

MSc Programme in Urban Management and Development

Rotterdam, the Netherlands

September 2022

Thesis title:

Developer Exactions and Affordable Housing Provision: The Implementation of Balanced Housing Policy in Surabaya, Indonesia

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Country : Indonesia
Report number : 1601
UMD 18

Summary

Urbanisation has contributed to housing affordability crises around the world, causing the housing supply in many of these countries has been unable to keep up with demand and resulting in housing shortages, particularly for low-income people. As a result, policymakers have sought new tools to fund affordable housing production, including through land-use policies such as Inclusionary Housing. The concept of Inclusionary Housing was introduced in Indonesia by the national government through the Balanced Housing policy in 1992 and has been in place for thirty years with several changes. However, despite its long-standing existence, there have been limited studies concerning how local governments implement the policy to provide affordable housing, including in Surabaya

Even though the balanced housing policy may not be the panacea to the housing affordability crisis, it would lessen the burden on local governments. Therefore, a disconnect between national policy and its implementation at the local level may prevent municipalities from capitalising on rising real estate values to provide affordable housing. Thus, this research aims to investigate and explain to what extent the Balanced Housing Policy is implemented in Surabaya and how it contributes to the supply of affordable housing. The research uses a mixed-method approach and case study strategy, with the data for the research collected through interviews with stakeholders, reports and literature.

The findings showed that no local regulation governs how the balanced housing policy should be implemented in Surabaya, and several aspects of the policy remain contentious, resulting in developers' views on this policy as shifting responsibility from the government. Furthermore, the municipality has not fully met some of the preconditions of establishing LVC instruments, resulting in weak monitoring and enforcement. At the same time, negative public perceptions of mixed-income neighbourhoods still affect the stakeholders' decision in realising balanced housing.

To conclude, the research showed that the balanced housing policy and its implementation in Surabaya are still underperformed. Despite being a long-standing policy, the obstacles and challenges encountered by stakeholders remain similar to its previous policy, eventually contributing to the ineffectiveness of the policy in supporting low-income housing development in Surabaya. Ultimately, the local government has failed the chance to capture the value increment created by private developers to be recouped for the public benefit through the provision of affordable housing.

Keywords

Inclusionary housing, balanced housing, developer exactions, Land Value Capture (LVC), affordable housing, land governance

Acknowledgements

First and foremost, praise and gratitude, the author prays to Allah Almighty for the grace and guidance that has enabled me to accomplish what I have achieved thus far.

My sincere gratitude is extended to my thesis supervisor, Ore Fika, for her endless support through assistance and guidance. Thank you for taking this quiet girl under your supervision and helping me reach this point of achievement! Also, my appreciation to Paul Rabe, Charmae Nercua, Carley Pennink, Erwin Van Krabben, and Francesca Vanelli for sharing their valuable knowledge and experiences throughout the Land Management specialisation, and all the lecturers and teaching assistants of IHS.

I would like to thank all my UMD 18 cohort members and Land Mannies for the insightful discussions over lunch breaks, potluck dinners, and all the enjoyable times shared within such a short time! And for IHS to have this program and allow me to experience a year filled with inspiring people and such diversity.

To IHS Indonesian students circle and my fellow LPDP x StuNed awardees, one of the very first friends and family I made here in The Netherlands, thank you for making the start of this journey less terrifying. Special shoutout to my one-call-away: Talitha, Belva, and Raja. My sincere thanks go to you for the meaningful conversations, memorable trips, and all the days and nights we spent together working on our thesis. Truly grateful to have crossed paths with you, and cheers to many more years of friendship!

I wish to thank all my friends back home who have been with me from the beginning of this journey, especially Rana and Fajri. It is fascinating to have been able to experience all the ups and downs of life, from those all-nighters in BDG cafes during college, late nights JKT-SUB calls working on our papers and applications, to finally moving abroad to EU & UK and going through this master's phase together. Here's to many more milestones to conquer!

With sincere gratitude, I would also like to thank NUFFIC Neso and Lembaga Pengelola Dana Pendidikan (LPDP) Indonesia for their financial support, without which I would not have been able to finish my master's study at IHS.

Last but not least, a heartfelt thank you goes out to my dearest parents and family members, the ones I would not be where I am today without, for their endless support and for always keeping me in their thoughts and prayers.

Completing this thesis and this journey would not have been possible without everyone, including those whose name was not mentioned, who have stayed and supported me. It is my sincere hope this report can provide benefit to others in some way.

Abbreviations

AREBI	Indonesian Real Estate Brokers Association (<i>Asosiasi Real Estate Broker Indonesia</i>)
BPS	Central Bureau of Statistics (<i>Badan Pusat Statistik</i>)
DPUCKTR	Department of Public Housing and Settlement Areas (<i>Dinas Perumahan Rakyat, Kawasan Permukiman dan Cipta Karya</i>)
IDR	Indonesian Rupiah
IH	Inclusionary Housing
IHS	Institute for Housing and Development Studies
IZ	Inclusionary Zoning
KEPMENPUPR	Decree of the Minister of Public Works and Public Housing (<i>Keputusan Menteri Pekerjaan Umum dan Perumahan Rakyat</i>)
KPBU	Public-private partnership (<i>Kerjasama Pemerintah dengan Badan Usaha</i>)
LHB	Balanced Housing Environment (<i>Lingkungan Hunian Berimbang</i>)
LVC	Land Value Capture
MBR	Low-income people (<i>Masyarakat Berpenghasilan Rendah</i>)
PERMENPERA	Minister of Public Housing Regulation (<i>Peraturan Menteri Perumahan Rakyat</i>)
PP	Government Regulation (<i>Peraturan Pemerintah</i>)
PPP	Public-Private Partnership
PSU	Infrastructure, Facilities, and Public Utilities Assistance (<i>Bantuan Prasarana, Sarana, Utilitas</i>)
PUPR	Ministry of Public Works and Public Housing (<i>Kementerian Pekerjaan Umum dan Perumahan Rakyat</i>)
RDTR	Zonation Regulations (<i>Rencana Detail Tata Ruang</i>)
RTRW	Spatial Plan (<i>Rencana Tata Ruang Wilayah</i>)
Rusunawa	Rental Flats (<i>Rumah Susun Sederhana Sewa</i>)
SSIs	Semi Structured Interviews

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Chapter 1: Introduction

1.1 Background

Cities worldwide have suffered from the housing affordability crisis, partly due to rapid urbanisation, which affects population growth and housing demand (UN-Habitat, 2019; van Doorn, Arnold, & Rapoport, 2019). Nevertheless, housing supplies in many of these countries have not been able to meet such a rapid increase in demand and needs, leading to a housing shortage, particularly for low-income people (Aluko, 2011; Lin et al., 2018; Tangri, 1968). Therefore, policymakers have sought new tools to fund affordable housing production, including through land-use policies such as Inclusionary Housing.

Inclusionary Housing (IH), also known as Inclusionary Zoning (IZ), refers to land-use policies that require market-rate housing developers to set aside a certain percentage of their units, typically between 10 and 20 percent, to provide affordable housing (Calavita & Mallach, 2009; Padilla, 1995). The underlying principle of this instrument is to capture the “unearned increment” of land value increase resulting from private actions, which are mobilised through conversion into public revenue or direct provision of particular urban infrastructure, including affordable housing (Alterman, 2012; Smolka, 2013). In addition, Inclusionary Housing is also intended to promote socioeconomic integration, where people from diverse backgrounds live in one residential community (Calavita & Mallach, 2009; Schuetz & Meltzer, 2012).

Despite the debates surrounding Inclusionary Housing, many scholars argue that it is a viable solution for affordable housing provision, with positive results for affordable housing production worldwide, including in Europe, Canada and US states such as California and Maryland (Brown, 2001; Brunick, 2004a; Mukhija, Regus, Slovin, & Das, 2010; Schuetz & Meltzer, 2012). Nonetheless, despite its growing popularity worldwide, Inclusionary Housing practices remain limited in most developing countries, except for a few rapidly developing countries such as China, India, Malaysia, and South Africa (Klug, Rubin, & Todes, 2013; Mekawy, 2014b).

Inclusionary Housing in Indonesia

In Indonesia, the concept of Inclusionary Housing was introduced by the national government in 1992 through the Joint Decree of the Minister of Home Affairs, the Minister of Public Works and the Minister of Public Housing No. 648-384 of 1992, No. 739/KPTS/1992 and No.09/KPTS/1992 concerning Guidelines for the Housing and Settlements Development with a Balanced Housing Environment (*LHB*). The main purposes of this decree were to fulfil the basic human needs of healthy and safe housing, enable an inclusive community, and pursue equitable development.

Compared to the general requirement of Inclusionary Housing, balanced housing policy has its unique method, which commonly known as the 1:3:6 ratio in 1992 Joint Decree – later changed to a 1:2:3 ratio through the Law No. 1/2011 on Housing and Resettlement Area, which became the underlying law of the Minister of Public Housing Regulation (PERMENPERA) No. 10/2012 and PERMENPERA No. 07/2013. This ratio regulates the composition of housing

types provided within the project, implying that developers must build two middle-income and three low-income houses in every new residential development for every high-income (luxury) home. Aside from the balanced housing ratio changes, PERMENPERA No. 07/2013 also adds the obligation for commercial vertical housing developers, which requires them to provide at least 20% of the property's floor area for public housing.

In 2021, revised guidelines for balanced housing were incorporated in Government Regulation No. 12/2021, following the issuance of Law No. 11/2020 in Job Creation. Despite several changes made in the 2021 amendment, considering this ratio is still in place, one can reasonably assume the national government still regards this policy as beneficial to oblige developers to provide affordable housing.

1.2 Problem statement

Surabaya, the second-largest city in Indonesia, has emerged as a metropolitan city with rapid economic growth that has surpassed its regional (East Java) and national performance. Next to this remarkable growth, private housing development has rapidly grown over the past few decades, expanding from the city centre to the eastern and western parts of the city (Navastara & Navitas, 2012). However, despite this immense residential development, Surabaya still suffered from an affordable housing crisis.

Until 2020, 45% of households in Surabaya did not own a house and lived in rented or corporate housing (BPS-Statistics Jawa Timur, 2021b). At the same time, there are still a high number of substandard housing and significant demand for housing for low-income people. Surabaya Municipality manages around 20 public housing for low-income households across the city, with a total capacity of approximately 5.157 units (Jawa Pos, 2021). However, it still does not provide enough space to accommodate the excess demands, particularly given the application for public housing has reached above 11.000 applicants as of 2021 (Jawa Pos, 2021).

While developers may perceive market housing to be reasonably priced, it is generally more accessible to middle- and high-income individuals and out of reach for the lower-income. As a result, the local government is responsible for addressing the affordable housing crisis. Not only to fulfil their obligation to provide safe and adequate housing to all citizens but also to prevent inequality and the growth of informal settlements that Surabaya municipality has long fought against.

Although the balanced housing policy, much like Inclusionary Housing, might not be a panacea to the housing affordability crisis in Indonesia, it could lessen the burden of affordable housing provision on local governments. Therefore, the disconnect between national policy and its implementation at the local level may result in municipalities losing the opportunity to take advantage of rising real estate values from the rapidly growing residential development and acquire resources to provide affordable housing.

According to PERMENPERA No. 10/2012, the mechanism and implementation of the balanced housing policy is the responsibility of the local government, adapted and regulated according to local conditions. Nevertheless, studies on how the local government implements the balanced housing policy and information on local regulations used by municipalities to

compel developers to produce affordable housing as its intended objective are still limited, including in Surabaya. Therefore, this research aims to investigate to what extent this policy implementation in Surabaya has been applied and contributed to affordable housing production for low-income households and identify the reasons that prevent local governments from effectively enforcing the regulation and developers from adhering.

1.3 Research objectives

This research's objective is to investigate and explain to what extent the Balanced Housing policy is implemented in Surabaya and contributes to the supply of affordable housing for low-income communities.

1.4 Research question

The main question of the research is:

To what extent do the balanced housing policy and its implementation support the supply of affordable housing for the low-income community in Surabaya, Indonesia?

The following sub-questions will be used to answer the main research question:

1. What is the contribution of the housing developers to the supply of low-income housing in Surabaya?
Finding out what contributions the housing developers have made to support affordable housing production in Surabaya, especially under the balanced housing policy, will help answer how far the policy and its implementation have encouraged the provision of affordable housing in the city.
2. What obstacles do the local government face related to the policy and implementation in providing low-income housing through the balanced housing policy?
Local governments have a crucial role in ensuring that policies are implemented effectively at the local level through planning, regulations, and execution. Therefore, it is essential to understand how they perceive the realization of balanced housing in Surabaya, the difficulties encountered, and how it affects affordable housing provision.
3. What challenges do private developers face in fulfilling the low-income requirements of the balanced housing policy?
Private developers are responsible for producing affordable housing under the policy. Therefore, it is important to understand how they performed under the policy, their challenges, and under what circumstances they wish to comply with it.

4. What sociocultural factors influence key stakeholders' decisions and commitment to providing affordable housing?

Affordable housing supply must consider housing demand from society, as they correlate with each other. Finding out stakeholders' perceptions of the community's values and preferences will help to understand their commitment to providing affordable housing.

1.5 Relevance of the research topic

This research is intended to assess the implementation of the balanced housing policy at the local level of government in Indonesia, specifically in Surabaya, whether it has been effective in supporting the provision of affordable housing and what challenges have been encountered by the key stakeholders. In a broader perspective, one may refer to the balanced housing policy as the adoption of Inclusionary Housing, one of the land value capture (LVC) instruments generally used by municipalities to (1) provide affordable housing and (2) create mixed-income communities. As the national government has recently issued Government Regulation No. 24/2021 to replace the previous balanced housing policy, the study can assist policymakers in evaluating and implementing local policies more effectively and improve communication among stakeholders to ensure affordable housing provision. Further, the study could contribute to the existing academic discourse about Inclusionary Housing practices, especially in developing countries.

1.6 Scope and limitations

The scope of this research is limited to the application of Inclusionary Housing in Surabaya, Indonesia, to support the supply of affordable housing for the low-income community. Therefore, this research does not significantly cover other issues regarding housing affordability, such as purchasing power and access to affordable housing. Furthermore, the study does not cover social integration and mixed-income housing development as the other main objective of inclusionary housing from the general public's perspective. Furthermore, the study focuses on assessing the previous balanced housing policy of 2013 instead of the 2021 amendment due to its relative newness; consequently, the development projects and local regulations related to this policy are expected to still in their preliminary stages of planning.

Chapter 2: Literature Review

This chapter discusses affordable housing, land value capture, and inclusionary housing theories and concepts to support the research. Furthermore, principles over land governance were explored to examine the influencing factors affecting inclusionary housing implementation and affordable housing provision. Finally, a conceptual framework is developed to understand how the concepts are related and operationalise the research to help answer the research questions.

2.1 Land value capture for affordable housing

2.1.1 Affordable housing

One of the most common definitions of “affordable housing”, often expressed as housing affordability, is the amount of expenditure on housing services relative to the household’s income (Jewkes & Delgadillo, 2010; Mekawy, 2014b). The housing affordability problem occurs when the housing expenditure passes a certain threshold, with the typical “rule of thumb” of 30% of the total income (Hulchanski, 1995). Nonetheless, Quigley and Raphael (2004) argue that many other factors influence housing affordability, including housing prices, housing quality, housing market policies, and housing supply conditions.

As a particular segment of the population becomes increasingly vulnerable and unable to access the housing market, government intervention becomes necessary. The rationale behind this government intervention, referring to Batley (1996), is because: (1) there is a market failure, and (2) affordable housing is considered a merit good. The market failure condition refers to the state where the private party fails to provide acceptable housing outcomes, for instance, due to monopoly, investment uncertainty, and insufficient consumers’ knowledge in market decisions (Batley, 1996). In addition, the principle of the highest and best use of land led developers to build the most profitable type of homes, making the provision of affordable housing non-attractive for private developers. Accordingly, prevailing market conditions may lead to a further decline in affordability and accessibility of housing to low-income people.

On the other hand, the “merit good” argument implies that everyone has the right to access certain goods and services, including education, health, public facilities, and housing, regardless of their ability or willingness to pay (Batley, 1996; Musgrave, 1957). In particular, decent and affordable housing has been demonstrated to positively impact individual well-being and the broader community by establishing a more stable household and better access to education, healthcare, and economic development (Lubell, Crain, & Cohen, 2007; Mueller & Tighe, 2007; UN-HABITAT, 2015).

2.1.2 Land Value Capture

The government may intervene in affordable housing provision through land-use policy, such as using Land Value Capture (LVC) instruments. LVC has been used for urban development funding in recent years – given that local government budgets are generally insufficient to finance public services and infrastructure, and conventional policies are incapable of capturing the increasing value of land (Ingram & Hong, 2012; Mahendra et al., 2020). Land Value Capture seeks to capture a certain portion of increases in land values, commonly known as “unearned increments”, which could be driven by government decisions or private investments, and reinvest them for the benefit of the public (Alterman, 2012; Mahendra et al., 2020; Smolka, 2013).

In discussing the government’s capture of land value, land and property rights are a major point of contention. Conservatives and supporters of private rights argue that land owners should be able to use their land as they wish, and the windfall should go to the owner. Using the same logic, therefore, the landowners should also be given compensation for the decrease in land value, or the wipeouts, due to government decisions (Alterman, 2012). Although the debate continues, proponents of LVC agree that the financial returns from such investments should partially offset public development costs as the social obligations of landowners, since the increment of land value did not occur only through the landowner’s actions but also by government approval (Alterman, 2012; Ingram & Hong, 2012; Smolka & Amborski, 2000). Thus, in this sense, it is ethical and socially acceptable to use LVC for wealth redistribution and resource utilisation, provided they are used for public benefit.

Nonetheless, opponents of LVC raised concerns over LVC’s possibility of privatising urban planning, which would reduce the affordability and availability of services in cities that might end up excluding the lower-income groups in the society (Smolka & Amborski, 2000). However, some successful cases, such as the “Rail Plus Property” programs in Hong Kong, Santiago’s highway construction, the OUCAE project in São Paulo, Brazil, and numerous other examples, demonstrate that LVCs can be an effective tool for providing services that would otherwise not be available as well as for promoting sustainable development (Mahendra et al., 2020; Peterson, 2008; Suzuki, Murakami, Hong, & Tamayose, 2015).

Types of value capture

Alterman (2012) points out three categories of value capture instruments: (1) macro instruments, (2) direct instruments, and (3) indirect instruments. She described macro value capture as a non-freestanding instrument but as part of a broader land policy framework, such as land banking and land readjustment. Furthermore, direct LVC instruments are designed to capture the increase in land value caused by general economic or public decisions rather than landowners. They are usually financed through taxation and fees, including land taxes, capital gains taxes, and betterment levies (Alterman, 2012).

On the other hand, indirect LVC is justified by the fact that urban services costs and expectations have grown while funding sources are inadequate. Therefore, local governments try to create new alternatives to collect funding: using their regulatory authority in land use and

planning to require developers to provide contributions, such as monetary payment, land, or construction services, in return for an affirmative decision, development approval, or relaxation of certain regulations (Alterman, 2012; Muñoz Gielen & Lenferink, 2018). Instruments of indirect LVC may vary between countries but are generally known as “developer exactions”, “developer obligations”, “planning gain”, or “impact fees”. Comparatively to other instruments, indirect value capture may be the most effective due to its flexibility to fit different institutional contexts, regulatory requirements, and changes in real estate trends (Alterman, 2011; van der Krabben, Samsura, & Wang, 2019).

2.2 Defining Inclusionary Housing

Referring to the LVC classification above, Inclusionary Housing can be classified as an indirect instrument (Calavita & Mallach, 2009). Similar to the arrangement of developer exactions, Inclusionary Housing (IH) mandates a set-aside percentage of affordable units on housing development by private developers, through a mandatory or voluntary program, with offers in incentives or cost offsets, such as density bonus and fast-track permit approval (Lerman, 2006; Schuetz, Meltzer, & Been, 2011).

Local governments in many countries have embraced Inclusionary Housing as a viable tool for providing affordable housing while also pursuing socioeconomic spatial integration by including low-income housing within commercial housing developments (Calavita & Mallach, 2009; Schuetz & Meltzer, 2012). Inclusionary Housing has a long history of use in the United States, having first gained popularity in the 1970s, especially in the state of California, Maryland, and Virginia (Calavita & Mallach, 2010). There were several reasons for the emergence of inclusionary housing, including the sharp increase in housing costs and decrease in state subsidies for affordable housing, the rise of the environmental movement and growth management controls, an increase in local governments’ use of exactions, as well as efforts to combat racial segregation and exclusionary practices (Calavita & Mallach, 2009, 2010; Lerman, 2006). Internationally, IH has gained much recognition, and various adaptations have been implemented. In the UK, this instrument can be referred to as planning obligations through S106 Agreements, while similar approaches also being used in other countries, including Ireland, Netherlands, France, Italy, Spain, India, Malaysia, China, South Africa, Israel, Canada, Australia and New Zealand (Calavita & Mallach, 2010).

Nonetheless, there is a long-standing debate regarding Inclusionary Housing. Some scholars argue that adopting such a policy is ineffective and inefficient, as it puts an additional cost on development, which would burden the private developer, constrains the market-rate housing production, increases the housing prices, and affects the overall affordability of housing (Padilla, 1995; Powell & Stringham, 2004; Schuetz et al., 2011). On the other hand, many authors consider Inclusionary Housing an attractive, viable approach for policymakers to boost the supply of affordable housing, which otherwise would not be produced, and, more importantly, without requiring direct funding from the public (Brunick, 2004a; Calavita & Grimes, 1998; Calavita, Grimes, & Mallach, 1997).

2.3 Structure and elements of Inclusionary Housing

2.3.1 Mandatory vs voluntary

One of the most critical elements of Inclusionary Housing is whether they are mandatory or voluntary. While inclusionary housing might widely be known as an exaction or obligation for developers, some local governments also treat Inclusionary Housing as a voluntary mechanism. In general, voluntary inclusionary housing relies upon the notion that incentives, or cost offsets, would be sufficient to encourage developers to participate in providing affordable housing, while mandatory inclusionary housing is driven by the idea that incentives alone would not suffice (Mukhija et al., 2010). Prior studies show that mandatory IH is more favourable than voluntary, and some cities shifted from voluntary to mandatory as it is considered more effective for affordable housing provision, including some municipalities or counties in the United States such as Boulder, Cambridge, Irvine and Pleasanton (Brunick, 2004b).

Brunick, Goldberg, and Levine (2003) also noted that its effectiveness at providing housing for low-income entry-level workers, which contributes directly to local economies, as well as its uniformity and predictability in implementation and enforcement, have increased local governments' support for mandatory IH. Uniformity and predictability in mandatory IH imply that developers are provided with consistent expectations and certainty throughout the development process, while local governments gain a more predictable level of affordable housing development. Given that mandatory IH has been used more actively than voluntary ones and has shown to be more favourable, this study, thus, concentrated on the features of mandatory Inclusionary Housing.

2.3.2 Detailed structure of Inclusionary Housing

A number of authors, such as Jacobus (2015) and Mekawy (2014a), have discussed how inclusionary housing programs may be designed. The configuration of Inclusionary Housing comprises a number of elements, which will be discussed in detail below.

- **Set-aside requirement**

The set-aside percentage of affordable housing units or land area provided for the low- and/or middle-income households is another critical element of Inclusionary Housing. While the ratio in the programs might differ, the set-aside portion typically ranges between 10 and 20 percent of the housing project (Calavita & Mallach, 2009; Hickey, Sturtevant, & Thaden, 2014; Padilla, 1995).

- **Development threshold**

Inclusionary Housing programs can be applied to the entire city or are more limited to particular zoning (Mukhija et al., 2015). In addition, IH generally comes with a threshold level of development projects to which inclusionary requirements will apply, which might depend on the type and size of the project (Mukhija et al., 2010). For example, the size of the development project threshold could vary from as low as 1 unit to a project with 50 units and above, as enacted in Montgomery County, Maryland (Brown, 2001).

- **Affordability criteria**

Inclusionary Housing affordability relates to the eligible income level and the affordability of the housing units designated for the target beneficiaries. Area Median Income (AMI) is usually used to determine the income of residents eligible to live in affordable housing, while the housing affordability terms could relate to the duration of affordability and the tenure of the units. As Mukhija et al. (2010) and Read (2008) explain, defining the affordability period and tenure after the initial purchase is crucial to maintaining affordability. As such, some mechanisms such as deed restrictions may be required.

- **Developers' incentives**

Local governments often provide developers with cost-offsets to reduce the potential adverse effects on market supply. For example, the most common incentives that could be provided through Inclusionary Housing might include economic-related incentives, such as fee waivers, subsidies, and tax abatements, or planning-related incentives, including density bonuses, rezoning, fast-track approvals (Jacobus, 2015; Mekawy, 2014a; Mukhija et al., 2015).

- **Opt-outs**

Many programs offer developers the option of exempting themselves from the requirement to provide affordable housing through the mandatory set-aside requirements, by paying in-lieu fees, dedicating land, or by off-site construction of affordable units at a different location. Although opt-outs or alternative contributions as such are still controversial due to the difficulty of transforming in-lieu fees and dedicated land into affordable housing, as well as potentially reduced costs incurred by developers, Mukhija et al. (2015) and Read (2008) describe such alternative options as acceptable in cases where on-site construction is neither financially feasible nor enforceable or when the government aims to give developers more flexibility.

- **Design standards**

Inclusionary Housing policies must be designed and implemented according to appropriate standards to ensure quality affordable housing, including its size, external features, and distribution since developers naturally desire to minimise project costs. For example, some programs stipulate that affordable homes must have the same external appearance as market-rate units, while others might specify minimum size requirements and amenities. As long as affordable housing units meet these standards, they can have different construction costs than market-rate housing (Jacobus, 2015; Mekawy, 2014a; Read, 2008).

2.4 Land Governance for Inclusionary Housing

Many authors described land governance as the set of rules, processes, and organisations that govern access to and use of land, as well as how these decisions are implemented and how conflicts of interests are resolved to achieve political and social objectives (Deininger, Selod, & Burns, 2011; Enemark, 2012; Palmer, Friccka, & Wehrmann, 2009). Due to the highly competitive nature of land usage compared to its availability, the government's role in

determining how the land is governed or distributed is critical when it comes to an urban provision requiring land. This includes the decisions related to land and property rights, land use and development, land value, and land tenure. Rather than a monocentric decision by the government, the governance principle promotes the participation of different actors in the decision-making process and its application (Enemark, 2012; Yan, Haffner, & Elsinga, 2021).

As developers are required to provide affordable housing as part of their projects under Inclusionary Housing, authors such as Calavita and Mallach (2010), Hysing (2009), and Yan et al. (2021) considered IH as a public-private partnership from a governance perspective. Land governance is therefore crucial to implementing such land-use instruments, highlighting the importance of collaboration and coordination between the government and private actors.

Overall, a good land governance system ensures that everyone has equitable access to land and tenure security, which can result in better social, economic, and environmental conditions; on the other hand, poor governance is likely to increase social inequality and poverty (Deininger et al., 2011; Palmer et al., 2009). However, many different aspects can influence the performance of the governance system, including: the legal and institutional framework, policy orientations, government structure, and political climates, along with the unique characteristics of history, geography, culture, and socioeconomic conditions of the city (Hickey et al., 2014; Nzau & Trillo, 2021; Palmer et al., 2009), all of which may have an influence on the implementation and outcomes of the policy or the program.

2.5 Political will and institutional capacity

For Land Value Capture (LVC) instruments like Inclusionary Housing to be effectively implemented, scholars including Alterman (2012) and Smolka and Amborski (2000) explained that there are several preconditions required by the local government to apply the value capture tool, which includes:

- **The availability of technical capacity and well-trained professionals**

To implement such instruments, local governments should have well-trained professionals with adequate technical capacity, including in planning and real estate expertise. It is essential as government officials are expected to develop formulas to assess the impacts of developments, evaluate the appropriate land value increments to be captured without detrimentally affecting the project, negotiate with developers, and have the capacity to impose sanctions in case of non-compliance.

- **Good monitoring of land-use changes and prices**

Local governments should have adequate mechanisms and systems to monitor land-use changes and prices. As a result, it could prevent potentially problematic issues, such as those related to tenure and informality in urban growth. Furthermore, it could also produce the data needed to assess the development impact and equitable distribution of land value changes for negotiation with developers.

- **Transparency**

Fair and transparent practice from public institutions and transparency in the exactions process between the local governments with developers is essential to help withstand legal challenges. Although, it is often impossible to provide full disclosure to protect developers' interests.

- **Good level of trust in government**

For a successful implementation, there needs to be a reasonable amount of trust in the government. Consequently, countries with high levels of corruption should refrain from implementing value capture instruments involving discretionary elements. In addition, Inclusionary Housing is a form of public-private partnership, as previously stated by Calavita and Mallach (2010); therefore, there should be an adequate understanding of the interrelationships and a good level of trust between the stakeholders should be present to create synergistic cooperation.

In addition to these preconditions, Austin, Gurran, and Whitehead (2014) highlight political will and support, the formulation of coherent and enforceable policies, and a well-developed and robust legal framework are also essential factors that could affect the effectiveness of policy implementation and the quality of the outcomes.

2.6 Economic effects on housing market

According to Bento, Lowe, Knaap, and Chakraborty (2009), inclusionary housing has similar economic effects as a tax on housing construction, particularly if no subsidies or incentives are provided (Powell & Stringham, 2005; Read, 2008). With the obligation to produce affordable housing, subsequently, developers must find alternative means to compensate for their potential loss. For example, to minimise loss, the developers could reduce the production of such housing and pass the cost burden to the market-rate buyers by increasing the commercial unit's price (see Figure 1). This action, however, could eventually worsen the affordability concerns intended to be addressed.

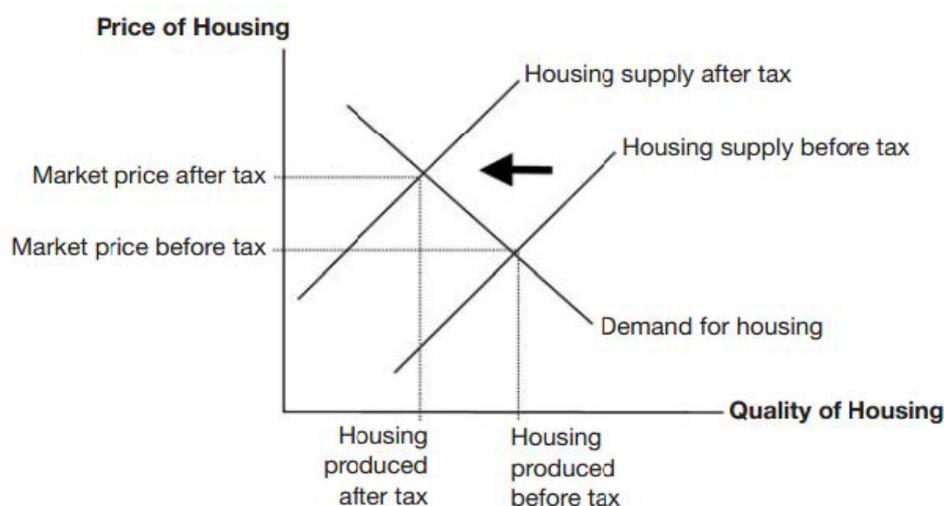


Figure 1. Housing market effects of Inclusionary Housing
Source: (Bento et al., 2009)

Other findings from Bento et al. (2009) also showed that Inclusionary Housing might affect the production of commercial housing and the size of housing being produced. It suggests that price increases are likely to occur in higher-end homes where buyers have a lower price sensitivity, and size reductions are likely to occur in less expensive houses where residents are more price sensitive. Furthermore, another way for developers to maintain a competitive rate of profit is to reduce the cost at which they are willing to purchase developable land (Read, 2008). Nonetheless, Schuetz, Been, and Meltzer (2008) explained that developers' ability to take any of these approaches would depend on market factors, but housing production will likely decline under each scenario. Hence, housing prices will likely increase if housing production decreases, but demand and other market factors remain unchanged.

Ultimately, theories presented by Schuetz et al. (2008) suggest that the effectiveness of inclusionary housing is influenced by numerous factors, including the strictness of the requirements, incentives offered in the policy, and the dynamics of housing supply and demand.

2.7 Public support and acceptance

The social circumstances can also affect the implementation of Inclusionary Housing, as it relates to the broader public as potential end-users of the Inclusionary Housing objectives: affordable housing and mixed-income community. Tighe (2010) argued that public support of planning programs and initiatives, including the provision of affordable housing, is crucial to its success, although opposition can also be a significant hindrance. Scholars indicated several reasons that could drive community support or resistance, including individual's values and ideology, level of trust in government, housing quality, neighbourhood factors, and views on the "imagined" tenants of affordable housing (Koebel, Lang, & Danielsen, 2004; Nguyen, Basolo, & Tiwari, 2013; Tighe, 2010).

Koebel et al. (2004) mentioned that physical design is often identified as one of the most significant factors in community acceptance of affordable housing, as good design can reduce negative perceptions of low-cost housing. However, it is a challenging task for developers, as they must demonstrate their ability to deliver a good quality product that will remain a valuable asset within the neighbourhood while also pursuing their profit objectives. In addition, opponents claim that affordable housing development would generate negative externalities that adversely affect property values, including increased crime, environmental pollution, and traffic; though, literature's findings demonstrate that affordable housing development does not always create such negative externalities (Koebel et al., 2004; Tighe, 2010). Lerman (2006) also noted that there are often discriminatory motivations behind opposition to inclusionary housing policy, above financial and environmental considerations, because it might conflict with a particular community's desire to maintain the status quo and exclusivity.

Another factor influencing their support or opposition is the communities' housing preferences. Lee (2003), for instance, explored the underlying factors or cultures that may influence the housing system in East Asia, particularly Hong Kong, Singapore, South Korea, and Taiwan. Additionally, Pg. Haji Hassan et al. (2011) discuss the cultural consideration in Brunei's

vertical housing, while Mulliner and Algrnas (2018) explored the preferences for housing attributes in Saudi Arabia. By combining their findings, several factors were identified as substantial considerations when it comes to housing preferences, including: homeownership, building design and quality, access to services and infrastructure, neighbourhood quality, and the type of housing (Lee, 2003; Mulliner & Algrnas, 2018; Pg. Haji Hassan et al., 2011).

Nonetheless, views of the community concerning development and their opposition to it may have various effects, particularly on the local governments and developers, which may adversely affect the housing supply (Gurran & Bramley, 2017; Nguyen et al., 2013). For the same reason, thus, consequently, circumstances related to public support and acceptance of affordable housing as part of Inclusionary Housing may play a role in influencing the commitment of key stakeholders to implement the policy (Chen, Huang, & Huang, 2019).

2.8 Conceptual framework

This conceptual framework aims to illustrate the relationships between the concepts discussed in the theoretical review of Chapter 2 (see Figure 1). A causal relationship exists between Inclusionary Housing and the supply of affordable housing. Nonetheless, the level of success in providing affordable housing through Inclusionary Housing is largely determined by the decisions and actions of stakeholders or understood as the governance of Inclusionary Housing.

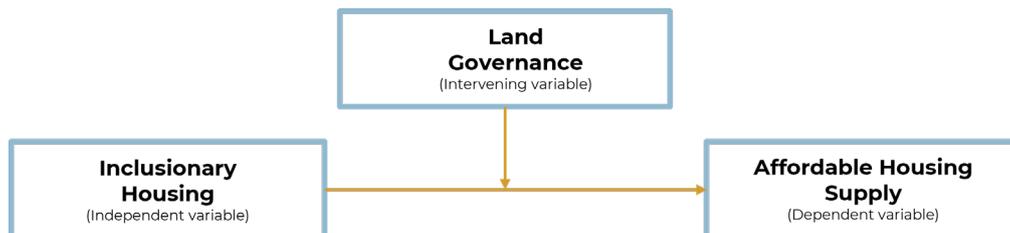


Figure 2. Conceptual Framework
Source: Author, 2022

- **Inclusionary Housing (Independent Variable)**

Inclusionary Housing is defined as a land-use policy that could allow local governments to impose their authority to require private actors (i.e. developers, investors) to provide affordable housing units. The requirements specified in IH involved the set-aside proportion, size and location criteria, and complementary instruments.

- **Affordable Housing Supply (Dependent variable)**

There are two main objectives that Inclusionary Housing tries to achieve: (1) provision of affordable housing and (2) social inclusion. Affordable housing in this context is the housing units offered at a relatively low price (below market rate) and intended for low-income households. For decades, many authors have advocated for providing affordable housing through inclusionary housing. While on-site affordable housing provision is strongly encouraged, some inclusionary housing policies have included additional options such as off-site production or in-lieu fees.

- **Land Governance (Intervening variable)**

As stated in the previous sections, the success of inclusionary housing in providing affordable housing is influenced by governance performance, which is reflected as the intervening variable between IH and affordable housing supply (see Figure 2). From a broader perspective, the governance of Inclusionary Housing is highly influenced by its local context, including its political, economic, and social climate. This comprises the political commitment and capacity of the local government, the housing market condition, and sociocultural values embedded within the society that affects housing preferences and acceptance.

Chapter 3: Research design, methods and limitations

In this chapter, the theoretical framework of the research is transformed into an empirical framework through the selected research design, strategy, and techniques, which will ultimately help achieve the research objectives. Furthermore, it discusses the steps taken to ensure the research's validity and reliability and the study's limitations and challenges encountered during the research.

3.1 Description of the research design and methods

3.1.1 Research strategy

The research adopts mixed-method research with an explanatory approach, as it aims to explain the extent to which the balanced housing policy is being implemented in Surabaya and investigate its contribution to the supply of affordable housing for low-income households. Accordingly, the study is conducted using a case study strategy. Yin (2008) suggests that case studies are generally preferred as a method for answering “how” and “why” questions and are appropriate in situations where the researcher does not have control over the events. In addition, van Thiel (2014) also suggests that it is suitable for research that seeks a more in-depth knowledge of a particular occurrence or phenomenon in real-life events and could be done by choosing one or more cases that best illustrate the subject of the study.

In this research, case study methods are suitable since the researcher is not in control over the balanced housing policy that has existed for many decades in Indonesia, yet seeks to understand its implementation at the local level, which remains unclear despite its long-standing existence. Furthermore, this study has chosen Surabaya as the site for the single case study since its spatial plan briefly mentioned balanced housing policy, yet, the information related to its realisation is still scanty. Furthermore, considering the economic growth of Surabaya, added with the highly attractive property investments and development, the higher land value potential increase could be utilised by the local government to provide affordable housing.

3.1.2 Data collection method and sampling

In a case study research, several data collection methods can help answer the research question, including documentation, archival records, interviews, questionnaires, and observation (van Thiel, 2014; Yin, 2008). The primary data collection for this study was obtained through semi-structured interviews (SSIs). Compared to structured interviews, the SSIs method is selected as it provides a more flexible format and open-ended responses, allowing more opportunity to explore the key informants' experiences and perspectives on the balanced housing policy and implementation in Surabaya.

For this research, key informants for primary data collection are selected through a combination of purposive and snowballing sampling, where purposive sampling implies that key informants are chosen based on their expertise, responsibility and knowledge of the subject. Based on these considerations, thus, the key informants selected for this research are the government officials,

developers and experts (see Table 1) as the obligor, obligee, and observer of the policy. To expand the sample, snowball sampling is used to identify other respondents with similar knowledge and experience regarding the policy. In addition, interviews are conducted in Bahasa Indonesia as the native language of respondents to minimise ambiguity and obtain more in-depth responses without a language barrier.

Table 1. Sample size and selection

Key informants	Size	Criteria
Developers	2	Size of the developer <ul style="list-style-type: none"> • Medium to large-scale developers
		Type of the project <ul style="list-style-type: none"> • Developer specialising in landed housing • Developer specialising in vertical housing
		Size of the project <ul style="list-style-type: none"> • Above the development threshold of the policy
		Target market <ul style="list-style-type: none"> • Housing for middle- and high-income segment
Government officials	3	<ul style="list-style-type: none"> • The official in charge of city planning and policymaking in Surabaya • The official in charge of housing provision in Surabaya • The official in charge of housing provision in Indonesia
Experts	2	<ul style="list-style-type: none"> • Academia with expertise in housing and planning

Source: Author, 2022

At the same time, secondary data collection is obtained through policy documents, reports, journal publications, statistics and census data, and news articles as complementary sources of evidence. As Yin (2008) explained, using multiple sources of evidence will allow the researcher to triangulate and cross-examine the collected data and create an elaborated analysis, leading to more accurate and convincing findings. The secondary data is also used as the guidelines for the researcher to generate operationalisation variables and indicators and develop questions for the interviews.

3.2 Operationalisation: variables and indicators

Table 2. Operationalisation table

Concept	Variables	Sub-variables	Indicators	Data type & data source
Inclusionary Housing for Affordable Housing	Inclusionary Housing	Inclusionary Housing Policy	Type of obligation: <ul style="list-style-type: none"> • Mandatory • Voluntary 	Qualitative data <ul style="list-style-type: none"> • Primary data: Interviews • Secondary data: Policy documents
			Types of target beneficiaries	
			Types of incentives stipulated in the policy	
			Types of disincentives stipulated in the policy	
		Inclusionary Housing Regulation	Presence of sanctions	
			Types of sanctions	
			Types of enforcement mechanism	
			Presence of legal remedy	

	Governance of Inclusionary Housing	Legal framework	Clarity of roles and responsibilities	<p>Qualitative data</p> <ul style="list-style-type: none"> • Primary data: Interviews • Secondary data: Agency reports, articles
			Clarity of mechanism in place	
			Clarity of the legal contract	
		Political will	Presence of political support	
			Level of political commitment <ul style="list-style-type: none"> • Expressed commitment • Institutional commitment • Budgetary commitment 	
			Level of enforcement effort	
			Availability of expert human resources	
		Institutional capacity	Existence and functionality of institution in charge	
			Existence and functionality of monitoring mechanism for: <ul style="list-style-type: none"> • Land value • Housing price • Development permit • Regulation requirements 	
			Presence of coordination among different levels of government	
			Level of transparency between stakeholders	
			Level of trust between stakeholders	
			Changes in: <ul style="list-style-type: none"> • land value • housing price • housing units • housing types 	
	Public support	Types of cultural norms on the ground		
		Types of homebuyer preferences		
		Level of acceptance of housing, according to: <ul style="list-style-type: none"> • type • location • neighbourhood 		
	Affordable Housing	Demand	Percentage of housing deficit	<p>Qualitative data</p> <ul style="list-style-type: none"> • Primary data: Interviews • Secondary data: Agency reports, articles <p>Quantitative data</p> <ul style="list-style-type: none"> • Secondary data: housing production statistics, agency reports
		Supply	Number of affordable units produced	
		Contribution	Amount of in-lieu fee collected	

Source: Author, 2022

3.3 Data analysis, validity and reliability

3.3.1 Data analysis

The following steps were used to analyse the data collected from semi-structured interviews with key informants:

- **Transcription and translation:** the interviews are conducted and recorded in *Bahasa Indonesia*, the native language of the researcher and key informants. Thus, the data collected through interviews first needed to be transcribed and translated into English. Additionally, transcripts are broken up into segments of a single question and answer, accompanied by timestamps, to make data searching and organization more efficient.
- **Coding:** the coding step is intended to categorise the substance of the responses into one or more codes generated from the operationalisation variables. Furthermore, additional codes were created for answers that did not fit into the predetermined categories or resulted from additional questions during the interview. ATLAS.ti software is used to gather all the interview reports for a more manageable organisation and establish links between the interview reports.
- **Pattern matching and interpretation:** patterns and other forms of relationships are identified by comparing and contrasting responses within each code and data set. Also, this phase helps to count the number of data units associated with a particular code; the more frequently a specific feature is observed, the more significant it is to the research problem.

On the other hand, secondary qualitative data is analysed using content analysis and memo-writing. Furthermore, a basic mathematical model is used to process and analyse quantitative data related to the housing backlog and production.

3.3.2 Validity and reliability

van Thiel (2014) noted that a case study approach has a risk of low validity and reliability due to its subjectivity and small units of study. Accordingly, the researcher has taken several measures to ensure the validity and reliability of the research. The validity of the research is ensured by triangulation methods using multiple data sources, including semi-structured interviews (SSIs) as primary data collection and documents and literature as secondary data. The semi-structured interviews are conducted to measure the same variables and indicators to three different categories of respondents: government officials, developers and experts. Furthermore, secondary data has allowed the researcher to gain a deeper understanding based on various theoretical perspectives and cross-examine the preliminary findings with key informants. Moreover, since SSI information is relatively subjective, other sources of evidence have been used to double-check and complement the findings, thereby reducing bias and increasing validity.

Furthermore, reliability is ensured by following a particular procedure in conducting the interviews. The researcher designed SSI guides (see Annex 1 – 4), consisting of an introduction and a combination of closed-ended and open-ended questions. While the close-ended questions verify the actual condition against literature and existing policy, open-ended questions gather reasoning and additional information about the subject from the key informants' perspective.

Furthermore, alternative rephrased questions are prepared to be used when the respondent's answer was insufficient to answer the primary question. The interview guide had been pre-tested with other researchers and colleagues before the data collection to ensure that the questions would address the intended variables and indicators and ensure that the interview design was easy to understand. Furthermore, before the interview, the respondents have been informed about the research focus, consent and confidentiality, allowing the respondents to give more reliable information under the protection of privacy and anonymity.

3.4 Challenges and limitations

Due to time constraints, the researcher could not travel and conduct fieldwork in Surabaya, the case study location. Thus, all data collection was done remotely in the Netherlands. Under these circumstances, the researcher used video-based online interviews as the primary data collection method, which helped better understand the nuances of the interviewee's responses. However, technical issues during interviews, such as slow connection and network delay, led to the researcher and interviewee occasionally talking simultaneously. Therefore, some questions and the respondent's answers had to be repeated to clarify and avoid misinterpretation.

The sample size is relatively small (see Table 1 and Annex 5), given that more than hundreds of developers might exist in Surabaya. However, there were difficulties in contacting and confirming the respondents due to the inability to conduct fieldwork. Moreover, online administrative procedures were ineffective for reaching government officials and developers, as it would take more time to respond and process. The researcher thus appointed a research assistant in Surabaya to assist in submitting applications and scheduling interviews with key informants. A fieldwork letter and interview request letter were also presented to emphasize the research's legitimacy and to smoothen the application processes.

The snowball sampling method is subject to community bias since people tend to recommend close individuals with whom they share similar experiences. Therefore, to reduce bias, the respondents from snowball sampling are chosen through predetermined criteria. Unfortunately, due to the tight schedule, the researcher could not reach out to all the recommended respondents. Nevertheless, sufficient data saturation has been sought by carefully selecting informants with knowledge and experience in balanced housing policy and triangulating with other data sources. Furthermore, although the interviews were conducted in Bahasa Indonesia as the native language of the researcher and key informants, the transcription and translation phase of the data analysis were challenging, as it required more effort and time to process data. Therefore, the researcher used several tools, including transcription software and a grammar reviewer, to ensure that the results were accurately processed and interpreted.

Finally, results from a single case study cannot necessarily be generalised to other contexts. Furthermore, relatively few studies have explored the balanced housing policy in relation to affordable housing supply, specifically in Surabaya, as a basis to confirm or challenge the findings. However, the researcher attempted to devise a research framework that adapted the studies related to international Inclusionary Housing and the available similar research related to Balanced housing policy in Indonesia to enhance the research's replicability.

Chapter 4: Presentation of data and analysis

The purpose of this chapter is to present the research findings derived from the analysis of the data collected through primary sources such as interviews with key informants (see Annex 5) and secondary sources from reports and literature. First, this chapter briefly overviews Surabaya as the case study and further explains the findings related to balanced housing policy and its implementation. Subsequently, data analysis results are expected to answer the research questions by addressing the variables and indicators set in the previous chapter.

4.1 Description of the case

4.1.1 Overview of Surabaya City

Surabaya is the second-largest city in Indonesia, with vast urban development and economic growth. Not only that Surabaya serves as the capital city of East Java Province, but the port city also serves as an economic hub for eastern Indonesian trade, business, and service (Pamungkas, Iranata, Yuwono, & Jaelani, 2019). Subsequently, Surabaya has experienced astonishing economic growth in recent years, averaging over 6% from 2016 to 2020 and peaking at 6.19% in 2018, exceeding the regional and national averages of around 5% (BPS-Statistics Indonesia, 2021; BPS-Statistics Jawa Timur, 2021a; BPS-Statistics Surabaya, 2021b).

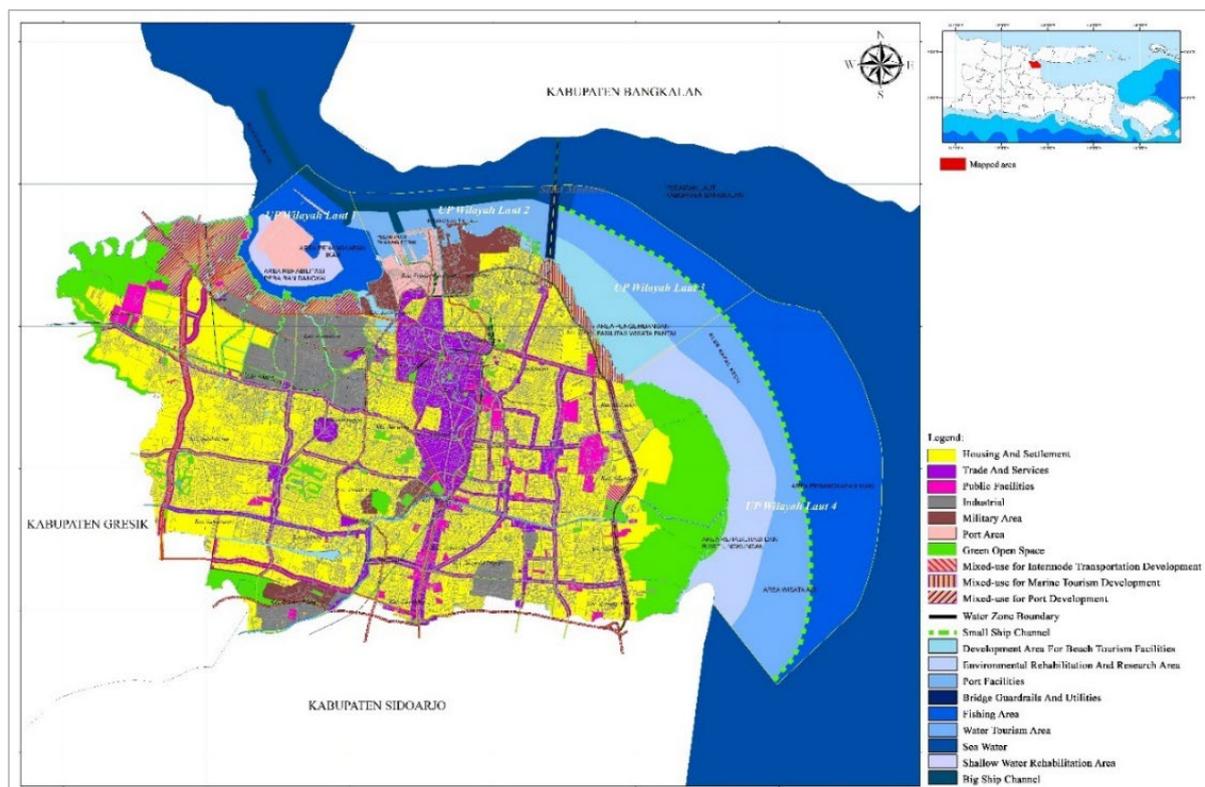


Figure 3. Surabaya Spatial Plan

Source: Surabaya Regional Regulation No. 12 of 2014, with some adjustments

Due to the high attractiveness of the city, urbanisation and rapid population growth are inevitable. Within a total area of 326.81 km², Surabaya currently has a total population of 2.97 million people and is estimated to have a population density of 8.798 people per km² (BPS-Statistics Surabaya, 2021b). This number has increased exponentially within five decades, with around 1.88 million people in 1980 (BPS-Statistics Surabaya, 2021a). Moreover, according to Zudan Arif Fakrulloh, the Director General of the Ministry of Home Affairs' Population and Civil Registration Department in Media Indonesia (2017), Surabaya has one of the most extensive urbanization rates in Indonesia, along with Jakarta and Makassar. In 2020, 25 thousand immigrants were registered in Surabaya, down from 43 thousand in 2016 and almost 39 thousand in subsequent years (BPS-Statistics Surabaya, 2021c). Consequently, Surabaya's rapid growth has increased pressure on its infrastructure.

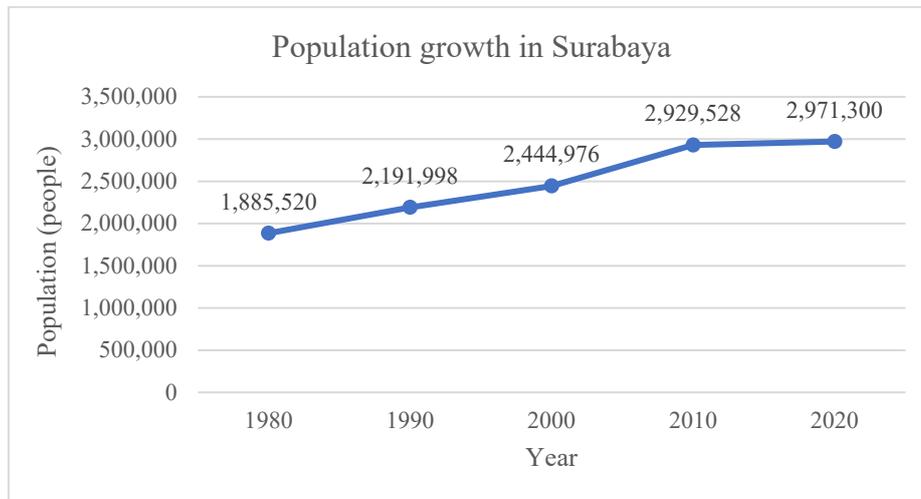


Figure 4. Population growth in Surabaya
Source: summarised by Author

4.1.2 Surabaya housing development

Based on market reports and interviews, Surabaya still has a substantial supply and demand for both vertical and landed housing. Using Colliers Indonesia's (2022b) Property Market Report, we can see how the annual supply of apartments compares to the existing supply in Surabaya from 2016 to 2021 and the expected supply from 2022 to 2024 (see Figure 5). In addition, Rumah.com's (2021) Property Market Index indicates an increase in housing supply, with an index of 184.9 in Q3 of 2021, up from 157.2 in 2017 and 160.1 in 2020. Furthermore, the number of entries for development permits remains relatively high, according to government officials (R1, R2).

Even so, the number of units produced and absorbed (see Figure 6) slightly declined over the last few years, with COVID-19 partly affecting the construction as well as the purchasing power of consumers – though slowly recovering (Colliers Indonesia, 2022b; Rumah.com, 2021), as similarly explained by five respondents (R2, R3, R5, R6, R7). However, respondents (R3, R5, R6) consider the current market property more desirable as an investment or a second home for consumers, targeting middle- and high-income people. As can also be observed in

Colliers Indonesia’s report (2022a), where most apartment buyers come from outside Surabaya, such as Jakarta and other areas outside Java.

Cumulative supply



Figure 6. Apartments cumulative supply
Source: (Colliers Indonesia, 2022b)

Apartment demands in Surabaya

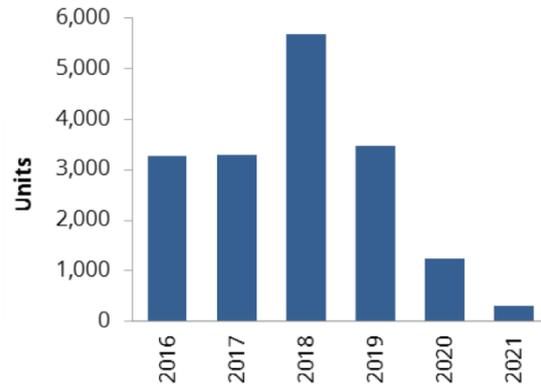


Figure 6. Apartments demand
Source: (Colliers Indonesia, 2022b)

Therefore, housing supply is quite expensive compared to demand, especially given that those needing housing are from lower- and middle-income households, as outlined by respondents (R1, R3, R5). Consequently, supply and demand are out of balance, with some cities even experiencing oversupply, as noted by a government official (R3). However, this finding suggests the oversupply of housing is primarily confined to luxury residential properties.

*“Housing is currently overstocked, which is why the government has initiated government-borne VAT tax incentives for people purchasing new housing to reduce the stock of luxury homes and apartments in large cities. However, **only a few can afford it** because most people buying these houses do not need them as a first house, but the second and third houses as investments.” – R3.*

In addition, according to BPS-Statistics Jawa Timur (2021b), approximately 45.6% of households in Surabaya do not have homeownership, with a majority living in rented housing (see Figure 7). Therefore, with around 794.983 households in Surabaya (BPS-Statistics Surabaya, 2021b), 362.512 households still require housing. Consequently, Surabaya continues to experience a housing shortage.

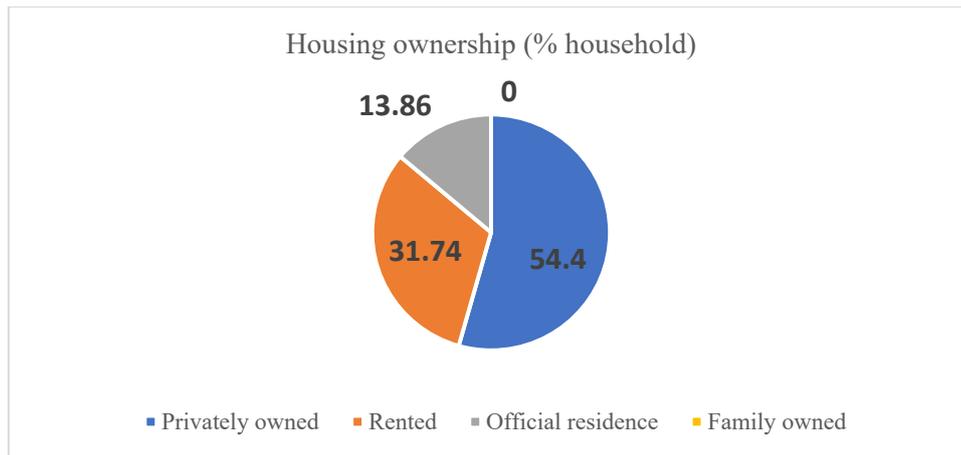


Figure 7. Housing ownership in Surabaya
Source: (BPS-Statistics Jawa Timur, 2021b)

Government's intervention

One of the government's efforts to deal with the housing shortage in Surabaya, particularly for low-income people (MBR), is the construction of rental flats (rusunawa), where the municipality manages around 20 complexes within the city. Nonetheless, these public housing can no longer accommodate more occupants due to its limited units of around 5.157, yet at the same time, the demand has reached 12.000 applicants (Jawa Pos, 2021). Although, the municipality's latest data shows that it has reduced to around 5.000 applicants after verification (Jawa Pos, 2022), as similarly mentioned by government officials (R1, R2).

“There have been 12 thousand requests for these flats from Surabaya residents. Of the 12 thousand households, almost 6 thousand met the criteria for low-income households according to the municipality's regulation.” – R2.

However, according to interviews, the government's efforts to construct flats were hampered by several factors, including limited government land assets, limited municipality funds, and unclear development plans and regulations. In Surabaya, public housing stands above the municipality's land asset with only up to five stories to reduce the operation and maintenance costs, as buildings with five floors or less do not require elevators as per standard. On the other hand, the current operating costs are much higher than the monthly rental price of fewer than 100 thousand rupiahs (~\$6.7), resulting in municipality's financial deficit (Suara Surabaya, 2022), as similarly expressed by government official (R1):

“So far, the municipality only built five floors flat, because we need to avoid expensive maintenance. Also, the renting fees for these flats are very cheap, with the most expensive around a hundred thousand or so.” – R1.

As a result, the government strives to optimize land and buildings by designing a more modern, efficient, and profitable scheme for constructing flats. For example, by building towers with 20 to 25 floors and incorporating mixed-use concepts to increase revenue from commercial spaces (Suara Surabaya, 2022), as verified by government officials (R1, R2).

“We are still in talk with the relevant agencies related to the development scheme, such as cooperation with a third party, mixed-use concept, or other appropriate options. Because it is a large investment that would not suffice if supported by government funds alone. Also, if we only build 5 story flats, it would be a huge loss, since suitable land assets are already scarce.” – R1.

Nevertheless, the findings show that it still faces regulations (Suara Surabaya, 2022) and funding challenges, as mentioned by government officials (R1, R2, R3), since it cannot be funded solely through municipal funds. Therefore, they emphasize the necessity for a public-private partnership (PPP), known as *Kerjasama Pemerintah dengan Badan Usaha* (KPBU), to support housing delivery in Surabaya.

4.2 Evolution of balanced housing policy

The balance housing policy was initiated in Indonesia through the Joint Decree of the Minister of Home Affairs, the Minister of Public Works and the Minister of Public Housing (No. 648-384 of 1992, No. 739/KPTS/1992 and No.09/KPTS/1992, respectively). The rationale for issuing this decree was to promote solidarity between different socioeconomic levels, thus allowing cross-subsidisation, and to avoid housing and settlement clustering that could drive social segregation (Yuniarto, 2011). Subsequently, this decree established guidelines for housing development, with the main objectives of affordable housing provision and social integration.

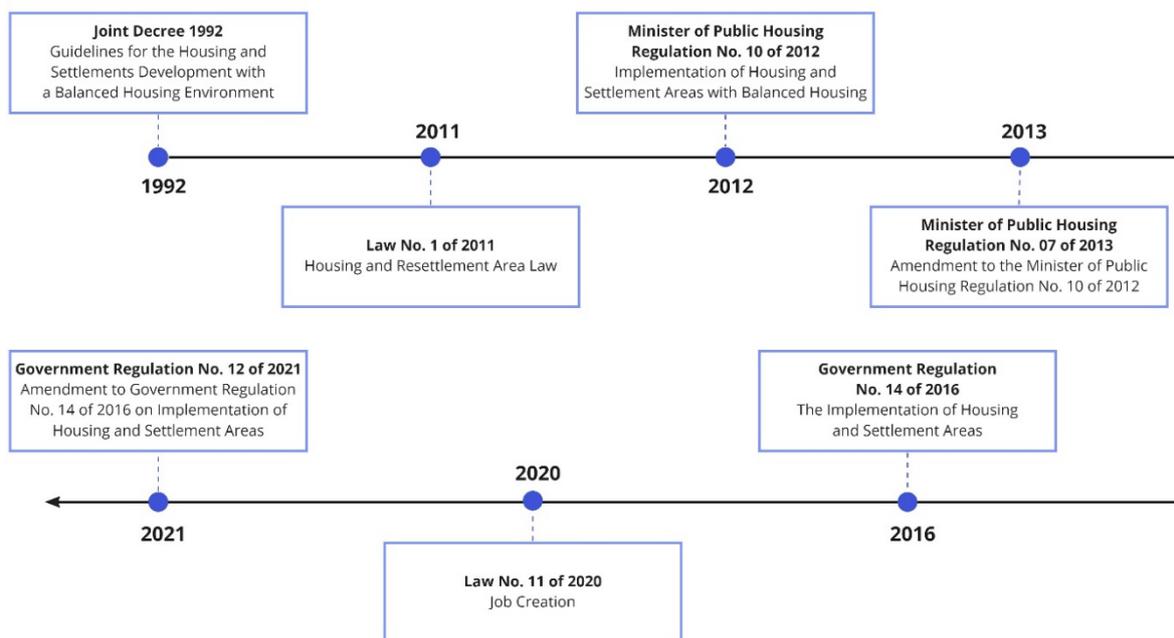


Figure 8. Evolution of the balanced housing policy

Source: Author, 2022

However, according to analysis from literature, after almost ten years after its establishment, the 1992 Joint Decree was found to be ineffective due to several factors, including (1) lack of legitimacy of the Joint Decree due to the absence of umbrella law, (2) lack of enforcement by

the local government and unclear mechanism provided by the Joint Decree, (3) opposition from the developers due to its impact on profitability and the absence of incentives, and (4) negative public perceptions regarding the image of the mixed-income neighbourhood, especially among higher-income groups (Hazaddin, 2011).

In response, the government modified the requirements and incentives scheme to increase local adaptation and developers' participation by enacting Law No. 1/2011 on Housing and Resettlement Area (Hazaddin, 2011). Further, it became the basis of the Minister of Public Housing Regulation (PERMENPERA) No. 10/2012 and its amendment policy of PERMENPERA No. 7/2013. Compared to the 1992 decree, the composition requirement changed from a 1:3:6 ratio to 1:2:3, along with new requirements for vertical housing.

At last, following the issuance of Law No. 11/2020 on Job Creation, Government Regulation (PP) No. 12/2021 was enacted. The government claims that requirements have been reduced compared to the previous two policies. Nonetheless, there remains no clear implementation at the municipality or regency level, as stated by the national government official (R3). A related argument is also made by an expert (R4), who previously conducted a survey related to housing policy in Surabaya in response to their perception of the balanced housing policy evolution:

*“While this balance housing policy has undergone many evolutions, **its implementation remains questionable** since there is no evidence of best practices, to date.” – R4*

4.3 Configuration of balanced housing policy

This section discusses the balanced policy specification and how stakeholders perceived the policy as the basis for implementation. Based on the interviews, 5 out of 7 respondents stated that the Surabaya municipality does not have local regulations governing how to implement balanced housing. Accordingly, the related stakeholders still refer to the national policy requirements.

4.3.1 Types of obligation

The balanced housing policy is mandatory for all legal entities performing residential development, as explained in Article 34(1) of Law No. 1/2011. Hence, this policy bound business bodies, such as developers, and not individuals who wish to build houses. However, it is evident from the interviews that there is still controversy over mandatory balanced housing, as it is perceived as a shifting responsibility to provide affordable housing from governments to developers.

From the developers' perspective, the government should bear the responsibility to provide affordable housing, as stated in the 1945 Constitution of the Republic of Indonesia.

*“I feel that **this policy contradicts the 1945 constitution**, as it is already explained that the state should be the one responsible for providing shelter for the poor.” – R6.*

On the other hand, the government argued that developers had gained profit from their development projects, which should be distributed to society as a moral obligation.

“This policy exists because private developers have a social responsibility to support low-income people. Unless it is implemented, especially in large cities, no more houses will be available for the poor.” – R3.

From a law perspective, 1945 Constitution article 28H(1) stated that “every person shall have the right to live in physical and spiritual prosperity, to have a home and to enjoy a good and healthy environment, and shall have the right to obtain medical care”. Thus, the state must provide such services. Similarly, the debate on “shifting responsibility” of affordable housing provision from the government to developers has also been discussed in studies by Mungkasa (2013) and Probondaru (2018), looking at the national realisation.

Nonetheless, Article 6(2) of Law No. 1/2011 also explains that governments should coordinate across sectors, regions, and stakeholders to support housing and settlement development. Hence, developers may play a role in helping the government fulfil the community's housing rights. Despite the debate, all respondents acknowledged that involving developers in urban infrastructure provision, including housing, is essential, particularly considering the government’s insufficient budget and capacity.

“In practice, the government cannot bear one hundred percent of the burden. Therefore, they cooperate with private developers directly or indirectly through tax to assist in providing housing.” – R5

4.3.2 Set-aside requirement

Across the three policy versions, the set-aside requirements differ slightly, with the details as follows.

Table 3. Set-aside requirements and composition

Configuration of the obligation	Joint Decree 1992	PERMENPERA 7/2013	PP 12/2021
Landed housing	1:3:6 Ratio	1:2:3 Ratio	1:2:3 Ratio
Vertical housing	-	20% of the total area	20% of the total area

Source: summarised by Author

1:2:3 ratio for landed housing

The ratio of 1:2:3 implies that developers must build two (2) middle-income housing and three (3) basic housing for every (1) luxury housing according to PERMENPERA No. 7/2013. Furthermore, in the case of the developer only building middle-income housing; thus, the developer must build two (2) affordable housing. Additionally, land allocated for basic housing must account for at least 25% of the project's total area.

20 percent allocation from vertical housing

Aside from the landed housing requirements, the PERMENPERA adopted Law No. 20/2011 concerning Vertical Housing (Flats), where a minimum of 20% of the commercial vertical housing floor area must be allocated to build low-income housing under this law.

Although all legal entities, such as developers, are required to perform balanced housing, Article 6(3) of PERMENPERA No. 7/2013 specifies the development threshold of projects that should comply with the 1:2:3 ratio, along with the specification of the housing provision location (see Table 4). Thus, the ratio does not apply to developers with less than 15 units.

Table 4. Development threshold

Type of development	Type of cluster	Development scale (units)	Affordable housing location
Landed housing	Housing	15 – 1.000	Allowed to be built outside the development area
	Settlement	1.000 – 3.000	Compulsory to be built in one continuous area
	Residential environment	3.000 – 10.000	
	Residential area	> 10.000	

Source: summarised by Author

4.3.3 Incentives and cost-offsets

Calavita and Mallach (2009) describe Inclusionary Housing incentives as compensation for the imposition of affordable housing provisions on developers. However, the findings indicate that developers perceive this policy as shifting responsibility partly because incentive schemes remain unclear and undesirable. According to PERMENPERA 10/2012 Article 22, the government may provide incentives to developers in the form of (1) assistance in housing programs, (2) assistance in development approval, (3) accessibility support to location, (4) assistance in infrastructure, facilities and utility, (5) acquisition of land for construction, (6) tax relief, or (7) awards. However, the precondition to receiving the incentives is only if developers fulfil the requirements of executing balanced housing within the development area or at different locations but provide more affordable units than the required composition.

In addition, Article 12A of PERMENPERA No. 7./2013 explains that if certain conditions prevent balanced housing from being implemented in a project, the government may grant rezonings or density bonuses during the approval process. These incentive options are, however, voluntary for local governments. In other words, it depends on the municipality whether they wish to offer it to developers.

Referring to the inclusionary housing concept, mandatory IH is more widespread under the idea that incentives alone would not suffice to compel developers (Mukhija et al., 2010). However, three respondents (R4, R6, R7) expressed that the balanced housing policy has been mandated to developers without clear incentives; thus, many are unwilling to comply – with

similar concern found in the study findings of Saptorini, Utami, and Paramita (2020), Maharani (2015) and Mungkasa (2013).

Furthermore, findings from interviews (R1, R2, R3, R6, R7) indicate that the government has only provided Infrastructure, Facilities, and Public Utilities (PSU) assistance, especially road networks. Nonetheless, the grant is awarded to developers who have completed affordable housing construction per Minister for Public Works and Human Settlement standards and not specifically for developers who implement balanced housing. Mungkasa (2013) similarly stated that some incentives “are only mandatory for MBR housing, but become optional for balanced housing” when both policies aim to provide housing for low-income people.

Furthermore, interview results (R4, R6, R7) show that developers felt the government's commitment is still lacking since they perceive incentives as a form of government cooperation and negotiation. In this sense, the developer, who purchases the land and provides the infrastructure to support the balanced housing, would be the sole actor in value creation – given that the government do not provide incentives and cost-offset.

“If the government requires 20 per cent of balanced housing for us as developers, there should be some give and take from the government. For instance, by giving leniency in the development permit process and approval.” – R6

4.3.4 Affordability criteria

As explained in Chapter 2, Jacobus (2015) and Mekawy (2014a) classified the affordability criteria as an essential component of inclusionary housing in relation to the target beneficiaries and the housing unit.

Income-group targets

The target beneficiaries of affordable housing from the balanced housing policy are intended for low-income people (MBR). Law No.1/2011 and the PERMENPERA policies defined low-income people as “those with limited purchasing power and therefore need government support to get a house”. Nonetheless, the criteria of the low-income group as the target beneficiaries are not specified in the policy.

Housing price cap

Additionally, one of the restrictions the government enforces through the policy is the housing selling price, as shown in Table 5 below.

Table 5. Caps on housing prices

Housing type	Joint Decree 1992	PERMENPERA 7/2013	PP 12/2021
Basic housing	-	Decided by government	Decided by government
Middle housing	-	1 – 6 times of basic housing price	3 – 15 times of basic housing price
Luxury homes	-	> 6 times of basic housing price	> 15 times of basic housing price

Source: summarised by Author

Nevertheless, the detailed requirements and criteria for affordable (basic) housing development are regulated by a separate national policy by the Ministry of Public Works and Public Housing (PUPR). For example, in 2016, the government ruled the Java region's price cap to IDR 116.5M (\$7.795) (KEPMENPUPR 552/KPTS/M/2016), which increased to \$8.698 and \$10.070 in 2018 and 2020, respectively (KEPMENPUPR 242/KPTS/M/2020) – with a requirement for a building area between 21 and 36 sqm and land plot between 60 and 200 sqm. Meanwhile, the selling price cap for flats is approximately \$18.735, with a unit size ranging from 21 to 36 sqm. However, the interviews (R4, R6, R7) show that the affordability aspect of balanced housing is still confusing for developers. Firstly, developers are concerned about potential occupiers of basic housing, as described by expert (R4):

*“Some developers questioned the government’s intention of including the ‘3’ ratio of basic houses in a real estate development. In reality, **it is still unclear whose market segment these basic houses are intended for.** They wondered whom they consider low-income people qualified for these houses.” – R4*

They argued that the basic housing might not sell well or that the houses might be occupied by those who do not fall under the low-income criteria, as supported by a developer’s statement (R6). In addition, a member of the developer association (R7) still perceived the affordability criteria of the balanced housing policy as vague and subject to interpretation, as it is still unclear which aspect of affordability for the society the balanced housing is intended to address.

“It will be unfortunate if the subsidised housing originally intended for low-income people can be afforded by individuals who do not qualify as low-income. Because in reality, there are some cases where it happens” – R6.

Furthermore, Surabaya still does not have a land-use plan with a clear zone for mixed-income housing development, as stated by expert (R4). It aligns with Mungkasa’s (2013) observation that balanced housing has not been incorporated into the spatial planning scheme. From the Surabaya Spatial Plan (see Figure 3), it can be seen that the housing and settlement areas are yellow-coloured coded. However, the detailed zoning only classified settlement areas according to density level rather than specifically distinguishing different types of residential buildings (Tutuko & Shen, 2016). Nonetheless, understanding which areas are intended for mixed-income housing could help developers create housing that fits the surrounding neighbourhood and community arrangement – some of the essential ground rules for mixed-income housing development, as explained by Schwartz and Tajbakhsh (2005).

Last, developers argued that limiting prices would reduce their profit margin. An expert (R4) further describes that developers see that the government disregards developers’ efforts to provide affordable housing by imposing these price controls. Although, it cannot be separated from the fact that developers are profit-oriented entities that regard housing as a business product, as mentioned by a government official (R2) and Saptorini et al. (2020).

“From the developer's perspective, they want the selling price to exceed Break Even Point. With all we have done, including purchasing land and preparing roads, we should be able to set the house price.” – R4

4.3.5 Alternative contribution

As briefly explained in the previous section, most developers are obliged to build affordable housing at the same stretch as commercial housing (see Table 4). Nonetheless, Article 9A (4) of PERMENPERA No. 7/2013 asserted that when developers cannot fulfil the mandatory set-aside requirements, they are allowed to build vertical public housing with the cost equivalent to the compulsory provision, which can be built outside the development area within the city.

From IH perspective, Mukhija et al. (2015) and Read (2008) claim alternatives are acceptable when on-site construction is not financially feasible or enforceable or when the government wants to provide flexibility. Similarly, the alternative contribution for balanced housing is rationalised by the land scarcity and expensive land factors, particularly in big cities, including Surabaya, that would make on-site affordable housing provision difficult, as pointed out by 4 out of 7 respondents (R3, R4, R6, R7). Nevertheless, in PP No. 12/2021, the government introduced conversion (in-lieu) fees as an alternative contribution option, which would be used for public flats construction. Although, to date, its detailed mechanism is still under development, as explained by national government official (R3).

Further, according to Kristanto (2016, 2022), in his report for Indonesian Real Estate Brokers Association (AREBI), land prices in Surabaya are already above \$670/m², especially in areas with high social and economic activities, such as Central, West and East Surabaya. Meanwhile, some areas on the outskirts cost between \$267 and \$535 /m². Therefore, assuming the basic housing has at least 60m² of land, one land plot would cost about \$16.000. Nevertheless, in addition to land, materials, labour, and capital are important housing inputs (Collier & Venables, 2014). Given the established price cap, thus, it is practically impossible to force developers to provide affordable housing, not only within one stretch but also within the city.

4.4 Local balanced housing policy implementation

The implementation of balanced housing in Surabaya is evaluated based on interviews and articles, which were also compared with government reports to examine factors affecting its governance, including the legal framework, governments' political will, market impacts, and public support.

4.4.1 Legal framework

The municipal documents show that the balanced housing objective has been included in city planning and policies, such as the Surabaya Spatial Plan (RTRW) 2014-2034 and Detailed Zoning Regulations (RDTR) 2018-2038, as part of the housing and settlement development strategy. However, 5 out of 7 respondents (R1, R2, R4, R6, R7) confirmed that there are no

local regulations determining balanced housing guidelines and mechanisms in Surabaya, with the remaining two respondents (R3, R5) not knowing whether specific local regulations exist.

“Indeed, from the central government, there is a requirement for balanced housing [...] however, there is no specific policy in Surabaya that govern it yet.”
 – R1.

The PERMENPERA No. 10/2012 stated that municipalities are responsible for the policy formulation, mechanism, and implementation of balanced housing at the local level. Additionally, the roles and responsibilities of each government level on balanced housing also ruled in the PERMENPERA No. 10/2012, as further highlighted in the PUPR Strategic Plan (PUPR, 2020), as seen in Figure 9.

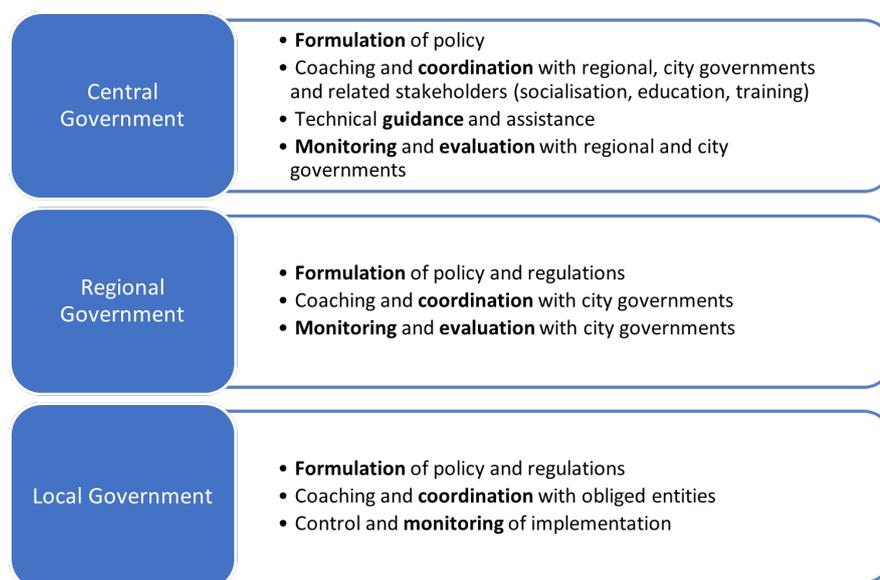


Figure 9. Governments’ responsibilities in balanced housing
 Source: (PUPR, 2020), summarised by Author

Following Indonesian decentralisation (Law No. 23/2014 on Subnational Government), responsibility and authority are shared between the sub-national (regional, local) and the central governments to ensure a fair distribution of authority. However, two respondents (R3, R7) consider that there are still gaps in the legal framework that ruled the national and sub-national governments, especially in the division of responsibilities in the housing and settlement development. As seen in Figure 10, according to Law No. 23/2014, the central government is responsible for providing housing and developing a financing system for low-income people. Referring to this responsibility distribution, thus, municipalities are technically allowed to refrain from formulating and facilitating housing provisions for MBR under balanced housing policy. Meanwhile, local governments are better suited to provide low-income housing, given their familiarity with the local conditions and housing needs of low-income communities, as justified by national government official (R3).

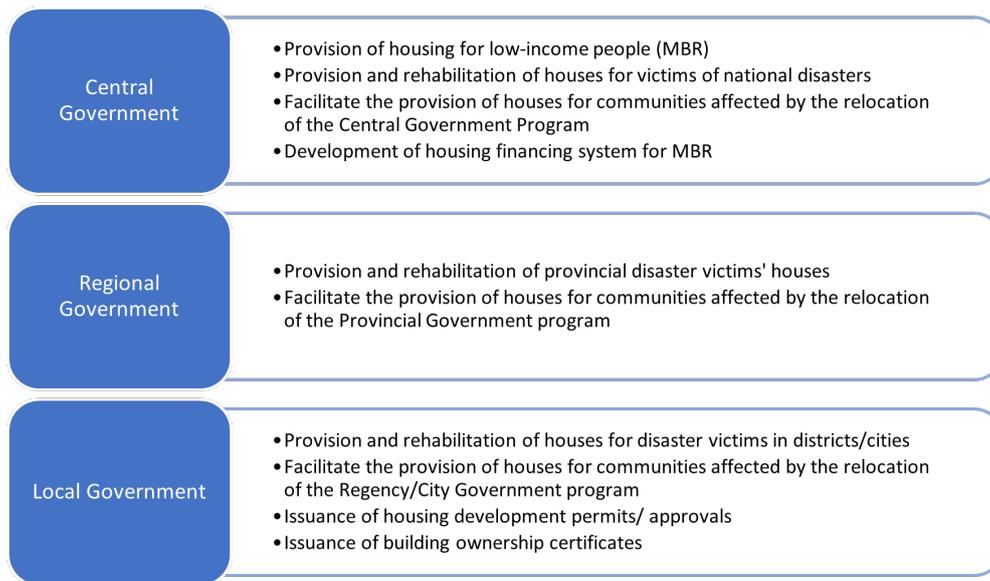


Figure 10. Government's responsibilities in housing and settlements

Source: Law No 23/ 2014, summarised by Author

Furthermore, according to Job Creation Law (No. 11/2020), the government established a Housing Acceleration Agency (BP3), with one of its functions is to execute and monitor the balanced housing policy to support affordable housing provision acceleration. Meanwhile, the 1992 Joint Decree had been monitored and supervised by the National Board for Policy and Supervision of Housing and Settlements Development (BKP4N), with support from the Local Board for Supervision of Housing and Settlements Development (BP4D) at the local level (Yuniati, 2013). Nevertheless, the 2013 balanced housing policy monitoring was fully delegated to the Ministry of Public Housing and Public Works (PUPR), as confirmed by government official (R3). These findings, thus, suggest that from the first establishment of the 2013 policy, no specific agency focused on supervising and monitoring balanced housing in Indonesia.

'BP3 was only re-established in 2021 for balanced housing. Thus, so far its monitoring and supervision have only been under PUPR.' – R3

From a governance perspective, legal frameworks are critical in providing clear and transparent means to set enforcement processes and legal certainty that enables right holders to enforce their rights easily (Deininger et al., 2011). The UK planning system, for instance, has a clear framework for implementing policies, such as inclusionary housing, as its S106 agreements and local development plan act as a legal requirement and contractual agreement between the local planning authority with the applicant seeking planning permission (Austin et al., 2014; de Kam, Needham, & Buitelaar, 2014). In this regard, it may be difficult for Surabaya's authorities to impose developers and enforce balanced housing goals without the availability of a clear legal framework and local regulations.

4.4.2 Political will and institutional capacity

Political support and commitment

Observing respondents' answers (R1, R2, R3, R7), it appears that balanced housing has considerable support at the central and local levels; though, interview findings indicate that political support is higher for the 2021 policy compared to the previous ones. As their commitment to realising balanced housing, the municipality has begun drafting the local regulation for the adaptation of PP No. 12/2021, based on the responses of government officials (R1,R2). The literature also showed that the government had started developing the local regulation draft for balanced housing in 2017, according to the Surabaya Regional Representative Council (SINDO, 2017). Nevertheless, until the enactment of the 2021 policy, no regulations relating to balanced housing were availed in Surabaya.

Furthermore, governments were actively exploring new ways to provide housing that are not solely focused on the government, such as public-private partnerships (PPPs), as stated by government officials (R1,R2,R3) and discussed in Section 4.1.2. However, it can be seen that the municipality has focused more on providing flat-based housing (rusunawa) for MBR. Consequently, the requirements of balanced housing, particularly the ratio of 1:2:3, become less emphasized.

Institutional capacity

• Formulation

At the city level, the municipality (R1,R2) claimed that they still have difficulties formulating the appropriate schemes and incentives as part of the trade-off from the government to developers. One of the difficulties related to this formulation is that the municipality still lacks human resources with real estate and investment expertise.

"We do not have experts who can help us formulate the investment plan precisely if, for example, the municipality wants to implement balanced housing. Because legal experts, of course, would only look at the legal side." – R1.

From the central government perspective (R3), formulating local policy and regulations in balanced housing is challenging because the Ministry of Home Affairs regulates the mechanism of municipalities drafting local regulations rather than technical ministries such as PUPR. Nonetheless, government official (R3) further claimed that the housing ministry regularly socializes and discusses with subnational governments and developers to ensure formulation and mechanism are effective and acceptable, as similarly confirmed by local government official (R1) and developer (R7).

"We have had socializations with local governments independently and in cooperation with the Ministry of Home Affairs regarding the importance of balanced housing. [...] We have also begun discussions with developers about how they can contribute. As such, the only issue is how we communicate it to the local government since development approval falls under their authority." – R3

- **Monitoring and enforcement**

As explained in Section 4.3.4, the balanced housing policy regulates the selling price cap of both affordable and commercial housing. Nonetheless, all respondents seem to agree that central and local governments do not have a specific market mechanism to monitor housing selling prices, resulting in developers being free to determine the housing price. Furthermore, government official (R2) outlined that the municipality monitors the fluctuations in land value through Sales Value of Tax Objects (NJOP) assessment. NJOP is used as the benchmark for determining the minimum price of land, which is calculated based on the area and land value zone (PERMENKEU 208/PMK.07/2018). Nevertheless, the government does not have a control mechanism, as land transactions are still self-regulated by buyers and sellers negotiating in the market.

Furthermore, the findings from interviews (R3, R5, R7) indicate that a weak development approval system is one of the leading factors contributing to the lack of balanced housing development, as outlined by Mungkasa (2013). According to interviews, the factors that cause this are the development permit assessment still being done using a manual system (R3, R6, R7) and a lack of human resources allocated to assessing development permit requests (R7). Consequently, it is difficult to determine whether the development planning complies with the requirements of balanced housing.

Lastly, PERMENPERA No. 10/2012 and No. 07/2013 regulated the disincentives and sanctions imposed on developers who do not comply with the balanced housing policy (see Table 6). However, it remains unclear what punishments the municipality has imposed on developers for noncompliance with the policy, as outlined by developer (R7).

Table 6. Disincentives and Sanctions according to policy

Disincentives (PERMENPER 10/2012 Article 23 & 24)	Administrative sanction (PERMENPERA 7/2013 Article 15A)	Criminal penalty (PERMENPERA 7/2013 Article 15B)
<p>If affordable housing is not included within the same stretch, thus:</p> <ul style="list-style-type: none"> • The total number of units includes additional affordable housing units of at least 20% • The land area for basic housing should be increased by 15% 	<ul style="list-style-type: none"> • warning notification • revocation of incentives • restrictions on development activities • temporary or permanent suspension of construction work • halt or revocation of business license 	<ul style="list-style-type: none"> • landed housing: fines of a maximum of five billion rupiahs, and additional penalty (rebuild to meet the requirements) • vertical housing: sentence of a maximum of two years, or fines of a maximum of twenty billion rupiahs.

Source: summarised by Author

As Chapter 2 (see Section 2.5) discusses, governments must meet certain conditions before implementing LVC instruments like Inclusionary Housing. The conditions include the availability of skilled professionals, an adequate cadastre system, transparency and a high level of trust in government, and a strong political will and legal framework (Alterman, 2012; Austin et al., 2014; Smolka & Amborski, 2000). Nonetheless, the study results indicate that some of these criteria were still not fully met by the government, especially the Surabaya Municipality.

4.5 Market impacts of balanced housing

The balanced housing policy has not yet been fully implemented at the city level; therefore, it is difficult to observe its impact on the market. Nonetheless, the interview found that one developer (R6) tried to comply with the policy despite not being imposed by the municipality.

Built on 3 hectares of land, the project consists of five residential buildings, with the first two towers containing about 800 units and priced between \$53.5 and \$200 thousand. To comply with the requirement to set aside 20% of the total building area for affordable housing, they included the cost into the price of housing units. Consequently, the potential homebuyers bear the cost of providing affordable housing, estimated to be around \$335 per unit. Although, it is considered insignificant since it only covers 1% of the price consumers pay. In addition, the developer indicated that they would contribute through in-lieu fees or off-site provisions since on-site provision would negatively impact their brand image and property value.

“We marked up on the unit price, so our sales price has included some of the cost for constructing the 20 percent affordable housing allocation. However, we did not reduce the quality of the unit specifications nor the unit size because our target market is the upper class.” – R6

From an IH perspective, the obligation to provide affordable housing might increase the economic burden of developers and act as a development tax, given that there are no subsidies or incentives by the government to offset the cost (Powell & Stringham, 2005; Read, 2008). Therefore, it might affect the market-rate housing through changes in production or charging more for market-rate units to maintain profitability – though it depends on the demand elasticity in the local housing market (Bento et al., 2009; Powell & Stringham, 2005; Read, 2008; Schuetz et al., 2008).

Therefore, this interview finding implies that developers might still build in markets under the balanced housing policy, despite the lack of economic incentives, provided that the financial burden can be passed on to consumers. However, this approach seems to work, given that the demand for high-end residential in Surabaya is still considerably high, especially for investment (see section 4.1.2). Moreover, as Bento et al. (2009) stated, price increases due to passed cost burdens are most likely to affect those with a lower sensitivity to housing prices, particularly those with high-income levels. Therefore, developers of commercial housing that target middle-income, price-sensitive households will find it hard to achieve.

4.6 Stakeholders’ perception of public support and acceptance

Public support and acceptance are assessed by exploring stakeholders' perceptions of the community's housing preference and acceptance of mixed-income housing as the foundation for balanced housing, and the sociocultural factors that might influence those choices. The data used in this section is obtained through interviews with stakeholders, articles and newspapers.

Mixed-income model

Based on interview findings, the level of acceptance for mixed-income housing developments in Surabaya is still relatively low. It is due to several factors, including the trend in development projects in Indonesia that still emphasizes the gated community model, which creates an impression of exclusivity of upper-class houses, as mentioned by respondents (R3, R5).

In addition, low-income people are still stigmatised by those with higher incomes. For example, an expert (R5) remarked that some people living in a gated community perceived that living nearby to those living in Kampong would increase the crime risk. In addition, respondents (R2, R6) also explain that from the developer's perspective, providing affordable housing within their project would decrease their property value and affect commercial housing sales, as similarly explained by developer (R7). Although, a study by Ginting and Sakinah (2018) showed that gated residential housing in Surabaya is not always intended for high-income people, and the clustering is not intended to differentiate residents by their socioeconomic status but rather to provide enhanced security.

*“In my experience, if I sell basic housing on the backside of the project and a more expensive housing on the front side within the same development, **these expensive housing would not sell well.**” – R7*

Another factor is the tendency of some developers to differentiate the quality of façade and design between affordable and market-rate housing, as indicated by three respondents (R3, R4, R5). Although, national government official (R3) further explains that in some other regions, affordable housing provided within the same stretch as commercial housing might have better quality in its physical design than affordable housing constructed separately. Lastly, low-income residents' attitudes also play an important role in accepting mixed-income housing development, as mentioned by expert (R4), according to a statement by a Surabaya developer.

*“After we built according to 1:3:6, we stopped building following 1:2:3 ratio because maintenance problems arose. People under this "6" ratio often have **difficulty maintaining their environment and facilities**, even when they live in a real estate area.” – R4.*

These findings support the claims mentioned by Koebel et al. (2004), Lerman (2006) and Tighe (2010), arguing that perceptions of low-income people and discriminatory motivations could lead to opposition to affordable housing and mixed-income housing.

Housing preference

The interview results indicate that four respondents (R1, R2, R3, R5) perceived the acceptance of affordable housing of any type to remain high, especially for low-income people considering the housing shortage in Surabaya. It can also be seen from the number of people without home ownership and applicants for rental flats in Surabaya, which has reached tens of thousands (see section 4.1.2). Nevertheless, preference for landed housing is considerably higher than vertical housing, even if it is available in peri-urban areas or adjacent cities to Surabaya, such as Gresik and Sidoarjo, as described by respondents (R2, R3, R5). These two cities, particularly, have

recently gained popularity due to their relatively low price, good infrastructure, and access to Surabaya (Rumah.com, 2021).

According to interviews, housing tenure and cultural values are some of the reasons for this choice. It appears that some people still prefer to have full ownership of property rather than leasehold or undivided share of land in apartment ownership, as described by (R2, R3, R5); thus, making vertical housing a less attractive option. A contributing factor is that homebuyers, especially first-time homebuyers, seek long-term investments and tenure security (Reed & Mills, 2007). It also aligns with the findings in studies regarding people's preferences for housing in Indonesia (Catalonia, 2016; Ramadhani, Faqih, & Setijanti, 2021).

In addition, respondents (R1, R2, R3, R5) also noted accessibility and location as critical factors in communities' choice of housing, with MBRs preferring to live nearby their workplaces for convenience. Thus, in Surabaya, many low-income people chose to live in *Kampungs*, low-cost housing neighbourhoods located in the middle of the city that were built traditionally and informally – though some *Kampungs* might not be in good condition (Das & King, 2019; Ernawati, Santosa, & Setijanti, 2013). Finally, two respondents (R3, R7) noted that although the design and location of housing are important considerations, financing and mortgages and the developer's credibility are of greater importance for low-income people.

“They do not put too much stress on house design since they already expect that subsidised housing will be of a certain quality. Their main concern is more related to the mortgage, ‘how much in a month do I have to pay for the instalment?’” – R7

4.7 Affordable housing contribution

Initially, the researcher intended to triangulate the data from interviews, with secondary data sourced from the housing and land department of Surabaya Municipality (development approvals, total housing units, in-lieu fees) and real estate association in Surabaya (total housing units produced by developers), in order to determine the contribution of developers to affordable housing in Surabaya, especially under the balanced housing. However, such records were not availed to the researcher.

From a broader perspective, the central government initiated the “One Million Houses” program in 2015 to support the provision of affordable housing for low-income and middle-income communities, carried out in collaboration with various stakeholders, such as developer associations and financial institutions, under the authority of PUPR. In this regard, therefore, the balanced housing policy is part of the government's efforts to achieve this program, as confirmed by government official (R3):

“One Million Houses does not mean the government built one million houses alone. It is a movement of all stakeholders to build houses for MBR. If there are problems in the supply ecosystem, we will help with policies. So you could say the balanced housing policy is one way to realise the one million houses.” – R3.

According to DPRKPCCK Jawa Timur (2018), the regional housing agency, developers allocated no units for low-income people (MBR) in Surabaya in 2016, while 6315 units were allocated for non-MBRs. The remaining low-income housing units are situated in other East Java cities, such as Pasuruan, Mojokerto, Sidoarjo, and Lamongan, and comprise around 12.707 units. Additionally, data from DPRKPCCK Jawa Timur (2019) shows that subsidised landed housing built in Surabaya was 244 units from 2016 – 2019. However, it is difficult to distinguish which of these developments for the One Million Houses falls under the balanced housing policy. Furthermore, according to interview results (R4, R7), there is no evidence of commercial vertical housing projects adhering to the balanced housing policy.

4.8 Summary

Overall, the findings related to the balanced housing policy indicate that several policy aspects remain contentious. A major concern for developers is the unclear mechanisms and lack of adequate incentives provided by the government, resulting in their views on this policy as shifting responsibility for affordable housing provision from the government to developers. Other findings show that a lack of clarity on who is eligible to live in affordable housing, the disintegration of the policy with spatial planning, and restrictions on selling prices have also burdened developers. Besides negatively affecting profit margins, this also undermines developers' trust in affordable housing beneficiaries and affects the development quality of housing units and the neighbourhood. Moreover, the selling price cap of basic (affordable) housing is considered low compared to the high land price in Surabaya. Thus, providing a simple house in Surabaya in one stretch or separately within one city was deemed unfeasible.

Literature has mentioned several preconditions governments should meet before implementing LVC instruments. However, the study results show that the Surabaya Municipality has not fully met some of these criteria. For example, the interviews confirmed that no regulations relating to balanced housing in Surabaya related to the 2013 policy – despite being included in the city's housing and settlement development strategy. Based on the findings, municipalities struggle to formulate appropriate development schemes and incentives, partly due to the lack of availability of real estate investment experts. In addition, the weak monitoring and enforcement system is considered one of the main obstacles to balanced housing.

Furthermore, balanced housing's legal framework seems to lack clarity, especially regarding the distribution of responsibilities and roles across levels. However, based on the findings, government officials have actively engaged in socialization and discussions to support local implementation. In addition, interviews indicate that Surabaya Municipality is committed to providing affordable housing for low-income households, especially through constructing Rusunawa using state and regional funds. Nonetheless, the governments have been trying to develop alternative mechanisms for financing and provisioning low-income housing, including PPPs.

Furthermore, the research showed that the impact of balanced housing on the market is difficult to be assessed, as the balanced housing policy has not yet been fully implemented in Surabaya. However, the finding from a developer shows that the policy influenced the unit price of their

project to cover the cost of providing 20% affordable housing of the total building area. This finding, therefore, suggests that the developer passed the cost burden of balanced housing to the consumers. Furthermore, findings from interviews and similar studies indicate several factors affected the acceptance of balanced housing in Surabaya, including: stigmatisation of low-income people, differences in behaviour between socioeconomic groups, and development trends that still emphasise gated communities and differentiated physical designs between affordable and market-rate housing, which result in exclusivity.

At the same time, the findings show that the acceptance of affordable housing for low-income housing is relatively high. However, some people still prefer landed housing over vertical housing, mainly due to the consideration of tenure and ownership and cultural values embedded in the society. Consequently, landed housing development has spread to the peri-urban areas and adjacent cities of Surabaya. Regarding housing preference, the stakeholders perceived accessibility, location and design as critical factors in the community decision on housing. Although, financing options and developers' credibility are of greater importance for low-income people in housing decisions. Nevertheless, according to government reports, relatively few landed low-income housing units were built from 2016 to 2019 in Surabaya. However, it does not clarify which units were built by developers nor if they were built under the balanced housing policy.

Chapter 5: Conclusions and recommendations

5.1 Conclusions: sub-questions

What is the contribution of the housing developers to the supply of low-income housing in Surabaya?

The data collection and analysis revealed that developers' contributions to balanced housing policy remain unclear, with no evidence of affordable housing produced under this policy. In general, the central government has a “One Million Houses” program, which collaborates with various parties to help provide affordable housing to low-income families. Rather than a stand-alone program, it is backed by all housing policies in Indonesia, including the balanced housing policy. Nevertheless, the records showed that only limited subsidised houses were built between 2016 – 2019 in Surabaya, without specifying whether they were built by developers or fell under the balanced housing policy. Additionally, the municipality has intervened in the housing market by constructing low-income rental flats (rusunawa). It should be noted, however, that its construction is done by the government using state and regional funds, and therefore, the private sector has no direct involvement in its provisioning.

What obstacles do the local government face related to the policy and implementation in providing low-income housing through the balanced housing policy?

The findings show that there are still limited human resources within the municipality, especially real estate experts, to design the formulae for balanced housing. Whereas this factor is an important precondition for government to allow negotiation with developers and capture value through affordable housing provision while maintaining the project's financial viability (Alterman, 2012). As a result, no local regulation was available to support the national policy, leading to poor implementation and enforcement. This finding highlights the importance of a legal framework in providing effective enforcement mechanisms and legal certainty, as echoed by Deininger et al. (2011). Furthermore, although Surabaya already has an adequate cadastre system for monitoring land-use change and price fluctuations – as another critical aspect supporting LVC (Smolka & Amborski, 2000), they cannot control the land price transacted in the market. Added with the housing price cap imposed for balanced housing, the high cost of land would make the cost of housing far exceed the selling price limit, resulting in the difficulty for the government to impose developers in providing affordable housing.

What challenges do private developers face in fulfilling the low-income requirements of the balanced housing policy?

Austin et al. (2014) outlined consistent and enforceable policy articulation as a critical instrument in the effective provision of affordable housing within planning systems. However, the study found that several policy aspects remain challenging and uncertain for developers. Based on the findings, developers are most challenged by mandatory affordable housing obligations with relatively high costs but lack adequate incentives. Nevertheless, if seen from LVC and IH perspectives, how balanced housing is implemented conflicts with the

fundamental concept where the use of regulatory authority to require developers to make contributions are followed by incentive offers (Alterman, 2012; Muñoz Gielen & Lenferink, 2018; Schuetz et al., 2011).

As the policy governs the affordability of units through housing price caps, thus, without incentives, the developers would hardly profit from providing affordable housing – let alone recover the construction cost, given the increasing price of land. Consequently, developers would charge higher market-rate housing prices or make changes in production to maintain profitability, as Bento et al. (2009) asserted. Nevertheless, the decision will depend on the market condition and whether the cost can be passed to participants in the market (Powell & Stringham, 2005; Read, 2008).

In addition, a reasonable degree of trust in the government is necessary to successfully implement, as outlined by Alterman (2012) and Smolka and Amborski (2000). However, with the absence of legal certainty and clarity in responsibilities and mechanisms, developers had difficulty complying. Subsequently, these factors are consistent with the theory of Schuetz et al. (2008), which suggests that inclusionary housing's effectiveness depends on the requirements' strictness, the policy's incentives, and the housing market.

What sociocultural factors influence key stakeholders' decisions and commitment to providing affordable housing?

The research showed that one of the reasons for opposition to affordable housing provision in the mixed-income neighbourhood comes from the discriminatory factor, where the low-income individuals who benefit from affordable housing are still stigmatized in the community, particularly by those with a higher income. The study found several arguments that affordable housing would create negative externalities, such as crime risk, deterioration of public facilities, and decreased property value. These arguments are similar to those asserted by Koebel et al. (2004), Lerman (2006) and Tighe (2010) on the circumstances that affect the public's opposition to affordable housing provisions. Eventually, developers would still follow the current trend of gated communities, as widely adopted in Indonesia, rather than balanced housing, considering that their sales depend on the public's favour – thereby creating exclusivity and segregation. This confirms the arguments of Koebel et al. (2004), Nguyen et al. (2013) and Tighe (2010) on the importance of public support to the success of planning programs and initiatives.

Seeing from the preference of housing from the community, landed housing is still more preferred, which is argued to have more clarity in ownership. Indeed, cultural and social values still influence those preferences, as housing is still seen as a long-term investment (Reed & Mills, 2007). Considering the high demand for affordable housing, many developers built on the outskirts of the city or in adjacent cities with relatively good access to Surabaya and reasonable land price. On the other hand, the government still focused on providing affordable housing through flats – considering that they built above government land assets. This, then, could be one of the factors influencing the government's will to implement balanced housing.

5.2 Overall conclusions

To what extent do the balanced housing policy and its implementation support the supply of affordable housing for the low-income community in Surabaya, Indonesia?

From the analysis and discussions, the balanced housing policy was ineffective in supporting affordable housing provisions in Surabaya. Despite being a long-standing policy, stakeholders still face similar obstacles to the 1992 Joint Decree, including legal framework issues, inadequate enforcement and unclear mechanisms, developers' opposition in the absence of incentives, and negative public perceptions of mixed-income neighbourhoods, as outlined by Hazaddin (2011).

Many authors have considered Inclusionary Housing as a form of public-private partnership (Calavita & Mallach, 2010; Hysing, 2009; Yan et al., 2021), emphasizing the importance of collaboration and coordination between the private sectors and governments. Nevertheless, the gaps in stakeholders' cooperation and the insufficient capacity of local government to realise balanced housing, as indicated by the study findings, led to the failure of the local government to capture the value increment generated by private developers to provide affordable housing. Ultimately, the issues found in the study support the argument outlined by scholars that the implementation of policies like IH is ineffective and inefficient (Padilla, 1995; Powell & Stringham, 2004; Schuetz et al., 2011).

5.3 Recommendations

5.3.1 For policymakers

Based on findings and conclusions, the researcher recommends:

- The municipality should be equipped with sufficient planning and real estate expertise to support the formulation of balanced housing regulations, including its mechanisms, incentives, monitoring and enforcement scheme.
- The planning authorities should incorporate balanced housing into the spatial plan and zoning regulation to allocate areas designated as mixed-income housing development, providing consistent expectations and certainty to developers of the surrounding neighbourhood and potential target market.
- The government can further integrate balanced housing with the public-private partnership scheme. Using PPPs principles rather than a top-down mechanism might increase the cooperation of developers in providing affordable housing.

5.3.2 For future research

This study used a relatively small sample size to examine the balanced housing policy in Surabaya. Therefore, a larger sample is recommended to increase validity, better represent each stakeholder's perspective and collect information on the number of projects adhering to the balanced housing policy or units successfully produced under the policy. In addition, a sample from the general public might be necessary to explore their perception of affordable housing

and the mixed-income model – which would help thoroughly examine balanced housing policy goals.

Furthermore, since this study mainly assessed balanced housing according to the 2013 policy, comparing the 2021 policy and the previous policy might be valuable to see if improvements have been made. Lastly, the characteristics of stakeholders and the housing market in Surabaya might not represent other cities in Indonesia. Thus, further study in other regions might provide a more comprehensive picture of the policy's implementation in Indonesia.

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Annex 1: Interview introduction guide

Welcoming the respondent	Good (<i>morning/ afternoon/ evening</i>), (<i>name of respondent</i>). Thank you for taking the time to take part in this interview.
Introduction of the interviewer	My name is Ditrisa Taranadia. I am a master's student in Urban Management and Development programme at IHS, Erasmus University Rotterdam.
The general purpose of the interview	<p>As part of the qualitative data collection required for my thesis, I need to conduct an in-depth interview regarding the Balanced housing Policy implementation and its relation to affordable housing provision in Surabaya. In this case, I will interview government officials, developers, and academia as the related stakeholders with experience and expertise related to this policy.</p> <p>As you are aware, the Balanced housing Policy has been around for thirty years, and the requirements have been revised several times, particularly in 2012 - 2013 and 2021. Thus, our interview today aims to learn from your perspective and experience how this balanced housing policy has been practised in Surabaya, which focuses on the 2013 amendment of the balanced housing policy.</p>
Briefing of the interview	This interview is planned for 40 to 60 minutes, but please do not feel constrained. The interview can go on if you want to talk longer. Also, if you want to stop anytime, let me know, and we will stop. Furthermore, I may ask you additional questions during the interview to clarify or elaborate on your answer. You may choose not to answer a particular question; feel free to inform me at that event, and it will not be a problem.
Ethics and privacy	Your answers as the outcome of this interview and your identity as a respondent will be used only for the qualitative research course and kept confidential. The interview outcome will be stored securely and can only be accessed by myself as the researcher.
Consent for recording	Before proceeding further, I would ask your permission to record the interview. The recording will aid the analysis and ensure the responses are captured and transcribed accurately. Do you allow it? (<i>Record consent</i>)
Consent information	<p>Before we move on to the interview, the last thing is your consent to participate. After knowing the purpose, confidentiality and other matters we discussed,</p> <ul style="list-style-type: none"> • do you still consent to participate? (<i>Record consent</i>) • do you agree to the use of the outcome of this interview for scientific research and education? (<i>Record consent</i>) • do you have any questions before we begin?

Annex 2: Interview questions guide for government officials

INTERVIEW GUIDE: GOVERNMENT OFFICIALS	
No	Questions
<i>IH Policy and Regulation</i>	
1	Before we start, can you introduce yourself and what is your role?
2	When did Surabaya Municipality first adopt the Balanced housing policy with 1:2:3 ratio and vertical housing requirements?
3	What steps have been taken by the local government to implement this policy? In terms of: <ul style="list-style-type: none"> • Policy formulation • Regulation formulation <p>What are the local planning documents that regulate Balanced housing?</p>
4	What is the type of obligation for balanced housing in Surabaya? Is it mandatory or voluntary? <ul style="list-style-type: none"> • <i>(If mandatory), in your opinion, why is it important to mandate developers to provide affordable housing?</i>
5	Does the local government provide incentives for developers? <ul style="list-style-type: none"> • <i>If yes, what are they and what is the reason?</i> • <i>Do you think that it is enough?</i> <p>How do you think of the incentives and/ or cost offsets offered to developers?</p>
6	Are there any disincentive and/ or sanction for developers that unwilling to comply? <ul style="list-style-type: none"> • <i>If yes, what are they and what is the reason?</i> • <i>Do you think that it is enough?</i> <p>How do you think of the sanction/ disincentives imposed to developers?</p>
7	Would you explain the procedure or mechanism for developers to do the balanced housing in Surabaya? <ul style="list-style-type: none"> • <i>Is there room for negotiation? If yes, how is it done?</i> • <i>Is there any compensation/ alternative contribution option available? If yes, what type of compensation?</i>
<i>Governance</i>	
<i>Legal, Political, and Institutional context</i>	
8	What is your opinion regarding the clearness of the policy and regulations for the developers? <ul style="list-style-type: none"> • Their responsibility • The mechanism/ procedure • The legal (legally binding) contract
9	What is your opinion on the political support for Balanced housing at the local level?
10	In your opinion, how far is the political commitment by the local government to implement Balanced housing?
11	Would you consider the resources allocated to support this policy adequate? (i.e. human resources, financial support, legal framework) <ul style="list-style-type: none"> • <i>If not, what can be improved?</i>
12	What do you think of the local government's capability in implementing this policy? <ul style="list-style-type: none"> • Human resources (skills and knowledge) • Institution
13	Is there any monitoring mechanism created by the local government on: <ul style="list-style-type: none"> • Land value • Housing price • Development permit

	<ul style="list-style-type: none"> Balanced housing requirements <p>How does the mechanism work?</p>
14	<p>What is your opinion regarding the coordination between the local government and higher-level government? (i.e. regional, national)</p> <ul style="list-style-type: none"> Does the higher-level governments provide assistance to help the local government implement the policy? What are the challenges faced within the coordination?
15	How does local government ensure the transparency of the regulation and the mechanism of balanced housing in Surabaya?
16	What is your perspective on developers' trust in government in terms of implementing the regulations?
17	<p>In your opinion, what are the obstacles faced by local governments in implementing the regulation?</p> <ul style="list-style-type: none"> What improvements are necessary?
Economic context	
18	What is your perspective on the current condition of housing market in Surabaya? (landed & vertical)
19	Does the regulation has any effect on land value in Surabaya? How?
20	<p>In your opinion, how do developers respond to the balanced housing regulation when it is implemented in the housing market?</p> <ul style="list-style-type: none"> How has the regulation affected the production/ price/ type of commercial housing?
21	In your opinion, what are the most important preconditions that developers need in order to comply with the regulation?
Social context: Public support	
22	What is your perspective on the cultural value and norms of Surabaya society that affects housing development/ provision?
23	What is your opinion regarding the preference of housing of potential home buyers in the housing market?
24	<p>What is your opinion regarding the acceptance by the public regarding affordable housing available on the market? In terms of:</p> <ul style="list-style-type: none"> Type Location Neighborhood
Affordable Housing	
25	<p>How do you see of the current condition of affordable housing in Surabaya? (landed & vertical) In terms of:</p> <ul style="list-style-type: none"> Access Supply Adequacy (quality, quantity) Urgency
26	<p>What is your opinion on the contribution of balanced housing to the provision of affordable housing units in Surabaya?</p> <ul style="list-style-type: none"> to be compared with housing production by developers to be compared with total production of affordable housing in Surabaya (from other program)
27	<p>Were the government has been able to collect in-lieu fees from the developers in exchange of on-site housing provision?</p> <ul style="list-style-type: none"> If yes, how the government collect the fees and how is it allocated?
28	Would you consider it possible to increase the contribution of affordable housing from balanced housing? If so, what conditions would have to be met?

Annex 3: Interview questions guide for expert

INTERVIEW GUIDE: PLANNING AND HOUSING EXPERT	
No	Questions
<i>IH Policy and Regulation</i>	
1	Before we start, can you introduce yourself and what is your expertise field?
2	How familiar are you with the Balanced housing Policy in <ul style="list-style-type: none"> • Indonesia • Surabaya
3	What steps have been taken by the local government to implement this policy? In terms of: <ul style="list-style-type: none"> • Policy formulation • Regulation formulation
4	What is they type of obligation for balanced housing in Surabaya? Is it mandatory or voluntary? <ul style="list-style-type: none"> • <i>(If mandatory), in your opinion, why is it important to mandate developers to provide affordable housing?</i>
5	Does the local government provide incentives for developers? <ul style="list-style-type: none"> • <i>If yes, what are they and what is the reason?</i> • <i>Do you think that it is enough?</i> <p><i>How do you think of the incentives and/ or cost offsets offered to developers?</i></p>
6	Are there any disincentive and/ or sanction for developers that unwilling to comply? <ul style="list-style-type: none"> • <i>If yes, what are they and what is the reason?</i> • <i>Do you think that it is enough?</i> <p><i>How do you think of the sanction/ disincentives imposed to developers?</i></p>
7	Would you explain the procedure or mechanism for developers to do the balanced housing in Surabaya? <ul style="list-style-type: none"> • <i>Is there room for negotiation? If yes, how is it done?</i> • <i>Is there any compensation/ alternative contribution option available? If yes, what type of compensation?</i>
<i>Governance</i>	
<i>Legal, Political, and Institutional context</i>	
8	What is your opinion regarding the clearness of the policy and regulations for the government and developers? <ul style="list-style-type: none"> • Their responsibility • The mechanism/ procedure • The legal (legally binding) contract
9	What is your opinion on the political support for Balanced housing at the local level?
10	In your opinion, how far is the political commitment by the local government to implement Balanced housing?
11	Would you consider the resources allocated to support this policy adequate? (i.e. human resources, financial support, legal framework) <ul style="list-style-type: none"> • <i>If not, what can be improved?</i>
12	What do you think of the local government capability in implementing this policy? <ul style="list-style-type: none"> • Human resources (skills and knowledge) • Institution
13	How would you describe the monitoring mechanism created by the local government on: <ul style="list-style-type: none"> • Land value • Housing price • Development permit

	<ul style="list-style-type: none"> Balanced housing requirements
14	<p>What is your opinion regarding the coordination between the local government and higher-level government? (i.e. regional, national)</p> <ul style="list-style-type: none"> <i>What are the challenges faced within the coordination?</i>
15	In your opinion, how transparent is the regulation and the mechanism of balanced housing in Surabaya?
16	What is your perspective on developers' trust in government in terms of implementing the regulations?
17	<p>In your opinion, what are the obstacles faced by local governments in implementing the regulation?</p> <ul style="list-style-type: none"> What improvements are necessary?
Economic context	
18	What is your perspective on the current condition of housing market (development) in Surabaya? (landed & vertical)
19	Does the regulation has any effect on land value in Surabaya? How?
20	<p>In your opinion, how do developers respond to the balanced housing regulation when it is implemented in the housing market?</p> <ul style="list-style-type: none"> How has the regulation affected the production/ price/ type of commercial housing?
21	In your opinion, what are the most important preconditions that developers need in order to comply with the regulation?
Social context: Public support	
22	What is your perspective on the cultural value and norms of Surabaya society that affects housing development/ provision?
23	What is your opinion regarding the preference of housing of potential home buyers in the housing market?
24	<p>What is your opinion regarding the acceptance by the public regarding affordable housing available on the market? In terms of:</p> <ul style="list-style-type: none"> Type Location Neighborhood
Affordable Housing	
25	<p>How do you see of the current condition of affordable housing in Surabaya? (landed & vertical) In terms of:</p> <ul style="list-style-type: none"> Access Supply Adequacy (quality, quantity) Urgency
26	<p>What is your opinion on the contribution of balanced housing to the provision of affordable housing units in Surabaya?</p> <ul style="list-style-type: none"> to be compared with housing production by developers to be compared with total production of affordable housing in Surabaya (from other program)
27	Do you think that the government has been able to collect in-lieu fees/ monetary contribution from the developers in exchange of on-site housing provision?
28	<p>Would you consider it possible to increase the contribution of affordable housing from balanced housing?</p> <p>If so, what conditions would have to be met?</p>

Annex 4: Interview questions guide for developers

INTERVIEW GUIDE: DEVELOPER	
No	Questions
<i>IH Policy and Regulation</i>	
1	Before we start, can you introduce yourself and what is your expertise field?
2	How familiar are you with the Balanced housing Policy in Surabaya?
3	What is they type of obligation for balanced housing in Surabaya? Is it mandatory or voluntary?
4	Does the local government provide incentives for developers? <ul style="list-style-type: none"> • <i>If yes, what are they?</i> • <i>Do you think that it is enough?</i> <p><i>How do you think of the incentives and/ or cost offsets offered to developers?</i></p>
5	Are there any disincentive and/ or sanction for developers that unwilling to comply? <ul style="list-style-type: none"> • <i>If yes, what are they?</i> • <i>Do you think that it is enough?</i> <p><i>How do you think of the sanction/ disincentives imposed to developers?</i></p>
6	Would you explain the procedure or mechanism for developers to do the balanced housing in Surabaya? <ul style="list-style-type: none"> • <i>Is there room for negotiation? If yes, how is it done?</i> • <i>Is there any compensation/ alternative contribution option available? If yes, what type of compensation?</i>
<i>Governance</i>	
<i>Legal, Political, and Institutional context</i>	
7	Is there any local regulation that used as guidelines for balanced housing requirements for developers?
8	What is your opinion regarding the clearness of the policy and regulations for the government and developers? <ul style="list-style-type: none"> • Their responsibility • The mechanism/ procedure • The legal (legally binding) contract
9	What is your opinion on the political support for Balanced housing at the local level?
10	In your opinion, how far is the political commitment by the local government to implement Balanced housing?
11	Would you consider the resources allocated to support this policy adequate? (i.e. human resources, financial support, legal framework) <ul style="list-style-type: none"> • <i>If not, what can be improved?</i>
12	What do you think of the local government capability in implementing this policy? <ul style="list-style-type: none"> • Human resources (skills and knowledge) • Institution
13	How would you describe the monitoring mechanism created by the local government on: <ul style="list-style-type: none"> • Land value • Housing price • Development permit • Balanced housing requirements
14	What is your opinion regarding the coordination between the local government and higher-level government? (i.e. regional, national) <ul style="list-style-type: none"> • <i>What are the challenges faced within the coordination?</i>
15	In your opinion, how transparent is the regulation and the mechanism of balanced housing in Surabaya?

16	How far do you think the level of trust from the developers in government in terms of implementing the regulations?
17	In your opinion, what are the obstacles faced by local governments in implementing the regulation? <ul style="list-style-type: none"> • What improvements are necessary?
Economic context	
18	What is your perspective on the current condition of housing market in Surabaya? (landed & vertical)
19	Were you able to meet the balanced housing requirements in your project? <ul style="list-style-type: none"> • If yes, what project and how did you meet the requirements? • If not, what are the hindering factors?
20	From your experience, how has the regulation affected the project? <ul style="list-style-type: none"> • Land value • Unit production • Housing type • Housing price • Other impacts:
21	In your opinion, what are the most important preconditions that developers need in order to comply with the regulation?
Social context: Public support	
22	What is your perspective on the cultural value and norms of Surabaya society that affects housing development/ provision?
23	What is your opinion regarding the preference of housing of potential home buyers in the housing market?
24	What is your opinion regarding the acceptance by the public regarding affordable housing available on the market? In terms of: <ul style="list-style-type: none"> • Type • Location • Neighborhood
Affordable Housing	
24	How do you see of the current condition of affordable housing in Surabaya? (landed & vertical) In terms of: <ul style="list-style-type: none"> • Access • Supply • Adequacy (quality, quantity) • Urgency
25	What is your opinion on the contribution of balanced housing to the provision of affordable housing units in Surabaya?
26	Would you consider it possible to increase the contribution of affordable housing from balanced housing? If so, what conditions would have to be met?

Annex 5: List of key informants

Code	Role	Type of respondent	Knowledge relevant to the study
R1	Officer in charge of the city planning	Government agency	<ul style="list-style-type: none"> • Multi-level governance • Balanced housing in Surabaya • Provision of vertical public housing • Government obstacles
R2	Officer in charge of local housing provision	Government agency	<ul style="list-style-type: none"> • Provision of vertical public housing • Government obstacles • Homebuyers preferences
R3	Officer in charge of national housing provision	Government agency	<ul style="list-style-type: none"> • Multi-level governance • Balanced housing policy at national level • Government obstacles
R4	Academia with planning and housing expertise	Key Expert	<ul style="list-style-type: none"> • Balanced housing policy • Developers' challenges • Government obstacles • Inclusionary housing & LVC
R5	Academia with planning and housing expertise	Key Expert	<ul style="list-style-type: none"> • Affordable housing • Factors affecting housing provision • Homebuyers preferences
R6	Officer in charge of development permit (vertical housing)	Real estate developer	<ul style="list-style-type: none"> • Balanced housing implementation in the project • Development approval process • Developers' challenges
R7	Officer in charge of project development (landed housing)	Real estate developer & association representative	<ul style="list-style-type: none"> • Stakeholders coordination • Subsidised housing • Developers' challenges

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