



EXECUTIVE SUMMARY

Supporting affordable housing supply: inclusionary planning in new and renewing communities

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

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

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Inquiry panel members

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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:

Janet Chappell	Urban Growth NSW
Caryn Kakas	Department of Family and Community Services, NSW Government
Scott Langford	SGCH Group
Paul McBride	Department of Social Services, Australian Government
Marion Thompson	Departments of Planning and Housing, WA Government
David Tow	Urban Growth NSW
Julian Wright	Housing Authority, WA Government
James Yuen	Office of Land and Housing Supply, WA Government

Executive summary

Key points

- This study examined how land use planning mechanisms can support affordable housing inclusion within new and renewing communities.
 - It found that 'inclusionary planning' tools leverage significant quantities of affordable housing supply in many parts of the UK and US. For instance, 12,866 affordable housing units (43% of total affordable housing output) were delivered through inclusionary planning requirements in England between 2015–16. About 12 per cent of annual housing completions in San Francisco are affordable dwellings produced through inclusionary zoning or impact fee requirements. Similar schemes apply to more than 500 cities across the United States.
 - In comparison to this international practice, inclusionary planning for affordable housing is not as widespread in Australia. However, South Australia delivered 5,485 affordable homes between 2005–15 through an inclusionary planning target applying to new residential areas. This amounts to around 17 per cent of total housing supply in that state.
 - In NSW, a planning incentive scheme introduced in 2009 has yielded around 2,000 affordable rental dwellings in Sydney, equivalent to about 1 per cent of the city's total supply.
 - Across all jurisdictions examined, planning system tools can support affordable housing supply, but additional funding or subsidy is usually required to produce homes affordable to those on low and very low-incomes.
 - Planning system tools for affordable housing supply work best when part of a wider whole-of-government strategy to address the continuum of housing needs.
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Key findings

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

Examining outcomes in NSW and South Australia

This study examined two of the longest standing approaches in the Australian context: South Australia's 15 per cent inclusionary target (introduced in 2005); and the voluntary incentives that apply in NSW, the most notable of which is a density bonus for infill affordable rental housing (introduced in 2009). It found that:

- Around 17 per cent of total dwelling approvals within major new residential development areas of SA (2005–15) have been dedicated affordable homes. Of these, a mix of different housing types across the continuum of housing needs and options have been delivered, including social and affordable rental housing and low-cost home ownership. Around 3,685

or 63 per cent of the total 5,485 affordable homes/sites delivered to date have been on government land, and/or supported by other government incentive or subsidy (e.g. the former NRAS scheme).

- In NSW, despite much greater population growth and housing affordability pressures, voluntary planning incentives have delivered a much smaller proportion of affordable homes (between 0.5–1% of Sydney's housing supply 2009–17). In relation to the continuum of housing needs, only affordable rental accommodation is able to be delivered under this mechanism, and the dwellings are only required to remain 'affordable' (offered at up to 80% of market rent) for 10 years.
- The NSW planning system includes provisions to enable low-cost market housing—particularly accessory dwellings (granny flats) and boarding houses in residential areas, irrespective of local planning controls. These provisions have seen significant take up (over 13,000 dwellings and rooms since 2009), equating to nearly 5 per cent of total housing output in the Sydney metropolitan region. This housing is not subject to access or affordability requirements by government nor is there any analysis of the appropriateness of these housing types for particular target groups.
- When compared to international practice, both the South Australian and NSW schemes seem modest. In England and Scotland, the general expectation is for 20–40 per cent of new housing developments to be affordable housing across the continuum of needs and options (with volume and mix determined in relation to housing need and market context). These affordable housing requirements have been supported by funding or financial incentives for affordable housing development. In the United States, more than 500 cities have inclusionary planning schemes in place, and additional incentives and financial subsidies are available for affordable housing development.

Policy development options

- There is potential to extend inclusionary planning approaches across Australia. Affordable housing inclusion can be mandated when land is rezoned for residential development, when planning rules are varied for particular projects, or following significant infrastructure investment.
- Voluntary planning incentives can encourage affordable housing inclusion as part of incremental residential development within the existing planning and development control framework. Incentives can also provide more flexible options to support delivery of mandatory affordable housing requirements. When planning rules are varied to allow for development of lower cost housing forms (e.g. boarding houses), an affordable housing requirement ensures that benefits are passed on and homes are affordable to target groups.
- Greater planning certainty could be provided for affordable housing developments which meet defined local planning rules.

Defining the affordable housing requirement

- Inclusionary requirements can be set to support varying proportions of affordable housing as part of mixed developments, depending on the availability of other subsidy, the target group, and the market context. The objective of the inclusionary requirement is to help address the (locally defined) 'affordability gap', which is the difference between the market value of appropriate dwellings, and the affordable price/rent threshold for the target household.
- By securing access to land at 'pre-zoned' values, or by generating 'free' land (through increased development potential), planning system mechanisms should reduce the subsidy

required to meet the difference between affordable housing **production costs** and the **affordable price/rent**.

- In lower value markets, the 'affordability gap' will be lower, because of lower land values. However, in higher value markets, once the **land component** of the cost of producing the affordable housing unit is controlled, the higher affordability gap will also be reduced by the implicit 'planning subsidy'. For the developer, the cost of foregone profits should be passed 'back' to land sellers in the form of a lower land price, thus not affecting the overall viability of the scheme.
- The 'affordability gap', and the subsidy requirements to meet this gap, will differ depending on the target group and the local housing market. For moderate income groups, an implicit planning subsidy might be the only intervention required to secure an affordable outcome because moderate income groups are able to meet the construction and related costs associated with producing their home. But for low and very low-income groups, inclusionary planning can ensure access to well-located land and help reduce the overall costs (including other subsidy) of social and affordable rental housing provision.

The study

This study examined recent Australian and international practice in planning for affordable housing within new and renewing communities. It was informed by the larger conceptual framework for the *Inquiry Panel: Increasing affordable housing supply: evidence-based principles and strategies for Australian policy and practice*, and the housing evaluation research approach (Milligan, Phibbs et al. 2007). Within this framework, mixed methods for data collection and analysis were applied, focusing in particular on inclusionary planning schemes used in South Australia and in NSW, but with reference to the long history of inclusionary planning approaches in the UK and US.

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 19 face-to-face or telephone interviews were held with state and local planning officers, affordable housing developers, and urban planning consultants in Australia and four planners in the San Francisco Bay area, between May 2016 and April 2017.

To compare affordable housing outcomes delivered through the different planning system approaches across case study jurisdictions, we used the 'continuum of housing needs' and models or options to meet these needs (Milligan, Phibbs et al. 2007). This continuum provided a basis for comparing the extent to which specific affordable housing types delivered through planning mechanisms serve the needs of different target groups, from very low-income groups and those with high support needs through to low and moderate-income earners.

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

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