

**RE: Victoria's draft 30-year  
strategy**

**Dear Jonathan Spears & the Infrastructure Victoria team,**

Thank you for considering our submission to your Draft Strategy.

We broadly endorse the bold and necessary policy directions suggested in the draft 30-year strategy—especially the recommendation to upzone around existing infrastructure. This recommendation strongly aligns with the broad evidence base that suggests upzoning that significantly increases the realisable zoned capacity is the best lever governments have to ease the housing crisis over the medium- to long-term.

Because we broadly support the strategy as you have put forward, we want to use this submission to raise concerns regarding the potential negative effects of inclusionary zoning (IZ), which is highlighted as a potential 'future option' in Infrastructure Victoria's recommendations.

**While mandatory inclusionary zoning policy is almost always well-intended, it also almost always has disastrous results.**

**There are inclusionary housing policies that can work.** Both 'incentivised' and 'fully funded' IZ are strong policy options that can actually deliver the benefits that unfunded IZ schemes aim, but fail, to achieve.

We lay out these options in the body of this submission. Thank you for your consideration, and we look forward to engaging with you further on this and more in the future.

Yours sincerely,

A handwritten signature in black ink, appearing to read "JOB".

Jonathan O'Brien  
Lead Organiser, YIMBY Melbourne



## **Recommendation: inclusionary zoning should never be mandatory, only incentivised or fully-funded**

- By placing a tax on new housing and increasing costs, mandatory inclusionary zoning worsens overall housing affordability.
- The Australian inclusionary zoning canon is built on flawed case studies that contradict international evidence.
- Fully-funded and incentivised inclusionary zoning models offer a way forward for inclusionary housing policy in the Victorian context.

## **Mandatory inclusionary zoning for “affordable” housing will make housing outcomes worse**

**By placing a tax on new housing and increasing costs, mandatory inclusionary zoning worsens overall housing affordability.**

Mandatory inclusionary zoning (MIZ) is almost always well-intentioned. However, when implemented without proper consideration of costs to providers the effect on the overall cost of housing increases, and very little if any additional affordable/social housing is delivered.<sup>1</sup>

The bulk of the existing evidence suggests that MIZ, without well-calibrated incentives, substantially reduces new housing supply—thus making overall housing affordability worse.<sup>2</sup>

In essence, mandatory inclusionary zoning policies work as an implicit tax on new homes, and as a result creates fewer rather than more homes overall.

## **Unfunded inclusionary zoning places costs on new homes—rather than on landowners**

Another key question around inclusionary zoning policy is why the burden of providing affordable and social housing should be borne predominantly by those building new housing, rather than by society as a whole.

This is why we support policies such as Victoria's AirBnB levy—the revenue from which goes straight to Victoria's social housing authority—and a broad-based land tax, which is one of many recommendations in the IV strategy that we support. The State

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<sup>1</sup> Hamilton (2019) '[Inclusionary Zoning and Housing Market Outcomes](#)' (Mercatus Center, George Mason University)

<sup>2</sup> Mock et. al (2023), '[Can Inclusionary Zoning Be an Effective Housing Policy in Greater Boston? Evidence from Lynn and Revere](#)', (Harvard Kennedy School, Working Paper No. RWP23-006)

Bento et. al (2009), '[Housing Market Effects of Inclusionary Zoning](#)', (US Department of Housing and Urban Development)

Means & Stringham (2012), '[Unintended or Intended Consequences? The Effect of Below-Market Housing Mandates on Housing Markets in California](#)', (Journal of Public Finance and Public Choice, 30(1-3))

Schuetz et. al (2010), '[Silver Bullet or Trojan Horse? The Effects of Inclusionary Zoning on Local Housing Markets in the United States](#)' (Urban Studies, 48(2), 297-329.)

Government needs to build more well-located social housing and cannot rely on shifting the responsibility and costs to private developers and new homeowners in order to meet the current shortfalls.

The reason, then, that we favour incentivised inclusionary zoning models, is that they align the interests of both the developer and society on the whole, with planning authorities rewarding the inclusion of affordable and social housing with incentives such as third-party appeal protection, additional height allowance, and other increases in yield or stakeholder certainty.

While these models do need to be carefully calibrated and regularly reviewed to ensure cost neutrality for both the government and developers, YIMBY Melbourne believes that policies that align all stakeholders to create better outcomes for Melburnians are the policies we should pursue most intensively.

## **The Australian inclusionary zoning canon is flawed**

### **The reserve price of land sets a high price floor in established areas**

There are common myths perpetuated by certain advocates of legacy planning regimes that suggest developers can absorb large subsidised housing requirements through an internalisation of development potential within land prices.

This may be true in cases where uplift is outsized and broadly applied, such as an increase in 30 or more storeys across many blocks of land, but is significantly less likely to be true in cases where the development uplift does not generate yield in excess of the reserve price of land.

The reserve price of land is generally set by the price an entity is willing to pay for its prevailing use. On the fringe of the city, this is typically set by the price of the land for agricultural purposes. In established residential areas, this is typically set by the price of the land when used for a single dwelling.

Crucially, land prices cannot be manipulated to the degree that legacy planners believe is possible, because the price floor, especially in inner-areas, is quite high. Where well-located land has a reserve price well above \$4 million per 1000 square metres, yield must be high enough for this land cost not to make development unfeasible. Additional costs and levies, such as Mandatory Inclusionary Zoning cannot reduce land values below this reserve price.

### **The Infrastructure Victoria draft references flawed case studies**

Sydney's Ultimo Pyrmont and Green Square urban redevelopment precincts are referenced in the IV strategy as a case study of a working mandatory IZ scheme.

However, these precincts' schemes did not operate as mandatory inclusionary zoning—that is, affordable homes were not built and delivered purely on the basis of developer contributions.

There are three key differences between the Sydney case study and actual inclusionary zoning.

First, City West Housing, the entity that all the contributions go to in the NSW case studies, received significant capital funding for its establishment (\$50 million), and their social housing projects have been supplemented by capital funds from both Commonwealth and NSW Government programs.<sup>3</sup> In other words, this IZ is not an unfunded scheme. We cannot expect similar returns if this program is replicated in Victoria if it is not subsidised in the same manner by capital grants.

Second, the Sydney case study takes place in the specific context of brownfield rezonings, and the inclusionary contribution is mandated for all development uses in the included areas. It is not clear that such a program would function in established areas, where the reserve price of land is set much higher, and the land is already in use (i.e. as a single dwelling).

Third, the research underpinning the case for IZ in Australia assumes that the supply elasticity of Australia's housing market is inherently inelastic—and that therefore any negative effect on supply is meaningless.<sup>4</sup> This assumption is unsubstantiated by robust research and runs counter to the overwhelming international evidence base.<sup>5</sup>

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<sup>3</sup> [From Humble Beginnings](#) (City West Housing, August 2020); An [example](#) of CWH receiving funding external to the developer contributions

<sup>4</sup> Spiller & Anderson-Oliver (2015), '[Revisiting the Economics of Inclusionary Zoning](#)', (SGS Economics & Planning)

<sup>5</sup> Mock et. al (2023), '[Can Inclusionary Zoning Be an Effective Housing Policy in Greater Boston? Evidence from Lynn and Revere](#)', HKS Working Paper No. RWP23-006;

Bento et. al (2009), '[Housing Market Effects of Inclusionary Zoning](#)', US Department of Housing and Urban Development;

Schuetz, J., Meltzer, R., & Been, V. (2010), '[Silver Bullet or Trojan Horse? The Effects of Inclusionary Zoning on Local Housing Markets in the United States](#)' Urban Studies, 48(2), 297-329;

Means, and Stringham (2012), '[Unintended or Intended Consequences? The Effect of Below-Market Housing Mandates on Housing Markets in California](#)', Journal of Public Finance and Public Choice, 30(1-3): 39-64.

We caution against advocating for inclusionary zoning on this basis.

## **Inclusionary zoning is imperfect policy—but it's better if it's either fully-funded or incentivised**

### **Fully-funded inclusionary zoning**

Sightline Institute's research offers a pathway to achieve the inclusionary outcomes that IZ schemes often fail to achieve: fully fund it.<sup>6</sup> In this configuration, the government or other responsible authority simply pays the cost of the social housing provided. This funding can be drawn from a broader tax base, rather than from a levy on a specific development that may unduly impact project viability and resultant housing costs.

Sightline found that fully funding IZ doesn't harm the financial feasibility of building new homes and provides a way to make sure that the good intentions of IZ policies are realised. For case studies, please see the examples from Portland, Baltimore, Chicago, and Shoreline in their report.

Given the fiscal constraints of the Victorian context, inclusionary zoning may not be able to be fully-funded off current revenues. As such, if the state does want to implement inclusionary zoning, they may want to go with the incentivised option.

### **Incentivised inclusionary zoning**

Incentivised inclusionary zoning works by enabling projects to increase their total yield in exchange for providing "public benefit", such as social housing contributions.

The Victorian Government has begun to implement incentivised inclusionary zoning as part of the Suburban Rail Loop (SRL) East Precincts and Activity Centre Program. This is implemented through the Public Benefit Uplift (PBU) framework.

Under this framework, for a given amount of "public benefit" a project provides, the building is able to build beyond the maximum density prescribed within the controls.

A few different public benefits are on offer, but the relevant one here is "affordable housing" (i.e., housing sold at a discounted 30% rate). See Appendix 1 for a diagram of how the PBU works. See Appendix 2 for why YIMBY Melbourne does not support "affordable housing" policy.

A back-of-a-napkin analysis suggests that if all the PBU-eligible land in the SRL East Precincts is realised, they could provide upward of:

- 5,176 one-bedroom affordable homes or;
- 3,796 two-bedroom affordable homes or;

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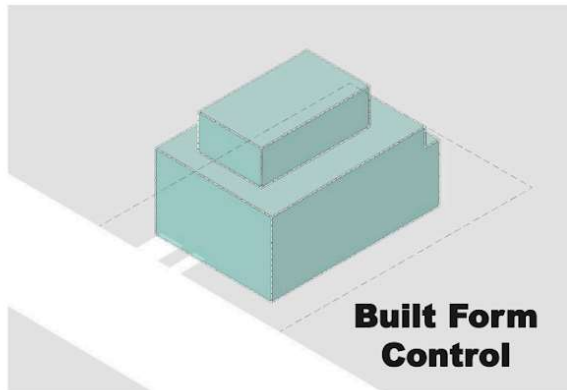
<sup>6</sup> Bertolet (2024), '[To Fix Inclusionary Zoning, Fund It](#)' (Sightline Institute)

- 2,711 three-bedroom affordable homes.

This is a robust way of creating good social outcomes while minimising impact on overall project viability.

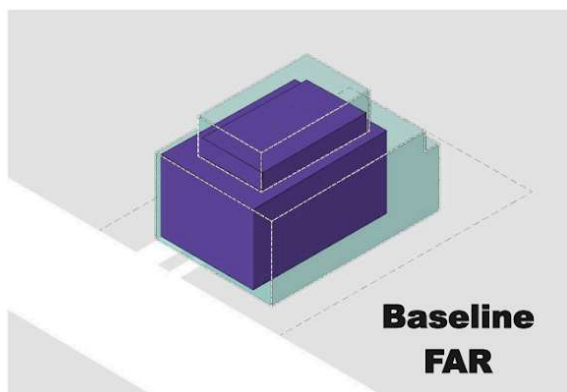
# Appendix 1: Public Benefit Uplift Framework

## 9.0 Baseline FAR and Uplift FAR



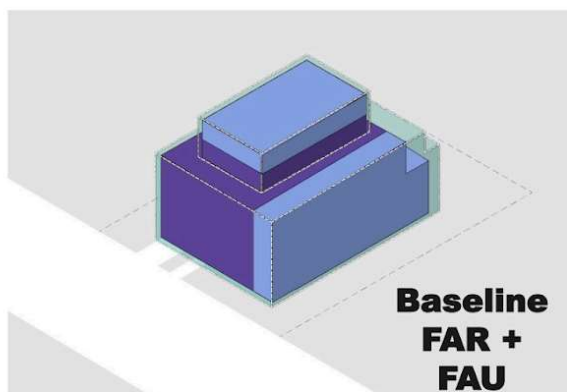
The diagrams on the left show:-

1. The discretionary building envelope that is created by the setback and height controls in the Precinct Zone and Built Form Overlay (represented in green as the **built form control**).



2. The **Baseline FAR** is the mandatory maximum FAR that can be achieved unless an eligible public benefit is provided (represented in purple). The Baseline FAR typically sits below the built form envelope, to maintain flexibility around how floor area is shaped within the allowable envelope, and to enhance potential for a site responsive design.

For most of the nominated master plan sites, the baseline FAR has been more closely aligned to the adopted heights in the Structure Plan. These sites will be subject to detailed master planning which requires greater flexibility for bespoke and innovative design.



3. The **Floor Area Uplift** is the extra floor area above the Baseline FAR that is generated by the value of the public benefit provided (represented in blue).



Voluntary Public Benefit Uplift Framework

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Diagram from the SRL East Voluntary Public Benefit Uplift Framework

## Appendix 2: Social housing contributions are better than "affordable housing"

*From our submission to the SRL East Precinct Plan consultation.*

### YIMBY Melbourne supports the PBU as a better-practice implementation of 'inclusionary' housing policy

YIMBY Melbourne endorses the innovative approach of using a Public Benefit Uplift (PBU) framework to deliver better housing and infrastructure outcomes. The PBU employs the better-practice form of inclusionary zoning (IZ): incentivised IZ.<sup>7</sup> By providing optional uplift to maintain project viability, the PBU framework enables projects to deliver both public and private value.

However, we do not support "affordable" housing as the primary form of subsidised housing provided within the PBU framework.

"Affordable" housing simply provides a subsidy for the marginal homebuyer or renter to occupy a unit that would have otherwise been sold or rented at full market price. However, it does little to provide homes for those in acute housing need.

**The greatest public benefit is yielded from helping those most in need of housing.** That means individuals and families on the social housing waitlist.

### The SRL Authority should offer housing contribution options in line with the Development Facilitation Program

The Victorian Government's Development Facilitation Program (DFP), like projects built within the confines of the PBU, seeks to deliver affordable housing as a condition to access the benefits of the fast-track program (it requires a 10% affordable housing contribution).

However, unlike the PBU, the DFP offers three pathways to deliver affordable housing:

- Option 1 – Discounted sale or gifting of homes to a registered housing agency (RHA) or Homes Victoria
- Option 2 – Contribution to the Social Housing Growth Fund
- Option 3 – Discounted rental in build-to-rent developments

Options 1 & 3 have equivalents in the PBU framework. However, there is currently no equivalent to Option 2.

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<sup>7</sup> Bertolet (2024), ['To Fix Inclusionary Zoning, Fund It'](#) (Sightline Institute)

Under an amended PBU, developers should be enabled to pay the 'Value of Public Benefit Derived' into the Social Housing Growth Fund.

This would ensure the Victorian Government can utilise capital that would have otherwise been earmarked for "affordable" housing to further expand and maintain the state's social housing stock.

**This represents the opportunity to undertake more targeted and effective support for Victoria's most vulnerable residents.<sup>8</sup>**

In-kind contributions of affordable housing look good in press releases, but is an ineffective measure for confronting the housing crisis.

Crucially, the "salt-and-pepper" approach to social housing creates greater complexity for an already resource-poor community housing sector. Dispersing each organisation's stock of housing increases maintenance costs, and makes providing support to tenants a greater challenge.

It is simpler and more cost-effective for housing providers to bunch large numbers of units together, often in dedicated social housing builds. Adding an in-kind contribution pathway to the PBU framework would enable better outcomes for providers and tenants alike, and enable Victoria to make much-needed additions to its social housing stock.

There is no guarantee, of course, that collected funds will be used within a given SRL Precinct. This should not be seen as a drawback: rather, it is more important that social housing is built in the places where it is needed, and for the people who need it, across the entire area of metropolitan Melbourne, and Victoria writ large.

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<sup>8</sup> Please read [Chapter 8: Subsidised affordable rentals](#) of the Productivity Commission's 'In need of repair: The National Housing and Homelessness Agreement' report to see why affordable housing is a suboptimal form of subsidised housing.