



Planning for liveable cities...



Reflections on International Inclusionary Housing Practice and its Application to Australia

> *Kate Breen travelled to London, New York, Washington DC, Toronto and Vancouver to investigate inclusionary zoning practice after receiving a Churchill Fellowship from The Winston Churchill Memorial Trust and sponsor AV Jennings. HousingWORKS invited Kate to discuss her findings on how these systems might be implemented locally in Victoria, as well as across Australasia.*

Australasia shares many of the same challenges with other developed world cities in delivering adequate housing supply, as well as specifically targeted affordable housing. We need to consider how to improve the delivery of sufficient and diverse housing more broadly, while expanding our affordable housing toolkit and outputs.

I hope the findings from my research in mid-2015 will encourage a more robust and refined policy debate concerning inclusionary zoning, and the development of a sustainable system for Victoria, where there is current consideration of developer requirements for affordable housing on public and private land.

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Upon visiting London, New York, Washington DC, Toronto and Vancouver, I found affordable housing is acknowledged as being of great importance to the productivity, sustainability and liveability of these cities. Governments and, generally speaking, the private sector and the community, are supportive of government investment in inclusive affordable housing outcomes. It is a major political issue because it is considered a major crisis.

In the cities I visited, inclusionary housing policies, as well as site-specific inclusionary zoning requirements, are supporting the delivery of affordable housing outcomes. It is notable that broader inclusionary housing responses – policies that support affordable housing provision that is integrated within a building or neighbourhood, such as tax exemptions or incentives – are delivering integrated affordable housing outcomes at a scale that is generally more effective and less controversial than site-specific inclusionary zoning requirements.

Private developers are key advocates of policies, such as 421 – a property tax abatement (New York), Low-Income Housing Tax Credit Program (US) and Housing Zones (UK). These programs are also attracting significant private financing.

We should also focus on developing broader inclusionary housing approaches; for example, a re-imagined National

Rental Affordability Scheme (NRAS)-type incentive, or a housing bond arrangement in Australia. Site-specific land policy requirements should also be looked at but, in isolation, will only ever capture a small proportion of (currently inadequate) supply.

If we then consider inclusionary zoning as one policy mechanism that can work alongside and with other inclusionary housing programs, we need to be clear on why we believe it is appropriate public policy. In my report, I put forward three key arguments for inclusionary zoning:

1. Purpose and role of planning

Inclusionary zoning is a legitimate positive land use intervention to readdress negative consequences arising from planning decisions in order to achieve positive, sustainable housing outcomes.

2. Delivery of social, economic and environmental outcomes

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

3. Role of the private sector

Inclusionary zoning utilises the skills and resources of the private sector to deliver cost-efficient affordable housing outcomes in line with their objectives to deliver affordable, sustainable communities providing housing choice.

Once we have established an agreed basis for the policy, we must consider a number of options and delivery structures that will influence the policy's success. The context of each city and sub-market needs careful consideration and there is no single approach that is easily replicated.



Harmony Tower, City of Richmond, Vancouver (developer: Townline); seven affordable rental units delivered under a mandatory 5% affordable housing requirement for developments over 80 units; density bonus provided to offset costs





New York City subway sign

Inclusionary zoning proposals challenge us to consider what exactly we are trying to achieve; for example, mixed communities or mixed buildings? Highly targeted housing or more affordable housing outcomes? What potential trade-offs or level of flexibility are we prepared to accept to achieve the outcomes?

“ We need to be clear on what the cost of delivery is, how this can vary across markets, and what the eligible target households can afford. ”

Firstly, it is important any policy requirement is clearly articulated, legally permissible, physically possible and appropriately funded if it is to be successful. International experience highlights the need for clear government authority, clarity of definitions of affordability and target household groups (defined by income), defined end take-out programs whether rental or ownership with appropriate funding support as required, strong administrative and management structures, appropriate legal arrangements to secure outcomes in the long-term, and community and private sector buy-in.

We need to be clear on what the cost of delivery is, how this can vary across markets, and what the eligible target households can afford. If there is a gap between cost and income capacity, we need to address how this will be bridged.

Outcomes may not require any subsidy or intervention beyond ring-fencing affordable-priced units for purchase or rent by eligible households. If, however, as is the case in Victoria, the only end-system we have is social housing, then it is likely some subsidy or incentive package will be required to meet a cost gap. This could be achieved as a combination of land value capture, planning incentives, developer contributions, housing association debt, other financing inputs and direct government subsidy.

All of the programs I examined were, at least historically, dependant on government subsidies, tax incentives and/or planning incentives to support delivery; or they allowed for affordable home ownership thereby reducing or removing the subsidy requirement. With a greater range of affordable housing



Silver Towers, Manhattan, New York (developer: Silverstein); 288 (20%) affordable rental units delivered under the NYC voluntary inclusionary zoning (density bonus) program and by accessing low income housing tax credits

products and income eligibility ranges – and, therefore, income generation opportunities, outcomes become more viable. This may mean accepting that not only the very lowest income households will benefit.

Internationally affordable housing requirements on surplus public land are common practice and demanded by communities, with governments prepared to accept a significantly reduced financial return as they recognise the long-term economic benefits of affordable housing in their communities.

How the Victorian program will work is still to be announced but I recommend we aim for a high percentage of affordable housing outcomes – between 20 and 30 percent – subject to what other community outcomes are also delivered. As a finite resource, once this public land has been sold, the opportunity is lost. Government or not-for-profit companies could retain the land portion as an equity share, as one means of supporting viability and retaining a long-term interest.

In the case of private land, we need to be realistic about when, and how, inclusionary zoning policies should apply, balancing the requirements of a market-led system with the need for government intervention. The system should be underpinned by the principle of providing developer certainty while allowing a degree of flexibility in delivery options.

In cases of major re-zoning or public infrastructure expenditure, the opportunity to capture value uplift is a valid and often cited argument for inclusionary zoning requirements. This does not



250 City Road, Islington, London (developer: Berkeley Group); 30% affordable units (purchase and rental) to be delivered under a Section 106 planning agreement with the Council

necessarily guarantee delivery of market or affordable housing outcomes. Without appropriate program structures supporting the arrangement, such a requirement could hinder development in already-challenging markets. This is not to say we shouldn't do it; rather, we need to think about how best to structure the policy to maximise the chances of success. We should ensure any approach is grounded in an economic analysis that considers both the benefit and the cost of any requirement and how this will be met.

Application of inclusionary zoning on private land will also require government and the not-for-profit housing sector to give greater consideration to the trade-offs they are prepared to accept in order to tap into this supply opportunity. This includes consideration of whether cash-in-lieu or off-site delivery options should be allowed, as well as whether separate entrances or buildings for the affordable housing component are permissible, and how the standard and size of the dwelling will be determined. These are areas where more flexibility for the private sector can support their buy-in and innovation but may challenge the housing sector's preferred delivery approach.

A voluntary zoning or broader inclusionary housing approach, where the private sector is incentivised and can choose to deliver, is likely to be a more successful approach than mandatory inclusionary zoning. In places like New York City, a voluntary zoning system has resulted in affordable housing being integrated with market housing in the 'hot' markets where government could otherwise not deliver. The private sector support and investment in these approaches also gives them significant political weight.

Through my research experiences, I have become increasingly conscious of the need for each party to be clear on what objectives they want to achieve, and to consider what trade-offs they are willing to make. We need to be conscious that market interventions will naturally be resisted by the private development sector, but we can also think about establishing inclusionary housing policies and inclusionary zoning practice, that facilitates improved supply and delivery, by reducing development risks. The government and the housing sector will need to consider what outcomes it is prepared to accept as part of this approach.

Ultimately, we need improved supply responses, as well as broader inclusionary housing measures and specific inclusionary zoning practice, to make a meaningful impact and provide real affordable housing choice for a range of lower income households.

■ *This article is an extension of an original piece written by Kate Breen for the Community Housing Federation of Victoria's newsletter.*



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The author wishes to acknowledge the generous support of The Winston Churchill Memorial Trust and sponsor AV Jennings.

