



# Pymont Peninsula Place Strategy

## Housing Study (Affordable Housing Policy Review)

Department of Planning  
Industry & Environment

June 2020

# Document Control

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Project Manager: Esther Cheong

Job ID: J53

Job Name: Pymont Peninsula Housing Study

Client: Department of Planning Industry and Environment

Document Name: Pymont Peninsula Housing Study Part A final draft

Last Saved: 27/07/2020 7:33 AM

Version	Date	Approved by	Reviewed by
Draft	12 June 2020	Esther Cheong	Esther Cheong
Final Draft	23 July 2020	Esther Cheong	Esther Cheong

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# 1. Introduction

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## 1.1 Background

In August 2019, the Greater Sydney Commission (GSC) carried out a review of the planning framework for the Pyrmont/Ultimo area, identified as the Pyrmont Peninsula Investigation Area (the peninsula). The review was completed in September 2019 and outlined three core recommendations for the peninsula, including to:

- Align the local planning framework with the Greater Sydney Region Plan and Eastern City District Plan.
- Develop a Place Strategy for the Pyrmont Peninsula Investigation Area, including a planning framework, master plan, economic strategy and governance plan.
- Implement the Place Strategy within 9-12 months.

The Department of Planning, Infrastructure and Environment (the Department) have subsequently commenced work in delivering the Place Strategy for the peninsula. A consultant team have been engaged provide technical inputs into this process. As part of this consultant team, Atlas Urban Economics (Atlas) have been engaged by the Department to prepare a Housing Study to support the development and finalisation of the Pyrmont Peninsula Place Strategy.

## 1.2 Pyrmont Peninsula Investigation Area

The Pyrmont Peninsula Investigation Area (referred to as ‘the peninsula’) comprises the suburb of Pyrmont and much of the neighbouring suburb of Ultimo, bounded by Darling Harbour in the north and east, Broadway to the south and Wentworth Park in the west. The peninsula is characterised by a vibrant mix of land uses in an area of strong heritage values.

The peninsula is one of the Sydney Central Business Districts (CBD) largest fringe office markets, whilst Ultimo accommodates several tertiary education campuses. **Figure 1.1** illustrates the formal boundaries of the defined peninsula.

**Figure 1.1: Pyrmont Peninsula Investigation Area**



Source: GSC (2019)

### 1.3 Scope and Approach

Atlas has been engaged by the Department to carry out a Housing Study to support the creation of the Pymont Peninsula Place Strategy with a particular focus on affordable housing. Atlas are also engaged to provide development feasibility advice to the project team to assist in the progression of sub-precinct masterplanning.

This Housing Study specifically examines policy opportunities for affordable housing in the peninsula. Social housing is not the subject of this study.

Owing to the iterative nature of the project, the Housing Study has been separated into two stages:

- **Part A: Affordable Housing Policy Review** reviews the context of affordable housing policy and contributions frameworks in the peninsula, namely the Revised City West Affordable Housing Program. Part A also reviews affordable housing policies across Australia and internationally to form a view on 'best practice' approaches which could be implemented in the peninsula.
- **Part B: Development Feasibility Assessment** carries out property market research and tests the commercial viability of different masterplanning options for the peninsula. Specifically, testing is carried out to identify the tolerance of development in the peninsula to affordable housing contributions over and above current rates outlined in the Revised City West Affordable Housing Program.

This report covers Part A (Affordable Housing Policy Review) with Part B (Development Feasibility Assessment) to be reported under separate cover as the sub-precinct masterplanning process further progresses.

The following tasks have been undertaken for Part A:

- Review of current affordable housing policy which applies in the peninsula, including the Greater Sydney Region Plan, Eastern City District Plan and Revised City West Affordable Housing Program.
- High-level review of affordable housing policies and practices across Australia, including those delivered at the national level (National Rental Affordability Scheme, Commonwealth Rental Assistance) and across the various States and Territories.
- Case study review of affordable housing policy internationally (United Kingdom and United States) to identify 'best practice' approaches and key challenges.
- Provide recommendations on affordable housing policy for consideration in the peninsula.

### 1.4 Structure of the Study

This Study has been structured in the following chapters:

- Chapter 1 provides an overview of the project background and objectives, the formal Study Area boundaries and the scope, approach and structure of the Study.
- Chapter 2 considers the planning context of the Pymont Peninsula Investigation Area with a brief overview of relevant State and local planning policy, including the City West Affordable Housing Program.
- Chapter 3 provides a high-level overview of affordable housing programs and policies across Australia and considers the effectiveness from a delivery perspective.
- Chapter 4 includes a case study of international affordable housing programs from the United Kingdom and United States and explores the differences and similarities to Australian policy.
- Chapter 5 synthesises the findings of Chapter 2-4 and identifies considerations and issues for affordable housing policy and how it could be implemented in the Pymont Peninsula Investigation Area.



## 2. Planning Context

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### 2.1 State Planning Policy

The following section provides an overview of the key State planning policies and statutory instruments which apply to the peninsula in the context of affordable housing.

#### 2.1.1 Greater Sydney Region Plan – A Metropolis of Three Cities

The Greater Sydney Region Plan (the Region Plan) (GSC, 2018a) seeks to accommodate the needs of Sydney's growing population in a metropolis of three cities: Western Parkland City, Central River City and Eastern Harbour City, building on a vision where most residents live within 30 minutes of their jobs, education and health facilities.

Housing (including affordable rental housing) is a central theme of the Region Plan which outlines a series of strategies and actions for Sydney's housing market in two Objectives.

- Objective 10 seeks to increase the supply of housing across Greater Sydney through increasing housing capacity in appropriate areas. Key actions under Objective 10 include:
  - Action 3: Councils are to prepare **local housing strategies** to identify areas where new housing could be supported at the local level.
  - Action 4: Councils are to develop **6-10-year housing targets** for their local council areas to ensure there is an adequate pipeline of housing supply to meet Greater Sydney's projected population growth.
- Objective 11 outlines the need for housing to be more diverse and affordable and acknowledges the role affordable rental housing plays in accommodating demand from very low to moderate income households. Key strategies and actions under Objective 11 include:
  - Strategy 11.1: Councils are to prepare **Affordable Rental Housing Target Schemes** following development of implementation arrangements.
  - Action 5 notes that the GSC and the Department are to develop a viability test for Affordable Rental Housing Targets to support Councils in development their Affordable Rental Housing Target Schemes. The GSC are also to develop a strategy outlining the protocols for Councils to follow when managing newly developed affordable housing stock.
  - Strategy 11.2: State Government agencies are to include (where viable) a range of initiatives to address housing diversity and/or affordable rental housing when **divesting or developing surplus State-owned land** for residential or mixed-use projects.

Importantly, the Region Plan notes that affordable rental housing targets in the range of 5% to 10% should be provided where an upzoning in land occurs, subject to a viability test for each area.

The housing objectives for Greater Sydney detailed in the Region Plan are further outlined in each respective District Plan.

#### 2.1.2 Eastern City District Plan

Building on the strategic aims and objectives in the Region Plan, the Eastern City District Plan (District Plan) is a 20-year plan for the Eastern Harbour City to manage growth in the context of economic, social and environmental matters.

The core housing objectives of the Region Plan are given effect through Planning Priority E5 of the District Plan.

#### Planning Priority E5: Providing housing supply, choice and affordability, with access to jobs, services and public transport

Planning Priority E5 gives effect to Objective 10 and 11 of the Region Plan. The District Plan provides greater around specific areas being targeted for new housing supply and outlines a short-term (2016-2021) and long-term (2016-2036) housing target for the Eastern City Harbour District. Key actions under Planning Priority E5 include;

- Action 16: Councils are to prepare **local or district housing strategies** which outline how individual Council areas can contribute to 5-year, 6-10 year and 20-year housing targets for the Eastern Harbour City.
- Action 17: Councils are to prepare **Affordable Rental Housing Target Schemes** following development of implementation arrangements.

The District Plan further espouses the inclusion of 5%-10% affordable rental housing targets where new residential floorspace has been created through amendments to planning controls, subject to a viability test.

### 2.1.3 State Environmental Planning Policy No 70 – Affordable Housing (Revised Schemes)

One of the objectives of the Environmental Planning and Assessment Act 1979 is to promote the delivery and maintenance of affordable housing and permits local Councils to levy contributions for affordable housing. This objective is given force through State Environmental Planning Policy No. 70 – Affordable Housing (Revised Schemes) (SEPP 70), which identifies the local Councils which may participate. Local Councils then need to amend their local environmental plans (LEPs) to have reference to an affordable rental housing contribution scheme and to levy affordable housing contributions.

Importantly, SEPP 70 provides a formal definition of affordable housing being “very low, low and moderate income households”. These household types are defined by their gross income ranges as a percentage of the median household income for Greater Sydney or the Rest of NSW accordingly the Australian Bureau of Statistics.

**Table 2.1: Definition of Affordable Household Incomes**

Household Type	Percentage of Median Household Income
Very Low-Income Household	<50%
Low Income Household	50%-80%
Moderate Income Household	80%-120%

Source: SEPP 70

SEPP 70 was formally introduced in 2002 with the two initial participant Council areas being the City of Sydney and Waverley Council. Since that time, SEPP 70 has been the applicable State Planning Policy giving effect to the City West Affordable Housing Program which has been in operation since 1996. The City West Affordable Housing Program applies to land in the peninsula.

### 2.1.4 State Environmental Planning Policy (Affordable Rental Housing) 2009

The State Environmental Planning Policy (Affordable Rental Housing) 2009 (ARHSEPP) is a State-wide planning policy intended to facilitate additional supply of affordable rental and social housing.

Under the ARHSEPP, additional density (FSR) is permitted on a residential development where at least 20% of the proposed floorspace is to be used for affordable housing or other forms of ‘affordable’ housing typologies, including boarding houses, granny flats (secondary dwellings) and group homes. Affordable housing delivered under the ARHSEPP is required to be tenured to eligible renters for a period of 10 years.

## 2.2 Local Planning Policy

This section provides an overview of the local planning framework which governs affordable housing delivery in the peninsula.

### 2.2.1 Local Strategic Planning Statement - City Plan 2036

The City of Sydney’s Local Strategic Planning Statement (LSPS), *City Plan 2036*, provides a 20-year land use vision and framework for the City of Sydney LGA. The draft LSPS builds upon the key objectives, strategies and actions of the Greater Sydney Region Plan and Eastern Harbour City District Plan and form a direct link between strategic State Government planning objectives and local planning instruments (i.e. Sydney Local Environmental Plan 2012).

The LSPS is informed by a separate draft Housing Strategy prepared by the City, *Housing for All*. The Housing Strategy includes a set of specific affordable housing objectives and actions for the Sydney LGA, primarily through Priority H4.

#### Priority H4: Increasing the diversity and number of homes available for lower-income households

Priority H4 of the Housing Strategy specifically addresses Planning Priority E5 of the Eastern Harbour City District Plan. The Priority focuses on strategies and actions to increase the supply of affordable rental housing stock across the City of Sydney LGA, with an articulated target of 11,500 affordable housing dwellings by 2036. These actions are detailed in Table 2.2.

**Table 2.2: Key Actions under Priority H4, Housing for All (City of Sydney Housing Strategy, 2019)**

No. Actions	
4.1	Implement <i>Planning Proposal: Affordable Housing Review</i> to increase the amount of affordable rental housing across the LGA.
4.2	Work with other councils in the District to jointly advocate for more affordable rental housing.
4.3	Advocate to the NSW Government for changes to State Environmental Planning Policy (Affordable Rental Housing) 2009 ensuring boarding houses with floor space bonuses results in genuine affordable rental housing outcomes.
4.4	Advocate to the NSW Government to deliver a minimum 25 per cent of floor space as affordable rental housing in perpetuity on all NSW Government controlled sites, including on social housing sites.
4.5	Advocate to the NSW Government to deliver 100% affordable housing to the Liveable Housing Guideline's gold level on all NSW Government sites, in accordance with the target set by the National Dialogue on universal housing design.
4.6	Advocate the to the NSW Government to amend the Region and District Plans and State Environmental Planning Policy (Affordable Rental Housing) 2009 to ensure affordable rental housing is provided in perpetuity and supports key workers.
4.7	Advocate to the Australian and NSW government for targeted programs and policy interventions that respond to inner city housing market conditions and increases the supply of affordable rental housing.
4.8	Work with the NSW Government to use the affordable housing funds from the Redfern-Waterloo Affordable Housing Contributions Plan and redevelopment of Central Park to provide an increased proportion of affordable rental housing, in addition to the District Plan's affordable housing targets, on the Waterloo Estate.

Source: City of Sydney (2019)

Key actions under Priority H4 of direct relevance to the peninsula would be the requirement for NSW Government-owned sites to deliver a minimum 25% of floorspace as affordable housing floorspace in any redevelopment and the adoption of the City of Sydney's Affordable Housing Review planning proposal.

#### **2.2.2 City West Affordable Housing Program**

The Revised City West Affordable Housing Program (the City West Program), along with the Sydney LEP 2012 and SEPP 70, are the principal policies and statutory instruments governing the delivery of affordable housing and collection of affordable housing contributions across the peninsula. The City West Program applies solely to development in the Pyrmont-Ultimo precinct as defined in the Sydney LEP 2012.

The City West Program is administered by City West Housing; a not-for-profit affordable housing provider and sole operator under the Program. Oversight of the Program is provided by the City of Sydney, who apply conditions of consent requiring a monetary contribution, and the Department, initially receiving contributions which are then transferred to City West Housing.

Affordable housing provided under the City West Program must be provided to applicants who meet the gross income criteria under SEPP 70. Rents are fixed by City West Housing at 25%-30% of gross household income.

The City West Program aims to deliver approximately 600 affordable rental units within the Pyrmont-Ultimo area. There are approximately 476 affordable rental units which have been delivered across the peninsula in some 13 separate buildings, though much of this supply was secured through contributions received under the original City West Affordable Housing Program during 1996-2000.

The receipt of cash contributions from development enables City West Housing to invest in development opportunities that deliver affordable housing outcomes that are suitably designed and configured.



The City West Program was updated in 2010 to allow for funds to be spent outside of the area. This was in response to a shortage of sites. An example of where funding collection in Pyrmont - Ultimo has been spent elsewhere is the Harold Park development.

Affordable housing contributions are levied on an inclusionary basis under the City West Program. Contributions are based on the proportion of *total* floor area in a development. The proportion of floorspace to be delivered as affordable housing differs based on the land use proposed, categorised as residential and non-residential.

The floorspace contribution required for both these categories is shown below:

- **Residential uses:** 0.8% of total floor area
- **Non-residential uses:** 1.1% of total floor area

Contributions may be delivered in-kind (i.e. completed dwellings), in lieu (i.e. monetary contribution) or a combination of both. Affordable housing delivered in-kind must be a minimum of 50sqm in total floor area. In-kind contributions must be vested in the City of Sydney via a transfer who subsequently transfer these to City West Housing for incorporation to their portfolio.

Alternatively, affordable housing contributions under the City West Program may be made via monetary contributions. These contributions must be spent in the Sydney LGA to procure affordable housing outcomes. The contribution amount is calculated as dollar rate of the total floor area of a development. Contribution rates are indexed annually based on the *Implicit Price Deflator (New and Used Dwellings)* as published by the Australian Bureau of Statistics. The current contribution rates effective from 1 July 2019 to 30 June 2020 are:

- **Residential uses:** \$31.78/sqm of total residential floor area.
- **Non-residential uses:** \$45.66/sqm of total non-residential floor area.

By way of example, a residential development comprising 6,500sqm in total floor area would be required to deliver 0.8% of that floorspace as affordable housing. This would equate to 52sqm of floorspace. That contribution could be delivered in-kind (as it meets the 50sqm minimum requirement). Alternatively, a monetary contribution of \$206,570 could be made (6,500sqm x \$31.78/sqm of total floor area).

Only specific types of development are exempt from contributions under the City West Program. These include:

- Public housing;
- Affordable housing;
- Community facilities;
- Residential development that will result in the creation of less than 200 square metres of total floor area;
- Non-residential development that will result in the creation of less than 60 square metres of total floor area;
- Public roads, light rails or railways or public utilities/facilities; and
- Refurbishment of non-residential or residential development when no change of use or increase in floor space areas occurs and the required percentage of that floor space has already been dedicated for use for affordable housing, or a contribution for the purpose of provision of affordable housing has been paid.

### Sydney Local Environmental Plan 2012

The Sydney Local Environmental Plan 2012 (Sydney LEP 2012) is the principal instrument governing land use and development across the City of Sydney, including much of the peninsula. The Sydney LEP 2012, in conjunction with SEPP 70, gives statutory effect to the City West Affordable Housing Program and requirement for affordable housing contributions across the peninsula.

Division 3 of Part 7 of the Sydney LEP 2012 outlines, *inter alia*, the contribution requirements, development subject to contributions, exempt forms of development and contribution calculation methodology for affordable housing contributions in Pyrmont-Ultimo.

### 2.2.3 Affordable Housing Review

The City of Sydney has submitted a planning proposal to review the existing affordable housing contributions framework across the Sydney LGA (the Affordable Housing Review) and implement a new Affordable Housing Program (the new Program). The Affordable Housing Review primarily seeks to introduce an affordable housing contributions requirement across the LGA by extending affordable housing contribution requirements to the areas of the LGA not currently subject to any contribution scheme.

The new Program will replace the existing Green Square Affordable Housing Program and Employment Lands Affordable Housing Program. The new Program *will not* replace the existing Revised City West Affordable Housing Program, rather supplementing this scheme through the introduction of new requirements.

Following implementation of the new Affordable Housing Program, administration of affordable housing contributions will be more streamlined and efficient across the LGA, except in Pyrmont - Ultimo with contributions first collected by the Department.

The Affordable Housing Program reviewed and updates contribution rates across the LGA except in Pyrmont - Ultimo where the City West Program contribution rates are well below the rest of the LGA.

Some of these key new requirements are detailed below.

#### Site Specific Proposals

Land that benefits from increased development capacity through a site-specific planning proposal and identified under Schedule 7 of the Sydney LEP will be required to contribute a proportion of the additional floorspace achieved as affordable housing. In the case of the peninsula (which falls within the West Precinct of the Sydney Development Contributions Plan 2015), 12% of additional floorspace would be required to be contributed. This is greater than the 5%-10% range proposed in the Eastern City District Plan.

#### Removal of Exemptions

Under the Sydney LEP 2012, development for the purposes of non-residential uses which generates less than 60sqm in floor area or development for residential uses which generate less than 200sqm of additional floor area is exempt from affordable housing contributions. This has resulted in instances where a substantial change in land use has not been required to contribute to affordable housing (e.g. conversion of a warehouse to residential uses). The Affordable Housing Review intends on removing this exemption which will have implications for some development across the peninsula.

#### Parameters for In-Kind Contributions

The Affordable Housing Review provides distinct parameters for the delivery of in-kind affordable housing dwellings. Affordable housing contributions delivered in-kind must have a total floor area of at least 35sqm and no greater than 90sqm (any remainder to be paid as a monetary contribution).

Whilst the magnitude of change proposed in the Affordable Housing Review to the peninsula is more limited to other areas across the Sydney LGA, the new Program will directly influence the delivery of affordable housing across the peninsula.

## 2.3 Future Planning Context

### 2.3.1 Pyrmont Peninsula Place Strategy

The Department is leading the development of the Pyrmont Peninsula Place Strategy in response to the Greater Sydney Commission's review of planning for the Western Harbour Precinct, including the Pyrmont peninsula. The Place Strategy will seek to identify the opportunities to strengthen and grow the importance of the peninsula as an extension of the Sydney CBD and align with the strategic objectives of the Eastern Harbour City District Plan. The Place Strategy is exploring options to intensify development capacity where appropriate.

Critical to the Place Strategy will be understanding the different 'sub-precinct areas' of the peninsula, including Ultimo, Darling Harbour, Blackwattle Bay/ Wentworth Park and Pyrmont and Harris Street Village. A specific land use response to each of these areas will be required, cognisant of their existing role, character and value to the local community.

The Place Strategy seeks to specifically identify opportunities for additional affordable housing across the peninsula (over and above that which could be collected through the City West Program).

### 2.3.2 Pymont Metro Station Strategic Investigation

Coinciding with investigations underway for the Pymont Peninsula Place Strategy, Sydney Metro is currently investigating the potential for a new Metro Station to be located within Pymont as part of the Sydney Metro West metro line linking the Sydney CBD with Parramatta via Sydney Olympic Park.

A new Metro Station at Pymont would be a game-changer for the peninsula, linking Pymont-Ultimo to the Sydney CBD and Western Suburbs via rail for the first time. It would also expedite the peninsula's role as an extension of the Sydney CBD, heightening its profile as both a commercial and residential precinct.

Investigations by Sydney Metro commenced in late-2019 with options assessment currently underway. Should a Metro Station be located in Pymont, some form of land use response would be expected. The Place Strategy is cognisant of these current investigations.

## 2.4 Implications for Housing and Affordable Housing

The Pymont Peninsula is being investigated to further strengthen its importance as an extension of the Sydney CBD whilst aligning with the strategic objectives of the Eastern Harbour City District Plan. Opportunities for additional employment and housing are being examined. A catalytic piece of new transport infrastructure such as new Metro Station as part of the Sydney Metro West project would dramatically shift the profile of the peninsula as a place to do business and to live.

With new growth comes a need for a balanced approach to meeting the needs of the community and providing essential infrastructure, including affordable housing. This requirement has been identified by both State Government and the City of Sydney. Based on the review of relevant planning policy, the following implications for affordable housing across the peninsula can be drawn:

- The Greater Sydney Region Plan and Eastern Harbour City District Plan expect 5%-10% of any new residential floorspace created through amendments to planning controls to be delivered as affordable housing, subject to viability. A standard viability test or set of criteria has yet to be developed by the GSC.
- Divestment or development of state-owned land for residential or mixed-use projects should include a range of measures to address housing diversity and/or affordable housing. The Greater Sydney Region Plan does not include any affordable housing targets for state-owned divestments or developments.
- The draft Sydney Local Strategic Planning Statement advocates that development of state-owned land should include 25% of floorspace as affordable rental housing to be held in perpetuity.
- The City of Sydney's Affordable Housing Review planning proposal seeks to remove existing exemptions for development in Pymont-Ultimo (and elsewhere in the LGA) in paying affordable housing contributions. Additionally, the Review seeks a 12% target for any additional floorspace secured through a planning proposal across the peninsula (as part of the City of Sydney's West Precinct) be delivered as affordable housing.
- The Revised City West Affordable Housing Program is set to remain the principal scheme governing the delivery of affordable housing across the peninsula over the short to medium term. Current contribution rates under the Program include:
  - **Residential uses:** 0.8% of total floor area
  - **Non-residential uses:** 1.1% of total floor area

The next Chapter investigates the history of affordable housing policy across Australia.

## 3. Australian Affordable Housing Framework

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Influence over the housing market is divided between the Commonwealth, State/ Territory and local governments. Policy frameworks and direct market interventions are the primary methods by which Australia's three levels of government can influence housing, including the delivery of affordable housing.

Whilst both the Commonwealth and State Governments have enacted several schemes to address housing affordability, there is currently no broad 'top-down' strategy towards housing affordability across Australia linking all three levels of Government. This is a reflection of the separation of responsibilities between each tier of Government; the Commonwealth Government having limited involvement in land use planning. Whilst some States/ Territories have well-established affordable housing frameworks by which local authorities can utilise and supplement, other States have yet to establish firm affordable housing policies and strategies. This has in some instances led to affordable housing policy at the local level operating independently, or in the absence of, State Government policy.

This Chapter examines, at a high-level, the various policies adopted by the Commonwealth and a number of State Governments across Australia, with a particular emphasis on NSW. It seeks to identify the methods, strategies and outcomes of these various policies to inform 'best practice' approach to affordable housing policy in the peninsula.

### 3.1 Commonwealth Policies

The Commonwealth (Federal) Government has enacted several policies and services to address housing affordability and homelessness. These policies and services are administered by the Department of Social Services and include:

- Commonwealth Rent Assistance
- National Rental Affordability Scheme
- National Housing and Homelessness Agreement
- Housing Affordability Fund
- Building Better Regional Cities Program

The most significant of these policies in supporting and delivering new affordable housing is the Commonwealth Rent Assistance scheme and National Rental Affordability Scheme. These are briefly examined below.

#### 3.1.1 Commonwealth Rent Assistance

The Commonwealth Rent Assistance (CRA) Scheme was initially introduced in 1985 and is Australia's longest running Federal policy that assists with housing affordability. CRA is an income supplement paid to eligible recipients and forms a major element of Australian housing assistance. CRA is available to low-income households who pay or are liable to pay private rent or community housing rent, over specified thresholds and are in receipt of:

- A social security or veterans' income support payment; and/or
- Receive Family Tax Benefit Part A at greater than the base rate.

CRA is not eligible to households renting from a public housing provider (i.e. NSW Family and Community Services) as rent payable to State housing authorities is already subsidised.

CRA is calculated at 75% of rent payable above a minimum rental threshold until a maximum rate is reached. The minimum threshold and maximum rates vary according to the household or family situation, including the number of children. Payment of CRA can continue in perpetuity subject to recipients meeting the ongoing CRA eligibility criteria.

For means-testing purposes, CRA entitlements are added to the base payment and means-tested under the provisions that apply to that payment. The maximum rates of CRA payment and the rent thresholds are indexed each September and March in line with the Consumer Price Index (CPI).

The current rental thresholds and maximum CRA payments for eligible households as at March 2020 are shown in **Table 3.1**.

**Table 3.1: Minimum and Maximum Rent Thresholds and CRA Payments, March 2020**

Household Type	Minimum Fortnightly Rent	Maximum Rent Required to Secure 75% CRA	Maximum Fortnightly CRA Payment
<b>Households with Dependent Children</b>			
Single	\$124.60	\$310.73	\$139.60
Single, sharer		\$248.69	\$93.07
Couple, combined	\$201.80	\$377.27	\$131.60
1 of a couple separated due to illness	\$124.60	\$310.73	\$139.60
1 of a couple temporarily separated		\$300.07	\$131.60
<b>Households with Dependent Children</b>			
Single, with 1 or 2 children	\$163.52	\$382.29	\$164.08
Single, with 3 or more children		\$410.67	\$185.36
Couple, with 1 or 2 children	\$241.92	\$460.69	\$164.08
Couple, with 3 or more children		\$489.07	\$185.36

Source: Department of Social Services

CRA is the most common form of housing assistance received by Australian households with some 1.31m households receiving CRA as at June 2018 (Australian Institute of Health and Welfare, 2019). In 2018, NSW had the greatest number of CRA recipients, accounting for just over 30% of CRA recipients.

CRA is essential for many tenants living in affordable and community housing. A large proportion of tenants living in affordable housing across the peninsula receive CRA to supplement their income and contribute to rental payments.

### 3.1.2 National Rental Affordability Scheme

The National Rental Affordability Scheme (NRAS) was formally introduced in 2008 as part of a broader Federal Government package addressing housing supply pressures and as part of a stimulus package responding to the global financial crisis (GFC). The scheme was the first 'supply-side' affordable housing scheme introduced by a Commonwealth Government since the 1970s (AHURI, 2016). The scheme targeted delivery of 50,000 affordable housing dwellings available to low to moderate income households. As at March 2020, the scheme had delivered some 35,000 affordable rental dwellings (Department of Social Services, 2020).

Under NRAS, the Federal Government provides an annual incentive to NRAS investors/ developers for a period of 10 years as a refundable tax offset or payment. This is supplemented by a State/ Territory annual contribution, which may take the form of cash grants, concessions on stamp duty or the provision of discounted land over the same period. This combination of incentives was to encourage investment into affordable housing and boost supply of affordable rental stock. NRAS properties were required to be rented out to eligible NRAS tenants in order to receive Federal and State incentives.

Properties developed under the NRAS are required to be rented out to low to middle income earners at 80% or less of the market value rent (to be determined by a licensed valuer). The gross income limits for eligible tenants are specified in the National Rental Affordability Scheme Regulations 2008 and indexed annually. Income limits are based on the number of adults within a household and number of financially dependent children.

New NRAS allocations to be issued under the scheme (Round 5) were cancelled in the 2014-15 Federal Budget. The scheme was criticised at the time as being overly complex with little oversight ensuring both delivery and monitoring of tenancy agreements. Current NRAS incentives and allocations are due to fully expire by the end of the 2026 calendar year. No alternative scheme has yet been developed by the Commonwealth Government.



## 3.2 NSW Policy Framework

Unlike some States/Territories, NSW for many years lacked State endorsed, long-term strategy for improving the supply of affordable rental housing. State and local policies have largely focused on voluntary provisions to incentivise affordable housing delivery as opposed to inclusionary (mandatory) methods adopted in other States (notable exceptions being the City West Affordable Housing Program and other programs adopted in the City of Sydney). NSW councils have not generally been able to implement affordable housing contributions.

Whilst recent amendments to State planning policies (SEPP 70) and Greater Sydney Region Plan and District Plans have signalled a clearer approach to affordable housing contributions, and affordable housing policy framework more broadly, adoption of contribution frameworks at the local government level is still evolving and remains limited across NSW.

### 3.2.1 History of Affordable Housing Contribution Frameworks across NSW

There is a long history of affordable housing schemes at both the State and local government level in NSW spanning some 30 years. The earliest affordable housing contribution framework was the Sydney Regional Environmental Plan No. 26 City West (REP 26) which applied to the Pyrmont-Ultimo area in response to the significant redevelopment of the region in the early 1990s. REP 26 was formally adopted in late 1992.

The REP 26 outlined the planning principles for securing contributions for affordable housing, although collection of contributions from the private sector was deferred in the initial REP 26. The City West Affordable Housing Program was established in 1994 and amendments to the REP 26 were subsequently made in 1995 requiring contributions from private development in Pyrmont-Ultimo to be made for affordable housing purposes. The contribution methodology and eligibility criteria used in the existing City West Affordable Housing Program is the same approach used in the 1994 program, with contributions levied on an inclusionary basis. Contributions could be made in-kind or in lieu to City West Housing.

In 2000, the *Environmental Planning and Assessment Act 1979* (EP&A Act) was amended to enable environmental planning instruments to make provision for providing, maintaining and regulating matters relating to affordable housing. In 2002, the SEPP 70 was introduced and inserted revised provisions into several environmental planning instruments including REP 26. SEPP 70 was another inclusionary method used to fund affordable housing outcomes, though participation in SEPP 70 was widely noted as difficult given the level of bureaucratic approval required. Until 2018, only two Council areas (City of Sydney, City of Waverley) were participants under SEPP 70. Also in 2000, Randwick City Council introduced an Affordable Housing clause to the Randwick Local Environmental Plan 1998. The clause stipulated that large development sites subject to a masterplanning process must include affordable housing through a mix of dwelling types and dwelling dedications.

In 2005, voluntary planning agreements (VPAs) were introduced through the *Environmental Planning and Assessment Amendment (Development Contributions) Act 2005*. This permitted planning authorities to enter into agreements with developers for any public purpose, including delivery of affordable housing. Whilst the 2005 Act provided legal recognition of VPAs, in practice, informal agreements between planning authorities and developers were occurring prior to 2005.

Building on the shift to incentivise affordable housing supply through voluntary mechanisms, the ARH SEPP was gazetted in 2009. The ARH SEPP introduced a density bonus for affordable housing as well as planning concessions to enable more affordable forms of market housing (e.g. boarding houses).

Over the course of 2010-2016, numerous local Councils across metropolitan Sydney adopted affordable housing policies with the objective of increasing the supply of affordable rental housing across their respective LGAs. The primary methods of facilitating new supply was a combination of pursuing voluntary contributions under the VPA provisions of the EP&A Act and requiring delivery of affordable housing in any redevelopment of Council-owned sites.

Notable exceptions to this included the City of Sydney's Green Square Affordable Housing Program and Southern Employment Lands Affordable Housing Program which were adopted in 2002 and 2015 respectively. Similar to the City West Program, both programs require all development in each contribution area to contribute a proportion of residential floor area and non-residential floor area as affordable housing or pay an equivalent monetary contribution. These inclusionary forms of affordable housing contributions were facilitated by the City of Sydney's inclusion in SEPP 70.

The draft Greater Sydney Region Plan and District Plans were released in early 2017 by the GSC. A key component of these plans was the requirement for 5% to 10% of additional residential floorspace resulting from a change to planning controls being delivered as affordable housing. The premise of this requirement was the concept of value uplift attributed to the impact of changes in planning controls on land values.

The District Plans required local Councils to prepare Affordable Rental Housing Target Schemes based on the need of the local area. Following industry feedback over the course of 2017, the finalised Region and District Plans were adopted in March 2018. The revised Plans retain the requirement for affordable housing, albeit subject to viability testing.

Also in 2018, SEPP 70 was expanded to include five new Sydney Councils including Randwick, Inner West, Northern Beaches, Ryde and Canada Bay. Recognising the universal need for affordable rental housing across NSW, SEPP 70 was extended to all Councils across NSW in February 2019. Local Councils are permitted to seek affordable housing contributions on an inclusionary basis, subject to the preparation of an affordable housing contribution scheme. An affordable housing contribution scheme template was issued by the Department in February 2019 to assist in this process.

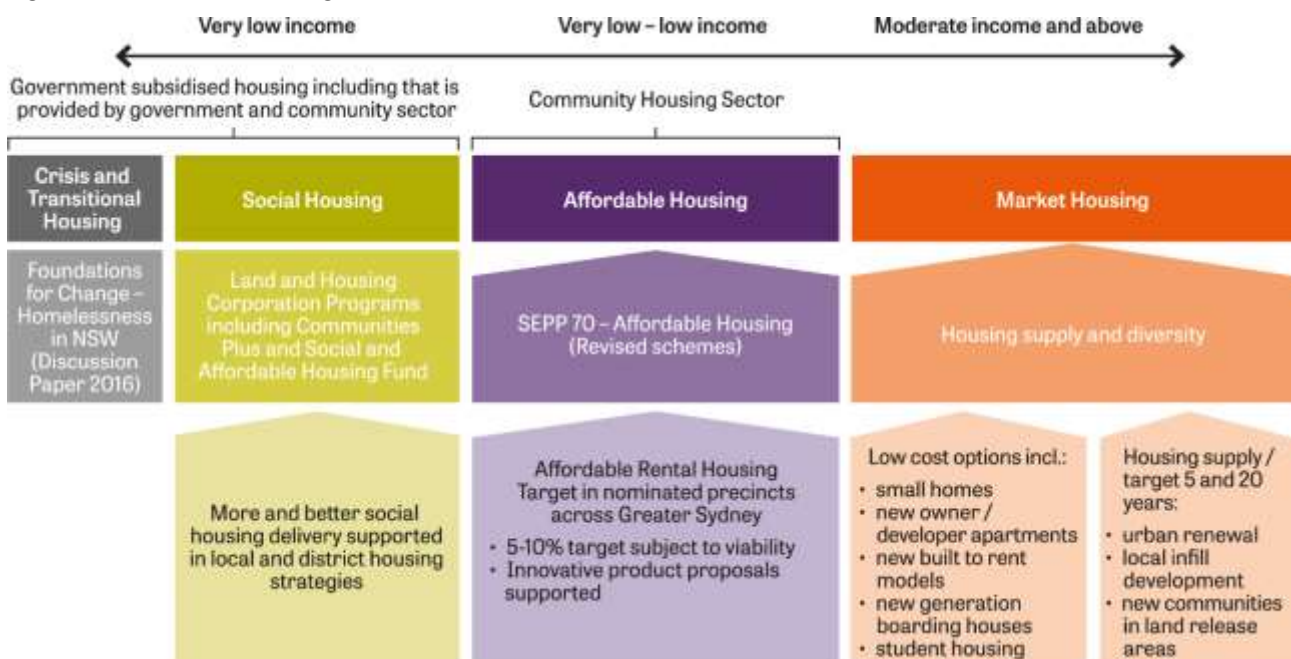
Since 2019, all Councils have been preparing Local Housing Strategies to inform their Local Strategic Planning Statements and review of LEPs. Understanding the demand for affordable rental housing has been a key component of these investigations. Affordable Rental Housing Target Schemes are to be prepared by each Council following development of a standard viability test by the GSC. This work is expected to be completed in the short-term with all local Councils expected to commence work on Affordable Rental Housing Target Schemes in 2021-22.

### 3.2.2 Definition of Affordable Housing

Affordable housing is defined under SEPP 70 as housing provided to ‘very low-income households, low income households and moderate-income households’ (the income brackets of these households were identified earlier in **Table 2.1**).

Affordable housing is an essential component of the ‘affordable housing continuum’ – the range of housing sectors required to meet the needs of society including crisis and transitional housing (e.g. homeless shelters), social housing, affordable housing and market housing. This housing continuum within the NSW context is outlined in **Figure 3.1**.

**Figure 3.1: Affordable Housing Continuum in the NSW Context**



Source: GSC (2018a)

### Contribution Mechanisms

As outlined in section 3.2.1, a mix of inclusionary and incentive-based approaches have been adopted across NSW by State government and local Councils. Given the limited number of Councils that participated under SEPP 70 prior to 2019, the majority of contribution mechanisms pursued in recent years have focused on incentive-based approaches (predominantly through VPAs). This has also been observed with the strong take-up of development opportunities under the ARH SEPP across much of Greater Sydney.

The rollout of the GSC’s Affordable Rental Housing Target Schemes framework in conjunction with the Department’s affordable housing contribution scheme template will see affordable housing contribution frameworks standardised over the coming decade.

### 3.3 Other State Frameworks

Affordable housing frameworks and strategies across the States and Territories outside NSW vary in nature, ranging from well-established and advanced frameworks (e.g. South Australia) to more immature and establishing examples (e.g. Victoria). This section carries out a high-level review of the various affordable housing frameworks across Australia and the mechanism for securing affordable housing (i.e. inclusionary, incentive-based or a combination of both).

#### 3.3.1 South Australia

The South Australian Government has adopted a State-led policy to affordable housing supply for over 15 years. Along with Western Australia and the Australian Capital Territory, South Australia is considered one of the leaders in affordable housing outcomes across Australia.

The *30-Year Plan for Greater Adelaide* (Government of South Australia, 2010) included a 15% affordable housing target for significant new development and growth areas across Greater Sydney, of which a third should be designated for high needs households. These targets amounted to some 38,700 new affordable dwellings distributed across the eight regions of Greater Adelaide over the three decades to 2040 (AHURI, 2018). The targets were reiterated in the *Our Housing Future 2020-2030* Housing Strategy (Government of South Australia, 2019).

##### South Australia Affordable Housing Policy (Overlay)

The South Australian Government has set a 15% affordable housing target for all new 'significant developments' for over a decade. 'Significant developments' can include:

- State Significant Areas;
- Areas subject to Structure Plans and precinct planning, in particular new transit oriented developments and transit corridors;
- Rezoning that substantially increases dwelling potential (including new greenfield growth areas);
- Residential developments with major development status; and
- Residential developments on surplus government land.

Implemented since 2005 and operating under the provisions of the South Australian *Development Act 1993*, the target has been progressively introduced through local plan amendments and on major development sites when areas are rezoned for residential uses. Areas subject to affordable housing contributions are included in local development plans (primary local planning instruments) via an 'affordable housing overlay'.

In addition to this mandatory inclusionary zoning model, local Councils can add additional local incentives to encourage affordable housing, including concessions on allotment sizes, building height, setbacks and car parking. The incentives can operate even in areas where the 15% affordable housing overlay does not apply.

##### Definition of Affordable Housing

The South Australian affordable housing framework defines affordable housing as 'dwellings appropriate to the needs of households with low and moderate incomes (i.e. up to 120% of gross annual median income)' and can include homes offered for sale at or below nominated price points, sold to an eligible buyer and subject to a legally binding agreement ensuring that requirements are met. Affordable housing providers are also considered eligible to purchase affordable housing to secure affordable rental housing stock.

The criteria for affordable housing (including price points) are published in the Government Gazette annually.

##### Mechanism of Delivery

Where a 15% affordable housing target is required as part of a development, the developer is required to prepare an affordable housing plan that outlines the planned staging of the affordable housing component of the development. The plan considers the location of allotments, indicative pricing and target tenure mix of the affordable housing product. The commitment to provide affordable housing is made through a legally binding Land Management Agreement (LMA) between the developer and the South Australia Housing Authority.

Potential purchasers of affordable homes are required to apply to the South Australia Housing Authority which ensures compliance with eligibility criteria. Purchasers can opt to seek finance for their purchase via the SA Housing Authority's Assist Loans program, where SA Housing Authority takes an equity position in the dwelling, reducing the capital amount required for purchasers to borrow from a traditional lender. Buyers utilising the Assist Loans program must live in their affordable home for a continuous period of 12 months prior to re-selling, with any capital gain or loss shared between the SA Government and the property owner.

A developer must list an affordable home for an exclusive period of 30 days, providing eligible buyers the 'first right to purchase'. If no purchasers are secured, the dwelling may be listed on the open market. Home and land packages and land allotments must fall below the specified price points outlined in the Government Gazette whereas sales to an affordable rental housing provider can be negotiated.

### Supply Outcomes

The South Australian affordable housing model has been incredibly successful in delivering affordable housing outcomes across the South Australia. Over the 2005-2016 period, a total of 5,458 affordable dwellings had been delivered (AHURI, 2018). The vast majority of this supply had been delivered on government-owned precincts and sites, accounting for around 68% of total supply. Some 1,800 affordable dwellings had been delivered by the private sector under inclusionary zoning provisions, whilst just 101 dwellings had been delivered under voluntary agreements.

Of the 5,485 affordable homes delivered over this period, approximately 47% were purchased by individuals, 31% by social housing operators and 22% by NRAS investors (AHURI, 2018).

### Criticisms of the SA Model

Despite the success of the South Australian affordable housing model, a number of criticisms have been raised by various stakeholders. Some of these include:

- Affordable housing supply across South Australia has primarily occurred in suburban areas where land is cheaper and developers have been able to reduce lot and dwelling sizes to meet affordable housing targets. This has raised concerns that whilst falling into the required price threshold, affordable homes are generally further away from major employment areas.
- Delivery of affordable housing in the inner Adelaide market has been limited, particularly in higher-density housing formats. The immature inner-city apartment market has resulted in some affordable units not being taken up within the statutory timeframe and has required developers to seek more concessions from local planning authorities to ensure viability. This has resulted in most affordable homes being delivered outside Adelaide's inner ring and generally in low-density housing formats.
- There is no restriction on eligible affordable housing purchasers reselling an affordable home on the private market after a 12-month period. This has resulted in some affordable home purchasers benefiting from sizeable capital gains.

### **3.3.2 Australian Capital Territory**

The Australian Capital Territory Government has adopted affordable housing planning policies for well over a decade with the ACT *Affordable Housing Action Plan* launched in 2007. Similar to South Australia, delivery of affordable housing outcomes across ACT are sought at the State-level through inclusionary zoning mechanisms. It is important to highlight the ACT is an exceptional case given the State Government's direct control of land supply which is not the case in other States/ Territories.

#### ACT Affordable Housing Action Plan (2007)

The ACT Affordable Housing Action Plan (2007) was a holistic whole-of-government strategy aimed at delivering a cross-government affordable housing strategy. It was focused on change in many parts of the housing continuum. The depth and breadth of the Plan was significant with a total of 63 individual strategies (the majority of which were action-orientated).

The Plan aimed to boost supply of affordable housing through:

- Leveraging the ACT Government's control of land supply to put downward pressure on prices;
- Introducing an inclusionary zoning control on new greenfield estates requiring 20% of dwellings be affordable;

- Establishing the Land Rent Scheme; and
- Growing the Community Housing Canberra through funding injections and transfer of public housing stock.

The key elements and strategies of the ACT Affordable Housing Strategy (2007) are shown in detailed in **Table 3.2**.

**Table 3.2: Key Elements and Strategies, ACT Affordable Housing Action Plan 2007**

Element	Key Strategy	No. of Strategies
Land Supply	Accelerate the release of land to put downward pressure on price	16
Diversity of Housing Products	Introduce a quota of affordable lots	8
Planning and Building Regulation	Reassess the impact of planning requirements on the cost of dwellings	1
Other (mostly reducing ownership costs)	Establish the Land Rent Scheme	8
Private Rental	Seek private sector interest	4
Community Housing	Grow CHC into large independent entity with dwelling targets	10
Public Housing	Increase proportion of 2bedroom stock	8
Supported Accommodation	Strengthen the transitional housing program	3
Aged Housing	Identify development sites for aged housing	1
General	Ensure the supply of sufficient skilled workers to meet demand for housing construction	4

Source: Atlas, adapted from AHURI (2017)

### Definition of Affordable Housing

The ACT's Affordable Housing Strategy focused on households in the first two income quintiles. Affordable housing was defined as where these households paid up to 30% of their gross household income on housing costs.

Price thresholds apply to affordable homes based on the net living area and are indexed annually.

### Mechanism of Delivery

Unlike other States and Territories, land supply across the ACT is directly controlled by the ACT Government via the Suburban Land Agency (formerly the Land Development Authority). This direct control allows the requirement of 20% affordable housing contributions to be directly implemented in new housing estates and centres. Where the LDA sells engloba land to private developers, affordable housing contributions were secured through a land management agreement (similar to that observed in South Australia).

The ACT Government has been particularly successful in providing direct funding to a local community housing provider known as Community Housing Canberra, which is now amongst the largest community housing provider operators in Australia. Government-owned sites have frequently been divested to Community Housing Canberra via direct negotiation, providing opportunities for the developer which they may not have otherwise been able to obtain in the private market.

Potential purchasers of affordable homes are required to apply to the Suburban Land Agency which ensures compliance with eligibility criteria. Purchasers can opt to seek finance for their purchase via several loan assistance programs offered through the Suburban Land Agency.

### ACT Housing Strategy (2018)

The *ACT Housing Strategy 2018* is the next iteration of the Affordable Housing Action Plan (2007), building upon the objectives and targets set in the Affordable Housing Action Plan.

The Strategy recommits to an affordable housing target in new land release areas, albeit slightly lower than that required in the previous Plan with 15% of the Indicative Land Release Program to be provided for public, community and/or affordable housing.



Other key objectives and strategies under the *ACT Housing Strategy 2018* include:

- Continue to leverage the ACT Government's control of land supply to put downward pressure on prices (specifically a pipeline equivalent to 4-years supply).
- Grow the supply of affordable private rental properties through a variety of measures, including tax concessions, lease charge remissions and/or planning control concessions.
- Increase home ownership through alternative finance and occupancy models, including a shire equity initiative, rent to buy schemes, co-housing models and expanding the existing Land Rent Scheme.

### 3.3.3 Western Australia

Similar to both South Australia and the ACT, the Western Australian Government have a long history of pursuing affordable housing outcomes via the planning system. The *WA Affordable Housing Strategy* was launched in 2010 following recommendations by the Social Housing Taskforce, a cross industry group established by the WA Government in response to declining housing affordability.

#### Western Australia Affordable Housing Strategy (2010)

The *WA Affordable Housing Strategy* was launched in 2010 with the aim of delivering 20,000 additional affordable homes by 2020. The creation of these dwellings was to be achieved through a variety of demand and supply-side mechanisms, including:

- Direct government investment in delivering affordable housing through the Western Australia Housing Authority;
- Establishment of alternative housing products and markets;
- State and local planning reforms;
- Partnering with private developers and community housing providers;
- Increasing the volume of Keystart Assistance for eligible households;
- Maximising involvement in National Rental Affordability Scheme;
- Establishing a private rental brokerage scheme and a not-for-dividend housing company; and
- Introducing a housing needs register.

#### Definition of Affordable Housing

Similar to the ACT Affordable Housing Action Plan, The *WA Affordable Housing Strategy* was a broad strategy which sought to address various households on the housing continuum, ranging from very low, low and moderate incomes. These three various household income groups were classified in 'bands' and were to be targeted with different housing products.

The broad target groups (as named in the *WA Affordable Housing Strategy*) are outlined in **Table 3.3**.

**Table 3.3: Broad Target Groups, WA Affordable Housing Strategy (2010)**

Group	Characteristics	Primary Need
Band A	People with very low incomes and other physical or social disadvantages (e.g. disability, homelessness) that impede their ability to secure private housing.	Suitable Social Housing (rents below 30% of income)
Band B	People with low incomes but who are not otherwise disadvantaged	Affordable Private Rentals (rents 20% below market levels)
Band C	People on moderate incomes who are unable to access affordable housing in the standard housing market	Affordable Private Rentals and/or Home Ownership

Source: AHURI (2018)

### Mechanism of Delivery

The Strategy advocated a diverse range of actions to deliver affordable housing outcomes across Western Australia. **Joint ventures** (JVs) are commonly advocated and adopted, where the Housing Authority uses state-owned land as equity or provide direct funding to launch JV projects with both private developers or community housing providers. A portion of dwellings is then set aside for affordable housing.

**Voluntary incentives** are also encouraged; the Strategy permits local governments to incorporate requirements and voluntary incentives for developers to include wider affordable housing components in developments above a specified size, offset by appropriate concessions and/or plot ratio bonuses.

Notably, **inclusionary zoning** is not sought under the Strategy with the exception of government-owned land developed for residential uses. In these instances, 15% of the total dwellings to be developed are to be dedicated for affordable housing.

### Supply Outcomes

The 20,000-dwelling supply target outlined in the WA Affordable Housing Strategy was achieved in mid-2015, some five years prior to 2020 target date. This has been championed as a major success story of the Strategy.

Some 50% was delivered through the 'Keystart' low deposit home loan scheme which itself was operational prior to the adoption of the Strategy in 2010.

NRAS delivered over some 10%, with the Shared Equity Home Loans program also facilitating a large proportion of the new dwellings, emphasising the importance of Federal Government funding in helping to deliver the target. Only a small proportion of the overall total resulted from joint ventures with the private sector. Shared ownership and shared equity products comprised the remaining 10% of dwellings and these were predominantly new houses.

**Table 3.4: Supply Outcomes (2010-2015), WA Affordable Housing Strategy**

Type	Dwelling Supply
Social Rental	5,400
Affordable Rental	2,700
Shared Equity Home Loans	1,900
Low Deposit Home Loans	10,000

Source: AHURI (2018)

Owing to the success of the Strategy, the dwelling target was increased to 30,000 affordable homes by 2020 in late-2015.

### Affordable Housing Action Plan 2017-2020

The State Government's Affordable Housing Action Plan 2017-18 to 2019-2020 was the next iteration of the WA Affordable Housing Strategy and commits to delivering 7,700 homes for people on low to moderate incomes. It also increases the previous 2010-2020 target of 30,000 affordable housing opportunities to a minimum of 35,000 by 2020.

Much of the principles and strategies outlined in the original Strategy were retained in the Action Plan. A more comprehensive 10-year plan is currently being prepared.

### 3.3.4 Victoria

Whilst widely recognised as a strategic goal in several State planning policies and strategies, there is no recognised or codified mandatory affordable housing contributions policy in Victoria. In the absence of a mandatory or inclusionary zoning affordable housing policy, local Councils typically seek affordable outcomes through voluntary planning agreements.

#### Planning and Environment Act 1987

In June 2018, the Victorian State Government made several amendments to the *Planning and Environment Act 1987* to facilitate voluntary agreements for the provision of affordable housing as part of development applications in the form of section 173 agreements (voluntary planning agreements).

Key amendments to the Act included:

- Facilitation of affordable housing an objective of the Act;
- Introduction of a definition of affordable housing; and
- Affirmed the use of Section 173 for voluntary affordable housing agreements between authorities and proponents.

#### Definition of Affordable Housing

Affordable housing as defined in the Act as very low-income household, low income households and moderate-income households. Based on this definition, affordable housing in Victoria is defined as a mix of public housing (provided by State Government), community housing (managed by a CHP) and private market housing which is provided to very low to moderate income households.

Very low income, low income and moderate-income households are defined by income ranges that apply to people living in Melbourne or outside of Melbourne. These income ranges are published annually in the Victorian Government Gazette.

The Act does not specify what the cost of housing should be for households within the income bands, noting 'it is generally accepted that, to avoid housing stress, housing costs should not exceed 30% of household income'. The Act does not specify any affordable housing targets or contribution mechanisms to be delivered at a State or local government level.

#### Affordable Housing (Section 173) Agreements

The Department of Environment, Land, Water and Planning (DELWP) published an Affordable Housing Agreement template for local Councils to adopt in future negotiations with proponents as part of voluntary section 173 agreements.

The Template outlines several methods by which affordable housing could be provided within a section 173 agreement:

- Direct transfer of a proportion (%) of the total dwellings approved for development to a Registered Housing Agency for nil consideration.
- A sum of money equal to the cumulative market value of the proportion of dwellings to be vested as affordable housing paid to a Registered Housing Agency.
- Provision of a proportion (%) dwellings to a Registered Housing Agency for leasing as Affordable Housing.

In each in-kind contribution scenario, the developer is required to construct and deliver the affordable housing dwellings.

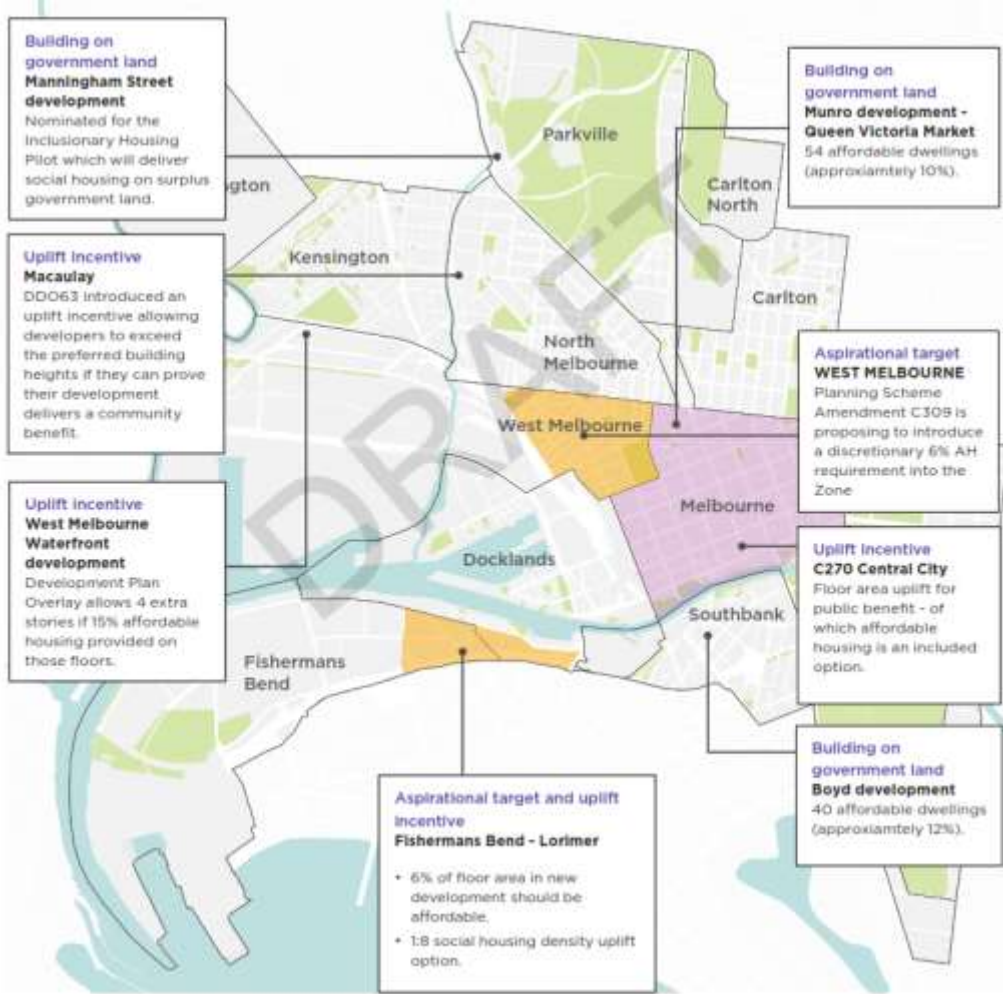
To date, changes to the *Planning and Environment Act 1987* have resulted in a negligible supply of new affordable housing.

#### City of Melbourne

The City of Melbourne has the longest history in trying to facilitate delivery of affordable housing at a local government level.

The City has a number of mechanisms to deliver this objective including uplift mechanisms, building on government land, voluntary section 173 agreements and aspirational targets. There is no mandatory mechanism to facilitate affordable housing outcomes. The variety of affordable housing mechanisms utilised by the City of Melbourne are illustrated in **Figure 3.2**.

Figure 3.2: Affordable Housing Mechanisms, City of Melbourne



Source: City of Melbourne (2020)

A brief summary of some of the uplift incentives which have been developed to initiate affordable housing development across the City of Melbourne are outlined in Table 3.5.

Table 3.5: Uplift Incentives, City of Melbourne

Mechanism	Description
Melbourne Planning Scheme Amendment C270	Introduced a floor area ratio of 18:1 to provide a guide for what a reasonable development yield should be within the central city. Development density which exceeds this threshold triggers a value sharing contribution towards a public benefit. The public benefit provided must be commensurate with the uplift sought and could include strategically justified uses such as office space, publicly accessible areas or affordable housing.
West Melbourne Planning Scheme Amendment C309	A preferred building height of 10 storeys is given in this precinct. A building height of up to 14 storeys may be permitted by Council if, amongst other things, 15% of this additional floor area is set aside for affordable housing.
Macaulay Design and Development Overlay 63 (DDO63)	New built form controls were introduced to Macaulay through Design and Development Overlay 63 (DDO63). An uplift incentive was included in the controls allowing developers to exceed the preferred building heights if they can prove their development provides 'a demonstrable benefit to the broader community'.
Fisherman's Bend Structure Plan (Lorimer Precinct)	The Fishermans Bend Framework introduced an affordable housing target of 6% and a social housing uplift incentive. The uplift incentive offers an increase of eight dwellings above the 'as-of-right' density for each social housing dwelling provided, at the discretion of the responsible authority. At current, the social housing uplift incentive has not been applied to any developments in the Lorimer precinct.

Source: City of Melbourne (2020)

In the City of Melbourne's draft Affordable Housing Strategy (March 2020), the central objective being pursued by the City is advocating for mandatory inclusionary zoning for affordable housing across Victoria. The City is also seeking to deliver a minimum of 25% affordable housing dwellings in future developments on sites owned by the City.

To date, the only mechanism which has facilitated the delivery of new affordable housing across the Melbourne LGA has been the redevelopment of government-owned sites where State Government and the City of Melbourne have been able to directly influence an affordable housing outcome.

### City of Yarra

The City of Yarra are one of the most progressed Councils across Greater Melbourne in affordable housing policy. Council has long been an advocate for inclusionary zoning and has been part of previous efforts to introduce inclusionary zoning approaches in inner-city Melbourne. In 2007, the Inner Melbourne Action Plan (IMAP), which at the time included the Cities of Melbourne, Port Phillip, Stonnington and Yarra, developed a model of inclusionary zoning to maintain at least six percent of housing in the inner city for low income households through a contribution rate to apply to new developments.<sup>113</sup> This proposal was not accepted by the Victorian Government.

To date, the City of Yarra had achieved affordable housing outcomes by negotiating during the rezoning process with the development proponent for the inclusion of a proportion of affordable housing through Development Plan Overlays and supported by a Section 173 Agreement. Major sites where negotiations for affordable housing have been secured with developers and community housing agencies, include:

- Alphington Paper Mill Site
- GTV9 Richmond
- North Fitzroy Gasworks

The City of Yarra adopted their Affordable Housing Strategy in 2019. The newly adopted Strategy notes that where a rezoning which permits residential development in excess of 50 dwellings, Council will seek an affordable housing contribution of a minimum of 10% to be transferred to a CHP (or an alternative of equal benefit).

### City of Glen Eira

The Glen Eira Social and Affordable Housing Strategy outlines a number of mechanisms by which value uplift is apportioned to affordable housing:

- Section 173 Agreements are to be utilised in instances of large scale rezonings. The City of Glen Eira negotiated a 5% affordable housing contribution in the rezoning of the East Village precinct in Bentleigh (some 150 dwellings of the total 3,000). The agreement allows for Council to have the first option to decide to take ownership and or management responsibility for the affordable housing. Alternatively, land owners will transfer land at no cost to a registered housing association.
- Affordable housing contributions are intended to be required in instances where approvals exceed certain thresholds (typically 5 storeys) in the Carnegie and Elsternwick Activity Centres (based on the concept of value uplift). Council has determined an appropriate method for calculating the significant community benefit contributions it will expect in return for the additional floor space and has determined the types of significant community benefits that it will accept. If approved by the Minister, Council will make this information public to provide clarity to the market about how and where this policy would operate.

The parameters of any affordable housing contributions secured via this Strategy would be agreed via a negotiated affordable housing agreement.



### 3.4 Summary and Policy Implications

The review of Commonwealth and State policies provides insight into the variety of mechanisms and schemes which have been adopted and their respective strengths and weaknesses. Whilst some of the mechanisms could not be readily replicated in the NSW context (i.e. the ACT Government's direct control over land supply), there are a number of learnings to be drawn from the analysis with implications for the future planning across the peninsula.

While Commonwealth programs assist with housing affordability and provide assistance to households who qualify, there has been limited impact to growing housing supply-side.

#### Government Controlled Sites

All States and Territories examined that have been successful in significantly boosting affordable rental housing supply have **focused on Government-owned land**. South Australia, the ACT and Western Australia have all adopted an inclusionary zoning mechanism on government-owned sites, requiring a percentage of total dwellings be delivered as affordable housing. This has not only served to both boost supply in a variety of metropolitan areas, it served as case studies and learnings for the development industry (particularly where affordable housing was still a relatively new concept). The provision of inclusionary contributions on state-owned sites required co-ordination between all relevant State Government agencies to ensure alignment of agency objectives.

#### Variety of Mechanisms

Analysis of affordable housing policies across Australia shows there is not a 'one size fits all' approach. Successful affordable housing policies and programs in states such as South Australia and the ACT have comprised a mix of **inclusionary, incentive-based and innovative, government-led mechanisms** that collectively work to boost the supply of affordable rental housing.

The policies outlined by the City of Sydney in the Affordable Housing Review when coupled with the existing City West Affordable Housing Program would facilitate a mix of inclusionary and incentive-based mechanisms for affordable housing contributions.

A clearer commitment to delivering a minimum proportion of affordable housing on Government-owned sites (as advocated by the City of Sydney) would further strengthen the overall affordable housing strategy across the peninsula.

#### Voluntary Contributions have Poor Uptake

With the exception of the ARH SEPP which has recorded strong take-up (albeit including a mix of non-affordable housing), the uptake of voluntary affordable housing contributions across the various State and Territories has been poor. This has been the experience in a variety of markets, including metropolitan based areas such as the City of Melbourne and Adelaide and more suburban areas including Greater Perth. This highlights the importance of incentive (and inclusionary) mechanisms to secure affordable housing outcomes.

The next Chapter includes a high-level review of affordable housing policies from the United Kingdom and United States.

## 4. International Case Studies

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### 4.1 United Kingdom (England)

Affordable housing is a central objective endorsed by national planning legislation across the United Kingdom and England. The role of the planning system in facilitating affordable housing is enshrined in both the National Planning Policy Framework and *Planning Policy Statement 3: Housing* (PPS3). The National Planning Policy Framework and PPS3 require local planning authorities to develop Regional Spatial Strategies which assess, *inter alia*, the demand for affordable housing and regional affordable housing targets. This assessment is to be further considered at the local level in Local Plans which consider:

- Separate targets for social-rented and intermediate affordable housing;
- The size and type of affordable housing required;
- The range of circumstances in which affordable housing is required; and
- The approach to seeking developer contributions for affordable housing.

#### Definition of Affordable Housing

Under the National Planning Policy Framework, affordable housing is defined as a variety of affordable housing options for 'those whose needs are not met by the market' (Ministry of Housing, Communities and Local Government, 2019). This relatively loose definition has historically been a point of argument. There is no standard methodology by which eligibility for affordable housing is measured (such as measurement against gross household income), though it is widely accepted that affordable housing should be provided at a discount of at least 20% to local market values/ rents.

The types of affordable housing are more categorically defined in the National Planning Policy Framework and include:

1. **Affordable housing for rent:** housing which is rented out at below 20% of local market rents by a registered housing provider and provisions to remain at an affordable price for future eligible households (or for the subsidy to be recycled for alternative affordable housing provision). There are two main forms of affordable housing for rent; affordable rents (80% of local market rents) and intermediate rents (priced between social rents and affordable rents).
2. **Social housing for rent:** housing which is set at sub-market rents through the national rent regime with properties owned by local authorities or housing associations.
3. **Starter homes:** new dwellings made available for sale at 20% discount of local market values to first-home buyers only (first-time buyers being defined as those who have not previously purchased a home and are aged between 23 and 40 years old).
4. **Discounted market sales housing:** dwellings that are sold at a discount of at least 20% below local market value. Eligibility is determined based on local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households.
5. **Other affordable routes to home ownership:** housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low cost homes for sale (at a price equivalent to at least 20% below local market value) and rent to buy (which includes a period of intermediate rent).

This definition of affordable housing types is much broader than that considered in the NSW context.

#### Mechanism of Delivery

The National Planning Policy Framework outlines that where a need for affordable housing has been identified at a regional and local level, residential development must make a provision for affordable housing. Contributions are expected to be made in-kind and on-site, unless off-site provision or a financial contribution in lieu can be justified. Major housing developments<sup>1</sup> are expected to contribute a minimum of 10% of proposed dwellings as a form of affordable housing, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable

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<sup>1</sup> Major housing developments are defined as those comprising 10 or more dwellings, or with a site area of 0.5ha or more

housing needs of specific groups. The 10% rate is a target with local authorities able to negotiate for greater or lower rates of affordable housing provision. For instance, the Greater London Authority requires a 50% affordable housing contribution in certain areas of Greater London for specific development.

Affordable housing contributions are secured through two primary mechanisms; Section 106 planning agreements and Community Infrastructure Levies (CILs). Section 106 planning agreements are negotiated legal agreements between developers and local authorities facilitated through the *Town and Country Planning Act 1990*. They are used to make development acceptable through delivery of affordable housing or infrastructure, or requiring development to be used in a particular way. Local authorities exhibit policies outlining the level of contributions required in a particular area, with individual agreements then made on a site-by-site basis. Planning agreements can be renegotiated over the course of a development, often resulting in a reduction in affordable housing outcomes.

Community Infrastructure Levies are statutory local development contributions with specific rates based on total floor area of a proposed development. Community Infrastructure Levies are used to fund a variety of local infrastructure, including affordable housing. The proportion of Community Infrastructure Levies to be used for affordable housing varies by local authority area and is informed by the assessed need for affordable housing in the area. Despite being introduced in 2010, the adoption of Community Infrastructure Levies schemes by local authorities is not mandatory with the mechanism only being partially taken-up to date.

Both forms of contribution mechanisms (s106 planning agreements and CILs) are examples of mandatory (inclusionary) approaches. That said, it is important to highlight the UK's planning framework differs to the Australia system as it operates under a discretionary system (as opposed to a designated zoning system).

Local planning authorities can determine permissible land uses based on a broad planning permission framework. This system is based on negotiation and interpretation of Local Plans. There would arguably be an element of incentive to provide affordable housing contributions through this negotiation-based system, whereby payment of contributions could facilitate a favourable development outcome.

It is noted that the development contributions framework across the England is currently being reformed to address several issues with Section 106 planning agreements and Community Infrastructure Levies, including, *inter alia*, the inherent delays associated with Section 106 negotiations, a lack of transparency in the allocation of funding, the ability for Section 106 agreements to be renegotiated, the complex nature of Community Infrastructure Levies and their poor take-up across local authority areas.

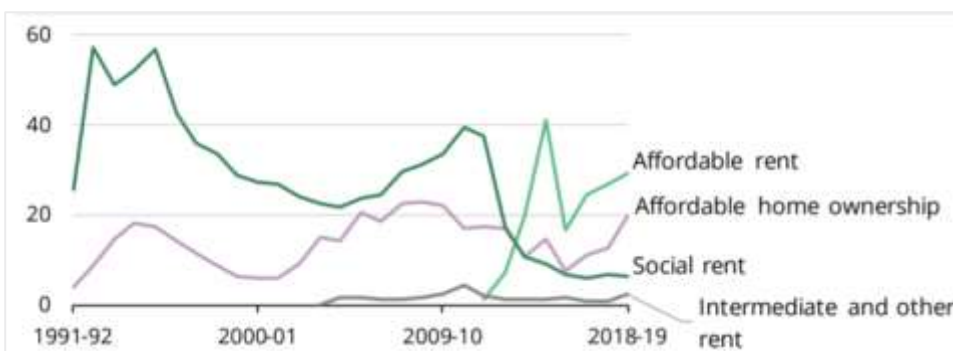
### Supply Outcomes

The England affordable housing system has been incredibly successful in boosting affordable housing supply over the past three decades, largely given the variety of supply and demand-side mechanisms utilised to increase supply of affordable dwellings for purchase and rent.

New supply of affordable homes peaked in 1995-96 at around 74,500 dwellings before declining to 32,900 in 2002-03. New supply spiked in 2014-15 at almost 66,000 dwellings before falling to just over 32,000 dwellings in the preceding year. Delivery has increased year on-year since thereafter, with some 57,500 dwellings delivered in 2018-19 (House of Commons Library, 2019).

Figure 4.1 shows the supply of different forms of affordable housing across England over 1991-2019.

**Figure 4.1: Additional Affordable Housing by Type (Thousands of Dwellings), England**



Source: House of Commons Library (2019)

Affordable rental dwellings accounted for the majority of new affordable housing over 2018-19, followed by affordable home ownership and social rental dwellings.

## 4.2 United States

The United States has a comprehensive set of affordable housing policies and schemes at the Federal, State and local government level to facilitate affordable housing outcomes. A variety of inclusionary schemes have emerged across the different state and local jurisdictions of the US to secure affordable housing for more than 50 years (AHURI, 2018).

Some of the earliest forms of affordable housing policy across the US was the 'anti-snob' zoning legislation enacted in Massachusetts permitting affordable housing developers to bypass existing zoning controls. In 2014, the Centre for Housing Policy identified 512 inclusionary housing programs across 27 states and the District of Columbia (Centre for Housing Policy, 2014).

### Definition of Affordable Housing

The Federal Department of Housing and Urban Development (US HUD) provides the strategic framework for affordable housing across the US. The US HUD broadly defines affordable housing as housing provided to extremely low income and moderate-income households with housing costs a maximum of 30% of their income. A local median income (known as an Area Median Income) is adopted by each local authority when assessing affordable housing eligibility as opposed to a State-based median income. Eligibility for affordable housing is also influenced by household size and number of child dependants.

Specific types of affordable housing initiatives across the United States are decentralised and diverse, presenting challenges when defining practices across States and jurisdictions (AHURI, 2008). In addition to social housing programs, the US HUD administers two primary programs which support the development of affordable housing:

- **Housing Choice Program (Section 8 Program):** privately-owned housing leased to eligible low-income households at discounted market rents with landlords receiving a government subsidy.
- **Low Income Tax Credits:** tax incentive offered for affordable rental housing developments.

### Mechanism of Delivery

There is significant volume and variety of localised affordable housing frameworks across the United States. These frameworks generally mechanise affordable housing delivery through four main approaches – inclusionary zoning, impact fees, density bonuses and barrier removals.

**Inclusionary zoning** mechanisms are by the far the most common approach utilised across the United States. Minimum rates of affordable housing are typically required in residential development, particularly in areas undergoing gentrification and renewal. Prominent examples include the inclusionary affordable housing contributions sought in the San Francisco Bay Area, California, Washington State and Seattle. **Impact fees** (similar to section 7.11 contributions) are often used to mechanise contributions under inclusionary zoning frameworks, with contributions to be made in-kind or as a cash in lieu.

Incentive mechanisms such as **density bonuses** are also commonly utilised across the United States. Bonus floor space and/or building heights are commonly negotiated in return for affordable housing provision, particularly across California and New York. For instance, the California planning scheme provides density bonuses of up to 35% where approximately 13%-20% of dwellings are delivered as affordable housing (AHURI, 2018).

**Barrier removals** refer to State-led approaches to boost affordable housing supply at a local level. In some jurisdictions, affordable housing developers may build projects that would otherwise contravene local zoning laws, if a particular locality fails to provide sufficient affordable housing supply.

### Supply Outcomes

The combination of Federal, State and local affordable housing frameworks has delivered a significant level of affordable housing over the past 30 years. Owing to the dispersed nature of these frameworks, data on the total number of affordable housing dwellings across the United States is unavailable. However, notable examples of the success of these frameworks include California (3,000 per annum through inclusionary zoning), New York City (over 3,000 dwellings between 2003-2013 through density bonuses) and San Francisco (circa 16,000 dwellings through inclusionary zoning).

Despite the diverse approach and use of individual mechanisms and schemes across the United States, the concerted whole-of-government approach towards affordable housing delivery, including tax support for large institutional developers and investors, has resulted in a significant level of affordable housing supply in recent decades.

### 4.3 Summary and Policy Implications

The experience of the United Kingdom and United States in facilitating supply of new affordable housing provide many implications for future planning across the peninsula.

It must be recognised that both the United Kingdom and United States have uniquely different planning frameworks, tax environments and housing markets to that observed in Australia. In drawing observations from the experience of both these countries, identifying these differences is important.

**Table 4.1** summarises the key factors influencing affordable housing delivery across the UK and US in comparison to Australia.

**Table 4.1: Summary of Affordable Housing Policy and Contextual Factors, UK, US and Australia**

Contextual Factor	United Kingdom (England)	United States	Australia
Responsibility for land use planning	National Government sets strategic planning framework Local authorities draft local plans and issue consent	States/territories responsible for planning law Local government set local planning controls and issue consent	States/territories responsible for planning laws and strategic planning framework Local governments set some local planning framework and issue consent
Importance of affordable housing in planning process	A national planning priority and a key requirement at the local authority level	Varies. Californian state planning law requires local authorities to plan for affordable housing	Key objective in State strategic planning policies; emerging requirement at the local government level
Codified or discretionary process	Discretionary	Codified	Mixed
Contribution Mechanism	Negotiated; inclusionary	Fixed, inclusionary and negotiated, incentivised	Fixed, inclusionary and negotiated, incentivised
Funding for affordable housing development, scale of the affordable housing sector	Significant	Established, diversified	Limited, emerging

Source: AHURI (2018)

With these unique differences in mind, the following observations and implications can be drawn:

- Analysis of international case studies shows that whilst inclusionary housing requirements take time to embed, over the longer term, they can deliver significant volumes of affordable housing, as is demonstrated in the case of s106 planning agreements in England and inclusionary zoning policies in San Francisco. This process of embedding requires models to remain consistent over time. The City West Program is an example of such an established and embedded program.
- Strong national/ state level mandates for local governments is critical. This is beginning to be observed in NSW, though firmer targets and mandates would further support local government.
- Federal and State grants, subsidies and concessions are essential to support both the demand and supply side of affordable housing. Significant concessions and subsidies for affordable housing providers and developers in the UK and US has been the driver behind the institutional interest in affordable housing.
- Incentivised mechanisms (such as density bonuses) are an important component of securing affordable housing outcomes, however generally do not generate the level of supply facilitated under inclusionary schemes.

The next Chapter synthesises the key observations and findings from Chapters 2-4 to make recommendations for affordable housing policy in the peninsula.



## 5. Considerations for Next Steps

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The peninsula represents one of the earliest, if not the earliest, areas targeted for affordable housing in Australia. This long history in providing affordable accommodation is one of the fundamental drivers behind the unique character of the area, particularly as the area has gentrified over the past two decades.

It is this long history and well embedded nature of affordable housing policy within the local planning framework which presents an opportunity for future planning of the peninsula. Leveraging existing affordable housing policy and updating it to be in line with the rest of the Sydney LGA and identification of new affordable housing opportunities should be a core objective of the Place Strategy.

Feedback from City West Housing regarding the strengths and weaknesses of the current Revised City West Affordable Housing Program has been a fundamental in forming a view for future affordable policy in the peninsula. The primary issues raised with the existing Program include:

- Lack of remaining development opportunities across the peninsula has resulted in a fall in contributions received through the inclusionary zoning mechanism of the Program.
- Purchasing land across the peninsula for new affordable housing developments is challenging given the high cost of land and degree of competition from residential and commercial developers.
- Receiving in-kind contributions in newly developed projects can often be problematic, particularly in buildings with high strata fees which can be greater than the discounted rents which are received.
- Existing tax concessions and subsidies are insufficient to allow City West to compete directly with residential and commercial developers for development sites.

One of the key items raised during discussions with City West was the age of existing affordable housing buildings across the peninsula (many being 20-30 years old). Increases to densities for these sites could represent a major opportunity for City West Housing to redevelop their existing portfolio and increase supply across the peninsula.

Accordingly, based on the foregoing research and analysis, the following considerations will be important for the implementation of affordable housing policy in the peninsula:

### 1. Rationalisation of the Revised City West Program with the City of Sydney Affordable Housing Review

There is an opportunity to rationalise the Program with the City of Sydney's Affordable Housing Review under the new affordable housing program which covers the entire Sydney LGA. This presents an opportunity to review and update the existing contribution rates applicable in the peninsula to align with current market dynamics.

This would additionally streamline administration of affordable housing contributions which are currently received and distributed by the Department.

### 2. Adoption of the incentive-based mechanism recommended in the City of Sydney Affordable Housing Review

The incentive-based mechanism outlined in the City of Sydney Affordable Housing Review requires a contribution of 12% of additional residential floorspace for planning proposals across the peninsula and would support affordable housing outcomes across the peninsula.

### 3. Adoption of an affordable housing target for government owned sites

An affordable housing targeted for any redevelopment of government owned-sites across the peninsula for residential and/or mixed-use purposes could be adopted. The 25% target proposed in the City of Sydney Affordable Housing Review could be tested against various agency-owned sites in the peninsula to identify viability thresholds and assess alignment with relevant agency objectives.

### 4. New affordable housing target

A new target for affordable housing could be adopted following adoption of any new affordable housing policies and actions in the peninsula.

### 5. Investigate opportunities within the peninsula in conjunction with sub-precinct masterplanning

Review and testing of opportunities (generally and site-specifically) for affordable housing in the peninsula as sub-precinct masterplanning is undertaken to uncover areas for focus.

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