

# MANDATORY INCLUSIONARY ZONING

Setting targets  
for affordable  
homes

For more visit:

[theconstellationproject.com.au](http://theconstellationproject.com.au)

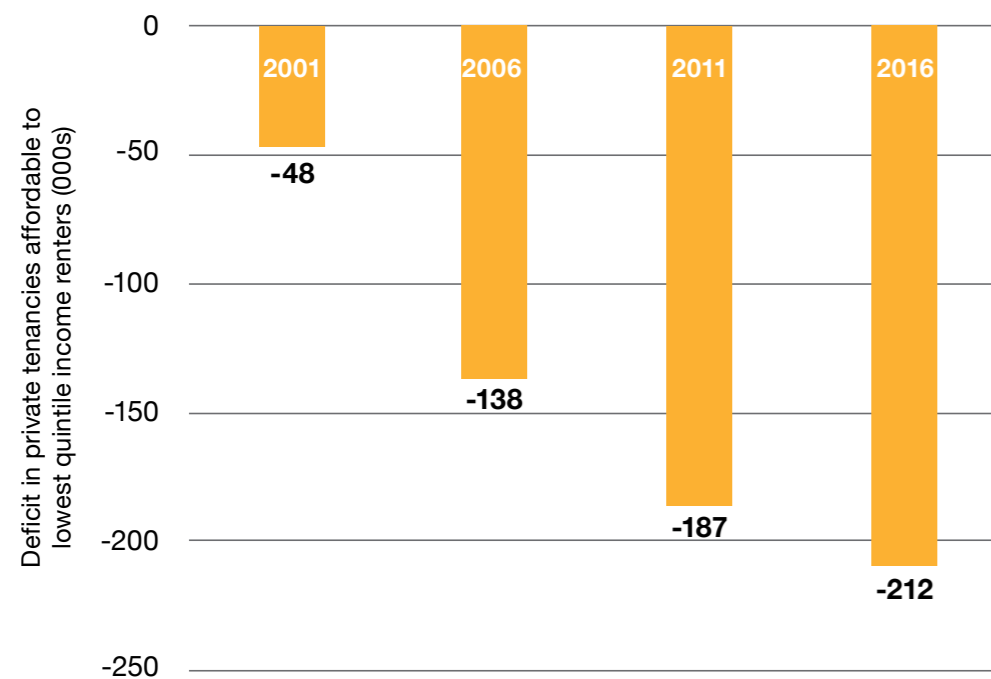


# THE PROBLEM: HOUSING STRESS AND HOMELESSNESS

Access to secure and affordable rental properties is getting tougher, especially for people on low incomes in our capital cities. Productivity Commission analysis shows that more than half of all Australia's low-income tenants are now paying so much for their housing that they can't afford basic essentials like food and clothing. And this proportion is growing! In all, some 1.3 million Australians are pushed into poverty in this way!<sup>ii</sup>

Increasing pressures on the housing market are resulting in fewer private rental properties within the means of Australians who need them most. Over the past 10-15 years this problem has become substantially worse, see diagram below.

## Private rentals affordable to low-income tenants: the growing deficit<sup>iii</sup>



**Rising homelessness** – up by 30% over the past decade – in part results from these growing stresses.<sup>iv</sup>

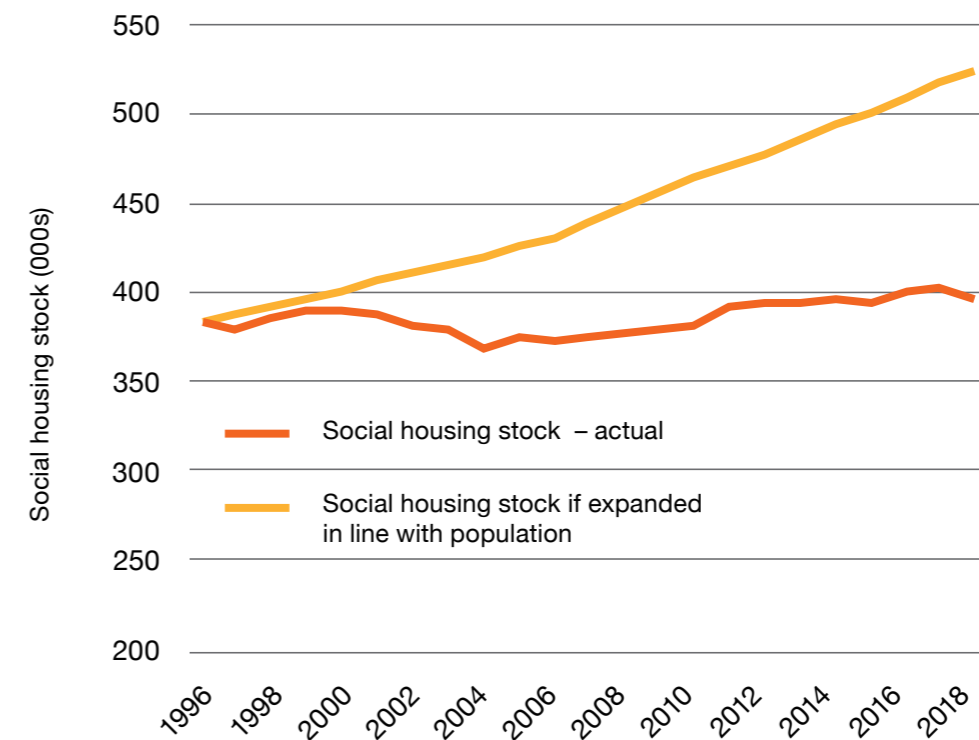
Due to lack of investment, Australia's stock of social housing has fallen further and further behind rising levels of need – see diagram on next page. Expressed in terms of annual lettings by public housing agencies and community housing providers (CHPs), **social housing supply has effectively collapsed by 50% since 1997.**<sup>v</sup>

“ **The implication... is that, at the national scale, eliminating unmet need by 2036 [would] require expanding [Australia's social rental] stock to nearly three times its 2016 size of just over 380,000 dwellings.**<sup>xi</sup> ”

Associate Professor Julie Lawson  
RMIT University

Professor Hal Pawson, Associate  
Director UNSW City Futures

## Social housing provision has failed to keep pace with need<sup>vi</sup>



**Social housing** refers to rental homes within the means of very low income households – often social security recipients – rented out as public housing or by CHPs. Tenancies are allocated according to need.

**Affordable rental housing** refers to more modestly subsidised housing targeted at low-waged workers usually charged a rent at 75-80% of market rates. Beyond this, affordable housing can involve forms of **low-cost home ownership** such as shared equity (resident is part owner, remainder retained by developer or not-for-profit provider).

Rental unaffordability and insecurity causes severe social and other wellbeing impacts including mental and physical ill health, family relationship stress and damage to children's educational development.<sup>vii</sup> Some are even pushed into street homelessness, generating costs to government that exceed the cost of supportive social housing.<sup>viii</sup> Beyond this, the growing shortage of well-located affordable rental housing impairs urban productivity, negatively impacting society more broadly.<sup>ix</sup>

According to recent research, a quarter century of inadequate investment in social housing has left Australia with 433,000 households in housing need, a number that expands to 727,000 by 2036, when newly emerging need over this period is taken into account.<sup>x</sup>

**We must urgently create more social and affordable housing.** One strategy that can help – and has helped create more affordable homes worldwide at no cost to governments – is mandatory inclusionary zoning.

## WHAT IS: MANDATORY INCLUSIONARY ZONING?

Mandatory inclusionary zoning (MIZ) occurs when a specified affordable housing contribution is required from a private developer as a condition for development consent on a market, housing (or other) project. It is sometimes known as “mandated affordable housing outcomes”, an “affordable housing contribution scheme” or, more simply, “value sharing”.

In delivering on MIZ obligations, a developer may include affordable housing units within their project or elsewhere. Otherwise, an equivalent levy may be paid towards such housing, with the funds being passed as grant aid to an affordable housing provider (probably a not-for-profit CHP).

The MIZ proportion required in a development may vary according to local circumstances – but it should be a significant, not token, proportion.

Some cities worldwide have required up to 50% MIZ, although such percentage figures need to be viewed in the light of the defined form of ‘affordable housing’ mandated (e.g. for low cost rent or sale), as well as the specified duration of affordability (possibly in perpetuity, but sometimes only for ten years), and the ultimate ownership of the dwellings involved.

In London, for example, MIZ quotas of over 30% sometimes apply, but often include discounted homes for sale and/or for rent at prices only modestly below market rates.

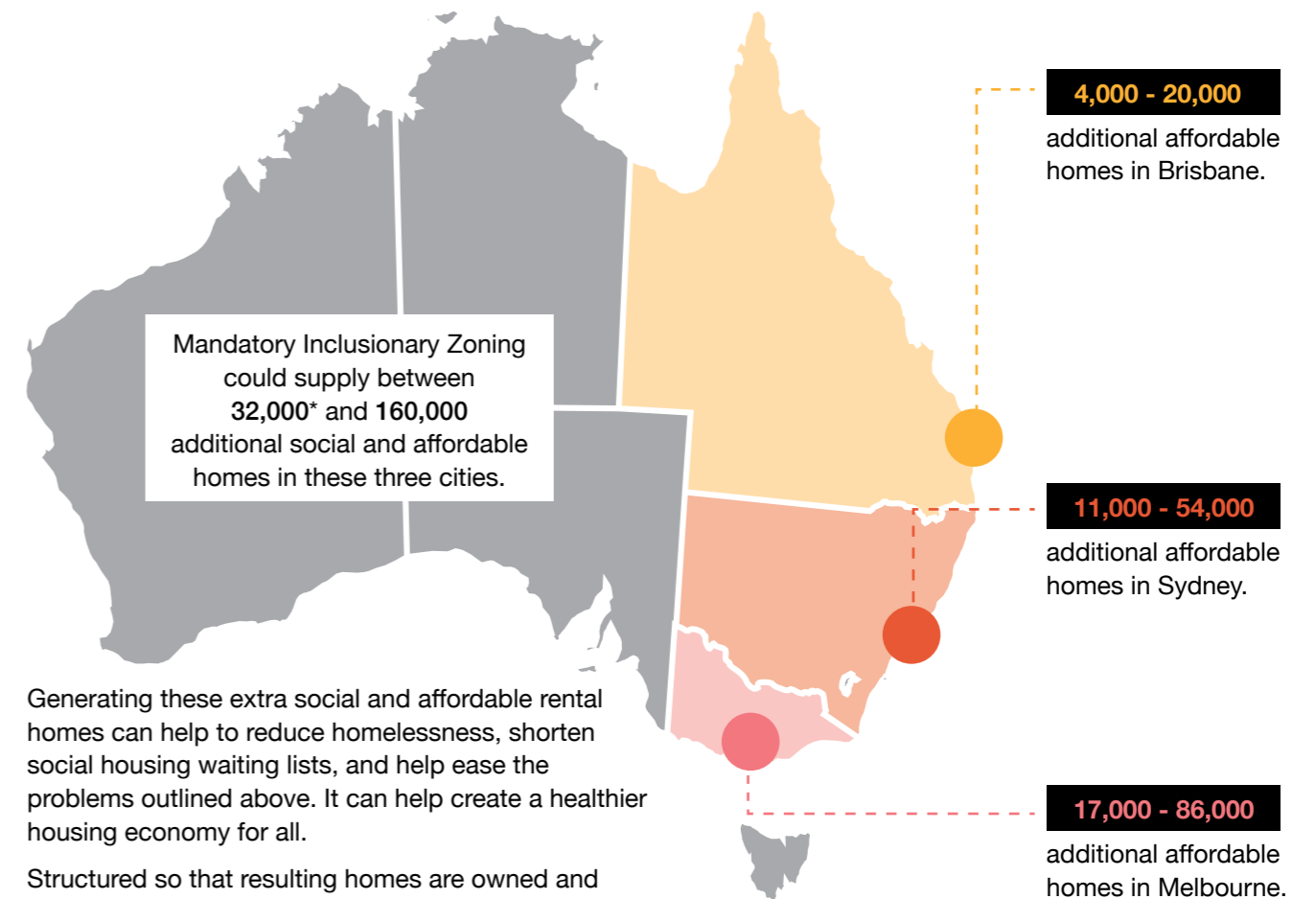
Preferably, the MIZ obligation should be calculated on the whole development, though some versions have applied it only to the post-rezoning “uplift” – this would restrict the number of affordable homes resulting.



## WHAT DIFFERENCE: CAN MIZ MAKE IN AUSTRALIA?

Modelling by the Constellation Project shows that, over the next 16 years, MIZ has the potential to provide between 32,000 and 160,000 additional social and affordable rental homes in Brisbane, Sydney and Melbourne, alone.

### Estimate of housing provided by MIZ 2020-2036



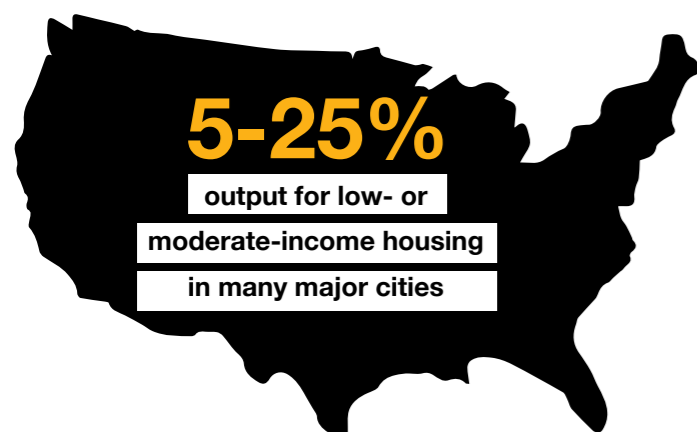
Generating these extra social and affordable rental homes can help to reduce homelessness, shorten social housing waiting lists, and help ease the problems outlined above. It can help create a healthier housing economy for all.

Structured so that resulting homes are owned and managed by not-for-profit CHPs, MIZ can boost community housing sector capacity to leverage additional investment.

Although it is not a substitute for public investment in social and affordable housing, MIZ is one of the tools that governments should be using to help address housing affordability stress and homelessness in Australia. Many housing economists,<sup>xiii</sup> think tanks<sup>xiv</sup> and even influential developers<sup>xv</sup> back the inclusionary zoning principle.

# WHERE HAS MIZ BEEN DONE AND WHAT HAS RESULTED?

MIZ rules are operated in many other countries.



In the **United States**, MIZ has become an increasingly important means of generating affordable housing. Initially taken up in suburban communities in New Jersey, California and Massachusetts, it has since been adopted by many large cities including Baltimore, Chicago, Denver, New York, Philadelphia, Sacramento and Santa Fe.

Under these schemes developers must designate a given fraction of their housing output for low- or moderate-income households, usually in the range 5-25%.<sup>xvii</sup>



Since the 1990s, **United Kingdom** local authorities have had powers to mandate an affordable housing component within private development projects. The value of such contributions in 2016-17 in England equated to £4.1 billion (\$7.5 billion AUD).

Resulting homes may be for low-cost home ownership, or for social or affordable rental use. Although projects often benefit from other subsidies, some 25,000 affordable homes (including 3,000 social rental units) were generated in 2017-18 with no additional grants.

## MIZ in Australia

In NSW a form of MIZ has existed in designated zones in the City of Sydney for more than 20 years. In the Pyrmont-Ultimo and Green Square renewal projects modest developer contributions have been channelled to affordable housing projects built and managed by CityWest Housing. However, because of their very limited application and small requirements, these schemes have yielded only 750 affordable rental homes over more than two decades.

Inclusionary zoning in other Australian states has been weak in form – e.g. developer obligations met via for-sale units priced at relatively low levels only by virtue of small size.

Similar rules operate in many other countries including **France**, the **Republic of Ireland** and the **Netherlands**.<sup>xix</sup>

# HOW SHOULD MANDATORY INCLUSIONARY ZONING BE APPLIED IN AUSTRALIA?

The Constellation Project believes that:

1. In metropolitan areas of Australia at least 10% of all housing floorspace developed on privately owned land should be designated, in perpetuity, as social or affordable rental housing, under CHP management.<sup>xx</sup>
2. Higher targets should be set for market housing development on public land.
3. Registered CHPs should apply to an appropriate State Agency to be the recipient of MIZ housing in a particular local government area.
4. Local Housing Strategies must be prepared by councils within 12 months of the legislation being enacted, and updated every five years to advise CHPs on the mix of MIZ-generated affordable housing in terms of social versus affordable rental status (but that each should never be less than 20% - i.e. if social is 20%, affordable is 80%, and vice versa).
5. To allow the market to adjust to this new legislation there should be:
  - (a) a “notice period” of two years after the legislation is enacted; and
  - (b) a “transition period” for the four years after the notice period, during which the MIZ obligation should be 5%.<sup>xxi</sup>
6. From 12 years after inception of the legislation CHPs should be allowed to trade and transfer their MIZ between each other.
7. MIZ should apply to all developments that create more than one additional dwelling. The MIZ requirement should be a stated condition of the Development Approval (DA) consent, and the housing should be dedicated when the subdivision plan (Torrens or strata) is registered. Where the development creates less than ten dwellings a cash payment should be made to the appropriate State Agency. These funds should be pooled for construction or purchase of social and affordable rental housing.

# HOW WILL MANDATORY INCLUSIONARY ZONING AFFECT PROPERTY DEVELOPERS?

All property developers prepare a financial budget or 'feasibility' prior to commencing a project. This estimates project cost, sales revenue, developer profit, and – factoring in these elements – resulting land value. MIZ obligations will be reflected by a lower land valuation. However in Sydney, as an example, average annual increase in land values over the last 30 years have significantly exceeded CPI. It is economically rational and reasonable that property developers, who take risks, make a profit. MIZ does not put a rational property developer's profit at risk.

## WHAT NEEDS TO HAPPEN?

- State governments must pass legislation to establish a consistent and reliable approach of at least 10% MIZ as normal practice for all new housing developments throughout Australia where there is unmet need for social or affordable rental housing
- Local councils must use available planning instruments and create their own affordable housing policies to require at least 10% MIZ as a condition for approval of all new developments
- The Australian Government must play its part by helping to establish national consistency in MIZ implementation, possibly through a COAG agreement
- Developers will promote rational MIZ policies as a necessary condition for socially sustainable urban growth in Australia.

***The number of properties allocated to First Nations people in need of housing within a Local Government Area will be worked through with the direction of the relevant local First Nations Elders***



# ABOUT THE CONSTELLATION PROJECT



The Constellation Project was founded by Australian Red Cross, Centre for Social Impact, Mission Australia and PwC Australia with a vision to end homelessness in a generation.

We are a growing group of organisations collaborating across sectors including, business, governments, academia, philanthropists and not-for-profits to accelerate practicable solutions.

We are not a front-line service provider nor a think tank or research body. Homelessness in Australia is not a problem of knowing, it's a problem of doing. Our role is to build on and test existing ideas with an ambition to deliver practicable solutions at scale.

The Constellation Project began its work on the More Homes pillar to address the chronic shortage of housing for people on very low to moderate incomes. We know increasing housing supply is only part of the solution, but we believe it's a sensible place to start.

For more visit: [theconstellationproject.com.au](https://theconstellationproject.com.au)

# THE REFERENCES

<sup>i</sup> 'Low income' meaning within the lowest two quintiles of the national income distribution; unaffordable rent meaning absorbing more than 30% of gross household income – source: Productivity Commission (2019) *Vulnerable Private Renters: Evidence and Options*; Canberra: Australian Government <https://www.pc.gov.au/research/completed/renters>

<sup>ii</sup> Yates, J. (2019) *Housing, Housing Costs and Poverty*. In Saunders, P. ed. *Revisiting Henderson*. Melbourne, Melbourne University Press, pp.215-236

<sup>iii</sup> Hulse, K. et al. (2019) *The supply of affordable private rental housing in Australian cities: short-term and longer-term changes* [https://www.ahuri.edu.au/\\_data/assets/pdf\\_file/0024/53619/AHURI-Final-Report-323-The-supply-of-affordable-private-rental-housing-in-Australian-cities-short-term-and-longer-term-changes.pdf](https://www.ahuri.edu.au/_data/assets/pdf_file/0024/53619/AHURI-Final-Report-323-The-supply-of-affordable-private-rental-housing-in-Australian-cities-short-term-and-longer-term-changes.pdf)

<sup>iv</sup> ABS Census of Population and Housing – ABS Cat 2049.0

<sup>v</sup> According to the Productivity Commission's Report on Government Services, the gross number of social rental lettings dropped from 52,000 in 1997 to 35,000 in 2017, an absolute decline of a third; pro rata to population, the effective reduction in social housing supply was 50%.

<sup>vi</sup> Data from Productivity Commission Report on Government Services (various editions) plus ABS Cat 3101.0.

<sup>vii</sup> Burke, T. et al. (2008) *Experiencing the housing affordability problem: blocked aspirations, trade-offs and financial hardships*, Research Paper No. NRV3-9; Melbourne: AHURI; Singh, A. et al. (2019) *Housing Disadvantage and Poor Mental Health: A Systematic Review*; *American Journal of Preventive Medicine* 57 (2): 262-272

<sup>viii</sup> Parsell, C. et al. (2017) *Cost Offsets of Supportive Housing: Evidence for Social Work*. *British Journal of Social Work*, 47 (5): 1534-1553

<sup>ix</sup> Maclennan, D. (2019) *Strengthening Economic Cases for Housing Policies*, City Futures Research Report; Sydney: UNSW

<sup>x</sup> Lawson, J. et al. (2018) *Social housing as infrastructure: an investment pathway*, Final Report No. 306, Melbourne: AHURI

<sup>xi</sup> Lawson, J. et al. (2018) *Social housing as infrastructure: an investment pathway*, Final Report No. 306, Melbourne: AHURI

<sup>xii</sup> p.70 in: GSC (2018) *A Metropolis of Three Cities: The Greater Sydney Region Plan*. Sydney: Greater Sydney Commission

<sup>xiii</sup> Boscia, S. (2018) *Saul Eslake backs AHURI report into inclusionary zoning*; *Examiner* 13 April <https://www.examiner.com.au/story/5341042/affordable-housing-quotas-could-help-housing-crisis-eslake/>

<sup>xiv</sup> Daley, J., Coates, B. and Wiltshire, T. (2018) *Housing affordability: Reimagining the Australian dream*. Melbourne: Grattan Institute

<sup>xv</sup> See: Fuary-Wagner (2019) *Rod Fehring would tackle affordable housing once and for all*; *AFR* 8 May <https://www.afr.com/politics/federal/rod-fehring-would-tackle-affordable-housing-once-and-for-all-20190430-p51io8>, and: Payce Communities and Lend Lease endorsement of report: Committee for Sydney (2015) *Five game changers for affordable housing in Sydney*; [https://payce.com.au/wp-content/uploads/2015/08/AffordableHousing\\_2015-Final.pdf](https://payce.com.au/wp-content/uploads/2015/08/AffordableHousing_2015-Final.pdf)

<sup>xvi</sup> Schwartz, A. (2015) *Housing Policy in the United States*. 3rd ed. New York: Routledge

<sup>xvii</sup> Metcalf, G. (2018) *Sand Castles Before the Tide? Affordable housing in expensive cities*; *Journal of Economic Perspectives*, 32 (1), pp.59-80

<sup>xviii</sup> MHCLG (2019) *Live tables on affordable housing supply: Table 1000*, UK Ministry of Housing, Communities and Local Government

<sup>xix</sup> De Kam, G. et al. (2014) *The embeddedness of inclusionary housing in planning and housing systems: insights from an international comparison*; *Journal of Housing and the Built Environment* Vol 29 pp389-402

<sup>xx</sup> The mix of MIZ dwellings in a development (i.e. proportion of 1, 2 and 3 bed dwellings ) should reflect the mix of market dwellings in that development, and any other amenity requirements such as solar access or cross ventilation etc should also apply on the same proportional basis.

<sup>xxi</sup> In the staging of regime roll-out, developer MIZ obligations (if any) should relate to the lodgement date of a DA application with a consent authority, not the consent date itself. For example, if a DA application is lodged during the notice period, the associated development would be free of MIZ obligations. Further, where a consent authority already applies an existing planning levy for social or affordable rental housing, the new MIZ state/territory legislation should apply in priority, but the existing levy will continue through the notice period.