

City of Melbourne submission to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing

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Attachments - Confidential

Attachment 1 - City of Melbourne, Housing Capacity and Needs Analysis, Draft Summary Report (2019)

1. INTRODUCTION

The City of Melbourne welcomes the opportunity to make a submission to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing (Advisory Committee) established by the Minister for Planning. We would be pleased to expand on this submission to provide further information to the Advisory Committee. Following consideration of the Advisory Committee's report by the Minister for Planning, we welcome further consultation to assist with policy refinement and implementation.

We recognise the Victorian Government's commitment and focus to enabling greater provision of much needed affordable housing. Victorian Government policies including *Plan Melbourne 2017-2050* (2017), *Homes for Victorians: Affordability, access and choice* (2017), and *Victoria's 30-year Infrastructure Strategy* (2017) highlight the imperative to increase affordable housing supply. Legislative amendments to the *Planning and Environment Act 1987* introduced in June 2018 which extend the objectives to facilitate affordable housing supply was a significant step in providing opportunities for the planning system to facilitate provision through private residential development. We support bold intervention by the three tiers of government working in partnership to respond to the scale of need.

1.1 Summary of City of Melbourne's position

A state planning mechanism is recommended to facilitate affordable housing supply

The current voluntary framework and planning mechanisms in the Melbourne Planning Scheme are delivering little affordable housing. To ensure a consistent supply of affordable housing and provide certainty to developers, the City of Melbourne recommends the introduction of:

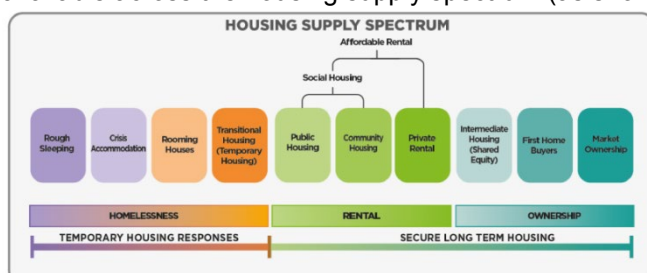
- Mandatory inclusionary zoning applied across the state, with a minimum percentage of affordable housing requirement (appropriate percentage to be determined) and a cash-in-lieu option, complemented by:
 - Flexibility for local governments to increase the state-wide minimum requirement where there is strategic justification / evidence to support;
 - A voluntary uplift incentive that can be applied in strategic development areas to encourage a higher provision beyond the state-wide minimum or any local government specific minimum. Further guidance and resource support is needed to support a voluntary uplift incentive.

This submission provides our rationale for these recommendations and other considerations.

Partnerships across the three tiers of government are critical

To address the housing crisis, we need to work in partnership with state and federal governments, as well as support the role of housing providers, developers and investors. A holistic and integrated approach is needed across all levels of government to ensure that policy, funding, incentives and governance is effective.

A functional society offers a range of housing choices for the community depending on their needs. It is important that the three tiers of government work together to ensure that appropriate housing is available across the housing supply spectrum (as shown below).



Affordable housing is essential infrastructure

Appropriate affordable and social housing is critical to the inclusivity, diversity and economic productivity of our city and state. Investment in social housing and affordable housing to significantly increase supply is one of Infrastructure Victoria's top three most important actions for government.

A lack of appropriate affordable housing in cities has major detrimental impacts, including:

- Leads to concentration of lower income households to locations with poor access to employment, education and transport;
- reduces productivity due to decline in the diversity of workforce;
- impacts city competitiveness and tourism;
- reduces community diversity; and
- results in increased homelessness.

Research commissioned by the City of Melbourne found that for every \$1 of expense incurred in providing affordable housing, community benefits in excess of \$3 will be generated. These benefits include reduced crime costs, reduced domestic violence, health cost savings, enhanced human capital, educational benefits and key worker retention. Conversely, every \$1 that is not invested in affordable housing will cost in excess of \$3 through the loss of these benefits.

1.2 City of Melbourne affordable housing initiatives

The City of Melbourne has been active in exploring opportunities and pathways to deliver affordable housing within its municipality. Following is a description of the current and recently completed work it has done to date:

- **Affordable Housing Strategy** - to be completed in early 2020.
- **Affordable housing mechanism pilot** - Inner Metro Partnership - investigating planning mechanisms to enable affordable housing in the Inner Metro Region.
- **Private rental housing delivery model** - Inner Melbourne Action Plan - investigating a delivery model for private market affordable rental housing and planning and financial incentives to increase private sector take-up of voluntary affordable housing agreements.
- **Housing Needs Analysis (2019)** - SGS Economics and Planning has conducted a Housing Needs Analysis and identified potential policy levers that could be applied to deliver affordable housing. The report can be found at Attachment 2
- **Inter-Council affordable housing knowledge sharing forum** – hosted by The City of Melbourne and attended by approximately 20 Victorian Councils. One priority is identifying opportunities for the planning system to deliver affordable housing.
- **Review and broker affordable housing options to enable more affordable housing in the municipality (2018) – internal options paper** - informed by extensive engagement with 31 organisations across various sectors
- **Homes for People – Housing Strategy 2014-2018** - included the goal to help provide at least 1721 homes for low and moderate income earners by 2024. This target is unlikely to be met.

2. SCALE AND DISTRIBUTION OF NEED

The City of Melbourne commissioned SGS Economics and Planning to undertake a Housing Needs Analysis (2019). This analysed current and future demand for affordable rental housing in the City of Melbourne, inner Melbourne and metropolitan Melbourne.¹

2.1 City of Melbourne

- There is currently demand for at least 9450 affordable housing units. Accounting for current supply of approximately 3950 social and affordable housing units, there is a shortfall of at least 5500 housing units.²
- 279 people are currently sleeping rough and 1750 people are currently experiencing homelessness.
- If there is no addition to the City’s social and affordable housing stock, it is estimated that the shortfall will increase to 23,200 social and affordable units by 2036.³

Table 1: Demand for affordable and social housing units (2016-2036)

	2016	2036
Demand	9450	27,150
Supply	3950	3950
Gap	5500	23,200

2.2 Inner Melbourne

- There is a current shortfall of:
 - 29,500 affordable and social housing dwellings in the Inner Metro Partnership region (City of Melbourne, City of Port Phillip and City of Yarra).
 - 44,750 affordable and social housing dwellings in the Inner Metro Action Plan region plus Moonee Valley.

2.3 Metropolitan Melbourne

- 231,250 households are currently in need of affordable and social housing. This accounts for thirteen per cent of all households. There is a gap of 182,250 affordable and social homes in current supply.
- 20,450 people are currently experiencing homelessness.
- By 2036, 338,050 households will be in need of affordable housing reflecting a shortfall in current supply of 289,050 dwellings. This is an increase in demand for social and affordable housing by 106,800 over the next 20 years.

¹ The analysis focused on rental stress using the 2018 income thresholds defined in the *Planning and Environment Act 1987*. The scope did not include mortgage stress or affordable home ownership because these issues require different policy responses. A unit of ‘demand’ for social and affordable housing arises when a very low to moderate income household experiences rental stress, which is defined as spending 30 per cent or more income on rent. Individuals experiencing homelessness and households already living in social housing are included in the calculation of overall demand.

² This estimate excludes students without dependents. If all students experiencing rental stress are included there would be a current gap of 16,300 affordable dwellings.

³ SGS Economics and Planning modelled four potential scenarios for allocating future metropolitan demand for affordable housing within the City of Melbourne. The demand figure included has excluded the least accessible parts of metropolitan Melbourne from the distribution. In this scenario, the geographic scope for allocating demand is restricted by excluding areas which have a low level of accessibility to jobs and services (known as effective job density).

3. IMPACT OF CURRENT POLICY SETTINGS

3.1 Effectiveness of existing policy and legislation

There are several projects and initiatives led by a range of entities in the City of Melbourne which contribute to affordable housing supply. These include leveraging affordable housing on publicly owned land, policy targets or uplift incentives within particular precincts, and negotiations with private developers.

In the absence of a state-wide approach, a range of area/ neighbourhood based approaches have been proposed or implemented (see 3.3). The development industry has not supported a specific area approach as it provides an uncertain development environment, and can be seen as penalising landowners in these areas. The development industry has requested a level playing field across markets and areas.

3.2 Outcomes of current voluntary framework

Legislative changes were introduced in June 2018 that clarifies that Responsible Authorities can enter into a voluntary agreement with land owners and others under section 173 of the *Planning and Environment Act 1987* for the provision of affordable housing as part of a development.

No voluntary agreements have been entered into with developers or landowners for the delivery of affordable housing in City of Melbourne since this reform.

This highlights the need for stronger policy to generate sufficient supply in response to the high demand in our municipality and across metropolitan Melbourne.

3.3 Outcomes of planning mechanisms

Amendment C270 – uplift mechanism

A Floor Area Ratio of 18:1 applies to the Hoddle Grid and Southbank. An applicant may apply for a Floor Area Uplift if there is a public benefit, such as open space, commercial office space, social housing or a competitive design process.

To date, no social housing has been delivered through this mechanism.

Amendment GC 81 – Fishermans Bend (Lorimer Precinct) – planning policy and uplift mechanism

Amendment GC81 states that development in the Lorimer Precinct should provide at least six per cent of dwellings as affordable housing. In addition, a Social Housing Uplift scheme enables the development of eight additional market value dwellings for every one social dwelling to be transferred at no cost to a Registered Housing Provider.

To date, no affordable housing has been delivered through this mechanism.

Amendment C309 West Melbourne Structure Plan – planning policy

Endorsed by the Future Melbourne Committee in 2018, the West Melbourne Structure Plan proposes a minimum of six per cent affordable housing for three of the precincts within West Melbourne. The process encourages an open book approach if landowners suggest they cannot achieve the minimum amount. It is envisaged that approximately 200 affordable homes could be delivered through this proposed policy. A panel hearing has occurred for the Planning Scheme Amendment required to give effect to the structure plan. The proposed policy has not yet been gazetted.

To date, no affordable housing has been delivered through this mechanism.

Amendment C221 West Melbourne Waterfront – uplift mechanism

The property owner of the West Melbourne Waterfront requested Planning Scheme Amendment C221 to rezone the land to enable the development of residential and commercial uses. The Development Plan Overlay allows the potential to increase the maximum building height of 10 storeys up to 14 storeys if 15 per cent of the additional four storeys includes affordable housing.

To date, no affordable housing has been delivered through this mechanism.

Inclusionary Zoning Pilot on Surplus Government Land

An inclusionary zoning pilot on surplus government land at 87-103 Manningham Street, Parkville will deliver new social housing in partnership with a Registered Housing Association. This process is confidential and the number of dwellings anticipated is not yet known.

3.4 Anticipated supply from state and federal government programs

There is a scarcity of affordable and social housing supply anticipated from the state and federal governments.

Contribution of the Social Housing Growth Fund

In 2017, the State Government released Homes for Victorians which included the formation of the Social Housing Growth Fund. This is expected to generate new housing, some of which could be provided in the City of Melbourne. The Growth Fund will use the interest on a \$1 billion investment to provide social housing throughout the state. The fund might yield \$70m per annum assuming a 7 per cent return.

The City of Melbourne is anticipated to account for 9 per cent of projected population growth in Victoria to 2036. If the City of Melbourne attracted a proportional share of the funding enabled by the Social Housing Growth Fund, this would provide around 250 dwellings over a 20-year period.

Public Housing Renewal Program

The Victorian Government's Public Housing Renewal Program is delivering net additional social and affordable dwellings as well as the renewal of existing social housing stock. The state is currently redeveloping the North Melbourne public housing estate with MAB Corporation and community housing provider HousingFirst.

The existing 112 public housing dwellings will be replaced with a mix of social, private and affordable housing with an increase of 10 per cent public housing dwellings on the site. It is not known when this will be completed by.

3.5 Inclusionary zoning in other jurisdictions

Delivering affordable housing through an inclusionary zoning mechanism has been applied in a number of other jurisdictions both within Australia and internationally. Below are some examples of the mechanism and the outcome of these mechanisms.

South Australia

The Housing Plan for South Australia, introduced in 2005, mandates that 15 per cent of new dwellings in all significant development projects be affordable, including at least 5 per cent for high-needs groups. Between 2005 and 2015, 5,485 dwellings affordable housing dwellings have been completed or committed including affordable home ownership, affordable rental, and social rental.⁴

⁴ Australian Housing and Urban Research Institute, *Supporting affordable housing supply: inclusionary planning in new and renewing communities*, 2018.

New South Wales

The longest running mandatory inclusionary zoning scheme in Australia applies in Sydney's Ultimo Pyrmont urban redevelopment precinct. In 1994, a target was set of 600 dwelling to be acquired over 30 years as permanently affordable rental stock for very low, low and moderate income households. This target has already been surpassed.⁵

London

In 2004, London introduced a target for 50 per cent of new housing across the region to be affordable. Production of affordable housing units increased, from 6957 homes in 1999/2000 to 8641 in 2005/06.⁶ One example is the Elephant Park regeneration project in Elephant and Castle in Southwark Council which will deliver 3000 new homes and includes a minimum of 25 per cent affordable housing.

California

In Southern California, 48 cities (a quarter of all Local Government areas) have local ordinances for affordable housing. The majority of these contain mandatory affordable housing requirements. For example, in San Francisco, new private housing developments with 10 or more housing units are to include affordable housing units or pay a fee in lieu. Between 1999 and 2017, 3,821 units have been delivered, including a mix of very low, low, moderate-rental housing and some affordable home purchase.⁷

4. RECOMMENDATIONS FOR NEW AFFORDABLE HOUSING REQUIREMENTS

The City of Melbourne supports the introduction of a state-wide mechanism that requires a mandatory contribution for affordable housing. This will provide certainty to developers and ensure the market is operating on a level playing field. The cost of providing affordable housing can also be factored into the total cost of developing a site.

Given the scale of demand across Victoria, a suite of planning mechanisms are required. We do not consider there is a single mechanism sufficient to address the need. Planning mechanisms should be supported by additional funding options and incentives for the market to respond.

We recommend the introduction of:

1. Mandatory inclusionary zoning requirements applied across the state (appropriate percentage to be determined). This should be applied to any new residential development that results in the intensification of residential land use (i.e. not dwelling extensions) across Victoria. The percentage of affordable housing required needs to provide a balance between providing a level playing field and consistency for developers and investors, however should also take into account scaling that can be applied for different market circumstances, such as certain strategic development areas and types/scales of development. The Victoria Planning Provisions currently do not contain a standard zone provision for mandating affordable housing. A planning mechanism like an inclusionary zone that can be applied consistently across the State is needed as part of a suite a mechanisms to deliver a more consistent supply of affordable housing. We recommended that there is modelling to identify the most

⁵ SGS Economics and Planning, *City of Melbourne Housing Needs Analysis*, 2019.

⁶ Australian Housing and Urban Research Institute, *New Directions in Planning for affordable housing: Australian and international evidence and implications*, 2008

⁷ Australian Housing and Urban Research Institute, *Supporting affordable housing supply: inclusionary planning in new and renewing communities*, 2018.

appropriate percentage for any state-wide minimum affordable housing requirement. It is important to consider how the implementation of such a mechanism can be introduced at a low percentage and be phased in over time to allow the property market to adjust.

2. A cash in lieu option as an alternative to direct provision of affordable housing, to be triggered only when direct provision is not practical (see discussion below under section 4.2).
3. Flexibility for local governments to increase the minimum percentage of affordable housing required by the state-wide policy where there is strategic justification and demonstrated evidence of the housing need.
4. A voluntary uplift incentive that can be applied in strategic redevelopment areas to encourage a higher provision of affordable housing above the state-wide mandatory requirement.
5. Opportunities to establish social and affordable housing on surplus Government land, sometimes described as 'lazy land'.

The social and affordable housing generated by these mechanisms must be transferred to and managed by a registered housing agency at a cost negotiated with the receiving agency. This may range from no cost to a percentage which accord with the business model of the receiving agency.

4.1 Benefits of mandatory inclusionary zoning

Mandatory inclusionary zoning ensures a consistent supply of affordable housing and provides clarity and certainty to developers when embarking on a development. Mandatory inclusionary zoning is likely to generate a higher level of affordable housing compared to other mechanisms.

To understand the economic and social impact of mandatory inclusionary zoning, the City of Melbourne commissioned SGS Economics and Planning to conduct modelling of an affordable housing requirement ranging from 1 to 20 per cent.

The modelling estimated that if a 10 percent mandatory affordable housing requirement came into effect in 2021, this would enable approximately 4300 dwellings to be delivered by 2036 in the City of Melbourne. This research found that an inclusionary zoning requirement as low as 2 per cent would generate a higher provision of affordable housing compared to other regulatory mechanisms in the City of Melbourne. Analysis by SGS Economics and Planning suggests that other mechanisms such as value capture incorporated into planning scheme amendments would provide fewer than 1000 dwellings; ad hoc voluntary agreements would provide less than 500 dwellings; and floor area uplift less than 300 dwellings.⁸

Modelling by SGS, which explored requirements between 1 and 20 per cent, suggests that a mandatory affordable housing requirement of up to 10 per cent, transferred by a developer at zero cost, could be supported without detrimentally effecting housing supply in City of Melbourne. This modelling assumes that all existing development costs and charges remain unchanged. Additionally, over a 20 year period, a 10 per cent mandatory requirement would deliver a strong net community benefit of 3:1 for the whole community. That is, community benefits valued at more than \$3 will be generated for every \$1 cost incurred.

A mandatory requirement of up to 10 per cent is economically warranted in City of Melbourne. Therefore it is City of Melbourne's position that, subject to further testing and stakeholder engagement, a mandatory inclusionary zoning requirement of up to 10 per cent may be suitable in our municipality. Further modelling should be conducted to determine appropriate percentages for both the City of Melbourne and any state based affordable housing requirement.

4.2 Benefits of higher requirements for strategic opportunities

The inclusionary zoning mechanism should enable local governments to require a higher percentage of affordable housing above the state-wide requirement where there is strategic justification. This could include:

⁸ These figures are derived from analysis by SGS Economics and Planning and are approximate.

- Areas where there is demand analysis which demonstrates significant need.
- New urban renewal areas which are yet to undergo a rezoning – for example E-Gate and Arden in the City of Melbourne.
- Activity centres where there is likely to be a higher land value.
- New types of housing such as build to rent which as a new offer to the market could factor in affordable housing requirements into the development model.
- Government owned land. For example, the City of Melbourne has a commitment to considering including up to 15 per cent of dwellings being made available as affordable housing to a registered Affordable Housing Provider on council-owned land.

Flexibility for on site or monetary contributions

The inclusionary zoning mechanism should provide the option for local governments to request the direct provision of dwellings and/or a monetary contribution to be used for the acquisition of affordable housing where it is not practical to require affordable housing on a particular development site. The state should provide guidance to local governments as to appropriate circumstances to require a dwelling versus monetary contribution. Local governments should be able to establish more detailed criteria to inform decisions for requiring onsite or monetary contributions that could be introduced as a Reference Document to the planning scheme. For example some considerations for onsite versus monetary contributions include the scale of development (i.e less than 10 dwellings may not be suitable for direct provision) and anticipated ongoing maintenance or body corporate costs.

4.3 Benefits of uplift in strategic redevelopment precincts

Local governments should have the opportunity to encourage a higher provision of affordable housing above the state-wide requirement through floor area uplift, where appropriate. It is important that such mechanisms are clear and that the mandatory minimum requirement must be met prior to the uptake of floor area uplift.

Existing uplift approaches have had limited impact on the provision of affordable housing to date. For this reason, City of Melbourne recommends that any uplift schemes only include social or affordable housing as the offsetting public benefit and ensure the uplift mechanism offers an appropriate additional floor area to generate a compelling incentive.

4.4 Alternative options to support supply of affordable housing delivered by the market

In addition to the above recommendations and considerations, we encourage investigation of various planning and financial incentives, opportunities for emerging models and investors, and potential for requirements for non-residential development to contribute to the provision and funding of affordable housing.

Supporting build to rent and institutional investment to deliver affordable housing

There is growing interest by the development sector to deliver build to rent (BTR). Research has identified that the BTR market could be enabled in Australia through tax settings that facilitate institutional investment and removes impediments to development feasibility that do not exist for traditional build to sell models.

That said, international examples show the existence of the market does not necessarily result in the delivery affordable housing. As an emerging model in Australia, there is the potential to set the BTR market parameters (through tax settings and planning requirements) to integrate a high percentage of affordable housing. Additional tax concessions and subsidies would likely need to be provided to ensure the delivery and operation of affordable housing in BTR developments are feasible and delivered.

The BTR model enables institutional investors to own and manage a large quantity of dwellings and tenants within a single property asset which they hold indefinitely rather than selling to multiple owner-occupiers or minor investors. The key benefits of this are the potential for longer term or more secure rental agreements, regulation of rent increases, higher quality and maintained housing, and stable long term yield for investors. There are international examples of BTR being configured to achieve affordability outcomes.

We encourage the state and federal governments to investigate reform (e.g. tax incentives) while embedding the provision of affordable housing as a critical component of the development model. By considering opportunities to unlock barriers to the BTR sector, there is potential to establish a higher provision rate of affordable housing that can be factored in to this emerging development model.

We encourage state and federal governments to investigate:

- Planning and financial incentives that can be offered to the market to support the delivery of affordable housing in new residential projects. Business models that rely on a constant and reliable income stream over a long period may be attracted to invest in affordable housing and could partner with Local or State Government to utilise public land through a lease arrangement, and return the housing stock to Government at the end of the lease period.
- Opportunities for emerging models, including BTR to integrate a higher provision of affordable housing through a range of reforms and incentives.
- Enabling institutional investors, such as superannuation funds, to finance affordable housing products. This finance arrangement currently occurs in other jurisdictions including in the United States and the UK, to fund BTR products.

Applying requirements for affordable housing for non-residential development

There is potential for mandatory requirements for non-residential development to contribute to affordable housing by charging a fee per unit of new commercial floor area on sites where residential development is not provided or not practical. International examples of where this has been applied are:

- Boston, Massachusetts - A fee of \$8 per square foot for new commercial development for the provision of affordable housing. This generated \$45 million in revenue between 1986 and 2000, funding approximately 5000 affordable units.
- Arlington County, Virginia – A fee of \$1.77 per square foot, which was expected to generate almost \$14 million in revenue between 2013 and 2016.⁹
- In 2017 the City of Seattle introduced affordable housing ‘impact mitigation’ requirements. New commercial development in excess of 4000 square feet are to provide onsite affordable housing or make a cash contribution to the City’s Director of Housing per square foot of development.

4.5 Government investment in affordable housing

The introduction of planning mechanisms can only deliver some of the much needed affordable housing across the state. The state and federal government must complement reforms to planning mechanisms with increased investment in public housing and programs to deliver affordable housing on government land.

⁹ Inclusionary Housing website: <http://inclusionaryhousing.org/designing-a-policy/program-structure/linkage-fee-programs/commercial-linkage-fees/>

5. GOVERNANCE ARRANGEMENTS

It is important that any state affordable housing policy is complemented by structures which support best practice delivery.

Management and reporting structures

We recommend appropriate structures at the regional level are in place to manage both on-site and cash-in-lieu housing contributions at scale.

Establishment of a dedicated affordable housing agency in state government

We recommend that the state government consider establishing a dedicated affordable housing agency or extending the remit of the Department of Health and Human Services to be responsible for overseeing the governance of all affordable and social housing across the spectrum. This entity could be responsible for:

- Implementing policy reform.
- Registering and monitoring affordable housing dwellings that are proposed, under construction and delivered (this should include dwelling size, affordable housing type, tenure, subsidies, etc).
- Monitoring demand for affordable housing and/or provide a consistent methodology for local governments to assess at regular intervals.
- Preparing consistent guidelines and provide training on best practice outcomes for the integration of affordable housing within private developments (for example, cash-in-lieu versus on-site contributions, tenure blind, equitable access to communal facilities or open space, etc).
- Researching affordable housing models.
- Co-ordinating financial grants for affordable housing offered through government entities to streamline application process for local governments.

6. CONCLUSION

The City of Melbourne recommends mandatory inclusionary zoning requirements applied across the state with an option to provide cash in lieu contribution where direct provision of affordable housing is not appropriate. It is important that there is modelling to determine appropriate percentages to be applied in different locations across the state. Factoring in 250 affordable dwellings that could be provided through state and federal programs and demand increasing to 26,169 by 2036, this would leave a gap in supply of approximately 21,619 dwellings within the City of Melbourne.

Local governments should be given the ability to go higher than the State wide minimum in strategic locations and enable uplift in appropriate areas. These mechanisms will generate a consistent supply of affordable housing. In addition, we recommend modelling of the potential for inclusionary zoning to also be applied to commercial development to enable additional financial contributions for affordable housing.

A suite of measures are required to address the housing crisis. To be most effective, they must be complemented by measures at all levels of government. This should include direct investment, financial incentives such as tax concessions and subsidies, and governance arrangements which are holistic across the housing spectrum.