

1 May 2020

City of Melbourne
120 Swanston Street
Melbourne, Victoria
3000

Dear Sir/ Madam,

Thank you for this opportunity to make a submission regarding the City of Melbourne (CoM) Draft Affordable Housing Strategy.

We submit this response on behalf of the University of Melbourne's Hallmark Research Initiative for Affordable Housing (HRIAH), a research network concerned with influencing and supporting the transformation of the housing policy and delivery environment in Victoria. The project aims to support the delivery of improved affordable housing outcomes catering to very low to moderate income households. HRIAH is a collaboration involving University of Melbourne researchers and associated partners from industry, government and philanthropic organisations.

We commend the City of Melbourne on their focus on affordable rental housing in this Strategy and hope the focus carries through to positive outcomes for affordable housing for Victoria's vulnerable households. Our feedback is enclosed in the following response.

Yours sincerely,

The Hallmark Research Initiative of Affordable Housing

Response to City of Melbourne's Draft Affordable Housing Strategy

Since 2019, the [Hallmark Research Initiative for Affordable Housing project \(HRIAH\)](#) has brought together affordable housing researchers at the University of Melbourne with state and local government, private and non-profit housing developers, private and philanthropic funders, and other experts to work together on improving the quantity and quality of well-located affordable housing in Metropolitan Melbourne. The research initiative extends and builds upon the work of [the Transforming Housing research network](#) that supported affordable housing research and outcomes between 2013 and 2019.

The COVID-19 pandemic has revealed significant levels of inequality and precarity in our current housing system. As the population is forced to stay home during this pandemic, we are confronted with the prevalence of people without access to safe, affordable and appropriate housing. Basic needs of shelter, safety and hygiene are being met through temporary hotel accommodation for some of the State's most vulnerable people. As rent freezes, mortgage holidays and large-scale unemployment resonates through Australia, the precarity of our housing market has become apparent. This pandemic has revealed how little 'buffer' tenants and homeowners have to support their housing payments. In this context, we are even more concerned with the lack of social and affordable housing available to very low to moderate income households in Melbourne.

Researchers and partners at the HRIAH are working on topics that closely align with the content of the affordable housing strategy. In particular, we would like to comment on the following;

1. An integrated response to Australia's housing crisis
2. Need for government intervention
3. Mandatory Inclusionary Zoning
4. Focus on Affordable Rental Housing
5. Value Capture
6. Internal Affordable Housing Processes
7. Affordable Housing Demonstration Projects
8. Identifying and Using Government Land
9. New housing should incorporate best practice design

An integrated response to Australia's housing crisis

We wholeheartedly support CoM's call for an integrated approach to affordable housing delivery. While we agree that Inclusionary Zoning has a role to play in securing affordable housing in Melbourne, the scale of housing need in Victoria and Australia requires large-scale, consistent and bi-partisan contributions and support from both the Federal and State governments and across sectors.

Our current housing crisis is due to successive government's decisions to underfund social and affordable housing at the Federal and State levels. Local government has very few resources and levers to impact affordable housing outcomes without legislative and financial support from Federal and State governments. Inclusionary Zoning on its own will not substantially impact the affordable housing crisis, particularly in the context of softening construction levels. Research from the US suggests that IZ Programs on their own rarely produce high levels of affordable housing stock (Schuetz et al., 2011) and therefore can only be one tool in a suite of options to drastically increase affordability in Melbourne.

In our study of four major cities – Melbourne, Vancouver, Toronto and Portland – researchers from the University of Melbourne found that vertical governance that aligned funding and priorities across levels of government was one of the most important aspects of delivering affordable housing (Raynor & Whitzman, 2020). The creation and release of a National Housing Strategy in Canada has been a game-changing event for affordable housing and we call for a similar outcome in Australia.

Advocacy should focus on a National Housing Strategy supported by large-scale and consistent funding mechanisms to drastically increase the amount of social housing built across Australia.

Need for government intervention

We commend CoM on acknowledging that ***supply alone will not deliver affordable rental housing without government intervention.*** Recent research from the University of Melbourne has shown that affordable rental housing in Melbourne is either provided through the “six-pack walk-up developments” built between the 50s and 70s and houses on the city periphery with very little access to amenity (Palm et al., In Press). We find that much of the homes built in the 60s that are now affordable were in fact built as social housing and consequently sold to sitting social housing tenants. Simply focusing on supply and waiting for homes to become more affordable over time has not delivered affordable housing in Melbourne.

Mandatory Inclusionary Zoning

We support the CoM’s call for mandatory, state-wide inclusionary zoning. The consistent application of this policy increases certainty and means developers can not choose to avoid certain LGAs in preference for areas with lower contribution expectations. Research from the University of Melbourne suggests that this perspective is shared by the majority of the affordable housing industry. We surveyed 159 members of the affordable housing industry in 2019, including local and state government planners, developers, community housing providers, local councilors and financial organisations. All industries indicated they would prefer a mandatory inclusionary housing system. A mandatory, consistent system provides an ‘even playing field’ for developers and means affordable housing expectations are included in land value calculations occurring when land is purchased.

TABLE 1: STAKEHOLDERS' RANKING OF AFFORDABLE HOUSING POLICY OPTIONS

<i>Affordable Housing Policy Option</i>	All	PDF*	Local government	CHP#
<i>Mandatory affordable housing contributions applied consistently across developments</i>				
<i>Mandatory affordable housing contributions negotiated on a case-by-case basis</i>	2	2	2	2
<i>Voluntary, flexible affordable housing agreements</i>	3	3	3	3
<i>No voluntary or mandatory affordable housing agreements</i>	4	4	4	4

* Private Developers and Financial Organisations

Community Housing Providers

Source: (Raynor et al., Unpublished)

International research suggests that mandatory programs are more efficient and effective at delivering affordable housing than voluntary systems (Mukhija et al., 2010). However, research also suggests that programs differ substantially based on market conditions, location priorities and existing planning regulations (Schuetz et al., 2009). Similarly, Inclusionary Zoning Programs that apply a blanket rule across large geographical areas may have the unintended effect of prohibiting development in areas with lower land values. ***We advocate a broad application of mandatory inclusionary zoning that takes into consideration local-level market conditions.*** Our in-house modelling has identified the degree to which the impact of housing contributions and incentives are extremely context specific (Georgia Warren-Myers et al., 2019).

Focus on Affordable Rental Housing

We support the CoM's focus on very-low to moderate income rental households. This is a particularly vulnerable group that is not currently being served by the market and has suffered from decades of under-investment in social housing. Similarly, this is a form of housing that allows for long-term affordability when managed by Community Housing Providers in perpetuity.

While we support CoM's focus on providing housing for the 'wide spectrum of professionals... that contribute to our local community and economy' (p6) we also acknowledge that the significant unmet need for social housing means that most ***social housing is allocated to households with the highest levels of need.*** This disproportionately includes households currently experiencing or at imminent risk of homelessness; households where there is a member with disability; households where the main tenant is aged under 25 or aged over 75; or Indigenous households (Australian Institute of Health and Welfare, 2019). These households often have higher support needs and different housing needs that should be taken into consideration. Housing delivered through inclusionary zoning should not only house 'socially acceptable' nurses and child care workers while excluding other vulnerable members of society and should remain aware of Community Housing Provider's requirements to continue serving high-needs households.

Value Capture

As the Draft Strategy notes, Melbourne has a history of missed opportunities for achieving affordable housing requirements, particularly as part of large-scale re-zonings. Value Capture, particularly in urban renewal locations, is an important tool for ensuring the value of property uplift is shared equitably between landowners and communities. ***We would like to see a more thorough process for calculating and applying Value Capture to rezonings in the Final Affordable Housing Strategy, based on sound research on ways to avoid higher prices being passed onto home purchasers.***

Internal Affordable Housing Processes

We commend CoM's intention to improve their internal processes to provide greater certainty to stakeholders.

3.1 Develop an Affordable Housing planning policy that clearly outlines when an affordable housing contribution should be made, how the rate of affordable housing should be calculated and what should be included in an affordable housing agreement

Clarity around contributions is extremely important, but so is outlining expectations for incentives (if they are part of a voluntary or mandatory system). The majority of Inclusionary Zoning programs include some form of incentive to encourage delivery and this is also likely in the context of Victoria. The preferred model of incentives in Melbourne are density bonuses (also known as floor-area uplift) and expedited planning approvals. A key plank in supporting Inclusionary Zoning is ensuring density limits and density bonuses are consistently applied and regulated. Similarly, finding mechanisms to expedite planning approvals in return for affordable housing contributions will be central to affordable housing delivery.

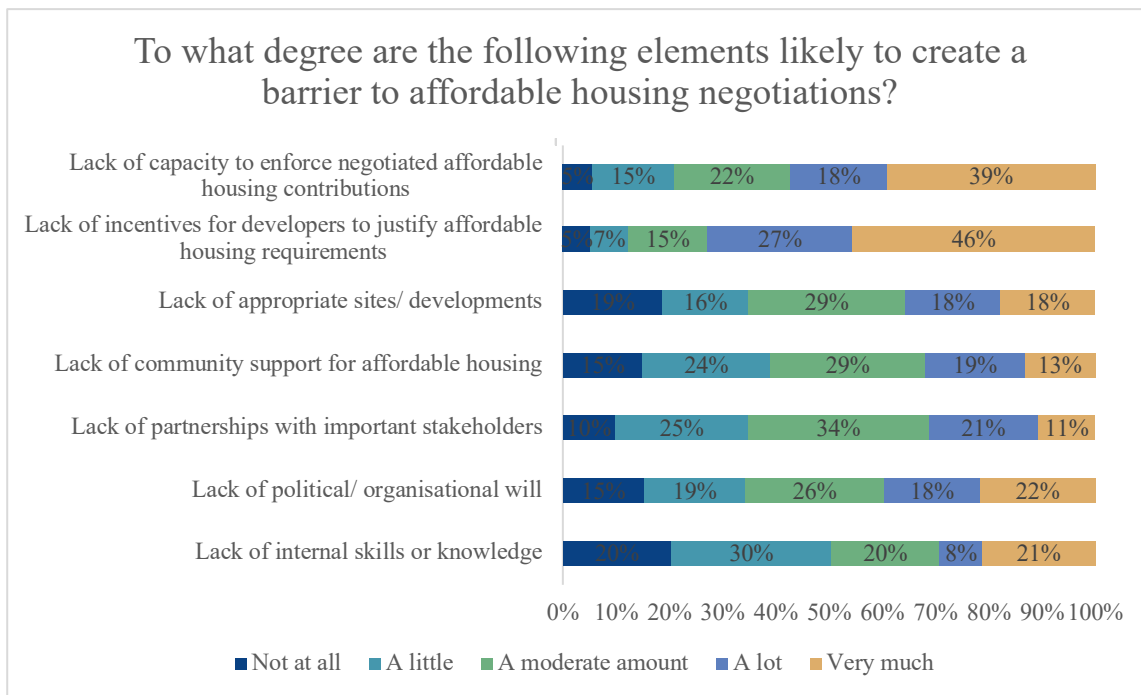
TABLE 2: RANKINGS OF PLANNING INCENTIVES FOR AFFORDABLE HOUSING BY SECTOR

Ranking	Consultants	Local government	CHPs	NPFs	State
1st	Floor-Area Uplift	Expedited Approval	Expedited Approval	Floor-Area Uplift	Expedited Approval
2nd	Expedited Approval	Floor-Area Uplift	Floor-Area Uplift	Expedited Approval	Floor-Area Uplift
3rd	Carpark Waiver	Carpark Waiver	Carpark Waiver and Rate Reduction	Carpark Waiver and Rate Reduction	Carpark Waiver
4th	Rate Reduction	Rate Reduction	Tied	Tied	Rate Reduction

Source: (Raynor et al., Unpublished)

We recommend also developing and communicating an enforceable system for ensuring housing contributions are delivered in a timely manner with strong punishments for lack of delivery. As shown in Figure One, our research illustrates that a large portion of the affordable housing sector is concerned that current affordable housing negotiations are difficult to enforce and easy to 'wriggle out of.'

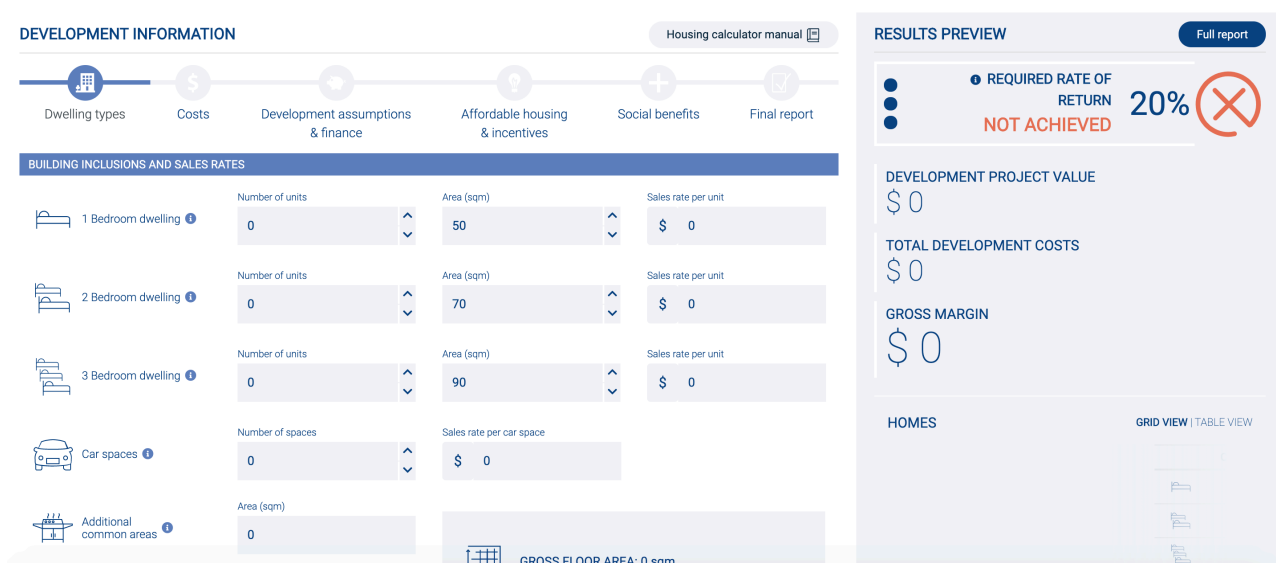
FIGURE 1: TO WHAT DEGREE ARE THE FOLLOWING ELEMENTS LIKELY TO CREATE A BARRIER TO AFFORDABLE HOUSING NEGOTIATIONS?



Source: (Raynor et al., Unpublished)

The University of Melbourne can support development feasibility education to aid in the negotiations of affordable housing contributions with our custom-built Affordable Housing Calculator. This calculator was created by Dr Georgia Warren-Myers, Dr Katrina Raynor and Dr Matthew Palm and [is available here](#). The University has created a manual to explain the calculator’s use (G Warren-Myers et al., 2019) and an explanation of the calculations used in the calculator.

FIGURE 2: UNIVERSITY OF MELBOURNE’S AFFORDABLE HOUSING CALCULATOR TOOL

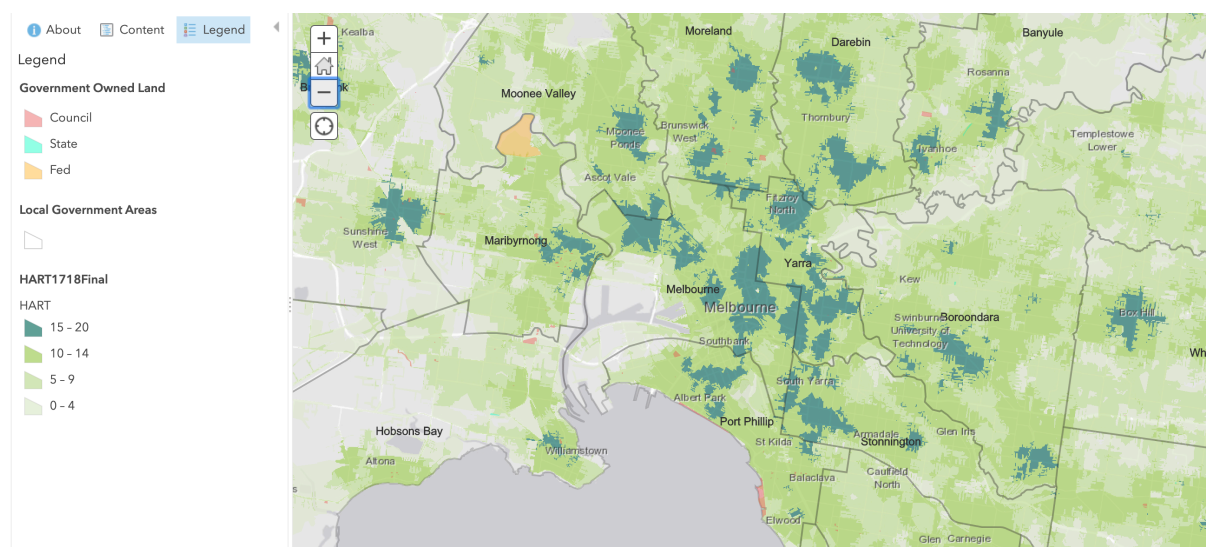


3.4 Develop a centralised internal process for recording and assessing affordable housing outcomes.

We commend the CoM on this goal. However, ***we recommend creating and implementing a recording and mapping system that operates at the regional scale and encompasses all of Greater Melbourne.*** This monitoring and evaluation should be explicitly linked to data on housing need, broken down by specific income levels or special needs (ie aged care, accessible housing, housing for women and children). This would allow for greater transparency in measuring city-wide progress toward affordable housing goals and aid in local government advocacy efforts with the State and Federal Governments. It would also be a more efficient use of scarce resources to combine funding and expertise across LGAs.

The University of Melbourne could support this process in collaboration with the Inter-Council Affordable Housing Forum, drawing on our existing skills in data management and mapping to create a centralised database. Previous work by Dr Matthew Palm resulted in a scoring of individual parcels across Greater Melbourne to assess accessibility to important services ([Map available here](#)). A similar platform could incorporate locations of affordable housing. Places like Portland with access to shared data sets, shared definitions of affordable housing and collaboratively monitored data set demonstrate how important a tool shared information is for delivering affordable housing. Even the process of co-creating that information can be a powerful advocacy, partnership-building and capacity-building tool, as demonstrated in the creation of the Affordable Housing Plan for British Columbia (Raynor & Whitzman, 2020).

FIGURE 3: UNIVERSITY OF MELBOURNE'S HOUSING ACCESS RATING TOOL



Affordable Housing Demonstration Projects

We agree that government land is an excellent opportunity to create demonstration projects and urge the City of Melbourne to be extremely ambitious in achieving both affordability and sustainability targets. We commend the CoM on aiming for up to 25% of affordable housing on leased government land. We strongly recommend that the CoM aims for at least 25% affordable housing and is ambitious in considering novel and replicable approaches to achieving this goal. Land costs represent a substantial proportion of development project costs in the City of Melbourne, based fundamentally on the type and scale of development opportunities which drives high residual land values for the area. Finding ways in which to reduce this upfront substantial expenditure could present a great opportunity to reduce costs, enhance development and increase affordable housing.

The City of Melbourne could look to the partnership between the City of Darebin, Lord Mayor’s Charitable Foundation and Social Enterprise Australia (SEFA) for an example of [how to incorporate charitable donations and impact investment to maximise social outcomes and leverage cross-sectoral partnerships](#).

The University of Melbourne, in partnership with RMIT, Swinburne, Monash and Deakin, is organising an [international building exhibition \(IBA\)](#) to connect a network of innovative housing demonstration projects. We would welcome a partnership and the opportunity to provide research support to a CoM demonstration project.

FIGURE 4: IBA MELBOURNE WEBSITE



IBA MELBOURNE IBA LAB IBA RESEARCH ⋮



Identifying and Using Government Land

Our project on government land identified a hectare of underutilised or “lazy land” that could host affordable housing within the City of Melbourne (Palm et al., 2018, p. 32). While this amount is small compared to other localities in the region, densification and a mixing of uses could lead to a significant yield of affordable housing on these sites. ***The City of Melbourne can achieve the highest and best social use of limited council land by placing affordable housing above other public services.*** City leaders need not look beyond the CBD for inspiration: Drill Hall, which includes architectural preservation, affordable housing, and community services on one of the most central intersections in the city (Palm et al., 2018, p 54). ***We feel the plan’s commitment to affordable housing on only one council site in 5 years is not ambitious enough.***

FIGURE 5: DRILL HALL DEVELOPMENT, MELBOURNE



Source: Lennon, M. 2015. 'Innovation in Affordable Housing Supply : Heritage Redevelopment – Drill Hall'. In AHURI National Housing Conference. Perth, Australia: Australian Housing and Urban Research Institute.

One of the key challenges facing affordable housing delivery is the decision to use ‘highest and best use’ principles when valuing government land. ***Treasury processes should change to allow for government departments to transfer land based on land values that takes into account affordable housing contributions.*** This allows for consideration of the impact of a proportion of affordable housing in the proposed hypothetical project and ensures this is reflected in the calculated residual land values. This would require further consideration of the development aspects, rather than just a comparison approach assessment of the land price/value based on open market fundamentals without consideration of affordable housing contributions. Whilst this may change with mandatory requirements in time, at present with voluntary or no contribution requirements, the residual land values calculated are not considering the implications of the affordable housing requirements for the proposed development. While this is not a policy that CoM has the capacity to change at the State level, it should form part of broader advocacy for inclusionary zoning and the delivery of affordable housing on government land.

New Housing should incorporate best practice design

The vast majority of new housing in Melbourne is not nearly as good as it should be. Whereas other markets have advanced in terms of competition leading to innovation, increased choice and availability as well as reduced costs this cannot be said of the housing industry, large parts of which are culturally resistant to change. Most new housing is as such a missed opportunity and HRIAHA fears that Inclusionary Zoning may be treated as another compromise or regulatory hurdle leading to poor quality outcomes. Through Hallmark we are promoting the link between Good Design and good outcomes and emphasising that the value of Good Design is critical in relation to housing. When we look at the focus on Healthcare Design or even School Design in Australia, housing is lagging far behind as a public good.

The social and financial value of good design should be acknowledged by City of Melbourne in everything they do and Inclusionary Zoning cannot be seen as a compromise. The affordable housing targets should be developed with quality urban design and architectural foundations. As well as boosting supply, housing targets should be backed by good design standards which improve the quality of our built environment and help alleviate the twin problems of diminished social capital and growing economic inequality. While the financial case for quality will always be difficult to prove beyond doubt, sub-standard housing, which offers little real choice, is a missed opportunity and a false economy.

Design quality is particularly important when considering higher densities. We therefore support a design-led approach to optimum density where higher levels of density lead to greater levels of scrutiny of design including built form, massing, site layout, external spaces, internal design and ongoing management. Design quality should be included in planning permissions and legal agreements. The City of Melbourne can champion Design, by including research assessment as part of design review. Similarly, it is important that design quality is maintained throughout the development process from the granting of planning permission to completion of a development. What happens to a design after planning consent can be instrumental to the success of a project and subsequent quality of a place. Changes to designs after the initial planning permission has been granted are often allowable as minor amendments. However, even minor changes can have a substantial effect on design quality, environmental quality and visual impact. The cumulative effect of amendments can often be significant and should be reviewed holistically.

References

PLEASE NOTE: PLEASE CONTACT THE HRIA FOR ACCESS TO ANY UNIVERSITY OF MELBOURNE DOCUMENTS MENTIONED IN THIS REPORT

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