulliner and Maliene 2013). As outlined by a series of studies published by AHURI researchers and others, this implies progress on four interconnected fronts.

- The overarching policy frameworks, strategies and programs designed and implemented by governments in partnership with industry and the NFP sector must become ever more responsive and effective.
- Appropriate incentives and mechanisms to enable cost-effective private financing of affordable housing at scale must be employed (Milligan, Hulse et al. 2013, Milligan, Yates et al. 2013, Lawson, Berry et al. 2014, Milligan, Pawson et al. 2015).
- Existing urban planning systems and policy levers governing housing development must facilitate and generate more diverse and affordable homes in the right locations (van den Nouweland, Davison et al. 2014).

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<sup>3</sup> This excludes additional specialist disability accommodation to be funded under the NDIS.

- The affordable housing sector must grow and expand across a range of products and market contexts (Pawson, Lawson et al. 2011, Milligan, Hulse et al. 2015).

Before discussing these elements in greater depth we first establish a working definition of 'affordable housing'.

### **1.3.1 Defining affordable housing**

The term 'affordable housing' may have different meanings for policy makers, researchers and program administrators. Consistent with recent AHURI research, for this Inquiry we define 'affordable housing' as housing provided subject to access and affordability requirements set by government. This includes:

- rental housing priced at below market rents and earmarked for eligible low to moderate-income households, and
- owner-occupied housing for eligible households that is provided under a subsidised loan or shared equity arrangement and/or is legally encumbered with covenants that impose an affordability requirement (Milligan, Martin et al. 2016 ).

This definition includes all forms of subsidised housing where access is restricted to eligible households. It may include homes delivered through the planning system for affordable rent or purchase, but is distinguished from low-cost market housing more widely by 1) a requirement that the affordable outcome be delivered as a condition of planning approval or other contractual, regulatory or statutory arrangement; and 2) a requirement that access be restricted to eligible households, usually defined by income.

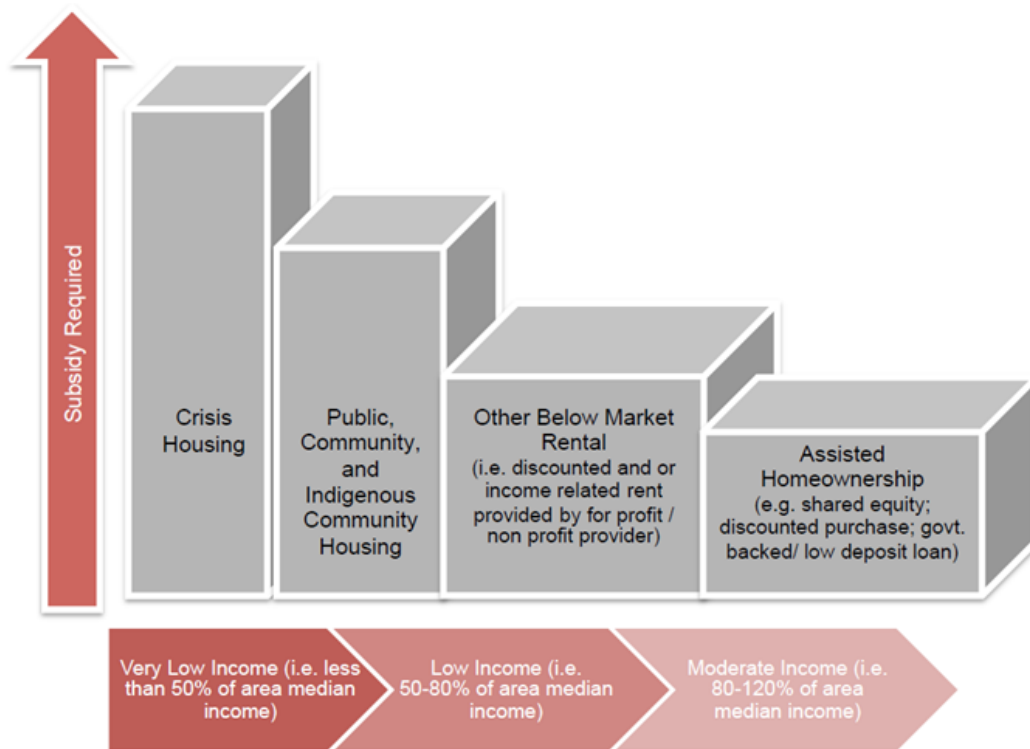
### **1.3.2 A continuum of affordable housing needs and options**

The 'continuum of housing needs and options' provides an important conceptual reference for determining affordability outcomes for different target groups (from very low-income groups and those with high support needs through to low and moderate-income families). Figure 1 below shows this continuum of needs against a continuum of models designed to meet these needs, each requiring different levels of government assistance/intervention, that might come in the form of subsidy (or cross-subsidy between programs), or intervention to require an affordable housing outcome, such as in the case of a planning system requirement.

While we recognise that different definitions of affordable housing apply across the different Australian jurisdictions and their respective programs and projects, the range of affordable housing models identified in this schema are consistent with the wider definition used for this Inquiry, as outlined above.



**Figure 1: Continuum of housing needs and options**



Source: the authors

Overall, the continuum of affordable housing needs and options provides a framework for analysing the effectiveness of the particular strategies, programs and projects examined in this Inquiry, having regard to government resources and particular market contexts.

### **1.3.3 Governance, innovation, and strategy**

A number of studies have examined aspects of innovation in affordable housing delivery (Davison, Gurrán et al. 2012, Wiesel, Davison et al. 2012, Milligan, Hulse et al. 2015). Innovation has been explored in relation to the role of the NFP sector in delivering affordable housing supply (Milligan, Phibbs et al. 2004, Milligan, Gurrán et al. 2009, Gilmour and Milligan 2012), and in the different mechanisms for securing affordable homes in particular markets, for instance through infill developments (Rowley and Phibbs 2012, Rowley, Costello et al. 2014) and planning system levers (Gurrán, Milligan et al. 2008, van den Nouwelant, Davison et al. 2014). Leadership and organisational dynamics have been found to be important elements of successful delivery strategies in the NFP sector (Milligan, Hulse et al. 2013, Milligan, Hulse et al. 2015). However, these themes have not been specifically explored in relation to the overarching roles played by government in designing and implementing strategies for affordable housing supply. The case studies examined in this Inquiry Program provide a basis for investigating these issues.

### **1.3.4 Integrating affordable housing as part of new housing supply**

Policy interest in how the land use planning system might support or inhibit affordable housing supply has grown in recent years, both in Australia and internationally (Gibb 2013). 'Inclusionary housing' refers to a form of planning for housing development that creates affordable homes and promotes socially inclusive communities through resources generated in the marketplace (Calavita and Mallach 2010, p. 1). The term can refer to a policy, law, regulation or program that

works in conjunction with the wider development process to ensure that affordable homes are a part of market-driven housing supply. This may occur either through the provision of specific units within a particular project or through the contribution of money or land for separate construction.

A number of models and approaches can be used to secure affordable housing through the planning and urban development process. These can include: 'inclusionary zoning'—where development within a designated zone or locality contributes towards affordable housing; 'density bonuses'—where additional development potential is offered for projects including affordable homes; and 'planning concessions'—where planning rules covering things like car parking or landscaping are varied for affordable housing or low-cost market developments. The arrangements for operationalising the affordable housing outcome might occur through requirements that are fixed and levied in a consistent way through financial contributions or as land, or units. They might also be negotiated as agreements made on a case-by-case basis (although a policy framework to inform these negotiations will still apply).

The extent to which these approaches are used within particular jurisdictions depends on overarching planning law, as well as particular housing market and development contexts (Gurran, Milligan et al. 2008). Overall the research literature shows that inclusionary planning models can extend resources and increase affordable supply in well located areas, rather than substitute for capital funding for social housing (Whitehead 2007). Under the English model, affordable housing is negotiated through the planning approval process, enabled by national planning policy which establishes affordable housing as a 'material consideration' (Crook, Henneberry et al. 2016). Detailed local housing needs and market analyses inform this practice, ensuring that overall housing programs address local needs and that inclusionary targets are feasible.

However, there are ongoing debates about the impacts of mandatory developer obligations on market housing in both the UK (Mulliner and Maliene 2013, Morrison and Burgess 2014, Joseph Rowntree Foundation 2015) and the United States (US) (Schuetz, Meltzer et al. 2011, Wiener and Barton 2014). In general, it has been argued that the potential for inclusionary schemes to deliver a significant volume of affordable housing, particularly for high needs groups is limited, but negative impacts on overall market viability are also found to be overstated (Schuetz, Meltzer et al. 2011). This is because most models consider overall development feasibility in their design; and, in signalling affordable housing, requirements operate to 'pass back' costs to the landowner (in the form of a lower sales price) rather than forward to ultimate home buyers (Calavita, Mallach et al. 2010, Rowley and Crook 2016). At the same time inclusionary planning models are often heavily dependent on market cycles (Crook, Henneberry et al. 2016). In Australia, the major constraint to the use of the planning system for affordable housing supply is restrictive state legislation (Gurran 2003, Austin, Gurran et al. 2014). Local councils in some areas may also oppose inclusionary planning approaches in the face of resistance from local residents (Davison, Gurran et al. 2012, Ruming 2014).

Early research and critical analysis in the Australian context cautioned against viewing inclusionary planning approaches as a replacement for traditional funding for social housing (Beer, Kearins et al. 2007). Subsequently, the two major reviews of Australia's inclusionary planning models (Gurran, Milligan et al. 2008, Davison, Gurran et al. 2012) found that use of inclusionary planning mechanisms to subsidise social housing development was limited to a few central city schemes (inner Sydney, Perth), where financial contributions were able to be levied in support of local affordable housing programs. The most notable program is the inclusionary zoning mechanism which operates in parts of the City of Sydney and which has delivered a funding stream for City West Housing Company. Other approaches—such as South Australia's target that 15 per cent of homes in new residential communities be affordable, and the NSW 'density bonus'—both sought to generate new affordable housing supply in the market and as

part of wider housing development—rather than generate a funding stream for affordable housing projects. Overall, despite evident policy interest in the potential for planning to play a greater role in boosting affordable housing supply in Australia, the research evidence on outcomes arising from the different approaches which have emerged over the past decade, is limited. In particular, although different types of inclusionary housing models have emerged, particularly in SA and in NSW, the performance of these schemes in terms of leveraging affordable housing units within market, mixed tenure or social housing development, remained unclear at the outset of this Inquiry.

### **1.3.5 Evolution of affordable housing delivery models**

The evolution of specific models for affordable housing delivery in Australia has been examined for over a decade (Milligan, Phibbs et al. 2004, Milligan, Gurran et al. 2009). Recent work has examined the suitability of financing mechanisms and options (Lawson, Milligan et al. 2012, Lawson, Berry et al. 2014), organisational strategic positioning and business models (Milligan, Hulse et al. 2013, Milligan, Hulse et al. 2015) as well as the profile of the affordable housing industry and capacity issues facing its expansion (Milligan, Martin et al. 2016; Milligan, Pawson et al. 2017). Capacity issues emanating within government included:

- weak and/or inappropriate policy settings for affordable housing, especially at the national level
- inadequate public funding to support steady growth of affordable housing
- absence of government leadership on housing matters at the political level, and
- capacity shortcomings in supporting institutions within national and state/territory bureaucracies, especially policy making, data monitoring and regulatory capabilities (Milligan, Pawson et al. 2017: 68).

The case study schemes included as part of this Inquiry displayed the bespoke characteristics of affordable housing projects that have arisen under recent policy and in different market settings (Randolph, Troy et al. 2018).

## **1.4 Research methods and data collection—a progressive evidence-base**

The Inquiry research program was informed by three projects building a progressive evidence-base from overarching government strategy to support affordable housing supply, through to ways the planning system supports or impedes housing development and dedicated affordable housing supply (across both private and social/government sectors). These came together at project scale in the modelling exercise, which examined the financial parameters and affordability outcomes of selected exemplar schemes in different market contexts (inner/middle ring, greenfield and non-metropolitan).

Information collected across the three supporting projects included quantitative and qualitative data on the affordable housing outcomes of different government approaches to boost affordable housing supply; and the financial parameters and subsidy arrangements of exemplar projects. This information was derived from primary sources such as strategy program/project documentation, progress and annual reports; interviews with key informants as part of each of the research projects, and the analysis of available published/unpublished data on housing unit delivery outcomes. Secondary data relating to the local/regional housing market and policy and legislative parameters provided contextual information.

The modelling component of the research examined how given policy scenarios might perform in different market contexts (for instance, inner city renewal versus greenfield development settings).

#### **1.4.1 The 'Context-Mechanism-Outcome' framework**

Overall, principles of housing evaluation research (outlined by Milligan, Phibbs et al. 2007) provided the guiding framework for data collection and analysis across the Inquiry Program. As 'a form of research that systematically investigates how well a policy, program, or project is meeting its objectives' (Milligan, Phibbs et al. 2007: 8), evaluation research contributes to evidence-based policy review and development. Although formal evaluation usually takes place after implementation, for this study principles and approaches to evaluation research informed the analytical framework used to assemble and examine data on government strategies, programs/ levers and projects for delivering affordable housing supply.

There is a substantial body of literature on evaluation research theory and methods for the social policy context that has been translated for application to affordable housing initiatives by Milligan, Phibbs et al. (2007). Drawing on Pawson and Tilley (1997); Milligan, Phibbs et al. (2007) outline and demonstrate a conceptual framework for evaluation research which examines relationships between 'context', 'mechanism' and 'outcome' (C-M-O):

*'The fundamental proposition is that the explanation of the outcome lies in understanding both the mechanism and the context in which it operates' (Milligan, Phibbs et al. 2007: 17).*

Milligan, Phibbs et al. (2007) distinguish between 'process' evaluation and 'impact or outcome' evaluation. For this study, the key focus is both on aspects of process as well as on impacts and outcomes, with reference to a continuum of housing needs and options.

#### **Review of state-level policy strategies**

The first strand of the Inquiry research program examined how governments have catalysed market activity and generated industry innovation through investment, asset vesting, partnerships, institutional support, financial products and tenure arrangements to deliver affordable housing. Using systematic reviews of specific policy strategies and organisations, the study identified key factors that drive affordable housing delivery, including the conception of the policy approach, the governance, mechanisms and implementation plans used in its delivery and the role of organisational structures and capacity in driving delivery. A particular focus was on the way state governments have engaged with the private and NFP sectors to deliver developments that leverage investment from a range of sources.

This research approach involved a review of three major state-level policy strategies to identify how governments have catalysed affordable housing development and to assess whether certain approaches, both organisational and operational, are scalable and transferable to other jurisdictions. It also examined how successfully these state level strategies have leveraged federal-level initiatives such as NRAS and funding from NAHA to help deliver policy objectives.

#### **Analysis of inclusionary planning outcomes**

Australian and international practice in delivering affordable housing supply through the planning system was examined in the second strand of research for this Inquiry. Inclusionary planning models implemented in Australia (i.e. the mandatory scheme underway in SA since 2005–06, and the series of voluntary/market enabling approaches introduced in NSW between 2005–2009) were a primary focus for case study analysis. Recent international practice in using the planning system to support new affordable housing supply models and initiatives, with

specific reference to the UK and comparable jurisdictions in the US was also reviewed.<sup>4</sup> The study identified principles for effective design of inclusionary planning schemes, and the key design considerations for application under different policy/funding contexts and housing market conditions, in relation to the continuum of housing needs.

### ***Financing affordable housing in specific contexts***

The third strand of the Inquiry examined the financial parameters and affordability outcomes of selected exemplar new housing projects. Using a case study approach and building on prior research undertaken by members of the team, this element examined the costs, financial arrangements and affordability outcomes of exemplar affordable housing projects delivered in Australia in recent years; the ways in which procurement and operating costs, housing revenues and public subsidies interact in different markets to generate affordable housing outcomes for particular target groups; and the implications for affordable housing policy making and industry development in Australia. Six case studies were used to portray a diversity of policy approaches and affordability outcomes. Evidence collected from these case studies was used to develop an affordable housing model (the Affordable Housing Assessment Tool (AHAT)) that can be used to estimate affordability outcomes for given policy or funding scenarios in different market contexts.

## **1.5 The logic of the Inquiry research program**

Table 1 below shows the integrated logic of the Inquiry Program, highlighting the range of strategic, program and project-scale approaches being examined in relation to the different Australian jurisdictions and market contexts.

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<sup>4</sup> For further details on the research methodology used in this aspect of the Inquiry Program, see Gurran, Gilbert et al. (2018), Supporting affordable housing supply: inclusionary planning in new and renewing communities.

**Table 1: Inquiry research projects, methods and outputs**

Project topic	Final Report	Methods	Geographic scope
Governance, innovation, and strategy	Rowley, S., James, A. Phibbs, P. van den Nouwelant, R. and Troy, L. 2017. <i>Government led innovations in affordable housing delivery</i> , AHURI Final Report No. 289, AHURI, Melbourne.	In depth review of four state-level policy initiatives (two strategies and two programs) Interviews with key informants (N=20) Housing research evaluation framework used to examine the context, mechanisms, and outcomes of each strategy	Australian jurisdictions, and specific focus on strategies in WA, the ACT and NSW
Planning for affordable housing as part of new housing supply	Gurran, N., Gilbert, C., Gibb, K., Van den Nouwelant, R., James, A. and Phibbs, P. 2018. <i>Supporting affordable housing supply: inclusionary planning in new and renewing communities</i> , AHURI Final Report No. 296, AHURI, Melbourne.	Review of inclusionary planning models in Australia and internationally In depth examination of two case study approaches Review of planning and development data and in depth interviews with state and local planners, and affordable housing developers (N=23) Collation and review of outcomes data (affordable units delivered by approach)	Australian jurisdictions United States, United Kingdom
Tailored funding for affordable housing delivery	Randolph, B., Troy, L., Milligan, V., and van den Nouwelant, R. 2018. <i>Paying for affordable housing in different market contexts</i> , AHURI Final Report No 293, AHURI, Melbourne: AHURI.	Case study analysis of six affordable housing projects in different urban and regional housing markets Interviews with key developer personnel Modelling of affordable housing feasibility	New South Wales, Victoria, Queensland, the Australian Capital Territory, Western Australia

Source: the authors

## 2 Government-led innovations, planning and delivering affordable housing supply: the evidence<sup>5</sup>

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This chapter presents key findings and policy implications from each of the strands of research undertaken for the Inquiry Program.

- The first section examines state government-led innovations in affordable housing through analysis of two state-level strategies (the Western Australian Affordable Housing Strategy and the ACT Affordable Housing Action Plan and two state-level programs (the NSW Asset Vesting Program and the East Kimberley Transitional Housing Program).
  - The second section reviews national practice in planning for affordable housing, and presents evidence on the outcomes of two major inclusionary planning schemes; the affordable housing targets for new residential communities which apply under South Australian planning schemes, and the range of bonuses and concessions for affordable and low cost market housing available under state planning policy in New South Wales.
  - The third section examines six exemplar case study affordable housing projects, completed between 2013–2016, including the main funding mechanisms used and housing outcomes achieved across the continuum (from social rental to affordable rental, to affordable sales, to market rental and market sales).
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### 2.1 Government-led innovations in delivering affordable housing supply<sup>6</sup>

This strand of the Inquiry examined how state governments have used innovation to deliver affordable housing within a limited funding environment. It addressed the following research questions:

- 1 What strategies, programs and mechanisms have governments used to increase the supply of affordable housing?
- 2 What are the key drivers behind innovative strategies to deliver affordable housing? How important is leadership and are there specific organisational structures and capabilities required to deliver such strategies?
- 3 How have government partnerships with the private and community housing sectors been developed and how have they evolved over time to deliver affordable housing?

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<sup>5</sup> The analytical findings in this chapter are derived from the final reports of the three projects under this Inquiry: Rowley, James et al. (2017), Government-led innovations in affordable housing delivery; Gurrán, Gilbert et al. (2018), Supporting affordable housing supply: inclusionary planning in new and renewing communities; and Randolph, Troy et al. (2018), Paying for affordable housing in different market contexts.

<sup>6</sup> The findings in this section of the chapter draw particularly from Rowley, James et al. (2017), Government-led innovations in affordable housing delivery.

This research explored what makes a robust affordable housing strategy or program highlighting the lessons that can be learnt from those state governments that have successfully delivered affordable housing. Two state affordable housing strategies and two state-level affordable housing programs were assessed to understand the extent to, and ways in which, governments have facilitated or stimulated affordable housing delivery by the private sector and/or partnered with the NFP sector. Key policy documents were reviewed supported by interviews with a number of individuals involved in each strategy/program. The housing evaluation research framework was used to understand key drivers and contextual factors behind the strategy/program and innovations in approach or mechanism, as well as housing outcomes.

The implications of the findings from this aspect of the analysis help to identify the potential to empower and enhance the effectiveness of government in the delivery of affordable housing outcomes.

### 2.1.1 Delivering affordable housing beyond traditional public and community housing models of provision

The table below describes examples of strategies and programs established by January 2018 that deliver affordable housing outside traditional public and community housing models of provision. Some programs such as the NRAS which supported affordable rental housing projects, often as part of wider private sector development, have been used by all jurisdictions. Other innovations such as shared equity/ownership housing and low-income home buyer assistance are less common. Stock transfer programs are included in this categorisation because asset transfer and management agreements may foster new partnerships with the community sector or support growth in affordable housing.

**Table 2: State-level affordable housing delivery schemes, beyond public and community housing provision (January 2018)**

	ACT	NSW	NT	QLD	SA	TAS	VIC	WA
National rental affordability scheme	X	X	X	X	X	X	X	X
Transfer programs	X	X		X	X	X	X	X
Land rent	X							
Partnerships and joint ventures with private sector	X	X	X	X	X		X	X
Subsidised rental housing for key workers			X	X				X
Low deposit home loans					X	X		X
Shared-equity schemes	X				X	X	X	X
Transitional housing								X
Affordable land	X				X			X

Source: authors' compilation

Particular innovations have included financial tools delivering low deposit home loans to eligible households (Keystart and Homestart for example); land cost reductions (ACT land rent scheme); and partnerships with the private sector delivering either lots within subdivisions or mixed tenure developments which include an element of affordable housing.



### 2.1.2 Strategic innovation

The **WA Affordable housing strategy** integrated a collection of existing affordable housing initiatives such as the Keystart home loan program with new opportunities generated by new national funding including NRAS and the social housing initiative. Innovation was inherent in pulling these diffuse initiatives and funding streams together within a coherent strategy, communicated as a set of programs for delivering affordable housing supply across the continuum of housing need.

A second innovation was in developing the strategy to expand existing private sector collaboration through new opportunities for joint ventures that leveraged affordable housing opportunities. Vision and leadership within the WA Housing Authority created the conditions for this innovation and fostered a more market-orientated approach to affordable housing delivery.

At the time of strategy development and launch (2009–2010) the Housing Authority was able to take advantage of weak housing market conditions, securing good deals with developers and builders which maximised public investment outcomes. Often these delivered an equity stake in projects that was subsequently used to deliver shared ownership opportunities.

These early successes led to further innovative joint ventures with the private sector and created the basis for an ongoing program of private sector collaboration on top of existing affordable housing programs.

In addition to strong leadership, quality communication within and outside the organisation, a range of complimentary skillsets and broad industry consultation were the key elements driving the success of the strategy that delivered on its target of 20,000 dwellings five years early.

The **ACT affordable housing action plan (AHAP)** implemented 59 initiatives across the housing continuum over a 10-year period. The AHAP included innovative approaches across land supply and affordable home purchase, as well as a program to grow the community housing sector.

Land supply was tied to affordable housing outcomes with a proportion of lots offered at affordable rates to eligible home buyers. A major innovation was a land rent scheme where eligible households could rent land from the government at 2 per cent per annum of the unimproved value of the land.

Financial support was provided for Community Housing Canberra (CHC) along with asset transfer of 132 public houses to help the organisation grow. A key feature was access to a \$50 million revolving loan fund available at the 90-day bank bill rate. The commitment of the state government to partner with CHC resulted in a reasonably small degree of financial and asset support that delivered 500 additional affordable rental units within a 10-year period.

Strong political and bureaucratic leadership focused the efforts of the multiple agencies involved in the delivery of the AHAP. The community housing sector was a key player in delivering affordable homes across the continuum of housing need.

### 2.1.3 Innovation in affordable housing programs

The **East Kimberley Transitional Housing Program (WA)** evolved from an existing program developed by the Wunan foundation. Taking advantage of Australian Government funding available as part of the nation building initiative, Wunan partnered with the WA Housing Authority to deliver 40 dwellings across a range of dwelling types in Kununurra for the purpose of providing stable, supported accommodation for Indigenous households. Support services include financial planning and counselling, assistance with health management, mentoring for maintaining working and training, assistance with parenting, home management or home loan applications. The Wunan program was unique because it combined positive outcomes in terms of employment/training and education with stable housing opportunities with the ultimate aim of

transitioning tenants into owner occupation. The program was driven by exceptional leadership and a strong vision about the importance of housing in delivering a broad range of social outcomes for Indigenous households.

The **NSW asset vesting program (AVP)** was designed to grow the community housing sector. It came into being largely as a result of federal stimulus spending, under the Social Housing Initiative. The NSW Government used the funding to develop around 6,000 dwellings, which were to be transferred to Community Housing Providers (CHPs) upon completion. Competitive tenders for the dwellings among CHPs included commitments to leverage the value of the transferred dwellings to finance some 1,300 additional affordable housing dwellings. While the success of the program is largely viewed as mixed, the program was considered a vital catalyst in growing the size, diversity and professional capacities of the CHP sector. Increasing expectations within government to maximise the value of land assets, and how that translates to growth in affordable housing supply, has led to a conclusion that the CHP sector is not in the best position to act as developers in the renewal of government assets. The case study highlights the importance of political stability and an overarching strategy to ensure policy objectives remain clear and long-term.

#### **2.1.4 Policy implications and options for enhancing government innovation in affordable housing delivery**

When reviewing the case studies in this strand of the analysis it must be understood that two of the cases relate to comprehensive state strategies, while the other two are individual programs so have a much narrower focus. The four cases reveal some strong messages for all levels of government about the key ingredients of an effective housing strategy.

The two affordable housing strategies in this study can be compared with two recent state affordable housing strategies for Victoria and NSW, with the NSW strategy criticised for focusing on first home buyers and directing little attention to the affordable rental end of the market (Saulwick 2017). In contrast, the WA and ACT strategies delivered initiatives across the whole of the housing continuum which is one reason why they were so well received by the broad housing industry; recognising the role of market housing in helping households transition out of heavily subsidised tenures. Broad consultation around a new ACT strategy is currently underway which seeks to build on that jurisdiction's affordable housing action plan.

One common issue across three of the four case studies is the poor quality of data available on actual housing outcomes. In order to measure the success of affordable housing strategies and programs, governments need to increase the quality of the data available to assess economic and social outcomes tied to the resources expended on these strategies/programs.

##### ***Resilience of the strategy or program***

A key lesson from both the NSW program and parts of the ACT strategy was the difficulty in sustaining the housing outcomes after the original political champion(s) had moved on. The most enduring outcomes are associated with elements of the strategy with short time horizons or which required a long-term agreement with a third party that was difficult to unwind. Programs where there was no bureaucratic consensus on direction and purpose were most at risk. In contrast, the main messages of the WA strategy have been reinforced by successive housing ministers, helped by a period of political stability. The leadership team within the Housing Authority have been, and continue to be, very active in ensuring the strategy remained front and centre, framing policy developments such as the recent seniors' affordable housing strategy. It will be interesting to see how resilient the WA strategy proves to be following the 2017 change of government and the decision to merge the Housing Authority into a much larger department.

## ***Leadership***

Of all the elements examined in this project, it is clear that leadership is the most important. The delivery of better housing outcomes in a city or region is a long and complex process that requires the support, and sometimes the active participation, of many different stakeholders, including a range of government agencies and the private sector. The ACT case clearly demonstrated that very strong leadership is needed to bring all these elements together—a situation mirrored in WA. Without the leadership of the Housing Minister of the time and the CEO of the Housing Authority it is unlikely the WA affordable housing strategy would have been developed at all, let alone implemented as successfully as it was. The East Kimberly Transitional Housing program provides another illustration of just how a driven collection of individuals can make a real difference if provided with the support to implement ideas.

## ***Federal funding***

In most cases, state government affordable housing strategies will require the expenditure of considerable resources. Even when state governments are running surpluses, the resources required to make a difference in terms of housing outcomes are of such magnitude that strategies will be most effective when state governments can augment their own resources with those of the Australian Government. This is clearly evident from the WA and ACT cases where state housing targets were partly met with the assistance of the Nation Building Initiative as well as the NRAS scheme. The East Kimberley Transitional Housing program was able to access funding from the Australian Government's Ord River program. In NSW, the AVP was mainly facilitated through new stock constructed as part of the Nation Building Initiative.

## ***Organisational structure, innovation and responsiveness***

A key element of both the WA and ACT housing strategies was the involvement and leadership of central agencies. This leadership was effective at gaining the support of other line agencies as well as facilitating access to adequate resources. The difficulty that the AVP experienced in NSW was partly a result of a lack of support from such central agencies, particularly after the change in government in NSW in 2011. The ACT and WA cases highlight how successful organisations are able to move quickly to capitalise on new funding opportunities that are few and far between. Such organisations need to be flexible and require staff with the ability to deliver innovative solutions quickly. That ability to innovate is partly a function of staff expertise but also of organisational structure and leadership.

## ***Consultation and collaboration***

Critical is the role of quality consultation, a collaborative approach to implementation and a good community engagement strategy. The WA Social Housing Taskforce, which provided the platform for the affordable housing strategy, consisted of a range of private and community sector organisations that helped shape the development of the affordable housing strategy. The ACT Affordable Housing Action Plan (AHAP) was based on significant consultation with a range of private and community sector stakeholders. Early consultation and engagement is key, both within an organisation to ensure support, and across government departments to ensure a smooth passage through cabinet approval. Consultation needs to make organisations feel part of the process rather than be simply a tick box exercise.

## ***Responsiveness***

It is often difficult to know when opportunities might arise in a range of policy areas. The fact that the groundwork had been undertaken within the asset vesting program enabled NSW to respond to the opportunities provided by the nation building initiative. In the ACT, the bureaucracy was able to respond quickly to the political opportunity of having a Chief Minister and Treasurer in 2006 who was very interested in affordable housing because they had been doing research and program design on affordable housing since 2003. This would suggest that

there is an advantage of agencies having some 'shovel-ready' housing strategies available in case opportunities become available. Similarly, the Wunan Foundation in the Kimberley had a viable scheme in advance of federal funding and was able to move quickly in partnership with the Housing Authority when the funding opportunity arose.

### ***Nature of the strategy***

The quality of the housing outcomes from any strategy are closely aligned with the quality of the actions contained in the strategy. A feature of both the ACT and the WA strategies was the depth and breadth of the actions. The ACT strategy consisted of 63 individual strategies or actions targeted across different price points of the housing market, targeting the bottom two quintiles. The strategy was not aimed at one segment of the market. A broad strategy also has the advantage of diversification—if one strategy is less successful, other strategies can still assist the broader housing targets.

## **2.2 Planning for affordable housing supply<sup>7</sup>**

This strand of the Inquiry reviewed recent national and international practice in using the planning system to generate affordable housing supply. It addressed the following research questions:

- 1** What have been the outcomes of key inclusionary planning models implemented in Australia over the past decade, in terms of overall affordable housing supply over time, particular target groups addressed, the design and location of dwellings, and the extent of government subsidy?
- 2** How have different types of inclusionary housing models (e.g. 'mandatory', 'voluntary', and 'market-enabling') been received by industry/community stakeholders, or performed differently under different market settings or cycles?
- 3** How can inclusionary housing schemes support other government initiatives to boost affordable housing supply?
- 4** What are the principles for effective design of inclusionary planning schemes, and the key design considerations for application under different policy/funding contexts and housing market conditions?

Key data used in the study was collected from systematic reviews of policy and program documents (legislation, local policy documents and government-issued guidance material) in addition to a manual collection of statistics on development applications and dwelling approvals. As well, a total of 23 face-to-face or telephone interviews were held with state and local planning officers, affordable housing developers, and urban planning consultants. The study included a specific focus on outcomes arising from the South Australian model, introduced in 2005, which sets targets for affordable housing inclusion as part of new residential developments; and the NSW approach which includes incentives for affordable rental housing provision. Recognising the ongoing evolution of 'inclusionary planning' approaches internationally, we also examined recent developments in the UK (primarily England), and US (primarily California and the San Francisco Bay Area). In drawing potential lessons for Australia from this experience, we recognise the contextual settings that affect implementation,

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<sup>7</sup> The analytical findings in this section are derived from the final report of a project under this Inquiry by Gurrán, Gilbert et al. (2018) entitled, Supporting affordable housing supply: inclusionary planning in new and renewing communities.

particularly differences in land use planning and development control, the availability of funding for affordable housing development, and the scale of the affordable housing sector.<sup>8</sup>

The findings from this aspect of the Inquiry research program show how affordable housing supply can be better supported as part of the wider planning and housing development process. As noted, the 2017–18 Australian Budget announcement included reference to 'inclusionary zoning arrangements (land use planning intervention requiring or incentivising affordable housing including dedicated first home buyer stock)', as well as wider progress on 'aggregate supply targets, including targets for social and affordable housing' (Australian Government 2017).

### **2.2.1 Recent international practice in planning for affordable housing, and implications for Australia**

Inclusionary planning models have a long and evolving history, particularly in the UK and the US. In the UK, contributions for affordable housing have been justified as part of the wider process of extracting a portion of 'planning gain'—the increases to land value which derive through the development process (Crook, Henneberry et al. 2016). Contributions levied in this way have been viewed as an important basis for local authorities to deliver infrastructure needed to support new development and to address wider community needs, including affordable housing. In the US, inclusionary planning models emerged in the 1970s to counter the socially exclusive effects of 'exclusionary zoning'—rigid land use zones that prevented diverse and multi-unit housing in many residential areas, therefore restricting the location of public and affordable rental homes by prohibiting all but single dwellings on large allotments (Fischel 2004, McClure, Gurran et al. 2017). As practice evolved in the US, inclusionary zoning has been used to offset the impact of development on housing need; as a way of capturing value created when land is rezoned for a higher use; and as a tool for managing the risks that lower income renters will be displaced by new infrastructure such as transit projects (Calavita and Mallach 2010, Centre for Housing Policy 2014, Hersey and Spotts 2015).

Our review, particularly of the most recent international experience in the UK and US, confirmed that inclusionary planning has continued to be an important mechanism for ensuring that housing development processes deliver homes across the continuum of housing need. Our analysis of recent data found that, in 2015–16, nearly 13,000 dwellings, amounting to around 43 per cent of total affordable housing supply in England, were delivered through the planning system in a diversity of products from affordable (discount market) rent, affordable and shared ownership, and social housing (Gurran, Gilbert et al. 2018). Affordable housing contributions are negotiated under the English discretionary planning system, but within a strong mandate for delivering affordable homes in relation to local development plans, housing strategies, and market conditions. A main strength of the English model is the capacity to situate affordable housing in well located sites as part of larger market-driven residential development processes (Crook, Henneberry et al. 2016).

In the US, as in Australia, land use zones (rather than a discretionary site-based assessment process) set the general parameters for permissible development. Thus, affordable housing requirements and incentives are often established as part of the zoning process, and/or signalled as development contribution ('impact fee') requirements. Inclusionary housing schemes now apply to more than 500 cities across the US (Centre for Housing Policy 2014). Our analysis found that about 12 per cent of annual housing completions in San Francisco are affordable dwellings produced through inclusionary zoning or impact fee requirements.

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<sup>8</sup> For more detail on our methodological approach to international comparison, see the project final report Gurran, Gilbert et al. 2018.

Characteristics of the San Francisco model have been consistent application over time; the capacity to secure affordable homes in well located areas as part of wider development activity; and the focus on a diversity of affordable products across the continuum of housing need.

### **2.2.2 Planning for affordable housing in Australia**

In contrast to this international practice, inclusionary planning approaches applied across the Australian states and territories remain limited. Inclusionary zoning schemes (or equivalent) have been implemented in only three jurisdictions (the ACT, NSW and SA), while planning concessions or density bonuses to secure affordable housing exist in four (as above and WA). Government land has been used as part of wider redevelopment and master-planned schemes to generate some affordable housing supply, but only SA, WA and the ACT seem to situate this approach within a comprehensive policy framework (Gurran and Bramley 2017).

Previous research has suggested that restrictive state government legislation is a major barrier to inclusionary planning in Australia (Gurran 2003, Milligan, Gurran et al. 2009, Austin, Gurran et al. 2014). This may reflect a traditional bifurcation between responsibilities for social housing (Australian Government and state housing authorities) and land use planning (state planning authorities and local government). Local governments have been reluctant to accept responsibility for housing assistance which is seen to be state and federal responsibilities. This historical division of government responsibilities for new housing supply (subsidised versus market housing) may help explain why most Australian states have not yet enabled inclusionary planning mechanisms.

Of the Australian jurisdictions, South Australia has the most broad-based and consistently applied approach to affordable housing inclusion through the planning and residential development process. Implemented since 2005, when the South Australian Government announced a target of 15 per cent affordable housing for significant development sites, the target has been progressively introduced through local plan amendments and on major development sites when areas are rezoned to residential or rezoned for higher density housing.

South Australian state policy and local planning law now provide a framework for both a mandatory inclusionary zoning model to secure affordable housing in major new developments and renewal contexts, as well as planning incentives and concessions to encourage affordable homes in contexts where it is not compulsory. Operationally, the inclusionary target requires developers to offer 15 per cent of housing within their schemes at an affordable sale price or rent to eligible home buyers or affordable housing providers.

In contrast to the mandatory inclusionary requirement used in SA, the primary focus in NSW has been on incentives for affordable supply. This includes:

- Voluntary Planning Agreements (VPAs) (introduced under state planning law in 2005), which are able to be negotiated when plans are amended or developments assessed. They provide a formal mechanism for capturing some of the value created through planning decisions. They usually provide for physical infrastructure, but can also include contributions for affordable housing. Contributions may be financial or completed units.
- State Environmental Planning Policy (Affordable Rental Housing) (ARHSEPP), which was introduced in mid-2009. It provides incentives including a density bonus to encourage affordable rental housing for which rents are set at below market rates (at least 20% below) and eligibility is restricted (households earning less than 120% of the gross median income for the Sydney metropolitan region). The housing is required to meet the affordable rental criteria for 10 years.
- Incentives and concessions are also offered under the ARHSEPP to enable more affordable forms of market housing, including boarding houses and secondary dwellings.

Table 3 below summarises the affordable housing supply outcomes delivered under the different inclusionary mechanisms under operation in SA and NSW. In summary, the South Australian approach is comprehensive, underpinned by state targets for affordable housing inclusion, which are able to be implemented through local plan amendments to require affordable inclusion as well as concessions and incentives. In total, the SA inclusionary zoning overlay has yielded 5,485 completed or committed dwellings across the continuum of housing needs and options including affordable home ownership, affordable rental, and social rental. Additional subsidy (such as the incentives offered under the NRAS program, or affordable housing developer funding) is required to cover the purchase cost of affordable rental and social rental dwellings delivered under this mechanism.

**Table 3: Summary of key inclusionary housing approaches and outcomes—SA and NSW**

Context	Key mechanisms	Outcomes
<p>SA—State targets for affordable housing inclusion (15% affordable housing in new residential areas)</p> <p>Total dwelling approvals in new residential areas: 31,862 (2005–2015)</p>	<p>Inclusionary zoning overlay for new residential areas and government land</p> <p>Planning incentives and concessions for voluntary inclusion</p>	<p>Delivery of 17% affordable housing across new housing developments in SA (5,485 dwellings completed/committed 2005–2015)</p> <p>Mix of affordable home ownership (47%), affordable rental (22% purchased by NRAS private investor); social rental (i.e. purchased by South Australian Housing Trust or CHP 31%).</p> <p>Majority on government land; 1,800 dwellings/lots delivered via inclusionary mechanism (rezoning)</p> <p>101 voluntary (incentivised) affordable homes</p>
<p>NSW—Voluntary incentive mechanisms for affordable housing inclusion</p> <p>Total dwelling approvals Sydney 2009–2016: 274,058</p>	<p>Voluntary negotiated agreements ('VPAs')</p> <p>Density bonus (ARHSEPP)</p> <p>Planning concessions for diverse, lower cost housing (ARHSEPP)</p> <p>Limited inclusionary zoning in designated parts of Sydney; e.g. Pyrmont / Ultimo, Green Square<sup>9</sup></p>	<p>Estimated 0.5–1% of Sydney's housing supply between 2009–2017 delivered as affordable rental dwellings across VPA and ARHSEPP</p> <p>Voluntary Planning Agreement outcomes (2009–2017)</p> <ul style="list-style-type: none"> <li>• 26 units* (affordable rental)</li> <li>• \$34.075m* (negotiated contributions towards local affordable housing funds)</li> </ul> <p>ARHSEPP outcomes (2009–2015)</p> <ul style="list-style-type: none"> <li>• 1,261* (affordable rental, 2009–2015)</li> <li>• 2,284* boarding house rooms (not necessarily meeting affordable rental criteria)</li> </ul> <p>Inclusionary zoning</p> <ul style="list-style-type: none"> <li>• 100 (Green Square) 450 (Ultimo Pyrmont)</li> </ul>

*Note: these are conservative figures as local government approval data and VPA outcomes are not readily available and have to be manually collected.*

Source: Gurrán, Gilbert et al. 2018

<sup>9</sup> This inclusionary zoning scheme is enabled under 'State Environmental Planning Policy 70' and operationalised via the local planning instrument.

The incentive-based approach in NSW has delivered approximately 0.5–1 per cent of Sydney's housing supply as affordable rental dwellings for lower income households. A significant proportion of these homes have been developed by CHPs, meaning that the mechanism has provided limited additional affordable supply (i.e. units that would not otherwise have been produced), aside from the potential cross-subsidisation that may be achieved in some projects by incorporating market and affordable housing production.

Interview data revealed growing interest from private sector developers in using the density bonus mechanism. In these projects, the bonus is the only subsidy used to support the NSW affordable housing outcome. However, the affordability requirement (for dwellings approved under the ARHSEPP to be rented at a 20 per cent market discount) remains in place for only 10 years.

At least 2,280 boarding house rooms have been approved since 2009 under the concessional provisions of the ARHSEPP. Some of these have been developed by affordable housing providers and so constitute affordable housing, although these projects are fully dependent on upfront funding. The majority of boarding houses developed via this concessional mechanism have been produced by private sector developers, and no affordable rental or eligibility requirements apply.

In addition to dwellings produced under the ARHSEPP, the limited inclusionary zoning model in parts of central Sydney (Williams 2015) has contributed funding for around 550 homes.

### **2.2.3 Implications for policy development**

Key findings and policy implications arising from this strand of the Inquiry are as follows:

#### ***Access to land and resources for affordable housing development***

- Providing access to well-located land at sub-market cost for affordable housing development remains one of the most significant benefits able to be delivered through inclusionary planning mechanisms. This is an ideal way to secure affordable outcomes as part of wider housing supply initiatives.
- In high value locations, financial contributions may complement on-site inclusionary planning approaches, as demonstrated by the longstanding development contribution system in San Francisco that has provided a significant stream of capital funding for affordable housing development in that city, and the more modest funding generated from the inclusionary zoning scheme operating in parts of central Sydney. However, inclusionary planning approaches should never be seen as an alternative source of funding for social and affordable rental housing provision.

#### ***Setting contribution requirements***

- Both the market context and the continuum of housing needs and options provide important reference points for setting affordable housing inclusionary targets or requirements.
- Inclusionary housing schemes can be effective in both high value and lower value market conditions (and across market cycles), but the design of the mechanism and intended outcome should reflect the availability of additional subsidy to meet the 'gap' between an affordable price point and the cost of delivering the affordable home.
- For housing options that require little or no subsidy to deliver within a particular market—such as low cost home ownership or discounted rental products—requirements and targets can be higher. However, targets to deliver affordable housing in these market contexts should always have a basis in local housing need. Further, the location and design of affordable housing delivered through the planning system should be considered in relation to the local context and target group needs. While outer urban locations have the advantage



of requiring little subsidy to achieve price benchmarks, the homes may not be affordable when transport costs are considered.

- Our analysis shows that comprehensive approaches that incorporate affordable housing (relative to local need) as part of all major residential development deliver a much higher proportion of affordable homes over time. Mandatory affordable housing requirements work like other planning obligations that need to be factored into development costs prior to land acquisition, thus can be 'passed back' to land sellers as a lower land price.
- Voluntary incentive mechanisms can play an important role by further offsetting any costs of meeting mandatory obligations. Incentives such as the NSW voluntary density bonus may even make some projects more viable, thus potentially bringing forward some housing developments.

### ***State planning laws and supporting arrangements***

- State planning laws should be reformed where necessary to enable local authorities to implement appropriate inclusionary planning levers to address their specific housing needs and market contexts.
- Innovative financing or shared equity arrangements (potentially involving community housing providers) are effective ways to support affordable home ownership products produced through inclusionary planning levers.
- There may be benefit in limiting certain types of planning concession to affordable housing providers, or to an affordable housing outcome. For instance, the NSW boarding house provisions which enable very small rental units, may deliver a clearer affordable housing outcome if there are requirements around eligibility and rental affordability.
- Both for-profit and NFP housing developers have encountered resistance from communities and local councils to affordable housing developments in NSW. There is an opportunity to provide greater certainty of planning approval for affordable developments that meet applicable standards and to ensure that these standards remain consistent over time.

## 2.3 Funding affordable housing in different market contexts<sup>10</sup>

This strand of the Inquiry examined six exemplar affordable housing projects as case studies. It asked:

*What have been the costs, financial arrangements and affordability outcomes of 'exemplar' affordable housing projects delivered in Australia in recent years?*

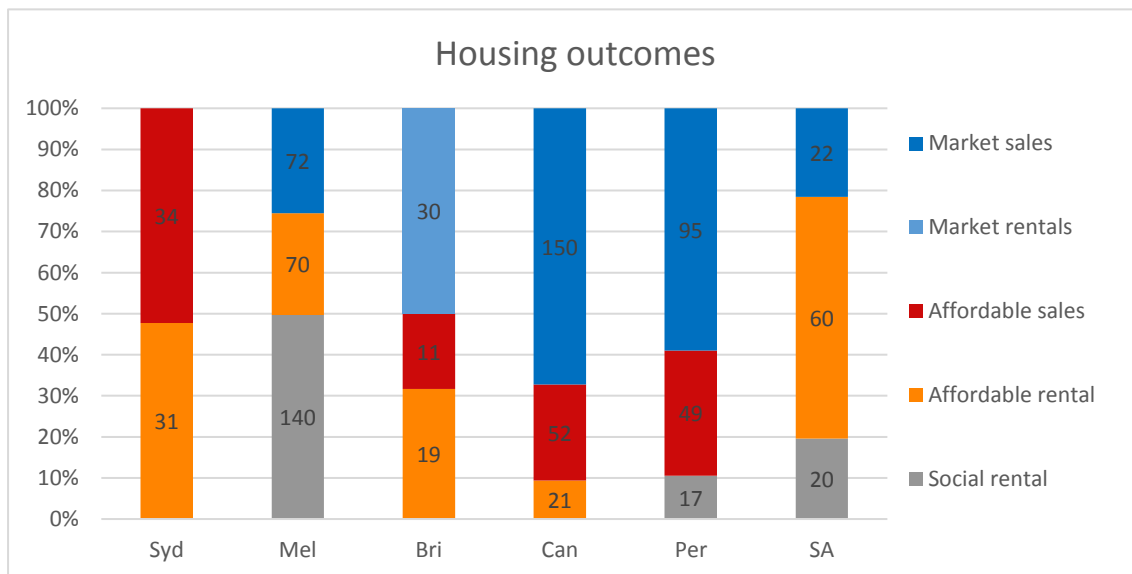
*What do these projects demonstrate about how procurement and operating costs, housing revenues and public subsidies interact in different markets to generate affordable housing outcomes and for which target groups?*

*What are the implications for affordable housing policy making and industry development in Australia?*

The case study projects were located in six different Australian jurisdictions and completed between 2013 and 2016. Inner, middle and outer metropolitan areas and a regional area were selected. Of these, five were delivered by community housing providers (CHPs) and one by a state government in partnership with a private developer.

Figure 2 below summarises the outcomes along the housing continuum for each of the projects.

**Figure 2: Housing outcomes across six affordable housing projects (dwellings)**



*Note: In addition to the outputs shown here, the Melbourne project supported approximately 228 further social and affordable rental homes off-site, through surpluses gained from the market sales and debt raised on the title and rental revenues of the retained assets. 'Affordable sales' includes below-market housing outcomes not retained by the proponent: namely sales to other NFP housing providers and investors receiving NRAS incentives, and sales to owner-occupants as part of a shared-equity scheme.*

Source: Case study research.

The main funding mechanisms used in combination were:

- access to and/or discounted purchase of public land (six cases)

<sup>10</sup> The findings in this chapter are derived from the final report of a project under this Inquiry by Randolph, Troy et al. (2018), *Paying for affordable housing in different market contexts*.

- public and/or NFP development capital (five cases)
- market sales (four cases)
- operating subsidies (five cases).

One project also supported affordable home ownership using government loan products.

The key findings concerned with financing affordable housing projects are outlined below.

### ***The importance of government support for access to land***

The costs associated with having to acquire land at market rates pose major barriers to affordable housing developers. In the absence of any widespread capital subsidy program that can assist providers to compete in the land market, the provision of public land at below-market cost offers an alternative for governments to effectively support affordable housing development. Having privileged access to public land, even when purchased at a 'market' equivalent price, is also beneficial.

### ***Value of government-retained equity***

Government can support affordable housing by treating government land as an equity stake in development. When ownership is retained, government can both support affordable housing supply and enhance the value of its land assets.

### ***Need for a fit-for-purpose subsidy ('gap funding') to cover operational losses under private financing***

Producing social or affordable housing with a component of private finance invariably generates a gap between the revenues recouped from sub-market rents and the recurrent costs of provision, including debt servicing. There is, therefore, a longstanding case for a 'revenue gap' subsidy to support the provision of affordable housing. The AHAT produced in this study enables policy makers to test different design options for such a subsidy.

### ***Benefit of mixed tenure and development at scale***

Cross-subsidy opportunities that arise from mixed tenure and mixed use developments were shown to enhance project feasibility and improve the financial position of CHPs towards their mission of providing additional affordable housing. This mechanism also provides much needed flexibility to enable CHPs to better manage development risk across different market contexts and cycles.

### ***Retaining affordable housing and social benefit***

One advantage of the NFP model of affordable housing provision lies in the potential for them to retain the social benefit created by public investment over the long term. Providing time-limited subsidies to the private sector to produce affordable housing that is predicated on sale and realisation of future capital appreciation is less efficient over the longer term than directing such subsidies to NFP providers.

### ***The importance of a needs-based modelling approach to investment decisions***

Too often the composition of affordable housing projects has been driven more by disparate funding rules and development opportunities rather than to meet priority housing needs. As a result, the rents of many 'affordable dwellings' may not be affordable to those on the lowest incomes or those in need of larger (higher rent) housing, or tenure pathways for households may not be operational. By using the AHAT, the financial model for a project (or program) can be explicitly designed to generate the range of housing that meets a set of defined housing needs.

### 2.3.1 Policy development options

Findings from this strand of the Inquiry point to a series of policy implications for consideration by all government agencies with an interest in promoting affordable housing development at scale.

- How governments treat valuation of their land that has the potential to be developed as affordable housing should be reviewed. Rather than seeking ‘highest and best use’ land value for sales of government land for affordable housing, a preferable approach would be to treat public land as a transparent subsidy input with the sale price reflecting the housing needs that the development seeks to address—that is, its residual value as an affordable housing development for a specific needs cohort.
- Governments should assess the costs and benefits of supporting affordable housing developments over the long-term. Given that affordable housing is a 30-year plus investment, it is appropriate that its benefits are assessed over a comparable time period. The AHAT provides a tool for this.
- Obtaining lower cost finance than is presently on offer will have a significant impact on affordability outcomes and the cost to government of funding the gap between revenues and required investor yield. The analysis, therefore, reinforces the rationale for the ‘Bond Aggregator’ facility—to provide CHPs with access to lower cost long-term finance—that is being developed by the Australian Government.
- The analysis supports the case for targeting public subsidy for affordable housing to NFP developers to ensure that a long-term social benefit is retained.
- The analysis points to the importance of CHPs developing sufficient scale to support the delivery of a diversity of housing outcomes without sacrificing their ability to serve house high needs groups. Large-scale development can generate valuable cross-subsidy opportunities, both within individual projects as well as across portfolios.
- Fragmentation of affordable housing subsidy mechanisms adds cost and complexity to the development process and, by implication, leads to a less than optimal outcome for public investment. The Australian and state/territory governments therefore need to develop a coherent and long-term policy framework and mix of strategies to support housing provision across the continuum of housing need. Subsidy levels and the quantum of public funding should be matched to needs along that continuum.
- The results of both the case study analyses and the modelling exercise highlight that any comprehensive funding and subsidy arrangements to support social and affordable housing delivery will need to respond to the spatial variation in costs that affordable housing providers face.
- The findings on housing outcomes highlight a gap in public policy support for a shared home ownership product. A well-designed and funded national shared ownership program would help to make the housing needs continuum work more effectively with concomitant social and financial benefits over the long term.

For practitioners, the AHAT is considered to have value as:

- a pre-feasibility modelling tool to allow providers to judge the best mix of funding and available subsidies to support the delivery of a designated set of needs for any given project
- an educational tool for the range of stakeholders involved in affordable housing delivery about the way scheme costs, revenues and gap funding can be best managed to bring projects to viability while keeping a focus on providing homes to target needs groups

- informing a discussion about trade-offs to be made in a project set up and thereby helping affordable housing developers to determine which of the available funding and subsidy mixes will optimise their social goals, to exemplify the way policy can impact on the viability of affordable housing delivery and thereby contribute to wider advocacy for policy development and improved practice in the delivery of affordable housing projects.

### **3 Comprehensive strategies for increasing affordable housing supply**

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This chapter identifies policy development implications arising from the Inquiry research program.

- A national strategic framework must integrate the different subsidies, policy levers and programs which exist across states and territories, to ensure they support outcomes across the continuum of housing needs and deliver long-term growth of affordable housing supply.
  - Strong political leadership is needed to drive holistic strategies for housing and affordable housing supply, which integrate policy levers, programs and funding to deliver outcomes across the continuum of housing needs.
  - A key focus of these strategies should be to drive wider supply agendas through an expanded affordable housing industry able to operate counter cyclically, maximising the value of public investment and contributing to more stable housing production over time.
  - Overall, secure and long-term finance, including increased public subsidies, are essential to enable the affordable housing sector to address the scale of Australia's unmet housing need and provide wider benefits to the housing system.
  - States should enable greater use of inclusionary planning mechanisms to be tailored to local market conditions and housing need.
- 

This Inquiry Program has examined how governments have sought to increase the supply of affordable housing across the continuum of housing needs, reviewing recent evidence from established strategies and projects in Australia. It was conducted during a period of national housing policy reform including the announcement in mid-2017 of a new National Housing and Homelessness Agreement (NHHA) between the Australian Government and states and territories as part of a 'comprehensive housing affordability plan'. These reforms—primarily to the ways in which housing assistance funding is provided from the Australian Government to the states and territories—aim to improve housing outcomes 'across the housing spectrum, from first home buyers and renters to those in need of crisis accommodation and those at risk of/or experiencing homelessness' (Parliament of Australia 2018, p. 2).

The findings of this Inquiry Program highlight the importance of addressing this spectrum of housing need through holistic and comprehensive strategies that integrate affordable homes as part of wider planning and residential development processes, and support the affordable housing sector through funding arrangements that can be tailored to different market contexts. Under a federated governance regime, this will necessitate strong and consistent endeavours by all levels of government to coordinate and integrate all policies directed at increasing the supply of affordable housing. Accordingly, we recommend that Australia adopts a national housing framework/strategy that includes affordable housing supply and other targets with measurable outcomes under which states and territories have the flexibility to adopt different approaches to meeting these targets. We endorse the shift towards a more cohesive view of the

housing system, but emphasise the scale of effort and resources needed to address Australia's unmet housing need and expand the affordable housing sector.

In line with this recommendation we note that other countries such as the UK and Canada, have recently progressed new national, whole-of-government strategic policy frameworks for housing (Communities and Local Government 2017, Government of Canada 2018) (see Boxes 1, 2 below). Of note, is the scale of additional resources identified under Canada's strategy. A similar approach is essential in Australia.

### **Box 1: Canada's National Housing Strategy, 2018**

#### **Canada's National Housing Strategy**

In early 2018 the Canadian Federal Government launched Canada's first national housing strategy: A Place to Call Home. The strategy initiates Federal Government re-engagement in housing, and is the most ambitious federal housing program in Canadian history. The strategy, which has a 10-year timeframe, aims to bring together public, private and not-for-profit sectors and to foster bilateral government cooperation to address the country's housing needs. While the strategy recognises and addresses housing needs ranging from shelter needs for the homeless to owner occupation, funded initiatives under the strategy are primarily targeted at meeting the housing needs of the most vulnerable.

The strategy adopts a 'whole-of-government' approach, aligning investment in affordable housing with other government goals around job creation, access to education and healthcare, and prevention of violence against women.

The strategy has six nation-wide targets, which include:

- removing 530,000 households from housing need
- investing in the construction of up to 100,000 new affordable homes
- repairing and renewing 300,000 existing units
- protecting 385,000 households from losing an affordable home
- supporting 300,000 households through the Canada Housing Benefit
- cutting chronic homelessness by 50 per cent.

\$40 billion in Federal funds is committed to implement the strategy.

To ensure the continuation of the strategy across political cycles, new legislation is being put in place that will require successive governments to maintain the strategy; to prioritise the housing needs of the country's most vulnerable; and to report to Parliament on outcomes and progress towards meeting the strategy's targets.

A new Federal Housing Advocate and a National Housing Council with diverse representation will advise the responsible Minister and the Canada Housing and Mortgage Corporation in relation to the strategy. The strategy is being accompanied by a campaign to reduce discrimination and stigmatisation of low-income households and to highlight the benefits of affordable housing initiatives and inclusive communities.

### 3.1 Policy development implications: towards comprehensive strategies for affordable housing supply

Overall, the Inquiry program research findings highlight the need for strong political leadership to drive a national strategy for housing and affordable housing supply, which integrates policy levers, programs and funding to drive outcomes across the continuum of housing needs. A key focus must be to support wider supply agendas through an expanded affordable housing sector able to operate counter cyclically, maximising the value of public investment and contributing to more stable housing production over time. A national approach to growing the affordable housing sector is fundamental, supported by cheaper access to finance (through the NHFAC) as well as appropriate subsidy/funding including access to land through government land disposal programs and inclusionary planning approaches.

#### Box 2: Housing reform framework, England

##### UK White Paper: *Fixing our broken housing market* (2017)

In February 2017, the UK Government released a White Paper titled *Fixing our broken housing market*. Building on and reinforcing England's strong national planning and housing policy framework, the White Paper sets out a comprehensive set of reforms. Key components include:

- making sure that up-to-date plans are in place across the country and that plans reflect an accurate assessment of housing need
- better identifying all land that is potentially available for new housing; through greater transparency over who owns land and the options held on it
- supporting housing associations and local authorities to build more homes
- encouraging institutional investors into private rental housing
- supporting first home buyers to purchase homes through Help to Buy (including Help to Buy Equity Loans) (£8.6bn) and affordable home ownership products (e.g. Starter Homes) delivered through the planning system
- additional funding for the Affordable Homes Programme to support affordable rental, rent to buy and shared ownership housing
- boosting productivity and innovation by encouraging modern methods of construction in house building
- supporting growth in small and medium-sized builders, including through a Home Building Fund to diversify the house building sector
- legislative reforms to make private rental fairer for tenants
- funding and legislative reform to address homelessness.

The White Paper also includes specific strategies to support housing supply by overcoming infrastructure and regulatory constraints, including a £2.3bn Housing Infrastructure Fund, and by coordinating government investment in infrastructure, as well as funding to support brownfield site preparation for developing Starter Homes and affordable housing through the Starter Home Land Fund (£1.2 bn).

Initiatives to support local authority capacity in development assessment are also included in the White Paper.



### ***System governance and the roles and responsibilities of different levels and agencies of government***

- Strong political leadership is essential to drive effective affordable housing strategies and outcomes, ideally building towards longer term and bipartisan positions, supported by bureaucratic expertise. All governments can contribute within a national framework and common vision, and purpose, with specific strategies developed and implemented by state/territorial, and local governments. With responsibilities shared across spheres and levels of government, a dedicated lead agency with appropriate specialised expertise will be desirable to ensure effective implementation of the national strategy.
- Within this framework, all levels of government can catalyse market change through funding and programs that demonstrate to the private sector that mixed tenure schemes can work for all parties, providing equity and long term stability for affordable housing developers, and steering longer term public policy outcomes.
- An independent national level advisory body should be established, to advise on housing need, affordability, and supply, and to guide the ongoing development of the affordable housing industry.
- Enhanced capacity is needed at the local government level—where housing strategies depend on local champions and where overarching housing supply targets are planned and implemented.
- In particular, planning and built environment professionals need skills in undertaking local housing needs assessments, and in designing viable strategies for accommodating population growth that include and support affordable housing as part of wider supply. Skills in determining appropriate affordable housing contributions or approaches at the site level are also needed
- Local political representatives need to articulate the case for affordable homes to serve their communities.

Table 4 below draws on the findings of this Inquiry, as well as previous research (Milligan 2005, Milligan, Pawson et al. 2017) on the allocation of government responsibilities and roles in relation to the strategic, policy, planning and financing dimensions of housing and affordable housing supply.

**Table 4: Government roles across strategic, planning and financing of affordable housing**

	<b>Commonwealth</b>	<b>State</b>	<b>Local</b>
Strategy	<p>Establish national housing strategy, including objectives, targets, affordable housing definitions and reporting requirements.</p> <p>Convene a national affordable housing body with state/territorial, local governments, and industry, to support ongoing development of affordable housing sector.</p> <p>Establish an independent national housing supply and affordability council to advise on housing need, affordability and supply, review performance against targets, and guide policy directions.</p>	<p>Adopt holistic housing state housing strategies, supporting the national framework with specific objectives and targets for metropolitan/regional and local implementation.</p> <p>Participate in a national affordable housing body.</p> <p>Support the development of local government housing strategies including housing needs and market analyses.</p> <p>Coordinate affordable housing delivery on sites that span across LGA boundaries.</p> <p>Lead the political justification for state-wide affordable housing supply increases.</p>	<p>Prepare local housing strategies including housing need and market analyses, targets for housing supply and affordable housing supply, and implementation plans.</p> <p>Representation on national affordable housing body.</p> <p>Build local community support for affordable housing.</p> <p>Work closely with state government and boundary LGAs to coordinate affordable housing delivery.</p>
Integrated policy, programs, funding, and planning levers	<p>Review existing subsidies, tax concessions, and programs to ensure they support overall national housing objectives and targets.</p> <p>Consider requiring social impact assessment of major infrastructure projects using federal funding, if they have the potential to stimulate renewal and redevelopment, potentially displacing lower income renters.</p> <p>Require a component of affordable housing in Australian Government-owned sites on disposal/redevelopment for residential or part-residential use, or consider the option of retaining equity in affordable housing, as suggested for other levels of government.</p>	<p>Review existing state subsidies, tax concessions, and programs to ensure they support state housing objectives and targets.</p> <p>Reform state planning law where necessary to enable inclusionary planning requirements and incentives.</p> <p>Consider undertaking social impact assessment of major infrastructure projects that have the potential to stimulate renewal/redevelopment, potentially displacing lower income tenants.</p> <p>Work with the private and NFP sectors to maximise affordable housing supply on government-owned land.</p>	<p>Integrate local policy objectives, programs, and planning requirements/incentives for affordable housing, through local housing strategies.</p> <p>Implement local inclusionary planning approaches that respond to local housing needs and market context.</p> <p>Support local affordable housing providers, for instance, streamlined planning approval, and guidance.</p> <p>Ensure infrastructure funding grants to overcome supply blockages support affordable housing outcomes.</p>

	Commonwealth	State	Local
Financing and resources	<p>Establish a deep funding source (e.g. by redirecting existing subsidies/tax incentives) to enable additional subsidy support for the substantial growth of affordable supply in perpetuity.</p> <p>Implement, maintain and further develop the National Housing Finance and Investment Corporation (NHFIC) to support sector growth.</p>	<p>Establish a strong funding source to support substantial growth of affordable supply in perpetuity.</p> <p>Require a component of affordable housing in state government-owned sites on disposal/redevelopment.</p> <p>Use government land to leverage private sector investment to deliver mixed tenure developments.</p> <p>Treat investment via public land as a long-term equity partnership arrangement rather than short-term capital expenditure.</p>	<p>Consider negotiating contributions for local affordable housing, for major master planning/redevelopment projects with significant value uplift.</p> <p>Consider waiving development contributions for affordable housing developments.</p> <p>Use government land to leverage private sector investment to deliver mixed tenure developments.</p> <p>Require a component of affordable housing when Council land is sold or redeveloped or contribute land to schemes on an equity share basis.</p>

Source: The authors, informed by Milligan 2005

### ***Whole-of-government strategic frameworks for affordable housing supply***

- The findings of the Inquiry research program demonstrate the importance of holistic strategic and system-wide approaches to increasing affordable housing. The two jurisdictions—WA and the ACT—with comprehensive affordable housing strategies in place—have demonstrated the importance of an integrated framework rather than piecemeal, program specific approaches. The importance of a national level framework is also underlined by recent practice in the UK and Canada.
- A national level strategic framework should set high level targets and provide operational definitions of housing need and affordable housing (as demonstrated in the UK and Canada), ensuring that all policy levers and available resources are able to complement and support outcomes across the social and affordable housing sector.
- This national strategic framework would inform state strategies, delivery targets and performance measures, including guidance for developing 'credible' housing strategies (Parliament of Australia 2017).
- The continuum of housing need is an important basis for ensuring that housing supply strategies aim to deliver a variety of dwelling types and tenures across the continuum; interventions cannot be focused on one aspect of affordable housing. Interventions will depend on market conditions and the availability of other government subsidies, incentives or investment, including land or infrastructure, alongside prevailing policy priorities.
- Requirements at state and/or federal levels for annual data collection, monitoring and review of outcomes should refer to targets within this continuum which in turn should inform funding, program development, and planning processes. Lessons can be learnt from the

WA strategy which adopted an approach delivering interventions right across the continuum.

- Local housing strategies should be underpinned by a strong evidence-base on local housing need and market capacity, including locally specific targets for affordable housing as part of wider housing supply programs. State planning legislation should enable greater use of inclusionary planning levers, supported by a robust local evidence-base, in response to local market conditions and housing needs. Consideration must be given to site-specific circumstances when negotiating contributions.

### ***Integrating government policies, levers, financing and resources for affordable housing supply***

- The intersection of complementary government policies, levers, and resources to support affordable housing outcomes across the spectrum of needs is as critical as the design of any single program or initiative. As this Inquiry has reiterated, it is through the layering of diverse policy and subsidy levers that affordable housing projects become viable. For instance, Australian Government funding through the former SHI and NRAS helped secure innovative joint venture projects which in turn gained support from inclusionary housing provisions in SA and in NSW. Later, inclusionary planning schemes for affordable home ownership in SA were also supported by assistance with marketing, sales, as well as government finance for eligible purchasers.
- It is critical to develop a substantially larger and consistently regulated NFP sector with the scale and capacity to propel growth, maintain/ensure continuity of development (a pipeline) and adjust their portfolios to changing needs and opportunities. These are community-focused; social purpose organisations that will strive to preserve affordable housing for the long term and help to integrate services at a local level. Enterprising third sector models have proven capacity to innovate and to catalyse and capture socially-oriented investment. The allocation of \$1.5 million within the 2017–18 Australian Government Budget for strengthening CHP business and financial capability represents national acknowledgement of the need for institutional support for the sector.
- Overall, secure and long-term finance is essential to enable the affordable housing strategy to achieve the growth needed to address the scale of Australia's unmet housing need and provide wider benefits to the housing system (such as an industry sector able to operate counter cyclically). The impending National Housing Finance and Investment Corporation (NHFIC), which will source lower cost and longer-term finance for registered providers of affordable housing will be important for scaling up the sector. However, government subsidy will still be needed to deliver low-income rental housing (AHWG 2017: 2).

### ***Delivering affordable housing supply***

- The scale and mix of public investment in affordable housing must be determined by the level and profile of local housing needs, not left to fragmented and chance development opportunities. This requires that affordable housing strategies should be underpinned by effective and regular assessments of housing need requirements.
- Successful affordable housing supply strategies are able to take advantage of weak housing market conditions, securing good deals with developers and builders to maximise public investment. In WA, early success in counter cyclical affordable housing supply initiatives have led to further innovative joint ventures with the private sector and created the basis for an ongoing program of private sector collaboration.
- Government needs to ensure the conditions are in place within relevant agencies to respond to changing market conditions and work with the private and NFP sectors to

identify, and then deliver, affordable housing opportunities, particularly during housing market downturns when there is the greatest potential to maximise outcomes.

- There is scope to increase the use of mandatory inclusionary planning mechanisms in high growth residential areas of metropolitan and potentially regional Australia. These mechanisms should be targeted to local market conditions and designed to work in conjunction with planning incentives that support and encourage overall housing supply.
- Land costs appear to make the greatest impact on overall feasibility for individual affordable housing projects—which has implications for the use of public land and discounted private land (via inclusionary planning approaches) as a key component of affordable housing production.
- Discounted land, joint ventures and delayed purchase all reduce the costs and risks of development enabling the private sector to deliver affordable housing while still maintaining a level of return commensurate with the development risk.
- Public land acquisition outside market competition lowers the risks associated with scheme viability and therefore also supports a more secure and affordable development outcome.
- Government retention of land ownership through an equity input can both support the achievement of affordable housing and enhance the value of that equity to government through the improved land value that the development creates.

### **3.2 Final words: national action on affordable housing supply**

This Inquiry Program is concluding during a period of national level reform that is intended to improve outcomes across the housing market. The findings of this Inquiry show that improved housing outcomes will depend on strong political leadership at all levels of government, and the development of unifying strategic frameworks able to integrate the various policies, levels and resources which directly and indirectly influence housing demand and supply. Within this wider framework, increased and tailored funding to support the affordable housing sector in delivering affordable housing for vulnerable households and low-income workers, must be prioritised.

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### **Australian Housing and Urban Research Institute**

Level 1

114 Flinders Street

Melbourne Victoria 3000

**T** +61 3 9660 2300

**E** [information@ahuri.edu.au](mailto:information@ahuri.edu.au)

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