

# **Inclusionary Zoning in Australia: Can it encourage supply of affordable housing across the spectrum of community need?**

Literature Review

November 2022

## CONTENTS

|                                                                  |    |
|------------------------------------------------------------------|----|
| EXECUTIVE SUMMARY.....                                           | 3  |
| KEY FINDINGS .....                                               | 3  |
| INTRODUCTION .....                                               | 3  |
| PURPOSE AND SCOPE .....                                          | 3  |
| RESEARCH QUESTION .....                                          | 4  |
| METHODOLOGY.....                                                 | 4  |
| CONTEXT.....                                                     | 4  |
| DEFINITIONS .....                                                | 4  |
| PURPOSE.....                                                     | 5  |
| TYPES OF AFFORDABLE HOUSING DELIVERED .....                      | 5  |
| LITERATURE REVIEW.....                                           | 5  |
| FINDINGS .....                                                   | 7  |
| OUTCOMES/OUTPUT OF AUSTRALIAN INCLUSIONARY ZONING SCHEMES.....   | 7  |
| PRINCIPLES FOR EFFECTIVE INCLUSIONARY ZONING SCHEME DESIGN ..... | 10 |
| APPENDIX 1 – STAKEHOLDER PERSPECTIVES .....                      | 11 |
| COMMONWEALTH, STATE AND TERRITORY GOVERNMENTS.....               | 11 |
| PEAK BODIES, ADVOCACY GROUPS AND INDUSTRY GROUPS.....            | 11 |

## EXECUTIVE SUMMARY

Mandatory inclusionary zoning schemes have the potential to deliver affordable housing across the continuum of housing need at a large-scale. Arguably, mandatory inclusionary zoning is the “most likely source of large-scale affordable housing contributions in Australia” (Rowley et al., 2022, p. 4).

However, to date, few inclusionary zoning schemes have been introduced in Australia and there is no common approach across jurisdictions. Consequently, there is limited empirical evidence on the efficacy of inclusionary zoning as a mechanism to increase the supply of affordable housing. The limited literature that exists suggests that to be effective, in terms of the number of units delivered and how well they respond to housing needs, inclusionary zoning schemes need to be carefully tailored to market conditions and local needs.

### KEY FINDINGS

- **The body of literature on inclusionary zoning in Australia is limited due, in part, to the relatively short history and low take up of inclusionary zoning across Australian jurisdictions.**
- **In the past 15 years, only seven peer-reviewed research reports have been published that include some consideration of inclusionary zoning as a mechanism for increasing the supply of affordable housing in Australia (Figure 1).**
- **The literature identifies four mandatory inclusionary zoning schemes that have been introduced in Australian jurisdictions. These include two schemes by the City of Sydney, one by the Randwick City Council in New South Wales and a state-wide scheme in South Australia.**
- **An important consideration in the design of an inclusionary zoning scheme is the impact inclusionary zoning requirements will have on development profitability, to ensure the scheme does not stifle housing supply.**
- **Many sites across Australia would be able to absorb the costs of delivering affordable housing under a well-designed inclusionary zoning scheme. However, in some cases, schemes will require additional, and ongoing, government subsidies.**
- **To ensure inclusionary zoning schemes deliver housing that aligns with local needs, governments should conduct ‘housing needs assessments’ to establish appropriate dwelling contribution rates and price thresholds (Randolph et al., 2018).**

## INTRODUCTION

### PURPOSE AND SCOPE

The purpose of this literature review is to review the available evidence on inclusionary zoning in Australia to establish an evidence base to inform ACT Government policy.

## RESEARCH QUESTION

The research question that this literature review seeks to answer is: Can inclusionary zoning encourage supply of affordable housing across the spectrum of community need?

This question is explored through the following sub-questions:

1. What have been the outcomes of inclusionary zoning schemes in Australia in terms of the number of affordable housing dwellings delivered; the type and location of those dwellings; and the housing needs they address?
2. What are the principles of effective inclusionary zoning scheme design?

The research question is derived from Action 1F.3 of the ACT Housing Strategy (2018):

| Goal 1                                                                         | 1F                                                                           | 1F.3                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| An equitable, diverse and sustainable supply of housing for the ACT community. | Encourage well designed, environmentally sustainable and accessible housing. | Investigate planning and design provisions that encourage the supply of affordable housing across the spectrum of community need. This could include investigation of planning options such as inclusionary zoning and incentive mechanisms. |

## METHODOLOGY

This literature review maps the size and nature of existing literature and summarises and critically reviews that body of literature. It is accompanied by a scan of key stakeholders' perspectives on inclusionary zoning (Appendix 1). The scope of research reviewed is peer reviewed research published since 2007 on inclusionary zoning in Australian jurisdictions.

|                         |                                                                   |
|-------------------------|-------------------------------------------------------------------|
| <i>Publication date</i> | Research published since 2007                                     |
| <i>Type of research</i> | Peer reviewed research only.                                      |
| <i>Geographic scope</i> | Research on inclusionary zoning in Australian jurisdictions only. |

## CONTEXT

### DEFINITIONS

A general definition of inclusionary zoning that applies to most countries is: Land use regulations that *require* developers of market-rate residential development in an identified zone to set aside a portion of their units for households that cannot afford to rent or purchase in the open market (modified from Hansson, 2019, p. 8-9).

The Australian Housing and Urban Research Institute (AHURI) has a broader definition of inclusionary zoning that includes both mandatory and voluntary schemes: "a land use planning intervention by government that either mandates or creates incentives so that a proportion of a residential development includes a number of affordable housing dwellings"<sup>1</sup>.

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<sup>1</sup> AHURI Research brief <https://www.ahuri.edu.au/research/ahuri-briefs/Understanding-inclusionary-zoning>

AHURI note that in a mandatory scheme the provision of affordable housing is a condition of planning approval, whereas in a voluntary scheme the provision of affordable housing is encouraged by incentives such as:

- Modifying planning standards based on performance criteria – for example, increasing site yield to encourage low-cost housing like boarding houses, student accommodation, and retirement villages in designated areas
- bonus systems which relax specified development controls, typically height, density, setback or parking controls, in exchange for constructing dedicated affordable housing
- planning process incentives where projects that include affordable housing attract special treatment in the planning process such as fast track approvals, reduction, exemption, or refund of application fees, infrastructure charges or rates.

Some mandatory schemes use similar measures to those listed above to compensate developers who are required to provide affordable housing.

### PURPOSE OF INCLUSIONARY ZONING

The primary purpose of inclusionary zoning is to increase affordable housing supply. A secondary purpose, and one that distinguishes inclusionary zoning from some other supply-side mechanisms, is to maintain or create areas with mixed-income residents (Hansson, 2019 p. 8-9).

### TYPES OF AFFORDABLE HOUSING DELIVERED

In an inclusionary zoning scheme, 'affordable housing' can include:

- subsidised affordable rental properties. These properties may be sold at a discounted price to a CHP, or to a private investor with a covenant on the property title to maintain the rent below the market rate for a specified period
- properties for sale below market price for eligible low- and middle-income buyers selected through a government scheme
- low-cost market-rate housing — for example, properties that are built on smaller lots or less desirable locations within a development (Productivity Commission, 2022 p. 287).

## LITERATURE REVIEW

There is an extensive body of literature on inclusionary zoning in international jurisdictions, especially the United States. The body of literature on inclusionary zoning in Australia is more limited. This can be partially explained by the shorter history and lower take up of inclusionary zoning across Australian jurisdictions but is also due, in part, to a “lack of systematic data collection and reporting on affordable housing outcomes across the Australian jurisdictions” which “creates difficulties in measuring the outcomes of inclusionary planning approaches” (Gurran et al., 2018, p.3).

In the 15 years since 2007, seven peer-reviewed research reports have been published that include some consideration of inclusionary zoning as a mechanism for increasing the supply of affordable housing in Australia (Figure 1). This body of research has been conducted by the Australian Housing and Urban Research Institute (AHURI) and examines:

- how the planning system is used to support affordable housing in international jurisdictions and the potential to learn from and transfer this experience to the Australian context. (Gurran et al., 2008)

- how land use planning mechanisms can support affordable housing inclusion within new and renewing communities. (Gurran et al., 2018)
- the range of strategies and initiatives that governments have used to leverage affordable housing supply, including planning system approaches. (Gurran et al., 2018)
- how strategic spatial planning and funding interventions such as ‘city deals’ can leverage affordable rental housing choices near employment centres, enhancing urban productivity. (Pill et al., 2020)
- emerging approaches to planning for affordable housing in Australia, with a focus on models being applied in urban renewal contexts in Brisbane, Adelaide and Sydney. (Davison et al., 2012)
- six case studies of affordable housing development projects across Australia, to ascertain how affordable housing project costs, revenues and subsidies interact to produce affordable housing. (Randolph et al., 2018).
- how policy settings (including inclusionary zoning) affect developer decisions and how private sector housing supply is likely to react to settings and events which affect development costs, revenues and timeframes (Rowley et al., 2022).

**Figure 1 – Literature on inclusionary zoning in Australia**

| No. | Date | Author          | Citation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----|------|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1   | 2008 | Gurran et al.   | Gurran, N., Milligan, V., Baker, D., Beth Bugg, L., Christensen, S. (2008) <i>New directions in planning for affordable housing: Australian and international evidence and implications</i> , AHURI Final Report No. 120, Australian Housing and Urban Research Institute Limited, Melbourne, <a href="https://www.ahuri.edu.au/research/final-reports/120">https://www.ahuri.edu.au/research/final-reports/120</a> .                                                                     |
| 2   | 2012 | Davison et al.  | Davison, G, Gurran, N., Nouwelant, R., Pinnegar, S. and Randolph, B. (2012) <i>Affordable housing, urban renewal and planning: emerging practice in Queensland, South Australia and New South Wales</i> , AHURI Final Report No. 195, Australian Housing and Urban Research Institute Limited, Melbourne, <a href="https://www.ahuri.edu.au/research/final-reports/195">https://www.ahuri.edu.au/research/final-reports/195</a> .                                                         |
| 3   | 2018 | Gurran et al.   | Gurran, N., Rowley, S., Milligan, V., Randolph, B., Phibbs, P., Gilbert, C., James, A., Troy, L. and van den Nouwelant, R. (2018) <i>Inquiry into increasing affordable housing supply: Evidence-based principles and strategies for Australian policy and practice</i> , AHURI Final Report 300, Australian Housing and Urban Research Institute Limited, Melbourne, <a href="http://www.ahuri.edu.au/research/final-reports/300">http://www.ahuri.edu.au/research/final-reports/300</a> |
| 4   | 2018 | Gurran et al.   | Gurran, N., Gilbert, C., Gibb, K., van den Nouwelant, R., James, A. and Phibbs, P. (2018) <i>Supporting affordable housing supply: inclusionary planning in new and renewing communities</i> , AHURI Final Report No. 297, Australian Housing and Urban Research Institute Limited, Melbourne, <a href="http://www.ahuri.edu.au/research/final-reports/297">http://www.ahuri.edu.au/research/final-reports/297</a> , doi: 10.18408/ahuri-7313201.                                         |
| 5   | 2018 | Randolph et al. | Randolph, B., Troy, L., Milligan, V. and van den Nouwelant, R. (2018) <i>Paying for affordable housing in different market contexts</i> , AHURI Final Report No. 293, Australian Housing and Urban Research Institute Limited, Melbourne, <a href="http://www.ahuri.edu.au/research/finalreports/">http://www.ahuri.edu.au/research/finalreports/</a> 293, doi: 10.18408/ahuri-7113301.                                                                                                   |
| 6   | 2020 | Pill et al.     | Pill, M., Gurran, N., Gilbert, C. and Phibbs, P. (2020) <i>Strategic planning, ‘city deals’ and affordable housing</i> , AHURI Final Report 331, Australian Housing and Urban Research Institute Limited, Melbourne, <a href="http://www.ahuri.edu.au/research/final-reports/331">http://www.ahuri.edu.au/research/final-reports/331</a> , doi: 10.18408/ahuri-7320301.                                                                                                                   |
| 7   | 2022 | Rowley et al.   | Rowley, S., Leishman, C., Olatunji, O., Zuo, J. and Crowe, A. (2022) <i>Understanding how policy settings affect developer decisions</i> , AHURI Final Report No. 384, Australian Housing and Urban Research Institute Limited, Melbourne, <a href="https://www.ahuri.edu.au/research/final-reports/384">https://www.ahuri.edu.au/research/final-reports/384</a> , doi: 10.18408/ahuri8124201.                                                                                            |

## FINDINGS

### OUTCOMES/OUTPUT OF AUSTRALIAN INCLUSIONARY ZONING SCHEMES

The scale of inclusionary zoning in Australia is very small. The literature has identified four schemes that meet the stricter definition of inclusionary zoning – i.e., planning regulations that mandate the provision of affordable housing by private developers. These include two schemes by the City of Sydney, one by the Randwick City Council in New South Wales and a state-wide scheme in South Australia. Collectively, the number of dwellings delivered by these schemes is relatively low (see Figure 2).

#### **City of Sydney**

The oldest of these four schemes is the City of Sydney's scheme in Ultimo Pyrmont. Also known as the 'City West Affordable Housing Program', it was established in the 1990s with an aim to ensure that households with low to moderate income could continue to live and work in Ultimo-Pyrmont. The City of Sydney's second scheme, in Green Square, was established in 1999 and aims to provide rental units for very low to moderate income households the area continues to experience redevelopment.

#### **Randwick City Council**

Randwick City Council's Affordable Housing Contributions Scheme was established in 2019. It is a key delivery mechanism for the Kensington and Kingsford Town Centres Affordable Housing Plan, which aims to ensure that lower income households can continue to live and work locally within Randwick.

#### **South Australia**

The South Australian Government's inclusionary zoning scheme, introduced in 2005, requires that 15 per cent of all housing in significant residential developments (including urban renewal and greenfield contexts) are affordable to low or moderate-income earners (Gurran, Milligan et al., 2008; Davison, Gurran et al., 2012).

**Figure 2 – Australian inclusionary zoning schemes (1980-2017)**

| Jurisdiction        | Name                                                      | Legislation                                                        | Requirement                                                                                                                                                                                                                                         | Dwelling type                                                                                                                                                                                                                | Number of units                                                                                                                                                                                                                                                                            | Timeframe      |
|---------------------|-----------------------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| NSW, City of Sydney | City of Sydney inclusionary housing schemes <sup>2</sup>  | Enabled by measures in Sydney Local Environmental Plan (LEP) 2012. | <p><u>Ultimo-Pyrmont</u><br/>0.8% of the total residential floor area &amp; 1.1% of the total non-residential floor area</p> <p><u>Green Square</u><br/>3% of the total residential floor area &amp; 1% of the total non-residential floor area</p> | <p>Affordable rental.</p> <p>In both schemes, developers are encouraged to deliver affordable rental units in partnership with the Community Housing Provider 'City West Housing'</p>                                        | <p><u>Ultimo-Pyrmont</u><br/>450</p> <p><u>Green Square</u><br/>100</p> <p>As of 2018. Source: Gurrán, Gilbert et al., 2018</p>                                                                                                                                                            | 1995 – present |
| SA, state-wide      | SA Government affordable housing requirement <sup>3</sup> |                                                                    | State Government requirement for 15% affordable housing, applies to all new significant developments within a designated affordable housing zone of a council development plan or the Planning and Design Code.                                     | <p>Affordable purchase <i>and</i> affordable rental.</p> <p>Developers are encouraged to consider partnering with, or selling to, an affordable rental provider such as a Community Housing Provider or Defence Housing.</p> | <p>5,485 dwellings completed/committed 2005–2015)</p> <p>Mix of affordable home ownership (47%), affordable rental (22% purchased by NRAS private investor); social rental (i.e. purchased by South Australian Housing Trust or CHP 31%).</p> <p>Source: Gurrán, Gilbert et al., 2018)</p> | 2005 – present |

<sup>2</sup> <https://www.cityofsydney.nsw.gov.au/affordable-housing-contributions>

<sup>3</sup> <https://www.sa.gov.au/topics/planning-and-property/land-and-property-development/planning-professionals/developer-responsibilities-for-affordable-housing>

|                            |                                                                            |                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                |                    |                                                                                                                                                                                               |                |
|----------------------------|----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| NSW, Randwick City Council | Randwick City Council Affordable housing contributions scheme <sup>4</sup> | <p>Enabled by the Kensington &amp; Kingsford Town Centres planning strategy and Randwick LEP 2012.</p> <p>When development consent is granted, developers must contribute to an affordable housing levy (Clause 6.18 of Randwick LEP 2012).</p> | The affordable housing contribution rate is 3% of the total floor area of the development used for residential purposes (effective up to 13 August 2022). This rate increases to 5% for a development application lodged after 13 August 2022. | Affordable rental. | No units delivered yet. However, the aim of the scheme is to provide about 200 affordable rental units for low to moderate income households within the town centres over the next 15 years.) | 2019 – present |
|----------------------------|----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|

*Adapted from Gurrán, Gilbert et al. (2018)*

<sup>4</sup> <https://www.randwick.nsw.gov.au/planning-and-building/planning/affordable-housing-contributions#:~:text=The%20affordable%20housing%20contribution%20rate,6.18%20of%20Randwick%20LEP%202012>

## PRINCIPLES FOR EFFECTIVE INCLUSIONARY ZONING SCHEME DESIGN

Land values are set by what development is permissible on a given site. The requirement to provide affordable housing, as with any land use requirement or restriction, reduces the market value of the land. This, in turn, makes the provision of affordable housing more economically feasible. As summarised by Gurran, Gilbert et al.: “mandatory affordable housing requirements work like other planning obligations that need to be factored into development costs prior to land acquisition, thus can be 'passed back' to land sellers as a lower land price” (2018, p. 52).

Rowley et al, (2022) estimate that, on smaller sites, land price could fall by as much as 50 per cent if there is no capacity to increase the number of market units on a site through ‘planning concessions’, such as density and height bonuses. Although such concessions may help replace revenue, they are unlikely to make up for lost revenue entirely. Consequently, an important part of scheme design is being conscious of the impact inclusionary zoning requirements will have on development profitability to ensure the scheme does not stifle housing supply. Well-designed schemes have long lead in times and flexibility around site-by-site negotiations (p. 57).

Although the reduced land cost makes delivering affordable housing development *more* economically feasible for developers, in some market conditions government subsidies are required to make development possible. Notably, the literature suggests that ongoing government funding or subsidies are usually required to make it economically feasible for developers to deliver rental units that are affordable to those on low and very-low incomes (Gurran, Gilbert et al., 2018, p. 1).

An approach that some jurisdictions have taken to avoid the need to provide additional subsidies or compensation, is to apply inclusionary zoning to land that has been subject to rezoning and/or public investment that has increased the value of that land. For example, in Green Square, the inclusionary zoning scheme operates on the premise that the land value has increased because of its rezoning and public investment in infrastructure in the area and seeks to ‘capture’ some of that value.

In terms of effectively meeting local housing needs, the literature has found that “the types of affordable housing generated through inclusionary schemes could be expanded to better reflect the continuum of housing needs and options” (Gurran, Gilbert et al., 2018, p. 51) and recommends that governments conduct ‘housing needs assessments’ to establish appropriate dwelling contribution rates and price thresholds (Randolph et al., 2018). Randwick City Council’s scheme, for example, is informed by a housing needs assessment and an affordable housing strategy.

Another important aspect of effective scheme design is prioritising on-site affordable housing contributions over cash based or off-site contributions. This is because the ability for government to choose well-located and well-serviced land for affordable housing development (thus addressing mismatches between employment and housing) is one of the most significant benefits that inclusionary zoning. For similar reasons there is consensus in the literature that mandatory schemes are more effective than voluntary ones.

## APPENDIX 1 – STAKEHOLDER PERSPECTIVES

### COMMONWEALTH, STATE AND TERRITORY GOVERNMENTS

The 2018 National Housing and Homelessness Agreement (NHHA) between the Commonwealth of Australia and the States and Territories identified “planning and zoning reform and initiatives, including consideration of inclusionary zoning and land release strategies” p. 16) as one of six national housing priority policy areas.

#### **Productivity Commission Review of the NHHA**

In 2022, the Productivity Commission (PC) released a Study Report on the review of the NHHA. The scope of the inquiry included consideration of:

- the suitability of the housing priority policy areas [NHHA Schedule A], national homelessness priority cohorts [clause B2], and homelessness priority policy areas [clause B4] identified by the NHHA, and the extent they have been addressed

The PC found that inclusionary zoning is not a good solution to rental affordability issues, for three key reasons:

- Mandatory inclusionary zoning can add extra costs to developments, potentially worsening overall affordability.
- Voluntary inclusionary zoning can add complexity and inconsistency to the planning system.
- Subsidised affordable housing is not as fair or effective as other forms of housing assistance.

They also concluded that “Inclusionary zoning is unlikely to significantly improve affordability, and should not be included in the next Agreement (recommendation 13.4). Governments should focus on addressing the barriers to housing supply (chapters 12–14) and providing assistance directly to renters (chapter 9), rather than fiddling at the margins with inclusionary zoning” and that their recommendations to increase the supply of new dwellings and review CRA would “tackle rental unaffordability in a fairer and more effective way than inclusionary zoning”.

**“Recommendation 13.4:** *The next Agreement should acknowledge the importance of housing supply as a solution to housing affordability and replace planning reforms with housing targets*

The next Agreement should acknowledge the importance of housing supply as a long-term solution to housing affordability. It should also include a requirement for States and Territories to commit to transparently setting housing targets, and regularly reporting progress on meeting the targets. This requirement should replace the housing policy priority area ‘planning and zoning reforms and initiatives, including consideration of inclusionary zoning and land release strategies’ (p. 53).

### PEAK BODIES, ADVOCACY GROUPS AND INDUSTRY GROUPS

#### **Support for inclusionary zoning**

- The Planning Institute of Australia (PIA) supports inclusionary zoning but has acknowledged that it needs to be accompanied by complementary policy measures, including those that address demand side factors such as “capital gains tax exemptions, negative gearing, and strong population growth” (PIA, 2018).
- National Shelter supports inclusionary zoning and have recommended that “the Commonwealth encourages and provide incentives to State and Territory governments to include inclusionary zoning

provisions in planning legislation, mandating 30% affordable housing requirements in all new developments” (National Shelter, 2019, p. 29).

- The Community Housing Industry Association (CHIA) also supports inclusionary zoning and has recommended “a minimum 15 per cent target in all new developments on private land over a certain size”; and “a minimum 30 per cent target when government land is sold, rezoned or otherwise made available for residential development”.
- In the ACT, the CHIA ACT Region Chapter has advocated for inclusionary zoning measures that support CHPs and the ACT Council of Social Services has called for a 15 per cent inclusionary zoning requirement to be the ‘threshold’ for projects seeking Lease Variation Charge remissions under DI2019-229 – Affordable Housing rental development.

#### **Opposition to inclusionary zoning**

- The Property Council of Australia (PCA) and Housing Industry Association (HIA) do not support inclusionary zoning on privately owned land and have argued that it passes on costs rather than creating cost savings.

**Figure 3 – Stakeholder perspectives on inclusionary zoning**

| Organisation                                  | Policy position                                                                                                                                                                                                                                                                                                                           | Notes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Citation                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Planning Institute of Australia (PIA)         | <ul style="list-style-type: none"> <li>Support inclusionary zoning</li> </ul>                                                                                                                                                                                                                                                             | <p>“Responding to a new Australian Housing and Urban Research Institute (AHURI) study on how planning incentives could be used to build more affordable dwellings, Chief Policy Officer Rolf Fenner said PIA endorsed in principle the wider use of inclusionary zoning practices. However, governments could not continue to ignore the fact that the housing affordability crisis stemmed in large part from demand-side factors such as capital gains tax exemptions, negative gearing, and strong population growth.” (PIA, 2018)</p> | <p>PIA, 2018, <i>Incentives not the be all and end all of affordable housing says PIA</i>, &lt;<a href="https://www.planning.org.au/news-archive/2017-2018-media-releases/incentives-not-the-be-all-and-end-all-of-affordable-housing-says-pia">https://www.planning.org.au/news-archive/2017-2018-media-releases/incentives-not-the-be-all-and-end-all-of-affordable-housing-says-pia</a>&gt;</p> |
| National Shelter                              | <ul style="list-style-type: none"> <li>Support inclusionary zoning</li> <li>Recommend a minimum 30 per cent requirement in all new developments.</li> </ul>                                                                                                                                                                               | <p>Current National Shelter Policy Platform on Inclusionary Zoning: “National Shelter recommends that the Commonwealth encourages and provide incentives to State and Territory governments to include inclusionary zoning provisions in planning legislation, mandating 30% affordable housing requirements in all new developments, with a range of complementary measures.” (National Shelter, 2019, p. 29)</p>                                                                                                                        | <p>National Shelter, 2019, <i>Inclusionary Zoning Report</i>, &lt;<a href="http://shelter.org.au/site/wp-content/uploads/190325-Inclusionary-Zoning-Report-V6-Final.pdf">http://shelter.org.au/site/wp-content/uploads/190325-Inclusionary-Zoning-Report-V6-Final.pdf</a>&gt;</p>                                                                                                                  |
| Community Housing Industry Association (CHIA) | <ul style="list-style-type: none"> <li>Support inclusionary zoning</li> <li>Recommend a minimum 15 per cent target in all new developments on private land over a certain size.</li> <li>Recommend a minimum 30 per cent target when government land is sold, rezoned or otherwise made available for residential development.</li> </ul> | <p>Recommended strategies for State and Local Government: “Implement inclusionary zoning with a minimum target of 15 per cent social and affordable housing in all new developments on private land over a certain size, and 30 per cent where government land is sold, rezoned or otherwise made available for residential development.” (CHIA, 2018, p. 26)</p>                                                                                                                                                                         | <p>CHIA, 2018, <i>National Plan for Affordable Housing</i>, &lt;<a href="https://www.communityhousing.com.au/wp-content/uploads/2018/11/6889_CHIA-2018-National-Plan-for-Affordable-Housing-A4-Booklet_FA-Digital-Portrait.pdf">https://www.communityhousing.com.au/wp-content/uploads/2018/11/6889_CHIA-2018-National-Plan-for-Affordable-Housing-A4-Booklet_FA-Digital-Portrait.pdf</a>&gt;</p>  |

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|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Housing Industry Association (HIA)</p>       | <ul style="list-style-type: none"> <li>Do not support inclusionary zoning</li> </ul>                                                                                                                                                                                                                                                                        | <p>“HIA does not support mandatory inclusionary housing policies or affordable housing quotas imposed by Governments as they do not address the underlying root causes of the housing affordability problem. They provide only minuscule and random relief to what is a much larger community issue that requires a whole of community solution.” (HIA, 2015, p. 1)</p> <p>“All inclusionary zoning achieves is making housing more costly across the board. Those who occupy the affordable component of the development are being cross-subsidised at the expense of all the other housing in a specific project.” (HIA, 2017, p. 3)</p> | <p>HIA, 2015, <i>Policy on Subsidised Affordable Housing</i>, &lt;<a href="https://hia.com.au/-/media/HIA-Website/Files/Media-Centre/Policies/Subsidised-Affordable-Housing.ashx">https://hia.com.au/-/media/HIA-Website/Files/Media-Centre/Policies/Subsidised-Affordable-Housing.ashx</a>&gt;</p> <p>HIA, 2017, <i>Submission to the Federal Treasury – Consultation paper – National Housing and Investment Corporation</i>, &lt;<a href="https://treasury.gov.au/sites/default/files/2019-03/c2017-222774-Housing-Industry-Association.pdf">https://treasury.gov.au/sites/default/files/2019-03/c2017-222774-Housing-Industry-Association.pdf</a>&gt;</p> |
| <p>Property Council of Australia (PCA)</p>      | <ul style="list-style-type: none"> <li>Do not support inclusionary zoning</li> </ul>                                                                                                                                                                                                                                                                        | <p>“Governments need to resist reaching for clumsy and counter-productive solutions like inclusionary zoning on private land.”</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <p>PCA, 2016, <i>Submission to the Federal Affordable Housing Working Group Issues Paper</i>, &lt;<a href="https://www.propertycouncil.com.au/Web/Content/News/RDC/2016/New_ways_to_fund_affordable_housing.aspx">https://www.propertycouncil.com.au/Web/Content/News/RDC/2016/New_ways_to_fund_affordable_housing.aspx</a>&gt;</p>                                                                                                                                                                                                                                                                                                                           |
| <p>CHIA (ACT Region)</p>                        | <ul style="list-style-type: none"> <li>Support the ACT Government’s current target for 15 per cent of the Indicative Land Release Program to be social or affordable housing.</li> <li>Recommend ACT Government focuses on achieving affordable rental opportunities, as well as affordable purchase opportunities, through inclusionary zoning.</li> </ul> | <p>Priority actions for ACT Gov’t consideration: “Inclusionary zoning and other planning incentives for CHPs, or developers in partnership with CHPs e.g. height limits, plot ratio, streamlined approvals, parking. [...] Inclusionary zoning to focus on achieving not only affordable purchase opportunities per current Government policy, but also affordable rental opportunities.” (CHIA ACT, 2019)</p>                                                                                                                                                                                                                             | <p>CHIA ACT, 2019, <i>Submission to inform ACT Government FY19/20 budget</i>, &lt;<a href="https://www.budgetconsultation.act.gov.au/_data/assets/pdf_file/0004/1269283/55.-CHIA-ACT-Regional-Committee.pdf">https://www.budgetconsultation.act.gov.au/_data/assets/pdf_file/0004/1269283/55.-CHIA-ACT-Regional-Committee.pdf</a>&gt;</p>                                                                                                                                                                                                                                                                                                                     |
| <p>ACT Council of Social Services (ACTCOSS)</p> | <ul style="list-style-type: none"> <li>Support inclusionary zoning</li> <li>Recommend that a 15 per cent affordable housing requirement be the ‘threshold’ for projects seeking Lease Variation Charge remissions under DI2019-229 – Affordable Housing rental development.</li> </ul>                                                                      | <p>“We have also welcomed the 15% affordable housing inclusionary zoning requirement in all new greenfield and brownfield developments.” (ACTCOSS, 2019, p. 6)</p> <p>“Given the ACT Government has now implemented a 15% inclusionary zoning requirement under the Affordable Housing Strategy, this should be the threshold for offering LVC remissions.” (ACTCOSS, 2019, p. 10)</p>                                                                                                                                                                                                                                                     | <p>ACTCOSS, 2019, <i>2019-20-Budget-Snapshot</i>, &lt;<a href="https://www.actcoss.org.au/sites/default/files/public/publications/act-2019-20-budget-snapshot.pdf">https://www.actcoss.org.au/sites/default/files/public/publications/act-2019-20-budget-snapshot.pdf</a>&gt;</p>                                                                                                                                                                                                                                                                                                                                                                             |



OFFICIAL

## Environment, Planning and Sustainable Development Directorate

**To:** Minister for Housing and Suburban  
Development

Tracking No: 22/

**Date:****From:** Executive Branch Manager, Planning and Urban Policy**Subject:** Delivering Action 1F.3 of the ACT Housing Strategy**Critical Date:****Critical Reason:** [Click here to enter text.](#)

- DG / /
- DDG Planning and Sustainable Development / /

**Purpose**

To provide an overview of work done completed by EPSDD to deliver Action 1F.3 of the ACT Housing Strategy, and outline proposed options, for your consideration, regarding further investigation of inclusionary zoning.

**Recommendations**

That you:

1. **Agree** to the proposed option

**Agreed / Not Agreed / Please Discuss**

2. **Note** the background information provided in this brief

**Noted / Please Discuss**

Yvette Berry MLA ...../...../.....

Minister's Office Feedback

## Background

1. Under Objective 1F of the ACT Housing Strategy (2018), the ACT Government committed to investigating planning and design provisions that encourage the supply of affordable housing across the spectrum of community need, such as inclusionary zoning and incentive mechanisms (Action 1F.3).
2. This action is consistent with the 2018 National Housing and Homelessness Agreement (NHHA) between the Commonwealth of Australia and the States and Territories, which identifies “planning and zoning reform and initiatives, including consideration of inclusionary zoning and land release strategies” as one of six priority policy areas.
3. The ACT Housing Strategy Implementation Plan set the following indicators for Action 1F.3:
  - a. Outcomes to be considered as part of planning system review; and
  - b. Literature review into Inclusionary Zoning.
4. This brief outlines work completed by EPSDD to deliver Action 1F.3, and outlines proposed options, for your consideration, regarding further investigation of inclusionary zoning in particular.

### What is inclusionary zoning?

5. Globally, inclusionary zoning is commonly defined as land use regulations that *require* developers of market-rate residential development in an identified zone to set aside a portion of their units for households that cannot afford to rent or purchase in the open market.
6. The Australian Housing and Urban Research Institute defines inclusionary zoning more broadly as: “a land use planning intervention by government that either mandates or creates incentives so that a proportion of a residential development includes a number of affordable housing dwellings”<sup>1</sup>.
7. The primary purpose of inclusionary zoning is to increase the supply of affordable housing, either for rent or for purchase. A secondary purpose, and one that distinguishes inclusionary zoning from some other supply-side mechanisms, is to maintain or create areas with mixed-income residents

### Planning system review and reform project

8. The planning system review and reform project (PSRRP) broadly considered planning and design provisions to improve housing affordability and choice.
9. The PSRRP did not specifically investigate inclusionary zoning or incentive mechanisms for affordable housing, as it was deemed that inclusionary zoning would first need to be considered at the district strategy level before possible inclusion in the Territory Plan.
10. New planning provisions to address housing affordability and choice that are proposed for inclusion in the new Territory Plan are:
  - a. Creating a greater range of housing options such as community housing (affordable rental) in the community facility and residential zones and build-to-

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<sup>1</sup> AHURI Research brief <https://www.ahuri.edu.au/research/ahuri-briefs/Understanding-inclusionary-zoning>

rent development in zones where multi-unit housing is permitted to address housing affordability.

- b. Relaxing of some dwelling density policies in residential zones to increase the feasibility of developments and improve housing choice (which will also contribute to addressing affordability), including:
  - i. Allowing a block in RZ2 to RZ5 zones to be subdivided without being required to construct the new dwellings first (as long as it can be demonstrated that the blocks created can accommodate dwellings that meet the planning requirements). This enables 'vacant' blocks to be sold in areas close to services and facilities.
  - ii. Increasing the number of dwellings permitted in a multi unit development in the RZ2 zone, as well removing development restrictions regarding block amalgamations and maximum number of dwellings within a building.
  - iii. Allowing multi unit developments in RZ2 dwellings to be in the form of an apartment (which would enable a dwelling to be on a single level and easier for the resident to age in place).

#### Inclusionary zoning literature review

11. Separate to the planning system review and reform project, EPSDD's Housing Strategy and Unit Title Reform team has conducted a literature review on inclusionary zoning in Australia (at Attachment A), with the following findings:
  - a. The body of literature on inclusionary zoning in Australia is limited due, in part, to the relatively short history and low take up of inclusionary zoning across Australian jurisdictions.
  - b. In the past 15 years, only seven peer-reviewed research reports have been published that include some consideration of inclusionary zoning as a mechanism for increasing the supply of affordable housing in Australia.
  - c. The literature identifies four mandatory inclusionary zoning schemes that have been introduced in Australian jurisdictions. These include two schemes by the City of Sydney, one by the Randwick City Council in New South Wales and a state-wide scheme in South Australia.
  - d. An important consideration in the design of an inclusionary zoning scheme is the impact inclusionary zoning requirements will have on development profitability, to ensure the scheme does not stifle housing supply.
  - e. Many sites across Australia would be able to absorb the costs of delivering affordable housing under a well-designed inclusionary zoning scheme. However, in some cases, schemes will require additional, and ongoing, government subsidies.
  - f. To ensure inclusionary zoning schemes deliver housing that aligns with local needs, governments should conduct 'housing needs assessments' to establish appropriate dwelling contribution rates and price thresholds.
  - g. Overall, despite limited evidence about existing schemes, the literature suggests

that inclusionary zoning has significant potential to increase the supply of affordable housing in Australia.

## Issues

### Option 1: Engage a consultant to conduct a feasibility study for inclusionary zoning in the ACT

12. Due to the limited academic literature on inclusionary zoning in Australia, and the complexity of designing and introducing an effective inclusionary zoning scheme, substantial further investigation would be required to fully assess the feasibility of introducing inclusionary zoning in the ACT.
13. Under Option 1, EPSDD, led by the Housing Strategy and Unit Title Reform team, will engage a suitably qualified consultant to conduct a feasibility study for a potential inclusionary zoning scheme in the ACT. Specifically, the analysis would determine what percentage of affordable units could be required in new residential or mixed-use projects without yielding negative impacts on the production of new housing (i.e., ensuring projects can still make a profit that is acceptable to developers).
14. The feasibility study may include:
  - a. *Introduction and Policy Context*: A description of the purpose and scope of the study.
  - a. *Background Economic Trends and Market Conditions*: An in-depth analysis of the local economy and the market conditions affecting residential development.
  - b. *Economic Analysis*: Based on prevailing economic conditions and using assumptions from the market analysis, analysis of the economic impact of varying inclusionary requirements on hypothetical development projects or prototypes – i.e., how inclusionary requirements might affect the bottom-line profitability of market rate residential development.
  - c. *Findings and Recommendations*: Conclusions and discussion about the likely effect of requiring various percentages of affordable units at varying affordability levels, possibly in combination with certain types of government assistance or developer incentives.
15. The feasibility study would allow EPSDD to make an informed recommendation to government about the introduction of inclusionary zoning in the ACT, and what the basic parameters of an effective scheme would be, by establishing a sufficient evidence-base about inclusionary zoning's potential to increase affordable housing supply.
16. Note, following the completion of the feasibility study, additional work would need to be undertaken internally by EPSDD, or through a separate consultancy, to assess legal considerations, specifically the legal framework through which inclusionary zoning mechanisms would be established.
17. Funding for option 1 would be requested through a future budget process.

### Option 2: Continue within existing resourcing to support the delivery affordable housing through existing and proposed mechanisms

18. Under Option 2, Action 1F.3 will be deemed to be completed and the Housing Strategy

and Unit Title Reform team will continue, as part of usual business, and under current resourcing, to support the delivery of affordable housing through the planning system through existing mechanisms and, if agreed, those proposed through the new TP.

19. Ongoing work will include:

- a. monitoring the impact that the planning changes proposed the new Territory Plan have on affordable housing supply, if approved; and
- b. considering factors that are limiting the effectiveness of existing mechanisms to deliver affordable housing, specifically through Housing Targets and the Affordable Home Purchase Scheme:
  - i. Housing Targets: Under the ACT Housing Strategy, each year the ACT Government dedicates at least 15 per cent of the residential land releases in the ILRP to affordable, community and public housing. The requirement to set these housing targets is under the City Renewal Authority and Suburban Land Agency Act 2017.
  - ii. Affordable Home Purchase Scheme: The affordable housing targets are currently delivered under the AHPS, which was introduced in 2017. EPSDD and the SLA will conduct a joint review, which is currently is being scoped, of the AHPS to assess whether the AHPS remains appropriate for delivering the affordable housing targets and to examine how effective and efficient it has been in achieving its objectives.

### **Financial Implications**

20. There are no financial implications arising from this brief. If Option 1 is agreed, funding would be sought through a future budget process. If this budget bid is unsuccessful, option 2 will be deemed agreed.

### **Consultation**

#### Internal

21. Nil.

#### Cross Directorate

22. Nil.

#### External

23. Nil.

### **Work Health and Safety**

24. Not applicable.

### **Benefits/Sensitivities**

25. There are mixed views among industry and community sector stakeholders about inclusionary zoning. An analysis of stakeholder perspectives on inclusionary zoning is at Attachment A, and summarised below:

- a. The Planning Institute of Australia supports inclusionary zoning but has acknowledged that it needs to be accompanied by complementary policy measures.
- b. National Shelter supports inclusionary zoning and has recommended that the Commonwealth encourages and provide incentives to State and Territory governments to include inclusionary zoning provisions in planning legislation, mandating 30% affordable housing requirements in all new developments.
- c. The Community Housing Industry Association also supports inclusionary zoning and has recommended a minimum 15 per cent target in all new developments on private land over a certain size; and a minimum 30 per cent target when government land is sold, rezoned or otherwise made available for residential development.
- d. The CHIA ACT Region Chapter has advocated for inclusionary zoning measures that support CHPs.
- e. The ACT Council of Social Services has called for a 15 per cent inclusionary zoning requirement to be the 'threshold' for projects seeking Lease Variation Charge remissions under DI2019-229 – Affordable Housing rental development.
- f. The Property Council of Australia and Housing Industry Association do not support inclusionary zoning on privately owned land and have argued that it passes on costs rather than creating cost savings.
- g. In 2022, the Productivity Commission (PC) released a Study Report on the review of the NHHA. The scope of the inquiry included consideration of the suitability of the housing priority policy areas, including planning and zoning reform and initiatives.
- h. The PC concluded that inclusionary zoning is unlikely to significantly improve affordability and should not be included in the next NHHA (recommendation 13.4) – "The next Agreement should acknowledge the importance of housing supply as a long-term solution to housing affordability. It should also include a requirement for States and Territories to commit to transparently setting housing targets, and regularly reporting progress on meeting the targets. This requirement should replace the housing policy priority area 'planning and zoning reforms and initiatives, including consideration of inclusionary zoning and land release strategies" (PC, NHHA Study Report, p. 53).

### **Communications, media and engagement implications**

26. There are no anticipated communications, media or engagement implications arising from this brief.

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