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# Potential affordable dwelling yields from a NSW Inclusionary Zoning Scheme

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*A report prepared for Shelter NSW*



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# Summary

The NSW Government has adopted a policy of generating new affordable housing supply as part of the planning process. The policy is described in the Greater Sydney Region Plan. This plan makes affordable housing an important theme and introduces a process, an Affordable Rental Housing Target, to help generate affordable rental housing. This is an inclusionary housing strategy.

The AHRT is important since it establishes a city-wide mechanism. At the same time, it is different than other inclusionary zoning models applied in other cities.

1. It will only apply to defined precincts that are subject to rezoning;
2. It will only apply to the uplift from rezoning and the target ranges from 5-10% of the new residential floor space (although councils may negotiate additional affordable housing).
3. The application of the target will be subject to a viability test.
4. Exemptions from the target may be granted, for example where the provision of affordable housing would financially hinder the delivery of a critical or major component of city-making infrastructure.
5. Eligibility for the affordable housing generated is restricted to low and very-low income households.
6. It appears it will be implemented by Councils and other planning authorities (GSC,2018, p46)

Whilst the details of the scheme have yet to be formally announced it is useful to consider the likely yield available from the scheme, as a way of considering its potential impact on the considerable levels of housing need existing in Sydney. Using a variety of assumptions, it is considered that the yield available from the scheme could range between 12,369 and 3,181 affordable rental dwellings assuming a pessimistic scenario over the first 10 years of the scheme.

Other planning strategies will also deliver additional affordable housing dwellings including SEPP 70. It is estimated that SEPP70 might generate an additional 3,675 dwellings over the same period.

# 1. Introduction

The NSW Government has adopted a policy of generating new affordable housing supply as part of the planning process. The policy is described in the Greater Sydney Region Plan. This plan makes affordable housing an important theme and introduces a process, an Affordable Rental Housing Target, to help generate affordable rental housing. This is an inclusionary housing strategy.<sup>1</sup>

The Plan recommends Affordable Rental Housing Targets (AHRT) as a mechanism to deliver an additional supply of affordable housing for very low to low-income households in Greater Sydney. The following details are provided: (GSC, 2018 p70):

*Affordable rental housing for people on very low to low incomes is priced so that housing needs can be met alongside other basic living costs such as food, clothing, transport medical care and education. Affordable Rental Housing Targets would be applied in defined precincts prior to rezoning. This will not affect projects already underway. So as not to inhibit housing supply outcomes, or affect existing home and property owners, the application of the target will be the subject of a viability test.....*

*When an independent assessment to verify the development feasibility of a nominated target is made, the assessment in collaboration with the Greater Sydney Commission will determine where exceptions may be granted - for example, where the provision of affordable housing would financially hinder the delivery of a critical or major component of city-making infrastructure.*

The AHRT is important since it establishes a city-wide mechanism. At the same time, it is different than other inclusionary zoning models applied in other cities.

7. It will only apply to defined precincts that are subject to rezoning;
8. It will only apply to the uplift from rezoning and the target ranges from 5-10% of the new residential floor space (although councils may negotiate additional affordable housing).
9. The application of the target will be subject to a viability test.
10. Exemptions from the target may be granted, for example where the provision of affordable housing would financially hinder the delivery of a critical or major component of city-making infrastructure.

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<sup>1</sup> Inclusionary housing refers to a range of local policies that tap the economic gains from rising real estate values to create affordable housing. Where these local policies are focused on using the zoning system, the term inclusionary zoning is used. (Lincoln Land Institute, 2018).

11. Eligibility for the affordable housing generated is restricted to low and very-low income households.
12. It appears it will be implemented by Councils and other planning authorities<sup>2</sup> (GSC,2018, p46)

Like the Affordable Rental Housing Target, **SEPP 70**, identifies councils with a demonstrated need for affordable housing, who wish to implement an inclusionary housing instrument to require affordable housing to be generated from development. SEPP70 is a statewide planning policy which enables councils to collect contributions from developers for affordable housing.<sup>3</sup> For a number of years, no new councils had been included in SEPP 70 by the State Government, despite their requests. However, in early 2018, 5 new councils were added to the list of councils able to apply SEPP 70.

The central aim of this report is to provide estimates of the potential number of affordable dwellings that might be generated through each of these two policies.

## 2. The method

The method for this study is reasonably straightforward. For the Affordable Rental Housing Target, the method tries to estimate the potential rezonings<sup>4</sup> that could be expected in Sydney over the next 10 years and use this estimate to generate an estimate of the yield of affordable dwellings. Note that the affordable housing rental target suggests a yield of between 5-10% of the additional floorspace dedicated to affordable housing (it is assumed that the rates will move between these two ranges depending on viability testing). Note that whilst this rate seems low by international standards, it is based on the affordable dwellings being dedicated to the Responsible Planning Authority (usually the relevant LGA). In many international jurisdictions the affordable dwellings are sold at a discount to affordable housing agencies or rented out by the developer at a discount meaning a larger yield is possible. This point is well explained by Drdla (2018).

Two scenarios are provided:

1. A maximum yield assuming that potentially every rezoning is included in the ARHT scheme and generates a 10% affordable housing rate.<sup>5</sup>

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<sup>2</sup> As indicated by the Information Note and the Proposed Liveability Indicator in the GSC Greater Sydney Region Plan (GSC, 2018, p46)

<sup>3</sup> It is available at <https://www.legislation.nsw.gov.au/#/view/EPI/2002/337>

<sup>4</sup> Most lots of land in Sydney have a land use zoning, outlining what land uses are permitted on that site. Through a variety of processes, the State Government can agree to change the zoning on a lot of land. This change of zoning is referred to as a rezoning.

<sup>5</sup> Note that whilst this rate seems low by international standards, it is based on the affordable housing being given to the RPA. In many international jurisdictions the dwellings are sold at a discount to affordable housing agencies or rented out by the developer at a discount. This point is well explained by Drdla (2018).

2. A minimum yield showing a lower number of rezonings included in the ARHT scheme with each of them generating only a 5% yield.

The rezonings will come from three sources:

1. State Government sponsored rezonings (from planned/priority precincts);
2. Zoning changes generated by Local Councils in the updates of their comprehensive LEPs;
3. Ad hoc rezonings submitted through a State Government process, sometimes referred to as the Gateway process.<sup>6</sup>

The methods used to generate the rezoning numbers for each of these methods are shown below:

### **1. Planned Precincts**

The total number of dwellings generated by planned precincts in 2017-2018 is 13,400<sup>7</sup>. The additional residential floorspace generated by planned precincts is difficult to estimate. In some cases the precincts mainly involve industrial land, whilst in other cases they involved the upzoning of existing residential land to higher density residential zoning. Three scenarios are proposed for planned precincts assuming that the Government continues to use the planned precinct process at its current rate:

Optimistic scenario:- 80 % of 13,000 are additional residential floorspace

Pessimistic scenario:- 70% of 13,000 are additional residential floorspace

It is further assumed that 80% of these dwellings are actually built over the next 10 year period.

The total potential dwellings that are in the pool to be considered as part of the inclusionary zoning process for state based rezonings are shown in Table 1. Notice that in every year another 13,000 state based rezonings occur and that these dwellings are released onto the market over time using the percentages shown in Column 2. The last column shows the total new dwellings generated every year using this process.

### **2. Council rezonings in their comprehensive LEPs.**

The main planning instrument in NSW is the Local Environment Plan or LEP. Each LGA in NSW has a LEP. Councils update their comprehensive LEPs approximately once every 5 years. As part of the release of the Greater Sydney District plans councils are being encouraged to update their LEPs to achieve their

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<sup>6</sup> Details of this process are provided in an excellent guide published by the Department of Planning and Environment available from <https://www.planning.nsw.gov.au/~media/Files/DPE/Guidelines/guide-to-preparing-planning-proposals-2016-08.ashx>

<sup>7</sup> <https://www.nsw.gov.au/improving-nsw/premiers-priorities/making-housing-more-affordable/>

dwelling and employment targets in the District plans. Some councils have received special State Government funding for the **preparation** of their revised LEPs.

Whilst these revised LEPs will generate opportunities for future affordable housing dwellings via the ARHT, it is likely that the opportunities will be well into the future. The five Sydney District plans released in March 2018 acknowledge that the dwellings in the first 5 year period (2016-2020) will largely use the existing planning controls and not depend on rezoning to achieve their dwelling targets. For example, many Western Sydney councils have had long standing higher density housing zones that have only become financially feasible in the recently curtailed housing boom.

The starting point for estimating the potential council rezonings is the current dwelling targets for Sydney. The current dwelling targets for Greater Sydney are 37,820 dwellings. The total estimate of rezonings generated through Council LEPs was calculated by subtracting from the annual dwelling target the estimates of State based and Gateway rezonings and then applying an estimate of the proportion of “council” dwellings generated each year from rezonings rather than the use of existing zones and controls. This estimate is zero percent in year 1 building up to 70% in year 10. The logic here is that in the short term, councils will use existing zonings for dwelling completions but over time a greater proportion of dwelling supply will be met by rezonings. However, even at year 10 there will be a small but significant proportion of new supply generated from existing zonings, particularly from complying development.

### **3. Gateway Rezonings**

In some cases rezoning applications are driven by the landowner rather than being a State or Local Government initiative. The number of applications tends to increase as the Local Council LEP ages. It also increases as housing market activity and prices increase as land owners attempt to capture some potential benefits of that increased activity.

It was decided to examine a year of rezonings in the LEP Tracker<sup>8</sup> maintained by the Department of Planning to investigate the potential of this source to generate affordable dwellings. The entries examined were planning proposals which were published in an LEP in the 2016 calendar year located in Councils in the Sydney metropolitan region. By scrutinizing the documents attached to each planning proposal, we were able to provide an estimate of the number of dwellings before and after the planning

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<sup>8</sup> Available from <http://leptracking.planning.nsw.gov.au/>



**Table 1 State Sponsored Rezonings**

<b>Year</b>	<b>% of 13,000 Built each year</b>	<b>Annual</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>	<b>Total</b>
1	10%	13,000	1,300										<b>1,300</b>
2	5%	13,000	650	1,300									<b>1,950</b>
3	5%	13,000	650	650	1,300								<b>2,600</b>
4	5%	13,000	650	650	650	1,300							<b>3,250</b>
5	10%	13,000	1,300	650	650	650	1,300						<b>4,550</b>
6	10%	13,000	1,300	1,300	650	650	650	1,300					<b>5,850</b>
7	10%	13,000	1,300	1,300	1,300	650	650	650	1,300				<b>7,150</b>
8	10%	13,000	1,300	1,300	1,300	1,300	650	650	650	1,300			<b>8,450</b>
9	10%	13,000	1,300	1,300	1,300	1,300	1,300	650	650	650	1,300		<b>9,750</b>
10	5%	13,000	650	1,300	1,300	1,300	1,300	1,300	650	650	650	1,300	<b>10,400</b>
<b>TOTAL</b>	<b>80%</b>												<b>55,250</b>

**Table 2: Gateway Rezoning**

<b>Year</b>	<b>Built</b>	<b>Total</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>	<b>Total</b>
1	0%	12,000	-										-
2	10%	12,000	1,200	-									1,200
3	5%	12,000	600	1,200	-								1,800
4	5%	12,000	600	600	1,200	-							2,400
5	5%	12,000	600	600	600	1,200	-						3,000
6	5%	12,000	600	600	600	600	1,200	-					3,600
7	10%	12,000	1,200	600	600	600	600	1,200	-				4,800
8	10%	12,000	1,200	1,200	600	600	600	600	1,200	-			6,000
9	10%	12,000	1,200	1,200	1,200	600	600	600	600	1,200	-		7,200
10	10%	12,000	1,200	1,200	1,200	1,200	600	600	600	600	1,200	-	8,400
<b>TOTAL</b>	70%												<b>38,400</b>

**Table 3 Council based LEP Rezoning**

<b>Year</b>	<b>State and gateway dwellings</b>	<b>Target</b>	<b>Dwelling completions on Council LEPs</b>	<b>% based on rezonings</b>	<b>Total rezoning dwellings</b>
1	1,300	37,820	36,520	0%	-
2	3,150	37,820	34,670	10%	<b>3,467</b>
3	4,400	37,820	33,420	15%	<b>5,013</b>
4	5,650	37,820	32,170	20%	<b>6,434</b>
5	7,550	37,820	30,270	25%	<b>7,568</b>
6	9,450	37,820	28,370	30%	<b>8,511</b>
7	11,950	37,820	25,870	40%	<b>10,348</b>
8	14,450	37,820	23,370	50%	<b>11,685</b>
9	16,950	37,820	20,870	60%	<b>12,522</b>
10	18,800	37,820	19,020	70%	<b>13,314</b>
	93,650				

**Table 4 Total AH Dwellings based on an optimistic scenario (including 10% yield)**

Year	1	2	3	4	5	6	7	8	9	10
	State * based	Net inc in floor space	Affordable dwellings	Gateway based**	Net inc in floor space	Affordable dwellings	Council LEP based* *	Net inc in floor space	Affordable dwellings	Total rezoning AH dwellings*** *
1	1,300	80%	<b>104</b>	-	60%	-	-	75%	-	<b>104</b>
2	1,950	80%	<b>156</b>	1,200	60%	<b>72</b>	3,467	75%	260	<b>488</b>
3	2,600	80%	<b>208</b>	1,800	60%	<b>108</b>	5,013	75%	376	<b>692</b>
4	3,250	80%	<b>260</b>	2,400	60%	<b>144</b>	6,434	75%	483	<b>887</b>
5	4,550	80%	<b>364</b>	3,000	60%	<b>180</b>	7,568	75%	568	<b>1112</b>
6	5,850	80%	<b>468</b>	3,600	60%	<b>216</b>	8,511	75%	638	<b>1322</b>
7	7,150	80%	<b>572</b>	4,800	60%	<b>288</b>	10,348	75%	776	<b>1636</b>
8	8,450	80%	<b>676</b>	6,000	60%	<b>360</b>	11,685	75%	876	<b>1912</b>
9	9,750	80%	<b>780</b>	7,200	60%	<b>432</b>	12,522	75%	939	<b>2151</b>
10	10,400	80%	<b>832</b>	8,400	60%	<b>504</b>	13,314	75%	999	<b>2,335</b>
TOTAL	55,250		<b>4,420</b>	38,400		<b>2,304</b>			5,915	<b>12,639</b>

Notes: \* Total column of Table 1. \*\* Total column of Table 2 \*\*\* Total column of Table 3 \*\*\*\* Sum of Col 3, Col 6 and Col 9

proposal. This difference was lodged in a database. In order to come to this figure, a number of documents available from the LEP tracker were examined including Planning reports, Council reports and minutes. Information gathered from these documents included addresses and lot numbers, summary and scale of changes proposed, and number of dwellings affected. On the basis of this examination, the number of additional dwellings which the change in zoning requirements would produce was estimated and added to the spreadsheet. It should be noted that in some cases this estimate was easy to establish (where the change in the number of dwellings was explicitly mentioned in the planning proposal). In other cases, the number had to be estimated. Using this approach, it was estimated that the total increase in dwellings through the gateway process was 7,400 in the calendar year. It was decided to make this the most likely result with a pessimistic scenario of 6,400. Note that because of incomplete documentation in the Gateway process, this number should be considered an estimate.

### 3. The findings

#### **Generating total estimate of Affordable dwellings via rezoning – Optimistic scenario**

The total estimates of affordable housing dwellings are generated by combining the results of Tables 1, 2 and 3 and applying to the final column of each table an estimate of the proportion of net additional floorspace generated through each process. Note that this estimate is never 100 percent because before the rezoning occurs there is some residential floor space. This process is shown in Table 4. The table assumes a 10 percent affordable housing yield. Over a 10 year period, the total affordable potential affordable dwellings are 12,639 (with a 10% yield).

#### **Generating total estimate of Affordable dwellings via rezoning – Pessimistic scenario**

In the pessimistic scenario a number of assumptions are introduced that reduce the yield of affordable dwellings.

1. It is assumed that only 20% of gateway properties are available because the ARHT is limited to larger rezonings;
2. Only 5% targets are reached because of viability tests
3. Twenty percent of State based rezonings are excluded because the delivery of a critical or major component of city-making infrastructure. This might be because the value of the uplift from the rezoning might be required to help fund other infrastructure such as transport.

4. Only 40% of council based rezonings are included in the scheme because of both low council participation and/or exclusions based on delivery of a critical or major component of city-making infrastructure.

These assumptions are used to generate the estimates in Table 5. The table shows that the total affordable dwellings delivered over a ten year period reduce to 3,181 dwellings.

### **The potential yield of affordable dwellings from SEPP 70**

A state environment planning policy, SEPP 70 enables local government to generate additional affordable housing dwellings, usually through the collection of fees that are used to construct additional housing. This has been operating in some Council areas in Sydney and has recently been extended to 5 additional Council areas. The highest yield of affordable dwellings has been in the City of Sydney where over a 25 year period the SEPP has yielded about 35 affordable dwellings per annum.

The Government has recently announced that this opportunity will be provided to all LGAs in NSW but that it will require them to complete a variety of process steps, including demonstrating the financial viability of the targets, for the Councils to participate. It seems likely that SEPP 70 will become the implementation mechanism for the AHRT. Hence for the purposes of this modelling the SEPP 70 yields are yields which are those obtained from Council's exceeding the AHRT targets.

It is assumed that the additional yield obtained from SEPP 70 generate an additional 210 dwellings per annum in year 1 and that this will increase by an additional 35 affordable dwellings per annum each year as more Councils are able to navigate the SEPP 70 process leading to 525 additional affordable dwellings in year 10. Over 10 years the total dwelling yield is 3,675. These calculations are shown in Table 6.

**Table 5. Potential Affordable dwellings: Pessimistic Scenario**

State based	Net inc in floor space	Affordable dwellings	Gateway based	Net inc in floor space	Affordable dwellings	Council LEP based	Net inc in floor space	Affordable dwellings	Total rezoning AH dwellings
1,300	80%	42	-	60%	-	-	75%	-	42
1,950	80%	62	1,200	60%	7	3,467	75%	52	122
2,600	80%	83	1,800	60%	11	5,013	75%	75	169
3,250	80%	104	2,400	60%	14	6,434	75%	97	215
4,550	80%	146	3,000	60%	18	7,568	75%	114	277
5,850	80%	187	3,600	60%	22	8,511	75%	128	336
7,150	80%	229	4,800	60%	29	10,348	75%	155	413
8,450	80%	270	6,000	60%	36	11,685	75%	175	482
9,750	80%	312	7,200	60%	43	12,522	75%	188	543
10,400	80%	333	8,400	60%	50	13,314	75%	200	583
55,250		1,768	38,400		230			1,183	3,181

**Table 6. Total Estimates of AH Dwellings including SEPP70 dwellings**

<b>Year</b>	<b>Total Additional Affordable dwellings SEPP 70</b>	<b>Grand Total AH dwellings Optimistic</b>	<b>Grand Total AH dwellings Pessimistic</b>
1	210	<b>314</b>	<b>252</b>
2	245	<b>733</b>	<b>367</b>
3	280	<b>972</b>	<b>449</b>
4	315	<b>1,202</b>	<b>530</b>
5	350	<b>1,462</b>	<b>627</b>
6	385	<b>1,707</b>	<b>721</b>
7	420	<b>2,056</b>	<b>833</b>
8	455	<b>2,367</b>	<b>937</b>
9	490	<b>2,641</b>	<b>1,033</b>
10	525	<b>2,860</b>	<b>1,108</b>
<b>TOTAL</b>	<b>3,675</b>	<b>16,314</b>	<b>6,856</b>



## 5. Conclusion

The introduction of the ARHT and the extension of SEPP 70 to more Sydney councils will generate much needed affordable housing in Sydney. The details of the mechanisms of the ARHT are yet to be established and even when they are finalized, it will be difficult to estimate the total yield of dwellings given the uncertainty about the speed and type of rezonings, as well as the rate development after the rezoning takes place. Nevertheless, using a number of assumptions it is possible to provide some estimates of the potential affordable dwelling yield from both these schemes which are provided in this report. The rate of affordable dwelling delivery will take some time to ramp up to its full potential for a number of reasons. There is also substantial variation between a scenario involving the most optimistic scenarios and a more pessimistic one. This variation will be reduced when further details of the scheme are announced by the Government.

Note that the estimate of affordable dwellings provided in this report is not the total number of affordable dwellings delivered through the planning system. As reported by Gurrán et al (2018), the Affordable Rental Housing SEPP (ARHSEPP) and Voluntary Planning Agreements (VPAs) also delivered affordable housing in Sydney. They estimate that the ARHSEPP delivered about 250 affordable dwellings per year in Sydney (note that these are only required to be affordable for 10 years) and VPAs delivered 26 affordable rental units and \$34.075m over an 8 year period<sup>9</sup>. It is likely that these VPA numbers will decline because some of the resources might be redirected to the ARHT scheme. It is less likely that the ARHSEPP outcomes will be disturbed as a result of the ARHT scheme since developers will be attracted to the lower transactions costs attached to the ARHSEPP pipeline.

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<sup>9</sup> Note that the report admits that the numbers could be an underestimate because they had to be manually recorded

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