2014 AV Jennings Churchill Fellowship to investigate the use of inclusionary zoning requirements to support the delivery of affordable housing

October 2015

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Director
Affordable Development Outcomes

International approaches to facilitating affordable housing outcomes and their application to Victoria, Australia.
THE WINSTON CHURCHILL MEMORIAL TRUST OF AUSTRALIA

Report by - KATE BREEN - 2014 Churchill Fellow

THE AV JENNINGS CHURCHILL FELLOWSHIP to investigate the use of inclusionary zoning requirements to support the delivery of affordable housing

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Cover photo: 30% affordable housing to be delivered on 250 City Rd, Islington, London, by the Berkeley Group

Left: 6-storey timber frame development, ‘Cambria’ by Mosaic, Vancouver

Opposite page: Advertising for a development proposal, Toronto
Executive Summary

Meeting the demand for a diversity of housing choice, and ensuring there is adequate supply of specifically targeted affordable housing options for lower income households is a major challenge in Australia and in other developed cities.

In 2011-12, almost one-quarter of lower income Australian households spent more than 30 per cent of their gross income on housing costs, and one-quarter of these households spent more than 50 per cent.\footnote{Similar patterns are observed overseas, where a lack of affordable housing options is considered by many to be at a crisis point.} The impacts of a lack of affordable housing options include; lost productivity and wages; issues with workforce attraction and retention; poor health and wellbeing; and a reduction in social connectivity and cohesion. Facilitating an increase in housing supply and delivering specific affordable housing outcomes needs to be a major priority if we want cities to optimally function, economically, socially and environmentally.

In London, New York, Washington D.C, Montgomery County, Toronto and Vancouver mandatory and voluntary land-use policies that require developers to deliver a percentage of affordable housing within their market development, commonly referred to as ‘inclusionary zoning’, and policies that require developers to provide a financial contribution towards affordable housing, are generally accepted. Governments, communities and the private and not-for-profit sectors acknowledge that these approaches are an important means of supporting a more sustainable community.

A range of inclusionary housing policies are also in place in these cities, that are both supporting improved housing supply, as well as integrated affordable housing outcomes, potentially at a greater scale and impact than specific inclusionary zoning requirements. Inclusionary housing and zoning policies have not solved the affordability crisis in these cities, however they are important tools in supporting greater housing supply and affordable housing choice.

In Victoria, Australia there are very few policies and programs in place to adequately respond to the growing affordability crisis facing cities and communities. If Victoria is to achieve the objectives of planning to support sustainable development outcomes, support individuals and communities to access social and economic opportunities, and support the private sector to deliver sustainable and affordable communities, a wide range of inclusionary housing programs are urgently needed, including but not limited to specific inclusionary zoning requirements.

Drawing on the experience and ideas of the cities I visited, I recommend:

1. A community-driven ‘Priority Development and Infrastructure Program’ linking infrastructure investment to new housing supply.
2. A policy structure for implementing inclusionary zoning requirements on surplus government owned land in Victoria.
3. Scenarios where inclusionary zoning requirements could be placed on privately owned land in Victoria.
4. A greater diversity of affordable housing programs to facilitate housing choice and inclusive communities, whilst also supporting development viability.

I look forward to sharing my learnings and contributing to the delivery of greater affordable housing choice.

Kate Breen, Director, Affordable Development Outcomes, 14 October 2015
International approaches to facilitating affordable housing outcomes

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Introduction

The Churchill Trust (chaired at the time by the now Governor of Victoria, the Honourable Linda Dessau AM) is to be commended for recognising the importance inclusionary zoning policies could have for the sustainable development of Australian cities and communities. Their recognition, in their support of this Fellowship, reflects a broader community concern with the growing affordability challenge facing Australian cities and a desire for more inclusive and equitable development outcomes. The awarding of the Fellowship was also followed by an announcement by the Labour Government of Victoria to pilot affordable housing requirements on surplus government land sales. This is a positive step in line with international practice.

Whilst the Fellowship focused on inclusionary zoning approaches, it was impossible to ignore wider housing supply issues and to consider other policies that are delivering inclusionary housing outcomes and choice. Each city visited – London, New York, Washington D.C and surrounds, Toronto and Vancouver – are all facing significant, and similar challenges to Australia in increasing housing supply and supporting greater provision of affordable housing, particularly in existing urban areas. Whilst the context may vary, the degree to which governments, communities and the private sector in these cities have all recognised the important economic and social implications a lack of affordable housing has, and the need for action was impressive. Inclusionary housing and inclusionary zoning approaches were an important mechanism in their response to their respective housing challenges.

I hope that this analysis contributes to the debate in Australia and provides learnings that support the Victorian Government in its development and delivery of a sound and robust inclusionary housing approach in Victoria. International experience demonstrates that the implementation of inclusionary housing and inclusionary zoning approaches can lead to greater housing choice, affordable housing outcomes and economic and social benefits for individuals and communities.

“Affordable housing is part of the bedrock of what makes New York City work. It’s what underpins the economically diverse neighbourhoods New Yorkers want to live in. It’s critical to providing financial stability for working families, helping them get ahead and build a better life.” Mayor of New York, Bill de Blasio (Housing New York, A Five-Borough, Ten-Year Plan)

Fellowship objectives

The objectives of the Fellowship were to gain a detailed understanding of:

- How, internationally, inclusionary zoning requirements to deliver affordable housing work in practice (best practice, key learnings, & reforms);
- Whether critiques of inclusionary zoning raised in Australia are evident in practice;
- The key elements that private developers require to be in place in order to successfully deliver inclusionary zoning requirements; and
- How international inclusionary policies could be adapted to the Victorian and Australian planning and development contexts.

Fellowship program

The seven and a half week Fellowship program was spent in London, Manchester, New York City, Toronto and Vancouver.

Meetings were held with over 50 people, including developers, government officials, Members of Parliament, planning consultants, academics and executives of leading research bodies. At the Chartered Institute of Housing Conference in Manchester conversations were had with a number of for-profit and not-for-profit development and housing professionals.

A list of meetings is provided at Appendix 1.

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<tr>
<td>London &amp; Cambridge, UK</td>
<td>8 – 18 June 2015</td>
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<td>Manchester, UK</td>
<td>22 – 25 June 2015</td>
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<td>New York, USA</td>
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Information dissemination
To date the Fellowship learnings have been shared with officers from the Victorian Minister for Planning’s Office; the Department of Environment, Land, Water and Planning; the Metropolitan Planning Authority; Places Victoria; the Department of Health and Human Services, and members of the Victorian Greens Party. Presentations are scheduled for a forum in Brisbane organised by the National Affordable Housing Consortium, and at the Australian National Housing Conference in Perth in October. Further dissemination will occur through presentations to industry bodies, local councils, journal articles and through practical application in my work. Additional opportunities to discuss the findings are welcome.

Report structure
The Report is structured as follows:

- **Part A:** Sets out the affordable housing challenge and some of the impacts of a lack of supply;
- **Part B:** Outlines options for the Victorian Government to deliver an increase in housing supply and affordable housing choice, and sets out a specific proposal for a *Priority Development and Infrastructure Program*;
- **Part C:** Examines international inclusionary zoning approaches, sets out a basis for an approach in Victoria, examines policy questions and recommends policy parameters for inclusionary zoning systems on surplus government land and in certain private development situations;
- **Part D:** Highlights a range of other initiatives supporting affordable housing supply internationally.

Key terms
**Affordable housing** – defined as any housing response (rental or home-ownership) that is specifically made available to lower-income households (households in the bottom 40% of income distribution) at an affordable price point, defined as less than 30% of gross household income. *Further information is provided at Appendix 2.*

**Inclusionary housing** – policies that support the delivery of affordable housing within a community or development with a goal of supporting greater inclusiveness through integrated developments.

**Inclusionary zoning** – specific land-use policy requirements in this instance to deliver affordable housing outcomes as a condition of development. May be mandatory or voluntary.

Above: Advertising for a development application, Toronto. The words ‘housing for the poor!’ have been graffitied in the top left corner. In Toronto the developer is likely to have to make a community amenity contribution under a Section 37 Agreement, which may or may not go towards affordable housing.
Key findings

Housing supply and affordability is a significant challenge facing many global developed cities. It is clear, as many people stated, if we don’t increase overall housing supply, then policies such as inclusionary zoning are only ever going to restrict an already small number of housing outcomes.

Internationally a broader range of inclusionary housing policies are in place that aim to improve housing supply as well as integrate affordable housing outcomes. Policies such as 421-a property tax abatement in New York City (p.12) and Low-Income Housing Tax Credit Program in the US may be more effective, and less controversial than site-specific inclusionary zoning requirements and can achieve the same mixed-tenure/income outcomes.

There is clearly no single formula for structuring an inclusionary zoning system that could easily be replicable, but there are a number of policy requirements that can influence success. Key learnings concerning the structure of inclusionary zoning policies are set out on page 20. All of the programs that were examined were, at least historically, dependant on government subsidies, tax incentives and/or planning and development incentives, often in combination to support the affordable housing component. Having clear eligibility requirements and putting in place measures in place to secure these outcomes was also critical.

It is clear inclusionary zoning approaches are an important means of ensuring that urban development processes also supports wider social and economic outcomes. Victoria needs a greater range of measures to increase both housing supply and to provide specific affordable housing outcomes for lower income households. The Report makes recommendations for a ‘Priority Development and Infrastructure Program’ as one means of doing this, whilst also making specific recommendations for implementing inclusionary zoning requirements on government owned and private land.

Acknowledgements

This Report is only possible because of the generous support of The Winston Churchill Memorial Trust and Australian residential developer and Fellowship sponsor, AV Jennings. I am immensely grateful to both for providing me with this amazing, once-in-a-lifetime experience.

The findings are only possible because so many people made their time available, shared their views, introduced new contacts and expanded my thinking and views. I was inspired by the passion so many people have for supporting affordable housing outcomes.

I could not have travelled and had so much fun without my partner in travel and life, Michael, who supports and encourages me to achieve my goals, and who undertook a global tour of children’s playgrounds and museums with our son whilst I worked. To my son, Jarrah, thanks for being a great travel buddy and keeping me on my toes.

Thank you also to Olwyn Redshaw for providing valuable feedback on the draft report.
PART A: The affordable housing challenge

"There are few issues more important to ensuring the welfare of Australians than housing. Housing provides the stability and certainty needed for individuals and families to deal with the many challenges they face ..."

The Hon Scott Morrison MP, Minister for Social Services, now Treasurer

Source: Sydney Morning Herald, 22/07/2015

Melbourne and Victoria, Australia:

- **1.6 million** - Estimated new houses required in Melbourne by 2051 to accommodate population growth.²

- **$550,000** - Median house sale price across metropolitan Melbourne; **$460,000** for all of Victoria including Melbourne (2014).³

- **$89,000** - Estimated gross household income required to service a loan of $400,000 at 30% of income.⁴

- **$54,953** - Average Total Earnings for all Persons, Victoria (Nov 2014).⁵

- **34,464** – Number of households on the public housing waiting list (June 2015).⁶

- **267,298** - Estimated number of low-income renter households in Victoria (2011-2012).⁷

- **44.5%** - Proportion of low-income renter households in Victoria paying more than 30 per cent of gross household income on rent (2011-2012).⁸

- **2.9%** - Private rental vacancy rate, Metropolitan Melbourne (June 2015).⁹

Internationally:

It is evident that the lack of affordable housing is an issue not just in Australia, but across the globe. Based on an analysis of 2,400 cities, McKinsey Global Institute has estimated that the affordability gap globally could be $650 billion per year, approaching 1% of global GDP.¹⁰ The lack of affordable housing is considered to be at “crisis” point in many cities:

- In **New York** nearly half of all residents are paying more than 30 per cent of their income on rent.¹¹

  "We have a crisis of affordability on our hands. It touches everyone from the bottom of the economic ladder, all the way up to the middle class" Mayor of New York, Bill de Blasio, 5 May 2014.¹²

- In **London** “80 per cent of the new build sales market is affordable to only 20 per cent of working households, and the average first time buyer is now in the top 20 per cent of London’s household income distribution.”¹³

- In **Vancouver** the rental housing vacancy rates was only 1.4 per cent in April 2015¹⁴ and it is estimated that by 2025, the household income required to maintain the average mortgage will be $125,692 - “Economically vital occupations such as industrial electricians, civil engineers, construction managers, police officers, firefighters and general practitioners will not meet this threshold.”¹⁵

- In **Toronto** 47 per cent of renters pay more than 30 per cent of their income on rent.¹⁶

- In **Washington D.C** in 2010 it was estimated 63 per cent of households earning 30 per cent of the Area Median Income or below spent more than half of their income on housing.¹⁷
Many of the challenges facing Australia in the delivery of housing are also faced overseas. Common issues include limited land supply within established urban boundaries; high cost of land and construction, particularly for high-rise development; land contamination; community opposition to densification and affordable housing; and access to financing and difficulties attracting institutional investment.

In some cities the lack of new supply combined with the loss of existing rental housing has led to governments instigating policies and subsidy arrangements to protect existing and support the delivery of new market rental housing (with some rent setting controls).

**Affordable housing options in Victoria**

**Public or social rental**
In Victoria very limited number of affordable housing opportunities (primarily public or social housing) are available to very low and low-income earners. These households can earn no more than $528 (single person) and $1,015 (1-2 adults, 3 children) a week to be eligible, although this doesn’t guarantee access. As at June 2015 there were 34,464 people on the public housing waiting list, making access to this system nearly impossible. This is a housing ‘choice’ of last resort. For the majority of low income households the only housing option is private rental.

**Affordable rental**
Approximately 24 per cent of Victorians are renting in the private rental market. There are limited controls on rent setting in the private market, with rents driven by supply and demand, and only short term tenure security. The vacancy rate in metropolitan Melbourne was 2.9 per cent in July 2015. Even when there is private rental stock that is affordable for lower income households, this stock is not necessarily available to them to rent as they have to compete with higher income renters and may face other challenges disadvantaging them in the private market.

**Affordable home ownership**
Victoria has no affordable home purchase or shared-equity options in place for lower or moderate income households who cannot afford market prices. The median house price in metropolitan Melbourne in 2014 was $550,000. It is estimated a household would need to earn $89,000 pa to service a loan of $400,000 assuming they could meet deposit and transaction costs. Home ownership is out of reach for many moderate income earners in Victoria.

**Lower income households have very limited choice when it comes to finding appropriate and affordable housing in Melbourne and Victoria. The affordable housing system in Victoria is essentially a housing ‘option’ of last resort for the most disadvantaged and lowest income households.**

---

**Then...**

**and now...**

**L:** 1944, construction of the first Housing Commission development begins at Fishermans Bend, Melbourne (Source: Department of Human Services 2014)

**R:** In 2013 the former Liberal State Government rezones Fishermans Bend allowing significant density increases. No affordable housing requirements or funding for affordable housing are put in place. (Source: The Age, 2/11/2014)
Impact

The impact of a lack of affordable housing options on a city include:

- Lost productivity and wages due to the lack of affordable housing in major metropolitan areas. Estimated to cost the US economy $1.4 trillion each year based on major metropolitan cities alone.24

- Issues attracting and retaining a suitable workforce. For example there is evidence of increasing numbers of 30 – 40 year olds leaving Vancouver as they are unable to afford housing, particularly for families.25

“Metro Vancouver’s future growth is dependent on the availability of high-quality labour, which is now threatened by the rapid increase in the cost of living, driven primarily by unaffordable housing”26

- Loss of community connections as households have to move to other locations, often long distances away due to rising rents and costs particularly associated with gentrification. The “most vulnerable households being displaced in Melbourne and Sydney are working age private renters, either in lower status occupations or not in the labour force.”27

- Poor health and wellbeing outcomes as households are forced to choose between housing costs and other essentials such as food, and experience emotional and physical stress due to rising housing costs and threats of rent increases. A UK Shelter study found over a quarter of all people (28% / 13.1 million) have reduced the amount they spend on food to help pay their housing costs.28

The lack of diverse housing supply and specific affordable housing responses also results in limited and constrained market choice for consumers.

It is lower income households who don’t have the financial resources to fully participate in the market, particularly in areas that are well serviced by transport, jobs and services, who experience these impacts the most.

“If you don’t have affordable housing then you are not going to have people to support your city”

Gilian MacInnes, Principal Consultant Planning Advisory Service, London

Above: Subway sign, New York

R: Silver Towers, NYC, includes affordable rental housing in exchange for Low-income Housing Tax Credits and a density bonus. Controversy surrounds the separate entrance for the 12-storey discounted market rental building.
PART B – Addressing housing supply and affordability challenges

Options for the Victorian Government

The Victorian Government has a choice on how it supports the delivery of more affordable housing outcomes:

1. The Government could do little or nothing and let the market continue to deliver (insufficient levels of) housing to an ever smaller diminishing cohort of households in an economic position to meet market prices. These households will continue to benefit from government planning decisions and infrastructure investment and a lack of supply that further increases the value of their asset with little or no action on their part.

   This is not considered a viable option.

2. The Government could invest significantly in social and public housing growth. Many would argue this is the ideal, but the reality is it is a very costly and unlikely response. Whilst the need to adequately fund public and social housing, particularly to support the most disadvantaged is not disputed, the current social housing system results in many benefits, but it also brings about many challenges. Whilst significant investment would result in public resources being directed towards housing those on the lowest incomes and those that are most vulnerable, it will likely mean these households are primarily clustered together in single-tenure, low-income housing developments, and (unless prioritised for well-located government land), where land is cheaper, perpetuating stigmatisation and other issues of disadvantage associated with public housing estates.

   This is an economically unviable and socially poor option.

3. The Government could work with other levels of government, the private sector, the not-for-profit sector and the community to support the delivery of both greater housing supply and specific and diverse affordable housing outcomes across all markets. They can do this through inclusionary housing policies such as tax-incentives and they can do this through site-specific inclusionary zoning practice utilising the planning system, and supported by a range of complementary affordable housing schemes and incentives.

   This broader approach is recommended and expected to achieve multiple benefits and an overall improvement in housing affordability and supply as well as specific affordable housing outcomes for targeted households.

Option 3 will require a number of levers, policies and subsidy arrangements to be amended or put in place, but is expected to have the greatest overall impact. The following section discusses how the Victorian Government could progress this option through one mechanism to encourage greater housing supply as well as putting forward a specific case for an inclusionary zoning approach in Victoria.

The development of 70 Charlton, New York City, which will include market units priced from $1.47 m - $11.9 million, will also include 22 permanently affordable rental apartments reserved for households earning no more than 60% of the area’s median income. In exchange the building owners are eligible for a 20-year tax abatement.

Photo credit: Curbed (ny.curbed.com).
Source: NY Times
Opportunity: Supporting an increase in housing supply

“If overall there is a massive undersupply, then targeting affordable housing outcomes is shifting supply but with a community building purpose. You need a policy that is delivering more supply as well as supporting mixed communities”

Lord Taylor of Goss Moor, Matthew Taylor, House of Lords & Chair National Housing Federation, UK

If there is to be a meaningful change in housing affordability mechanisms and policies are urgently required that support a dramatic increase in the delivery of new and diverse housing supply across all markets. To do this there needs to be measures to address a range of supply challenges. A key challenge is how to better engage communities in decisions about growth in order to limit community opposition when specific developments are proposed.

Community advocacy

If, as the research indicates, a lack of affordable housing supply is having a significant impact on people’s lives, we also need more voices in our community to speak up and demand solutions. We also need voices to counter the vocal, and often better educated and resourced community members that are more likely to oppose development, particularly affordable housing development.⁹⁹

One striking difference between Australia and many of the places visited was the level of community advocacy for affordable housing. Whilst ‘NIMBYism’ or local opposition to development and change was very present and a key challenge to overcome for any development of scale, there are also instances of groups that wanted their government to support greater affordable housing supply, deliver 100% affordable housing on public land and stop the sale of public housing assets.

I spent an evening touring affordable housing developments with the Housing Advocacy Team and residents of MANNA, a not-for-profit housing provider specialising in home ownership in the Washington D.C area. I met residents of the MANNA home ownership program who now advocate to for affordable housing provision in their communities as it had made such a huge difference in their lives. At one vacant government owned site we visited we learnt that a local group had been picketing the site demanding 100% affordable housing as part of any sale.

In Vancouver one woman’s tweet #Don'tHave1Million, in reference to the average amount required to purchase a property in Vancouver, attracted thousands of followers and turned into a major campaign attracting political attention.

Such activism is largely unheard of in Australia. Too often developments in Victoria are ending up in the Victorian Civil and Administrative Tribunal (VCAT) due to resident opposition, adding significant time and cost to development processes; only to have proposals found to be in general accordance with planning provisions. The use of vexatious VCAT claims can therefore undermine such projects, even if the Tribunal’s finding supports the project.
Supply initiatives

In many cities a range of measures were in place to drive new housing supply, but that no single measure was the ‘panacea’. Each city was struggling to deliver sufficient supply to meet demand.

Inclusionary housing initiatives that aimed to facilitate greater supply included:

- tax incentives or abatements for new supply (e.g. 421a program in NYC);
- grants and loans to facilitate development (Canadian Mortgage and Finance Corporation);
- infrastructure funding to support housing growth (London);
- leasing of public land for affordable housing development (Vancouver, Washington D.C.);
- planning requirements and supports to preserve existing and support new market rental housing (Vancouver, Toronto); and
- sale of surplus government land (UK, US, Canada).

Built into many of these programs were requirements to include a component of targeted affordable housing as a condition, or restrictions in place in regards to rent setting. Affordable housing was an outcome of these policies but it wasn’t the driver. These ‘inclusionary housing’ approaches resulted in affordable housing integrated within private housing developments without specifically identifying upfront the land those outcomes would be delivered on.

Rather than requiring affordable housing on specific sites and getting caught up in individual development proposal application processes, an alternative is for affordable housing outcomes to be delivered within developments as part of a broader inclusionary housing approach. These approaches also appear to achieve greater levels of community support for affordable housing more generally. A number of factors appear to contribute to this including:

- a greater range of affordable housing products and tenures being available, benefiting a greater range of people who then experience how affordable housing helps ‘people like us’ and become advocates; and
- the inclusion of affordable housing within private developments being less controversial than stand-alone affordable housing developments.

Furthermore, as the affordable housing outcome is not linked to planning approval, the community may not actually be aware there will be affordable housing on the site. This may be considered a positive or a negative.

Initiative: New York City 421-a Tax Abatement

“The most important reason anyone builds mixed housing in New York is tax-abatement (421-a). Without 421-a no one can finance rental housing as taxes make up such a disproportionately large part of the operating budget”

Daniel Moritz, Principal, The Arker Companies

- Offers developers and owners of new rental and condominium buildings property tax relief for up to 25 years.
- In ‘Geographical Exclusion Areas’ (GEA) the exemption is only allowed if 20 per cent of the units are on-site affordable housing (affordable at 60 per cent of the area median income if no other government subsidies are used).
- Outside the GEA developers can also receive the exemption for delivering 20 per cent affordable housing but can also receive up to 15 years exemption for full market rate buildings.
- In July 2015 changes to 421-a were approved which will mean all developments that seek 421-a status must include affordable housing, with a choice on the percentage of affordable housing depending on the level of affordability achieved.

http://www1.nyc.gov/site/hpd/developers/tax-incentives-421a.page

“The US Low-income Housing Tax Credit is the single most effective tool and primary driver of new supply in New York City. It has transformed neighbourhoods. It allows a lot more Government control over outcomes and great leverage ability.”

Benjamin Dulchin, Executive Director, Association for Neighbourhood and Housing Development, New York
Whilst at the Chartered Institute of Housing Conference in Manchester a ‘Housing Zone’ initiative in London was outlined that could be adapted and applied in Victoria to address both housing supply and community opposition. Under this initiative the Mayor of London has allocated £400 million to infrastructure provision in local areas that are to be earmarked as Housing Zones that will deliver expedited housing supply and growth. Approximately 30 per cent of this new supply will be targeted affordable housing.

The next section sets out a recommendation on how an approach modelled on the London Housing Zone initiative could be applied in Victoria and Australia to support a dramatic increase in housing supply that empowers communities and delivers infrastructure benefits as part of any housing growth.

**Initiative: London Housing Zones**

- **Objective** is to maximise and accelerate new housing supply in the Greater London Area.
- **£400 million** available from the Greater London Authority and National Government in the form of grants and loans to Boroughs, developers, Housing Associations or other bodies to address development blockages. Planning incentives to also be used.
- **Aim** is to create 20 housing zones across London and build 50,000 new homes by 2025
- Examples of how the funding can be used, such as new train stations, parks, schools, roads; land remediation and site preparation; affordable housing delivery; pre-sale guarantees,
- **Minimum 1,000 new dwellings** to be delivered in each Zone. 30 per cent of the new housing to be designated affordable housing.
- **Half the funding** to be repaid and recycled into new Zones.
- **Gives control** to Local Boroughs to decide to participate. “Bids must contain ‘something-for something’ offer that will unlock development alongside a commitment from the borough and key partners to deliver the Housing Zone, including the financial and other resources the partners can contribute” (Prospectus)

[https://www.london.gov.uk/priorities/housing-land/increasing-housing-supply/housing-zones](https://www.london.gov.uk/priorities/housing-land/increasing-housing-supply/housing-zones)

*L: Pat Lee, Neighbourhood Services Team Leader, L&Q Group at their City Mills redevelopment, London. 51% of the development is affordable purchase and rental under a Section 106 planning agreement.*

*R: Berkeley Homes’ development ‘Goodman’s Fields’, London will achieve 30% affordable housing (75% social rent and 25% intermediary housing) under a Section 106 planning agreement.*
**Initiative: London Housing Bank**

- Funding prospectus released by the Greater London Authority for £200m of loan funding to “accelerate the pace of development and deliver up to 3,000 additional homes”.
- Low cost loans are proposed to support faster housing delivery particularly on large multiple staged sites.
- Homes will be let as ‘intermediate rent’ (20 per cent below market rent) for an agreed length of time (minimum of seven years).
- The funding is to be repaid (including annual interest) and the owner can use or dispose of the property as they wish after the restriction period.
- The second phase, announced on 30 January 2015, will provide funding of £180m to deliver additional shared ownership homes.

https://www.london.gov.uk/priorities/housing-land/increasing-housing-supply/london-housing-bank

**Initiative: Rental 100: Secured Market Rental Housing Policy, Vancouver**

- Aims to encourage the development of projects where 100 per cent of the residential units are rental and are secured for 60 years, or the life of the building.
- Targets moderate income households.
- Incentives include:
  - Development cost levy (DCL) waiver
  - Parking requirement reductions
  - Relaxation of unit size to 320 square feet (approx. 30 m²) (provided the design and location meet the City’s liveability criteria)
  - Additional density beyond what is available under existing zoning (for projects requiring a rezoning)
  - Concurrent processing (for projects requiring a rezoning).

“Affordability will be achieved primarily through tenure, since renting is inherently less expensive than owning. In addition, affordability will be attained through reduced parking, modest size, limited on-site common amenities, level of finishing, and other design considerations.”

http://vancouver.ca/people-programs/creating-new-market-rental-housing.aspx

L: Subway sign advising of tenant rights, NYC.  
R: Bisha Hotel and Residence development, Toronto received a density bonus in exchange for 7 units being reserved for discounted market rental to hotel workers and a cash contribution for other community outcomes under a Section 37 Agreement.
Recommendation: A Priority Development and Infrastructure Program/Zone

Proposal
A new approach that offers local communities the choice to gain improved infrastructure outcomes, on the provision they that there will be an increase in housing supply, including integrated affordable housing outcomes, within a declared area.

A ‘Priority Development and Infrastructure Program’ or zone could:

- facilitate faster and greater housing supply by addressing development challenges;
- provide the community greater decision making power about housing growth and infrastructure delivery;
- deliver affordable housing outcomes as part of any supply;
- facilitate new investment in housing and infrastructure; and
- provide planning and development certainty to reduce development risk.

Rationale
In order to achieve greater housing supply and affordable housing outcomes there are a number of challenges that need to be addressed. A key blockage to the delivery of increased housing supply and affordable housing outcomes is community opposition to densification, which is often due to communities not seeing any benefit in housing growth, rather seeing growth as further pressure on already strained local services, transport etc. There needs to be better ways to engage more people in decisions about growth and housing supply requirements. Can we make growth a positive for communities?

“High quality infrastructure is fundamental for a city to function effectively. Public transport, roads and utilities are all essential for economic growth, and so is high quality and plentiful housing.”


“People want affordable housing, but with a number of caveats”

Alexandra Hanson, Policy Director, New York State Association for Affordable Housing

One of the many benefits the Fellowship provided was the opportunity to experience what it might be like to live in these cities. From an outsider’s perspective the greater housing density in the inner and middle ring suburbs meant more people out in the streets day and night, more retail and greater public transport options, and generally better public spaces and playgrounds. Many people experience similar benefits living or visiting inner city suburbs of Melbourne, but perhaps don’t realise that part of the success of these areas is due to the greater density of people living in close, walkable proximity. The challenge associated with this densification is that these areas are typically gentrifying, and so increasingly unaffordable for lower-income households. Opportunities to grow local neighbourhood commercial and recreational facilities that generate economic and social exchange and other benefits may be one way of engaging communities in discussing housing densification, growth and affordable housing outcomes.

R: Street sign, Bethesda, Montgomery County, USA. A minimum 12.5% affordable housing is required in any new development providing homeownership and rental opportunities for a range of income groups to live in the centre
This proposal draws on the Greater London Authorities new 'Housing Zones' outlined on page 13. The Housing Zone approach is an innovative, bottom-up approach that could positively shift the current reactive based planning approach in Victoria, whilst delivering housing and affordable housing supply and economic growth where it is beneficial.

It is proposed Victoria builds on this initiative, as well as learnings from the Nation Building Economic Stimulus (Social Housing) and the National Rental Affordability Scheme (NRAS) programs that, when operating, incentivised new affordable housing supply. The program will require investment from governments (State and potentially Federal), both into infrastructure, and potentially to subsidise the affordable housing component, but it could seek to recover some of this over time. It will be critical there is appropriate policy and fiscal supports to require and secure the affordable housing contributions. The program may also need to provide financial and planning incentives to the developers, which could then be used as a means to capture/trade-off affordable housing contributions.

A ‘Priority Development and Infrastructure Program’ could package up a range of incentives to address different parts of the development/delivery equation. For instance it could include:

- **Financing supports** - low-cost loans and grants for feasibility work, development and infrastructure; grants to affordable housing providers; incentives such as NRAS or housing bonds that attract private investment; funding for land remediation.

- **Development & planning supports** - planning incentives to fast track supply (e.g. increased density, fast-tracked approval, removal of appeal rights, parking concessions, expert panel assessment); low cost loans or grants for infrastructure early-works, remediation or development of the affordable housing component.

- **Pre-sale risk alleviation** – pre-sale commitments by ensuring affordable housing providers are adequately funded to purchase or targeted home-ownership programs are in place; government investment in community education and messaging regarding affordable housing outcomes.

- **Management and development certainty** – resources to assist affordable housing providers to purchase affordable housing units and put in place long-term property and tenant management supports.

**Delivery process**

**Government**
- establish rules, legal authority, process
- set infrastructure priorities
- establish program and financing for affordable housing take-outs

**Community**
- benefits from affordable housing opportunities
- benefits from infrastructure
- empowered by process

**Local Councils/community**
- decide to participate
- identify sites and partners
- identify infrastructure requirements
- determine trade-offs

**Affordable housing providers**
- contribute financially to affordable housing units
- own and manage affordable housing outcomes

**Government allocation**
- assess proposals against priorities
- enter legal agreements to secure outcomes
- may directly deliver infrastructure
- potential planning role

**Private sector delivery**
- delivers housing growth outcomes
- delivers infrastructure
- potential long term stake
**Affordable housing policy parameters**

The following policy parameters specific to the affordable housing component of the program are proposed:

<table>
<thead>
<tr>
<th>Policy parameter</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application</td>
<td>All new development within a declared ‘Priority Development and Infrastructure Zone’</td>
</tr>
<tr>
<td>Affordable housing outcome</td>
<td>15% affordable housing</td>
</tr>
<tr>
<td>Mandatory or voluntary</td>
<td>Mandatory (as a condition of infrastructure expenditure / zoning)</td>
</tr>
<tr>
<td>Minimum development size</td>
<td>15 dwellings For less than 15 dwellings, cash contribution</td>
</tr>
</tbody>
</table>
| Payment in lieu of delivery       | • Limited to exceptional cases (i.e. very high cost apartments with high Body-Corporate costs, developments under a certain size or non-residential development),  
|                                   | • Payment to go to central housing fund to be used specifically for new affordable housing supply within the Local Council area. |
| Off-site delivery                  | By exception, if:  
|                                   | • the developer owns a developable site within the same Council area that is within 800m of public transport;  
|                                   | • there will be an increase in the number of affordable housing units delivered compared to if delivered on-site;  
|                                   | • the site has planning approval or planning approval is underway. |

There needs to be clear mechanisms to lock in off-site outcomes to avoid developers not delivering on the commitment, potentially financial penalties if delivery is not achieved within the planning approval.

“We need to link investment to property development, for example land use planning to transport investment, if we are going to improve housing supply”

*Jeff Fisher, Vice President and Senior Policy Advisor, Urban Development Institute, Canada*
PART C: Supporting affordable housing provision through ‘inclusionary zoning’ approaches

The following sections provide an overview of inclusionary zoning practice, presents an argument for adopting an inclusionary zoning / housing approach in Victoria, a method for considering different policy questions when developing an inclusionary zoning system, and outlines proposals for how inclusionary zoning policies may be structured on both public land and land in private ownership in Victoria.

What is inclusionary zoning?

Inclusionary zoning is described as specific land-use policy requirements, in this instance to deliver affordable housing outcomes, as a condition of development.

Inclusionary zoning systems vary greatly. Policy differences include:

- mandatory requirements or voluntary;
- ability to contribute cash-in-lieu or deliver the affordable housing off-site;
- allowance for different household targeting and affordability levels; and
- longevity of affordability requirements.

Note: in some cities the term ‘inclusionary zoning’ or inclusionary housing were not used. For instance in the UK, even though affordable housing requirements were essentially a mandatory requirement to receive development approval the requirement was not referred to as ‘inclusionary zoning’. The systems in Toronto and Vancouver also extended beyond inclusionary zoning requirements to affordable housing contributions being part of wider community benefits as outlined below.

Affordable housing as part of a broader development contribution

- The City of Vancouver and City of Toronto include affordable housing as one of a range of community infrastructure outcomes the developer must contribute to when rezoning.
- A cash contribution or on-site delivery is typically negotiated between the City (and in Toronto the local Council member) and the developer. This may include financial or in-kind contributions to parks, community facilities, childcare facilities or affordable housing.
- In 2014 Vancouver directed nearly 50 per cent of all Community Amenity Contributions (CA $111m) to affordable housing.
- A key positive of this approach is that the existing community and the new residents benefit as a result of development.
- Negatives include:
  - the community outcomes are only delivered in existing communities where there is market demand and development is occurring which may already be suburbs with good infrastructure and facilities;
  - the cost to deliver affordable housing outcomes is high and may not be covered by the contribution;
  - the affordable housing may also be delivered in cheaper markets with lower quality existing community infrastructure; and
  - the outcome is often negotiated, opening the process to criticism that it is not-transparent or equally applied.

“Section 37 money tends to make nice areas nicer” Adam Vaughan, Liberal Member of the Canadian House of Common
International systems
The Fellowship provided an opportunity to explore a range of systems and approaches and consider the multitude of policy questions that arise when inclusionary zoning is explored and implemented. Governments have made different choices on where and how to implement their inclusionary zoning systems, and generally recognised that there were trade-offs in any approach.

Regardless of the approach all the people that were spoken to, including major private developers, were supportive of the intent of the inclusionary zoning or housing policy, with issues generally relating to the specific implementation approach.

Context
There are different reasons why governments in the UK, US and Canada have historically supported and continue to support planning requirement approaches to affordable housing delivery and different physical, legal and social contexts in which the systems operate.

Inclusionary zoning policies have arisen out of different circumstances and operate in different contexts. Factors that influence the implementation and structure of systems I examined include:

- A history of land-value capture in the UK in acknowledgement that planning decisions give economic benefits to the land owner whilst requiring the government to deliver local infrastructure and services.
- A complex history of race relations and discrimination in the US and related exclusionary planning practices.
- The legal basis of planning in the US and use of the Courts to challenge requirements that are considered a ‘taking’ if no offsets are provided.
- Geographical constraints (i.e. New York, Vancouver).
- Self-imposed physical development limitations (i.e. London, Washington DC, Vancouver).

Inclusionary zoning approaches included:

- ‘Mandatory’ (negotiated) requirements embedded within the planning system in the UK for any development over 15 units (secured in Section 106 Agreements);
- Voluntary density-bonus program in certain areas of New York;
- Mandatory requirements in Washington DC and Montgomery County, Maryland, with additional density provided to offset the requirement.

“We are supportive of inclusionary zoning at the right formula. For a city to give a developer additional air rights is a gift. The City should be able to agree to give greater density in exchange for a community outcome”

Steven Spinola, President Emeritus, Real Estate Board of New York
International approaches to facilitating affordable housing outcomes

Whilst the context is important, the underlying principles of land-use planning, the wider economic systems and the housing markets are not so far different that they do not offer important lessons for Australia. Specifically in relation to housing affordability challenges we share:

- significant housing supply and affordability challenges;
- increasing desirability of existing inner and middle ring suburbs;
- higher costs for high-rise construction;
- community opposition to development, particularly densification and affordable housing;
- land constraints (both geographical and artificial); and
- disconnect between house prices and income levels.

What was different from Victoria was that these cities had mandatory or voluntary inclusionary zoning requirements in places as part of their tool kit for addressing their affordable housing challenge.

Key Learnings – international inclusionary zoning systems:

Key learnings are that inclusionary zoning policies:

1. Must be legally permissible, physically possible and financially feasible.
2. Can become normalised within the development process over time and endure political cycles.
3. Work best when part of a package, supported by other government policies and investment, incentives and financial supports.
4. Should be underpinned by robust development feasibility analysis that makes an assessment of the gap between market price points and the price that low to moderate income households can afford and how this will be bridged.
5. Should be underpinned by a realistic and achievable non-negotiable affordable housing requirement.
6. Should aim to find a balance between setting prescriptive delivery requirements and providing developer flexibility that may stimulate innovation.
7. Must clearly establish upfront who the housing is targeted to and rent or purchase price setting rules and the process to secure affordability outcomes.
8. Work best in ‘hot’ markets where there is high demand.
9. Are not always taken-up if voluntary, but give the industry choice and sets the foundation, so if the market changes and development interest occurs the opportunity is captured.
10. Is one mechanism that can support the delivery of new, integrated affordable housing outcomes for lower income households, but is not the only policy option.

“It takes a broad tool kit. One policy support is not sufficient, a multi-pronged approach enables different approaches in different markets.”

Robert Hickey, Senior Research Associate, Centre for Housing Policy, Washington D.C
Inclusionary zoning as an opportunity

Depending on how it is implemented, inclusionary zoning could actually be a positive for the development sector and for the wider delivery of affordable housing. “There is a great role for private developers in affordable housing delivery” stated Aaron Koffman, Principal at Hudson, New York City.

Best practice inclusionary zoning requirements can provide developers with:

- upfront clarity on the number and type of dwelling to be delivered;
- guaranteed take-out of a percentage of every development (pre-sales);
- clear processes to deliver the dwelling to the end user;
- a level playing field assuming wide-spread implementation;
- policy and financial supports to offset the cost of delivery; and
- other incentives where necessary, such as planning bonuses that improve project viability and timeframes.

All of which provide development certainly, reducing risks and supporting efficient market delivery.

“We like developing, building, and owning affordable housing assets. Beyond a mission-driven commitment to deliver affordable product, it adds diversity to our portfolio which supports risk diversification”

Hilary Goldfarb, Vice President, Bozzuto Development

“In general the private development industry here is very interested in affordable housing and is able to provide interesting and innovative options on how it could work”

Steve Jedreicich, Vice President, Townline

“Developers love mixed-income housing if it helps with offsetting fixed development costs and increase the absorption rate (sales pace) that reduces the time-cost of money”

Robert Kaufman, Senior Vice President, Maryland Building Industry Association & Adjunct Professor, University of Maryland Colvin Real Estate Institute, School of Architecture

New players, new money

Policies requiring affordable housing within private developments can attract new players and investment. Allowing a degree of flexibility in the policy can encourage innovation, for example, in New York in some instances both the affordable housing requirement and the additional density can be built off-site. As a result there are private developers which specialise in building other developers’ affordable housing requirements in 100 per cent affordable rental buildings within the same local area.

Inclusionary housing initiatives, particularly tax-abatements have also attracted significant money into the system, providing more housing outcomes and more people with an interest in ensuring the various programs’ success.

“Building and managing affordable housing is a business in New York City”

Alexandra Hanson, Policy Director, New York State Association for Affordable Housing
Proposed basis for an inclusionary zoning system for Victoria

I argue there are three key reasons supporting the adoption of an inclusionary zoning approach in Victoria:

1. **Purpose and role of planning**

   A key objective of planning is to support the sustainable development of land (Victorian Planning and Environment Act 1987 Section 1(a)). The government is required to regulate land development in accordance with this objective and should therefore seek to ensure development outcomes avoid negative social, environmental and economic impacts and optimise positive consequences.\(^{30}\)

   **Inclusionary zoning is a legitimate positive land-use intervention to re-address negative consequences arising from planning decisions to achieve positive, sustainable housing outcomes.**

2. **Social and economic benefits**

   There is significant evidence of the social and economic benefits of affordable housing both in Australia and internationally. A key benefit of inclusionary zoning is that affordable housing is integrated within market developments and communities, particularly higher cost or emerging markets where development is occurring. Integrating affordable housing within communities benefits not just the tenant, who gains affordability outcomes and often greater access to services and employment, but has wider economic and social benefits as it impacts more broadly on a city’s productivity and functioning as key workers can be housed, less time is spent commuting and land use is maximised.

   **Inclusionary zoning is an important tool for supporting government objectives for inclusive, sustainable and economically productive communities.**

3. **Role of the private sector**

   As the key providers of housing responses the private sector is largely responsible for delivering new housing choice. The industry likes to highlight its commitment to building sustainable, affordable communities but is not living up to this commitment or their potential to meet demand for both more supply and greater diversity of housing types and costs. This potential and their skills should be tapped into as the basis for a partnership with Government and the not-for-profit sector to deliver greater affordable housing choice and more sustainable communities.

   **In line with the industry’s role to deliver housing choice, affordability and sustainable communities, inclusionary zoning utilises the skills and resources of the private sector to deliver cost-efficient affordable housing outcomes in partnership with government, across all markets.**
Developing an inclusionary zoning system

Determining policy objectives

The starting point for developing any public policy should be establishing the motivations behind the policy and the outcomes the government wants to secure.

Inclusionary housing policies could be driven by social or economic outcomes, or a combination of both:

- **Social** – more affordable housing and greater integration and household mix of this housing within communities (the ‘inclusionary’ goal) supporting other social benefits such as providing lower income households access to services.

- **Economic** – more affordable housing, potentially at a lower cost to government; getting affordable housing where government might not otherwise (high cost areas); utilising private sector skills and resources to deliver efficiencies; capturing private sector contribution in exchange for value uplift in land granted through planning decisions; and providing access to greater economic opportunities for lower-income households.

Inclusionary zoning policies internationally may be driven by different objectives, but they share the purpose of more affordable housing. The degree to which this housing is integrated or included within a building or community varies.

*In making the decision to adopt inclusionary zoning or housing approaches, the government must be clear:*

1. Why it is implementing the policy and what objectives it wants to achieve. Is the objective:
   a. Inclusionary buildings or inclusionary neighbourhoods?
   b. To maximise the number of affordable housing outcomes, or integrate affordable housing across the community, or both?
   c. To support a greater number of people to reduce housing stress, or support only lowest-income households?
   d. To continue only supporting existing social housing outcomes or provide new housing pathways and choice?

2. The level of subsidy it is prepared to invest, recognising that subsidy could go further by targeting more moderate or middle income households, for whom the affordability gap is smaller, or it could assist a smaller number of households in greater need.

3. What financial and planning tools the government has that could lower the cost of housing and/or subsidise the outcomes, and whether the government is prepared to utilise them?

4. That any program is a conscious choice to intervene in the market and there could be unintended consequences. The aim should be to limit these risks.

5. Why the Government believes the private sector has a role and what contribution the government expects them to make.

6. What compromises is government prepared to make to achieve the outcomes. How flexible can the policy be? For example, will off-site delivery or cash-in-lieu be accepted?
Putting the pieces together

“We have no issue with inclusionary zoning. The issue is with how it is implemented.”

Remo Agostino, Vice President Development, Daniels Corporation, Toronto

Drawing on international experience, there are a number of players and processes required in order for Victoria’s inclusionary zoning policy to be successful:

- clear **government** (legal) authority and policy, financing supports, administrative processes, land release delivery mechanisms;
- **private sector** buy-in to deliver and finance outcomes and potentially take a longer term ownership interest;
- **community support**;
- clear and supportive **planning processes**, including planning incentives to support delivery;
- **affordable housing programs** with appropriate levels of recurrent funding and management, which provide clear definitions of eligibility, rent or price setting, and capture of subsidies;
- **legal mechanisms** to require and lock in outcomes;
- **financing** mechanisms to support land purchase and development processes and to finance or subsidise any affordable housing outcomes where required; and
- **capacity** within government to establish and manage the program, the private sector, the NFP sector and labour force to deliver the housing outcomes and the NFP sector to manage affordable housing output.

**Inclusionary zoning policy-making framework**

Examining various inclusionary zoning systems and discussing how the systems worked highlighted that there are a range of policy options that can be considered when developing an inclusionary zoning system.

Questions such as whether to make the program mandatory or voluntary; allow off-site delivery options; cash-in-lieu of delivery; or even allow additional density to be utilised on another site may all be contemplated. It is clear there are benefits and trade-offs in each approach depending on the perspective and outcomes sought.

In order to decide the policy components the government will need to consider:

- What are the policy options?
- What are the key considerations (benefits and trade-offs) of each option that must be taken into account? Particularly the economic and social considerations but also consideration of process and management.
- What information is available on other cities experience and the positives and negatives of their approach? How does this apply to your city’s context?

By working through these questions policy makers can determine the policy parameters that suits their circumstances.

*R: Harmony, Richmond, Vancouver by Townline developers. 5% of the 119 units are secured on-site as low-end market rental housing as a condition of rezoning. A density bonus was provided. The developer has been unable to find a buyer as the NFP housing sector has limited capacity to purchase, even at a discount.*
The following is an example of the range of considerations relating to the question of whether to allow cash-in-lieu of delivery, and how they might translate into recommendations based on international experience.

**Example policy question: financial contribution (‘cash-in-lieu’) or on-site delivery?**

<table>
<thead>
<tr>
<th>Policy Question</th>
<th>Should the government allow financial contributions towards affordable housing in-lieu of on-site delivery, to then be delivered by government and/or the not-for-profit sector, or should it insist the units are delivered by the private sector on-site as part of the development approval?</th>
</tr>
</thead>
</table>

**Considerations**

- Is the outcome government is trying to achieve integrated inclusive housing within a development or greater numbers of affordable housing regardless of integration or location?
- Is the development going to result in high body corporate costs for residents, for example in luxury apartment complexes, which could become a financial burden and reduce the affordability benefits for tenants?
- How will the financial contribution be calculated? Will it be the same in different markets and for different development scenarios? Will it be transparent and equally applied or determined on a case by case basis?
- Are subsidies to support affordable housing delivery required under either option, and is there a difference in subsidies required depending on the approach?
- Are there cost savings in having delivery by private sector instead of government or the not-for-profit sector?
- What time frame will it take to collect sufficient financial contributions to then fund affordable housing delivery elsewhere?
- What level of control does government want on where the housing outcomes are located? On-site delivery is dependent on where the market chooses to deliver (this can be positive as it is likely to be in good locations), but cash allows government to deliver the dwellings in locations it chooses and where it may have other objectives (for example kick-starting an area’s revitalisation).
- Is there suitable land available to deliver the dwellings elsewhere? Can government secure other land or have land holdings that it can deliver on? Are these locations as attractive as the private development sites?
- Will cash contributions in lieu of delivering with government delivering the dwellings elsewhere mean 100% affordable housing developments, potentially in less attractive locations? What are the other potential implications and impacts on tenants?
- Does either option support the delivery of other policy objectives?

**International experience**

Vancouver and Toronto have adopted a broader development levy approach (that goes to other community benefits as well as affordable housing). Developers appeared supportive where the calculation of the levy was clear upfront, easily calculated and equally applied. There was less developer support for negotiated cash contributions on a site-by-site basis, however government officials were more supportive of this approach as they could use evidence of the value-uplift granted through planning to seek greater levels of contributions.

In the City of Richmond, Vancouver there were challenges in developers being able to deliver the 5% affordable housing on site as the not-for-profit sector did not have capacity to purchase. Whilst the system provided up front clarity on requirements it didn’t have adequate financing arrangements in place.

In the UK developers were largely in favour of delivering actual units, subject to there being take-out/sale options, over for instance the Community Infrastructure Levy (CIL), which is a new development contribution approach requiring a specific cash contribution for other community infrastructure. Developers had no control over the CIL infrastructure delivery (time, place, outcome) and it was payable upfront impacting on feasibility. They advised they preferred having greater control over where the affordable housing units went in their development and whilst to a certain degree they would prefer no affordable housing requirement, they were also supportive of the ‘pepper-potting’ outcome of mixed income development.

Montgomery County, Maryland (US) allowed cash-in-lieu of on-site delivery in very exceptional circumstances such as when the development would result in very high body corporate / condo fee charges as their objective is to get integrated housing outcomes.

**Recommendations**

If the government has decided to take a broader approach and believes development contributions should be collected to then fund delivery of a wide range of community benefits, including affordable housing, then a set fee, applied equally to all developments within a prescribed set of circumstances is recommended.

If the driving principle is inclusive communities, ensuring lower income households have access to housing across a city, and delivering those housing options sooner rather than later, then delivery of units on the private development sites, integrated with market housing is recommended. Cash-in-lieu in this instance should be in exceptional circumstances as it would not deliver integrated mixed-income housing.
Recommendation: Implementing inclusionary zoning on surplus Government land

Proposal
Implement as a priority, policies that require and support the delivery of a percentage of affordable housing outcomes on-site as a condition of the sale of surplus Victorian Government land.

Rationale
Public land is a finite asset that should be directed to the provision of public services. Once that land is sold the opportunity is lost. Surplus government land sites in metropolitan areas are often previously community assets such as schools or railway yards and should be treated differently to other revenue raising sources due to the physical, locational opportunities land presents. Adam Vaughan, Liberal Member of the Canadian House of Commons, highlights a further opportunity; “Use housing to solve other problems, not just for the sake of housing”.

The opportunity surplus overment land presents, which is often large scale, is not just to provide new housing options and affordable housing outcomes, but to use that housing as a means of addressing other social, economic and environmental issues.

Internationally the use of government land to support affordable housing delivery is the norm. People demanded not just affordable housing, but in some instances, 100% affordable housing on those assets. In Arlington County (Washington DC), for example the County has adopted a ‘Public Land for Public Good’ policy after over 10,000 residents lobbied for more action to deliver affordable housing outcomes.

Delivery
There are a range of models the Victorian Government could implement when selling land with an affordable housing requirement. It could:

- sell through standard market sale mechanisms (with requirements for affordable housing secured via contract and/or on title);
- sell via a tender process that locks the purchaser into a Development Agreement which will secure affordable housing and other delivery outcomes; or
- tender the opportunity but retain an equity share, through leasing models, or shared-equity arrangements with home-purchasers, which could later be recaptured and recycled into new affordable housing.

“If investing in affordable housing, with public dollars and on limited land, it makes sense to steward that asset responsibly”

Robert Hickey, Senior Research Associate, Centre for Housing Policy, Washington DC

In any scenario the government will require a legal authority and a process to lock in the affordable housing outcomes and clear policy and funding parameters concerning any fiscal or planning supports. Utilising the government land developer to manage the sale on its behalf, and entering a Development Agreement with the purchaser could also be undertaken until legislation is changed to allow affordable housing to be locked in as part of sale contracts and title. Other considerations will be whether the government invests in preparing the land for market, for example demolition or remediation, which will further reduce risk for the private sector but requires upfront capital.
Many people emphasised the importance of feasibility modelling to determine the cost and means of financing the affordable housing outcomes. In some cases, land at nil cost was still not sufficient to support delivery of the affordable housing requirement, depending on the affordable housing program parameters. This is also not a replicable market model. Other incentives may also be needed such as reducing third party appeal rights, greater density than may otherwise have been allowed, reduced parking restrictions, low-cost financing or grants to help meet the costs. Ultimately it may be necessary for other financial contributions to be provided either to the developer or the end user (Housing Association or individual purchaser) to support development feasibility.

**Affordable housing policy parameters**

The policy will require clear affordable housing parameters to be established, as proposed below. It is argued that government land should deliver a higher percentage of affordable housing than private land for the reasons noted above. Part of the development contribution could also be for other community outcomes, therefore government land sites might involve different requirements being set for each parcel of land.

<table>
<thead>
<tr>
<th>Policy parameter</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Application</strong></td>
<td>All surplus government land</td>
</tr>
<tr>
<td><strong>Affordable housing outcome</strong></td>
<td>20 – 30% affordable housing subject to other community outcomes to be delivered. Minimum 20% affordable housing.</td>
</tr>
<tr>
<td><strong>Mandatory or voluntary</strong></td>
<td>Mandatory</td>
</tr>
<tr>
<td><strong>Minimum development size</strong></td>
<td>15 dwellings. Smaller sites once declared surplus should be offered to Housing Associations or other not for profits at a discount, lease or no-cost transfer to provide for affordable housing delivery.</td>
</tr>
</tbody>
</table>
| **Payment in lieu of delivery**   | • Limited to exceptional cases (i.e. very high cost apartments with high Body-Corporate costs).  
• Payment to go to central housing fund to be used specifically for new affordable housing supply. |
| **Off-site delivery**             | Not allowed. The intention of the approach is to deliver mixed income housing outcomes and maximise the use of government land to secure community benefits. |

**Project example: Affordable housing on Government land, Washington DC**

- Since the 2000s surplus government land in Washington D.C has been offered for sale on the condition 20-30% of units will be made available to low to moderate income earners (up to 80 per cent Area Median Income (AMI)).
- The exact percentage of affordable housing and the target AMI to be housed is negotiated on a site-by-site basis.
- Separately, on private land, 8-10 per cent of new developments over 10 units must be set-aside for affordable housing for households earning between 50% – 80 per cent AMI. A density bonus is provided to off-set costs.
- Following the declaration of land as surplus, the city and the developer negotiate and finalise the development agreement which states the community benefits the developer will provide.
- The District reduces the purchase price or long-term lease rate of the land in exchange for agreed community benefits.
- Between 2008-2011, of the fifteen government land dispositions where data is available, close to half were sold for $1 or $10.
- Seven public land dispositions in 2010 were sold at $0 as the value of the benefits or conditions were greater than the purchase price or lease value.
- Projects also received other public subsidies such as Federal Low-Income Housing Tax Credits and tax abatements.

Recommendation: Inclusionary zoning requirements on privately owned land

Proposal
Implement affordable housing requirements on private land in the following circumstances:

1. A voluntary incentive-based option across all designated areas where affordable housing is sought; and/or
2. Mandated in areas where a change in government planning controls is expected to create significant additional land value, or when significant government investment will support value increase.

Government should also consider other inclusionary housing initiatives that achieve affordable housing integrated within private developments without necessarily linking the program to specific land parcels.

Rationale
If Victoria is to achieve meaningful change and addition to affordable housing stock there needs to be a range of measures in place. Delivery on government land will achieve a very small number of new dwellings but it will demonstrate ‘good faith’ regarding government’s intentions and willingness to wear the consequences of its own policy priorities.

The requirements are only likely be adopted or met if there is sufficient incentive or funding support to meet the gap between the cost of delivering the affordable housing unit and the return the unit can generate to the owner. A reduction in land value can partly contribute to this, but it is arguable that the land owners should, or will, bear the full cost at least in the initial implementation stages.

“10 years ago we liked the negotiation. Now fewer and fewer developers feel that this is the case. It has become a very lengthy and costly negotiation process. They would rather know the charge, go in and build.”
Jeff Fisher, Vice President and Senior Policy Advisor, Urban Development Institute, Canada

“It has to be a system where fundamentally the rules are the same, but the rules could allow a ‘shopping list’ where everyone can choose from it on the same basis.”
Remo Agostino, Vice President Development, Daniels Corporation, Toronto

“Fundamentally you have to find terms on which developers will build under your program, rather than pursue other options available to them.”
Howard Slatkin, Deputy Executive Director, NYC Department of City Planning

Delivery
Based on international experience it is recommended the underlying principle guiding the system should be to provide certainty, consistency and transparency, developing policies that are prescriptive to the degree that requirements are clear and equally applied, but offer a level of flexibility in how the outcomes are delivered.

The government should set the parameters, but provide the private sector with a level of choice such as off-site, dollars in-lieu of delivery, floor space requirement versus bedroom numbers that can support delivery and innovation.

Whilst some developers, particularly in the UK, advocate for a negotiated process, the majority state that knowing the requirements and supports upfront is preferable.

Without being too sceptical, whatever the circumstance it is important to “be clear what outcomes you are seeking and the cost implication of various options, (as) developers will always take the cheaper delivery option. So if integration is your key objective you can’t have cash contribution that are cheaper for the developer to provide than providing the housing on-site, for example.” (Noreen Dunphy, Senior Planner City of Toronto).
**Affordable housing policy parameters**

The policy will require clear affordable housing parameters to be established, recommended below:

<table>
<thead>
<tr>
<th>Policy parameter</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application</td>
<td>Major rezonings; and/or Voluntary across any development scenario of a certain size.</td>
</tr>
<tr>
<td>Affordable housing outcome</td>
<td>15% affordable housing</td>
</tr>
<tr>
<td>Mandatory or voluntary</td>
<td>Mandatory in major rezonings; voluntary in other circumstances</td>
</tr>
<tr>
<td>Minimum development size</td>
<td>15 dwellings.</td>
</tr>
<tr>
<td>Payment in lieu of delivery</td>
<td>• Allowed in major rezoning instances based on a market $/sqm rate + 10% to be set each year by government • Payment to go to central housing fund to be used specifically for new affordable housing supply.</td>
</tr>
<tr>
<td>Off-site delivery</td>
<td>Allowed with certain caveats to ensure delivery occurs and is in equally accessible locations.</td>
</tr>
</tbody>
</table>

---

**Project example: MiMA, New York City**

**MIMA, 450 West 42nd Street, developed by Related Companies, completed 2012**

- 63 storeys, total 814 units, 163 affordable rental
- Received ‘80/20 program’ tax-exempt financing in exchange for 20 per cent affordable housing (163 units) being made available to rent for those making less than 50 per cent of the area’s median income.
- “The tax-exempt bond financing generates four-percent “as of right” Low-Income Housing Tax Credits (LIHTC) for the units occupied by very low-income households. The credits can be syndicated to generate equity for the project.” ([www.nyshcr.org](http://www.nyshcr.org))
- Developer received up to 33 per cent more square feet in density bonus for providing affordable housing under the City’s voluntary inclusionary zoning program.
- Market units are marketed as ‘Luxury’ and ‘Ultra-Luxury’ Rentals. Studios, renting from US $4,155/month.
- In June 2015, 13 floors of one tower were sold to an investor/developer for US$260 million, who plans to turn the 151 apartments into condominium units (for purchase). Prices are expected to start at US$1.5 million.
- 44,000 sq feet (4087 m²) of tenant facilities, include a swimming pool, concierge, ‘dog city’, basketball court, and children’s play room.
- A Regulatory Agreement between Housing Financing Agency and the owner governs the affordable housing outcomes. The Agreement locks in the requirement that the maximum rent cannot exceed 30 per cent of the applicable income limits.
Part D: Other housing supply and affordable housing responses

“*If you are an affordable housing advocate you want as many tools as possible*”
Hilary Goldfarb, Vice President, Bozzuto Development

**Recommendation**

Develop a range of programs to improve housing supply and implement programs that provide a greater spectrum of affordable housing options for low to moderate income households for rent and purchase.

**Rationale**

In order to have wider impacts on housing affordability cities need a range of initiatives that support the delivery of housing. There are also a range of benefits in provide a greater range of housing options for people across the low to moderate income range, whilst also supporting highly targeted public housing. Implementing rental and homeownership programs can support the cross-subsidisation of affordable housing in order to support housing outcomes for very low income households, whilst also supporting greater mix of housing options and households within developments. Whilst this Report refers to affordable housing as housing for households in the lowest 40 per cent of income distribution in Australia, it is suggested this may be broadened subject to analysis of housing stress for those in the next quintile range.

**Program initiatives**

In the cities visited there were a range of programs in place to support affordable housing delivery. Some of these have been highlighted throughout the Report. Initiatives include:

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Overview</th>
<th>Further information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Bank</td>
<td>Grants and loans</td>
<td><a href="https://www.london.gov.uk/priorities/housing-land/increasing-housing-supply/london-housing-bank">https://www.london.gov.uk/priorities/housing-land/increasing-housing-supply/london-housing-bank</a></td>
</tr>
<tr>
<td>Vancouver Rental 100 Program</td>
<td>Planning incentives for market rental development</td>
<td><a href="http://vancouver.ca/people-programs/creating-new-market-rental-housing.aspx">http://vancouver.ca/people-programs/creating-new-market-rental-housing.aspx</a></td>
</tr>
<tr>
<td>Low cost development loans and grants</td>
<td>Loans to developers and NFP agencies for due diligence and development</td>
<td><a href="https://www.cmhc-schl.gc.ca/">https://www.cmhc-schl.gc.ca/</a></td>
</tr>
<tr>
<td>Construction related policies</td>
<td>BC Building Code change to provide for up to 6-storey timber frame construction</td>
<td><a href="http://www2.gov.bc.ca/gov/content/industry/construction-industry">http://www2.gov.bc.ca/gov/content/industry/construction-industry</a></td>
</tr>
<tr>
<td>Communications Hub</td>
<td>Resource sharing on communicating with the community about affordable housing development plans</td>
<td><a href="http://hub.nhc.org/home">http://hub.nhc.org/home</a></td>
</tr>
<tr>
<td>Not-for-profit consortia to increase capacity</td>
<td>Matrix Housing Partnership (UK)</td>
<td><a href="http://accordgroup.org.uk/">http://accordgroup.org.uk/</a></td>
</tr>
<tr>
<td>Messaging and Framing Tools</td>
<td>Tools to support organisations in the framing of affordable housing to the public</td>
<td><a href="http://hub.nhc.org/toolkit/messaging-framing">http://hub.nhc.org/toolkit/messaging-framing</a></td>
</tr>
</tbody>
</table>

**Examples include:**

**Financing initiatives – Canada Mortgage and Housing Corporation (CMHC)**

- **Homeowner Mortgage Loan Insurance** for affordable housing: enables lenders to offer more flexible financing options for affordable rental or homeowner projects.

- **Multi-unit financing flexibilities**: enhanced financing flexibilities for affordable housing projects, including up to 95% loan to value ratio and reduced premiums. The greater the financial flexibility the greater the depth of affordability outcomes secured.
• **Seed funding**: combined grant (up to $10,000) and loan (up to $20,000) available to private or not-for-profit developers, councils or other eligible groups to cover some of the upfront costs of development proposals such as need analysis, preliminary financial viability, preliminary design, project business plan.

• **Proposal Development Funding**:
  - Interest-free loans of up to $100,000 secured by a Loan Agreement to be used to develop housing proposals that will increase affordable housing stock.
  - Up to 35 per cent of the loan may be forgiven depending on the level of affordability achieved.
  - Loan is repayable if the project proceeds, usually as a first advance on the mortgage loan.
  - Available to private developers, NFP housing developers, NFP organisations, municipalities, groups of individuals, or First Nation groups.
  - Can cover costs such as soil load-bearing tests, environmental assessments, project drawings, professional fees, development permits, contract documents.

**Home-ownership**

Across the UK and US affordable home ownership programs were in place that provided greater housing choice, opportunities for households to move up the housing continuum, grow equity and create stronger and more secure connections in the community. As the Australian Senate Inquiry into affordable housing stated “...home ownership can be an important means for people to achieve financial and social wellbeing. Moreover, high rates of home ownership also provide broader economic and social benefits to the community”.

Affordable home-ownership programs provide not only a step up for people that may need a hand to secure and purchase a home, but can also support inclusionary zoning and development viability as a large percentage of the market value is paid by the purchaser through borrowings. In retaining an equity share the government, or a not-for-profit company also benefit from value uplift over time which can then be recycled in to new affordable housing programs. It is critical that where any subsidy is provided mechanisms are in place to secure the benefits and either control the future sales or recapture the financial benefit. Initiatives supporting home ownership include:

• **Triple 5 Down-payment Assistance Program, Toronto**,
  - Established by property developers The Daniels Corporation in partnership with Federal and Provincial governments.
  - Qualified purchasers received credit for a 15% down-payment on their new home, therefore reducing the overall household income required for mortgage approval and lowering the monthly carrying costs.
  - The purchaser’s five-percent down payment is matched with a five-percent loan by Daniels Corporation, payment-free for five years, and a further five percent loan from both the Federal and Provincial governments under the Canada-Ontario Affordable Housing Program, payment free for 20 years.
  - The Canada Mortgage and Housing Corporation extended the loan insurance amortization period from 25 to 35 years, resulting in a further monthly savings of approximately $100 after-tax dollars.

• **‘Genie’ Home Purchase Plan, UK** ([www.ownageniehome.co.uk](http://www.ownageniehome.co.uk))
  - ‘Share’ acquisition approach to home-ownership.
  - No deposit or mortgage required. The home owner acquires shares in their home as soon as they start their payment plan. Monthly payments increase annually and all payments and shares are fixed in five-year blocks providing certainty to the buyer and administrator.
  - At the end of 30 years purchaser is expected to have accrued enough shares to own their home outright.
Conclusion

International experience highlights there are a number of challenges in addressing housing supply and specifically delivering affordable housing outcomes. This Report has highlighted a number of these challenges, which are faced in both Victoria and other developed cities.

It is clear:

- Ensuring an adequate housing supply and specific affordable housing options is a major challenge, with a lack of supply having significant economic, social and environmental impacts and greatly limiting consumer choice;
- No city has the answer, however there are different approaches that are having a positive impact;
- Multiple tools are required in order to have the greatest impact on housing supply and affordability outcomes;
- Linking infrastructure investment to housing supply is one approach that could begin to address some of the current development challenges in Australia;
- Inclusionary zoning approaches are an important tool in delivering affordable housing choice; can deliver positive social and economic outcomes, including integration of affordable housing within private developments in growing and established markets; and if well designed, can be supported by the development industry;
- There are a number of policy questions that the Victorian Government needs to consider when developing an inclusionary zoning system to ensure it achieves the desired outcomes whilst facilitating development;
- Inclusionary housing policies may provide a broader, and potentially less controversial approach than inclusionary zoning, whilst also achieving integrated housing outcomes;
- Affordable housing provision in Australia will still largely depend on Government subsidy to meet the gap between market prices and what lower income households can afford;
- A greater range of affordable housing programs can have a range of social and economic benefits and can support development viability.

Specifically, the Report recommends:

1. A community-driven ‘Priority Development and Infrastructure Program’ linking infrastructure investment to housing supply.
3. Scenarios where inclusionary zoning requirements could be placed on privately owned land in Victoria.
4. A greater diversity of affordable housing programs to facilitate greater housing choice and inclusive communities, whilst also supporting development viability.
Appendix 1 – Meeting list

I am extremely grateful to the following people who gave me their time and shared their experiences:

<table>
<thead>
<tr>
<th>City</th>
<th>Meeting</th>
<th>Title</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>Lord Matthew Taylor</td>
<td>Barron Taylor of Goss Moor Chair, National Housing Federation</td>
<td>House of Lords, Westminster, Chairman National Housing Federation</td>
</tr>
<tr>
<td></td>
<td>Alison Fairhurst</td>
<td>Team Leader</td>
<td>Planning Directorate, Department of Communities and Local Government</td>
</tr>
<tr>
<td></td>
<td>Laura Edwards</td>
<td>Policy Advisor</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ian Piper</td>
<td>Head of Land</td>
<td>Homes and Communities Agency, Department of Communities and Local Government</td>
</tr>
<tr>
<td></td>
<td>Jackie Jacobs</td>
<td>Head of Programmes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Andrew Russell</td>
<td>Senior Strategic Planner</td>
<td>Greater London Authority</td>
</tr>
<tr>
<td></td>
<td>Alisdair Chant</td>
<td>Managing Director, Berkeley Partnership Homes</td>
<td>Berkeley Group (developer)</td>
</tr>
<tr>
<td></td>
<td>Gilian MacInnes</td>
<td>Principal Consultant</td>
<td>Planning Advisory Service</td>
</tr>
<tr>
<td></td>
<td>Duncan Bowie</td>
<td>Senior Lecturer in Spatial Planning, University</td>
<td>Highbury Group on Housing</td>
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<tr>
<td></td>
<td></td>
<td>of Westminster, Convenor, The Highbury Group on Housing</td>
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</tr>
<tr>
<td></td>
<td>Hugh Bullock</td>
<td>Chairman &amp; Head of Planning &amp; Development</td>
<td>Gerald Eve</td>
</tr>
<tr>
<td></td>
<td>Peter Andrew</td>
<td>Managing Director, Planning and Land Development</td>
<td>Taylor Wimpey (developer)</td>
</tr>
<tr>
<td></td>
<td>Rachel Miller</td>
<td>Projects Director, Land and Planning</td>
<td></td>
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<tr>
<td></td>
<td>Ralph Hawkins</td>
<td>Land and Planning Director</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pat Lee</td>
<td>Neighbourhood Services Team Leader</td>
<td>London &amp; Quadrant Housing Trust</td>
</tr>
<tr>
<td></td>
<td>Simon Baxter</td>
<td>Assistant Director (Design &amp; Planning)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>John Wacher</td>
<td>S106 &amp; Development Viability Manager</td>
<td>Islington Council</td>
</tr>
<tr>
<td>Cambridge</td>
<td>Dr Gemma Burgess</td>
<td>Senior Research Associate</td>
<td>Cambridge Centre for Housing and Planning Research, University of Cambridge</td>
</tr>
<tr>
<td>Manchester</td>
<td>Various</td>
<td></td>
<td>Attendance at Chartered Institute of Housing Conference</td>
</tr>
<tr>
<td></td>
<td>Allan Ramsay</td>
<td>Director of Investment and Regeneration, Guinness Trust</td>
<td>The Guinness Partnership</td>
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<tr>
<td>New York</td>
<td>Mark Willis</td>
<td>Executive Director</td>
<td>Furman Centre for Real Estate and Urban Policy &amp; the Moelis Institute for Affordable Housing Policy</td>
</tr>
<tr>
<td></td>
<td>Benjamin Dulchin</td>
<td>Executive Director</td>
<td>Association for Neighbourhood and Housing Development Inc</td>
</tr>
<tr>
<td></td>
<td>Banka William</td>
<td>Deputy Director</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Alexandra Hanson</td>
<td>Policy Director</td>
<td>New York State Association for Affordable Housing</td>
</tr>
<tr>
<td></td>
<td>Louise Carroll</td>
<td>Assistant Commissioner, Inclusionary Housing</td>
<td>NYC Department of Housing Preservation and Development</td>
</tr>
<tr>
<td></td>
<td>Howard Slatkin</td>
<td>Deputy Executive Director, Strategic Planning</td>
<td>NYC Department of City Planning</td>
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</table>
### International approaches to facilitating affordable housing outcomes

<table>
<thead>
<tr>
<th>New York</th>
<th>Steven Spinola</th>
<th>President (since retired)</th>
<th>Real Estate Board of New York</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Michael Slattery</td>
<td>Senior Vice President, Research</td>
<td></td>
</tr>
<tr>
<td>Daniel Moritz</td>
<td>Principal</td>
<td></td>
<td>The Arker Companies (developer)</td>
</tr>
<tr>
<td>Aaron Koffman</td>
<td>Director of Affordable Housing</td>
<td></td>
<td>Hudson Inc (developer)</td>
</tr>
<tr>
<td>Alan Mallach</td>
<td>Senior Fellow</td>
<td></td>
<td>National Housing Institute</td>
</tr>
<tr>
<td>Washington D.C &amp; Montgomery County, Maryland</td>
<td>Claire Worshtill</td>
<td>Program Manager, Land Use</td>
<td>National Association of Home Builders</td>
</tr>
<tr>
<td></td>
<td>Art Rodgers</td>
<td>Senior Planner</td>
<td>District of Columbia Office of Planning</td>
</tr>
<tr>
<td>Robert Kaufman</td>
<td>Vice President, Government Affairs/Legislative (Montgomery County &amp; Washington, DC)</td>
<td>Maryland Building Industry Association</td>
<td></td>
</tr>
<tr>
<td>Robert Hickey</td>
<td>Senior Research Associate</td>
<td>Centre for Housing Policy / National Housing Conference</td>
<td></td>
</tr>
<tr>
<td>Lisa Schwartz</td>
<td>Senior Planning Specialist</td>
<td>Department of Housing and Community Development, Montgomery County, Maryland</td>
<td></td>
</tr>
<tr>
<td>Sarah Scruggs</td>
<td>Director of Advocacy and Research</td>
<td>Manna Inc (housing provider)</td>
<td></td>
</tr>
<tr>
<td>Hillary Goldfarb</td>
<td>Vice President</td>
<td>Bozzuto Development Company</td>
<td></td>
</tr>
<tr>
<td>Toronto</td>
<td>Noreen Dunphy</td>
<td>Senior Planner</td>
<td>City of Toronto</td>
</tr>
<tr>
<td></td>
<td>Adam Vaughan MP</td>
<td>Liberal Party MP, Commons</td>
<td>Member of the Canadian House of Common</td>
</tr>
<tr>
<td>Laurie Payne</td>
<td>Development Director</td>
<td></td>
<td>Toronto Community Housing Corporation</td>
</tr>
<tr>
<td>Jed Kilbourn</td>
<td>Associate Development Manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remo Agostino</td>
<td>Development Director</td>
<td>Daniels Corporation (developer)</td>
<td></td>
</tr>
<tr>
<td>Vancouver</td>
<td>Sonal Danjou</td>
<td>Acting Consultant</td>
<td>Canadian Mortgage and Housing Corporation, Affordable Housing Unit</td>
</tr>
<tr>
<td></td>
<td>Andrew McGrath</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mukhtar Latif</td>
<td>Chief Housing Officer, City of</td>
<td></td>
<td>Vancouver Affordable Housing Agency</td>
</tr>
<tr>
<td>Chris Clibbon</td>
<td>Vancouver and CEO Vancouver Affordable Housing Agency</td>
<td>Planner, City Wide and Regional Planning</td>
<td></td>
</tr>
<tr>
<td>Margaret Eberle</td>
<td>Senior Housing Planner, Regional Planning</td>
<td>Metro Vancouver</td>
<td></td>
</tr>
<tr>
<td>Jeff Fisher</td>
<td>Senior Policy Analyst</td>
<td></td>
<td>Urban Development Institute (Canada)</td>
</tr>
<tr>
<td>Patrick Santoro</td>
<td>Policy Analyst</td>
<td></td>
<td></td>
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<tr>
<td>Steve Jedreicich</td>
<td>Vice President of Development</td>
<td>Townline (developer)</td>
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<tr>
<td>Joyce Rautenberg</td>
<td>Affordable Housing Planner</td>
<td>City of Richmond</td>
<td></td>
</tr>
<tr>
<td>Robert Brown</td>
<td>President</td>
<td>Catalyst Community Developments Society</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2 - Affordable housing definitions

Defining affordable housing
There is often confusion over what is meant by ‘affordable housing’ in Australia. Traditionally terms such as public, social and community housing have been used to refer to subsidised housing provision available to lower-income households provided by government (public housing) or not-for-profit housing providers (social or community housing). The term ‘affordable housing’ has gained greater traction as new programs such as the National Rental Affordability Scheme and shared-equity home-ownership products have been introduced.

Internationally, and within government and academia in Australia, housing is considered to be ‘affordable’ when no more than 30 per cent of the gross household income is spent on housing costs, with some adjustment to account for purchase. Key target groups for such initiatives are very low, low and sometimes moderate income earners. Key to every affordable housing program examined was a clear definition of household eligibility based on income, and a rent or purchase setting policy that was to be applied to provide affordability. Examples are provided below:

In the UK the term ‘affordable housing’ refers to “Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices.” Under this definition different owners and operators are acknowledged and different rent setting controls set.

In the USA most programs measure household income in relation to the Area Median Income (AMI) defined annually U.S. Department of Housing and Urban Development (HUD), although there can be variation across programs. For example, ‘very low-income’ are typically defined as households earning below 50 per cent of the AMI, ‘low-income’ are households earning below 80 per cent of AMI and ‘moderate-Income households’ are households earning below 120 per cent of AMI.

In Montgomery County, Maryland (USA) housing affordability is defined by the purchasing power of the household income which is established by the HUD Area Median Household Income (AMI). Various affordable programs are in place with eligibility targets:

- **Moderately Priced Dwelling Units (MPDUs)** include rental and ownership units available to households with incomes up to approximately 60 to 70 per cent of the AMI. Different limits are set for rental and purchase.
- **Workforce Housing** which can be either rental or ownership are defined as housing that is affordable to households with incomes from the MPDU income limit up to 120 per cent of AMI.

The New York inclusionary zoning program defines each income classification as well as the maximum monthly rent (or purchase price) that can be charged for each income group. For example, for a low income household “maximum monthly rent” is: “30 percent of the #low income limit# for an #affordable housing unit# restricted to occupancy by #low income households#, divided by 12, minus the amount of any applicable #utility allowance#” with each ‘#’ term defined in the zoning resolution.

In the City of Vancouver affordable housing can be provided by a range of organisations and it can include social rental, market rental and affordable home ownership. “The degree of housing affordability results from the relationship between the cost of housing and household income. It is not a static concept as housing costs and incomes change over time.”

In Toronto affordable rents means housing where the total housing cost is at, or below, one times the average City of Toronto rent by unit type, and affordable home ownership is defined as housing where the total housing costs equals the average City rent by unit type.
Appendix 3 – Inclusionary zoning - frequently asked questions and critiques

Who benefits?
Housing delivered under inclusionary zoning programs is sold or rented to low and moderate income earning households. The definition of low and moderate income is always clearly defined (see Appendix 2). Housing was typically considered to be affordable if these households were paying no more than 30% of their income on housing, with this affordability measure often captured within the program conditions.

More broadly, inclusionary zoning approaches support our cities and towns to be accessible and inclusive places for a range of household groups to reside in, which means people can live closer to their employment and transport, spend less time in transit, and are not burdened by high costs of housing. Society as a whole benefits from inclusionary zoning requirements as it can make neighbourhoods more inclusive and sustainable. Inclusionary zoning requirements mean more people benefit from planning decisions that shape our cities and towns.

How are the affordable housing units funded?
The costs of the affordable housing dwellings is borne out differently in each area and it is often difficult to ascertain exactly how much of the cost the developer bore and how much, for instance, was offset by additional market sales due to an increase in density, or how much government had to subsidise. Over time as systems have matured, not-for-profit housing agencies have increased in scale and capacity, shared-equity and home-ownership has been introduced and government funding programs have changed, the funding arrangements have also altered.

In the UK for example, the system is based on the principle that the land value will reflect both uplift from planning approval as well as costs associated with meeting the planning obligations. Historically housing associations accessed government grants to purchase units or to develop on land contributed by the developer. The affordable housing component might therefore have been funded by a combination of; the land owner not receiving as much return than if the requirement wasn’t there (a moot point really as the development can’t occur without meeting planning requirements); the developer on-selling units or land at a discount to a housing association; and the housing association accessing grants and taking on borrowings. Recently the UK Government also announced that no government grant funding can go to affordable housing delivered under the Section 106 planning agreement process. As developers are still required to deliver anywhere up to 50 per cent affordable housing as a condition of planning it is likely there will be a shift to more of these housing outcomes going into shared-equity products or intermediate (discounted to market rent) housing, as opposed to higher need, social rental housing and more negotiation by developers to reduce the percentage requirement.

One of the challenges now is that as the final affordable housing requirement is uncertain at the point of purchase developers are having to take a calculated risk on how much to pay for the land based on what affordability outcome they think they will have to deliver.

In New York, Washington DC and surrounds the programs have been ‘subsidised’ by the provision of additional density, which enables the developer to sell or rent more market rate units. The revenue from these units offsets the loss from the affordable housing dwellings. Developers can also access other subsidies such as 421-a tax abatement or Low-income Housing Tax Credits which subsidise the affordable rental housing.

A common theme across all programs is that the costs are often distributed between various parties. Costs may be met by:

<table>
<thead>
<tr>
<th>Who</th>
<th>Funding contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land owner</td>
<td>Reduced land value as a result of planning requirement impacting on residual land value</td>
</tr>
<tr>
<td>Developer</td>
<td>Paying for the units construction which is offset by additional market sale units achieved by density bonus allocation</td>
</tr>
<tr>
<td></td>
<td>Selling the unit at a discount or nil cost to a not-for-profit housing agency</td>
</tr>
<tr>
<td></td>
<td>Selling the unit at full market value to an individual who may receive a subsidy or be in a shared-equity arrangement</td>
</tr>
<tr>
<td></td>
<td>Selling the unit at a discount to an individual to achieve an affordable price point</td>
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How is affordability maintained?
A number of mechanisms are put in place to ensure the affordable units remain affordable for a period of time or in perpetuity. Legal agreements or covenants are typically used to secure the outcome. Mechanisms include:

- Rental properties being owned by a not-for-profit housing agency whose purpose is to rent the dwelling to eligible tenants at an affordable, below-market rate;
- Rental properties being owned by the developer or investor who is dependent on yearly tax-abatements and must therefore meet program rules to receive the benefit;
- The government retaining an ownership stake and leasing the land;
- Second mortgages being placed on properties under a shared-equity arrangement.

Critiques and responses
Inclusionary zoning proposals in Victoria and elsewhere are often subject to fierce criticism. Specific critiques of inclusionary zoning are that it:

- impacts on the supply of housing more generally;
- leads to an increase in housing costs as a result of shifting the cost burden to the private sector and purchasers of market dwellings;
- is only small scale in light of scale of affordability problem; and
- is only a short term impact with the benefit being lost once the property is sold.

It was difficult to determine whether these were legitimate impacts in the cities I visited based on meetings alone. It is very important to acknowledge that the policy was not delivered in isolation and always, at least historically, included subsidies or off-sets to support delivery. The impact of other factors influencing the supply of housing must also not be ignored. An assessment of some of the available evidence indicates that the criticisms are largely unsupported. However, it will be important that in establishing an inclusionary zoning approach, the government is conscious of the potential impacts or unintended consequences.

Negatively impacts on supply

- Whilst in all the cities I visited meeting demand was a challenge, development was still occurring. Where development wasn’t occurring and voluntary inclusionary zoning was in place, for instance New York, there were other factors limiting development.
- An analysis in 2004 of a range of studies in the US concluded “inclusionary zoning is unlikely to slow private, residential development and in some cases it may actually help to accelerate development”. Similar findings have been found in the UK.
- Inclusionary zoning has been found to have a positive impact on supply in some US cities, which one study concluded is a result of developers being more likely to accept development requirements in absence of not being able to do any development, particularly in tight markets. Inclusionary zoning policies in the US also typically provide for incentives or access to financial support to limit the cost impacts on developers, in some cases making it financially beneficial.
Increases housing costs and shift the cost burden to the private sector and home purchasers

- In most instances where inclusionary zoning has been implemented, developments or recipients are supported by fiscal or planning supports to deliver the affordable housing component.
- Affordable housing requirements can have an impact on the land price, however it was generally accepted that in most cases the land owner was still benefiting from the planning intervention and approval.
- Affordable dwellings may also not require subsidy; they may just need to be quarantined for purchase from higher income households. There is also evidence that in high performing markets there is less of a need for subsidy as the developer’s profit margins are more flexible if it results in the developer gaining access to these markets.\(^42\)
- A key argument against this critique is that the ‘market’ sets the price point for private units, so the developer is unlikely to be able to sell the dwellings for more than the market will pay.

Small scale relative to demand and benefits are lost over time

- The people I spoke with it accepted that affordable housing delivered through inclusionary zoning approaches will only be a small contribution whilst there is an overall lack of supply.
- Some places, such as Montgomery County, Maryland, USA, have learnt the importance of securing the affordable housing outcome in the long term. This may have therefore been a valid critique previously.
- Clearly the government must ensure mechanisms are therefore in place to secure the outcomes if any subsidy is provided, relative to the level of subsidy it puts in. For example putting caveats on title, or securing equity interest through second mortgages.
Appendix 4 - References


International approaches to facilitating affordable housing outcomes


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