



EXECUTIVE SUMMARY

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

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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.

Inquiry panel members

Each AHURI Inquiry is supported by a panel of experts drawn from the research, policy and practice communities.

The Inquiry Panel are to provide guidance on ways to maximize the policy relevance of the research and draw together the research findings to address the key policy implications of the research. Panel members for this Inquiry:

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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 |

Executive summary

Key points

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.
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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.

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AHURI's mission is to deliver high quality research that influences policy development and practice change to improve the housing and urban environments of all Australians.

Using high quality, independent evidence and through active, managed engagement, AHURI works to inform the policies and practices of governments and the housing and urban development industries, and stimulate debate in the broader Australian community.

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

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