

Innovative strategies for affordable housing supply



Based on AHURI Final Report No. 300:

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

What this research is about

This Inquiry examined how governments have sought to increase the supply of affordable housing across the continuum of housing needs (i.e. from social housing to affordable rental and home ownership), and the implications for transferring policy and practice to different jurisdictions and market contexts.

The context of this research

With an estimated deficit of over 200,000 affordable dwellings across Australia and mounting barriers to first home ownership, there is need for significant reform and innovation across governance, policy and financial parameters to increase the supply of affordable housing.

The key findings

Government support

Federal Government funding has proved critical in delivering affordable housing at scale. Although not ongoing, national funding schemes such as social housing delivered as part of the Nation Building initiative and affordable rental housing delivered under the National Rental Affordability Scheme (NRAS) 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 WA and the 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 innovative and comprehensive in supporting affordable housing outcomes across the continuum implementing measures such as shared equity schemes, low deposit home loans and mixed tenure development delivered in partnership with the private sector as part of their housing strategies.

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.

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Planning system approaches

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. 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 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.

Policy and financial levers

The current fragmented patchwork of subsidy streams drives an opportunistic approach to affordable housing development. Projects that get built often rely on one-off funding arrangements which are largely non-replicable, rather than as part of 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 which 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 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 not-for-profit housing provision will offer financial benefits for the sector, supporting the long-term delivery of affordable housing supply.

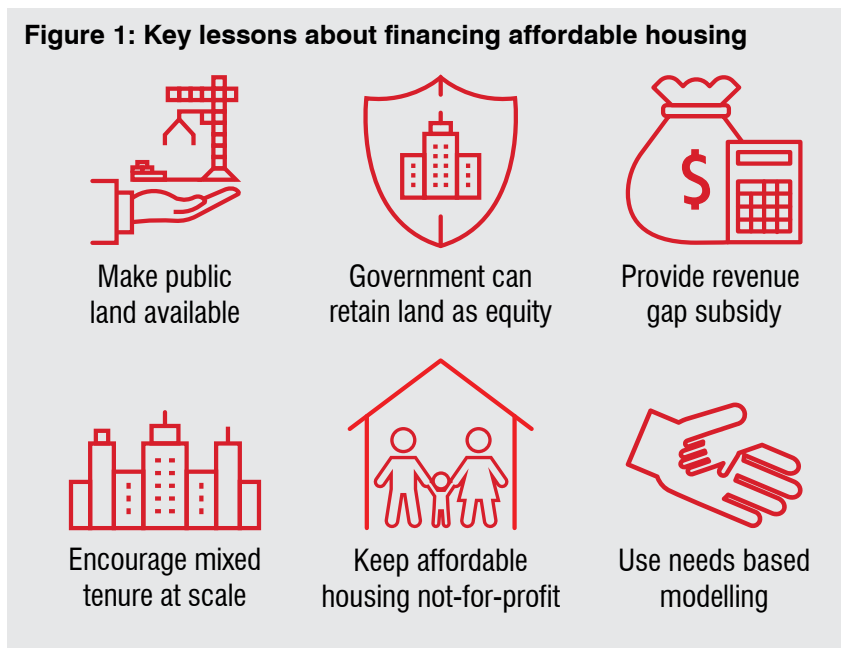
Table 1: Inclusionary planning approaches—SA and NSW

State	Key Mechanism	Outcomes
SA—State targets for affordable housing inclusion (15 per cent affordable housing in new residential areas)	<ul style="list-style-type: none"> — Inclusionary zoning overlay for new residential areas and government land — Planning incentives and concessions for voluntary inclusion 	Delivery of 17 per cent affordable housing across new housing developments in SA (5,485 dwellings completed/committed 2005–2015)
NSW—Voluntary incentive mechanisms for affordable housing inclusion	<ul style="list-style-type: none"> — Voluntary negotiated agreements — Density bonuses — Planning concessions for diverse, lower cost housing — Limited inclusionary zoning in designated parts of Sydney 	Estimated 0.5–1% of Sydney's housing supply between 2009–2017 delivered as affordable rental dwellings across voluntary negotiated agreements, density bonuses and planning concessions

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

Source: Gurran, Gilbert et al. 2018

Figure 1: Key lessons about financing affordable housing



Integrated, complementary policy and subsidy levers make affordable housing projects viable. For instance, Commonwealth 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.

What this research means for policy makers

National housing strategy

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 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.

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.

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Data monitoring

Annual data collection by states/territories and the Commonwealth for monitoring and review of outcomes should refer to national housing strategy targets, and in turn should inform funding, program development and planning processes.

Community housing sector

It is critical to develop a substantially larger and consistently regulated not-for-profit sector with the scale and

capacity to propel growth; maintain and ensure continuity of development; and adjust developmental portfolios to changing needs and opportunities. These are community focussed, social purpose organisations that will strive to preserve affordable housing for the long term and help to integrate services at a local level.

Secure long-term finance

Secure and long term debt finance is essential to enable an affordable housing strategy to achieve the growth needed and to 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 (NHFC), 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.

Counter-cyclical investment

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.

Government land and planning schemes

There is scope to increase the use of mandatory inclusionary planning mechanisms in high growth residential areas of metropolitan and potentially regional Australia.

Land costs and the ability to access land 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.

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Government responsibilities

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, with specific strategies developed and implemented by state and local governments to respond to particular housing needs and market contexts; 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.

Role of planning professionals

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, in designing viable strategies for

accommodating population growth which include and support affordable housing as part of wider supply.

Methodology

Through three interlinked research projects, this research collected 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. It included interviews with key informants; considered published and unpublished data on housing unit delivery outcomes; and used modelling to examine how given policy scenarios might perform in different market contexts.

Further information

TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

Gurran, 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, Melbourne.

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