

Transforming Housing:

Affordable Housing for All

Partnership options for policy, investment and demonstration projects

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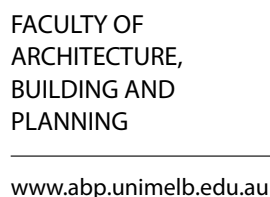


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Summary

Australia's population is expected to increase from 22 to 36 million by 2050 (Commonwealth of Australia, 2010). **In addition to the increase in housing supply that will be required to meet growth (at least one million additional homes in Melbourne alone), there will be a need for significantly greater supply of affordable housing.** Currently, 15% of Victorian households pay more than 30% of their income on housing costs, an amount that is considered unaffordable. Only 2% of rental units in Melbourne are currently affordable for working single-parent families and none are affordable for a single person on minimum wage or income support. There has been a 20% increase in Victorians experiencing homelessness between 2006 and 2011, with 22,000 people either living on the street or in temporary or insecure accommodation on any given night (CHFV, 2014).

The challenge of providing sufficient, quality affordable housing poses a significant opportunity to deliver economic, social, and environmental benefits by reducing the concentration of disadvantage, reducing congestion and pollution, and saving money through more efficient use of infrastructure.

Transforming Housing is a Melbourne-based action research partnership facilitated by the University of Melbourne, involving local and state government, private and non-profit developers, private and philanthropic investors, and affordable housing advocates. *Transforming Housing* has continued the work of the previous phase of the partnership, called ***Getting To Yes***, which aimed to enable housing actors to identify existing barriers and potential enablers to affordable housing in Melbourne.

The current focus of the research, which is summarised in this paper, is to explore options in the areas of better investment, land capture, value sharing, inclusionary housing policy, design, and construction mechanisms, to stimulate deliberation at the Affordable Housing Summit run by the project team in 2015. **This is intended to move partners towards agreements and the next stage of the project, delivering affordable housing innovation in demonstration projects driven by an international Affordable Housing Solutions Competition.**

A number of interviews of key stakeholders involved in affordable housing were conducted by researchers in Melbourne, Australia; Portland, US; and Vancouver and Toronto, Canada. In addition, a review of relevant literature, policies, and other sources of information was undertaken to understand the current context for affordable housing in Melbourne, and how various ideas, including those successfully implemented in other cities, could be implemented in the Melbourne context with various actors working in partnership.

A number of ideas for transforming the affordable housing sector in Melbourne are presented in this paper. These include building and strengthening partnerships, better integrating policy, effectively leveraging government, philanthropic and private investment, providing incentives for affordable housing, removing regulatory obstacles, and achieving cost savings through design and construction innovations. **In addition, this paper proposes how an Affordable Housing Solutions Competition could facilitate demonstration projects to drive innovation and change, and leave a lasting legacy for the affordable housing sector.**

This paper outlines a number of options and opportunities within these key areas, with a focus on which actions can be taken by various stakeholders. **These options should not be interpreted as being endorsed by the *Transforming Housing* project team and partners, nor does this paper argue that they are all feasible options for implementation in the short term.** They are provided as a basis for discussion and possible action at the Affordable Housing Summit to take place April 30-May 1, 2015.

Some key options discussed in this paper are:

1. For **state government** to implement a 30 year containment boundary focusing affordable housing development along public transport corridors and a 10 year metropolitan housing strategy with local government area housing targets, to be implemented by **local governments** working together in regional affordable housing coalitions.
2. For **state government** to facilitate inclusionary zoning on both government-owned and private land, to be implemented by **local governments** working together with **developers, community housing**

organisations and other key stakeholders.

3. For **state government** to facilitate the use of density limits and bonuses, to be implemented by **local governments** working together with **developers, community housing organisations and other key stakeholders**. **Developers** could also play a champion role within the industry to demonstrate the benefits and feasibility of this model.
4. For **state government** to investigate planning mechanism reform such as enabling laneway or accessory units, making it easier to reduce car parking requirements, and streamlining affordable housing approval processes including limiting third party appeals.
5. For **state government** to investigate funding mechanisms for affordable housing such as social housing bonds, government backing for bond instruments or shared equity schemes, or Limited Liability Partnerships, working together with **investors, local governments and developers**. It could also advocate to the **federal government** to support these mechanisms or the implementation of a tax credit incentivising investment in affordable housing.
6. For **the philanthropic sector or impact investors** to partner with **community housing organisations, developers, and local and state governments** to identify ways to 'cobble' together small amounts of funding from multiple sources, with **peak bodies** and organisations such as the **Lord Mayor's Charitable Foundation** playing a facilitator role in informing philanthropic donors and impact investors of investment opportunities.
7. For **state and local governments and authorities** to utilise publicly owned and under-utilised land to facilitate affordable housing development, whether through lease or sale of land, or through the establishment of a Community Land Trust.
8. For a range of actors including **developers, community housing organisations, investors, and state and local government** to continue to work together in the Transforming Housing deliberative planning partnership to scale up the affordable housing sector.
9. For **designers, developers, builders and peak bodies** to showcase high quality developments that provide amenity, lifecycle affordability and sustainable urbanism, disseminating best practice design and construction ideas through partnerships to scale up new methods and technologies.
10. For **developers, architects and other design professionals, and investors** to collaboratively deliver demonstration projects arising from a **state government** sponsored Affordable Housing Solutions Competition, facilitated and documented by **researchers**.

Introduction

Challenges and Opportunities

Australia's population is expected to increase from 22 to 36 million by 2050, with most of this growth projected to occur in capital cities (Commonwealth of Australia, 2010). This means that, with projected decreases in household size, at least 6.5 million additional dwellings will be required in the next 35 years.

In addition to general supply of housing, there will be a need for significantly greater supply of affordable housing. Currently, only 2% of rental units in Melbourne are considered affordable for working single-parent families – that is, costing 30% or less of gross household income – and none are affordable for a single person on minimum wage or income support (CHFV, 2014). Currently, 15% of Victorian households are considered to be in housing stress, paying more than 30% of income on housing costs, and there has been a 20% increase in Victorians experiencing homelessness between 2006 and 2011, with 22,000 people living on the street or in temporary or insecure accommodation on any given night.

In Melbourne, there are at least three reasons for this affordable housing crisis. First, at the federal, state and local levels, there has been policy failure: **the absence of stable and consistent policy and programs** that would either provide direct funding for new low-income housing, or indirect funding through an investment tax credit (as is in the case in the US), along with planning systems that would regulate affordable housing such as inclusionary zoning, density bonusing, and rent control. The predominant approach, increasing supply through expanding outwards at the edge and upwards in the central city, both with minimal regulation, has been a failure in terms of affordability outcomes.

Second, there has been **an integrated planning failure**: infrastructure funding for public transport, schools and health and social services has not kept pace with urban growth (both population and geographic growth), resulting in long commutes between homes and work, inadequate provision of social infrastructure, and spiralling prices in those areas that are relatively well served. Third, and related to the previous two, is **a governance failure**. There has been no metropolitan governance body that would bring local and state governments together with private sector developers and non-profit organizations serving low income households to develop a coordinated, long-term, consistent strategy.

However, the challenge of providing sufficient, quality affordable housing is not just a problem requiring solutions, but a significant opportunity to deliver economic, social, and environmental benefits in terms of improved social outcomes by avoiding the concentration of disadvantage, reducing congestion and pollution through allowing people to live closer to where they work and study, and saving money through making better use of existing infrastructure. Providing affordable housing that meets people's needs benefits not only those housed in these dwellings, but our society as a whole. SGS Economics and Planning, in a report commissioned by Moreland City Council (2013), argue that the provision of affordable housing should not be seen as a 'distributive' or equity issue, but rather as an 'efficiency' issue whereby net community benefit is achieved through avoiding negative externalities associated with loss of social diversity and spatial polarisation along socio-economic lines.

The Project

Transforming Housing is a Melbourne action research partnership facilitated by the University of Melbourne, involving local and state government, private and non-profit developers, private and philanthropic investors, and affordable housing advocates. The current focus of the research is on exploring options in terms of better investment, value capture, and design/construction mechanisms, in order to move partners towards agreements. The next stage of action research is intended to test out affordable housing innovation prototypes in 4-6 demonstration projects, within the rubric of an International Affordable Housing Solutions Competition.

Since March 2013, a partnership to increase the amount and quality of affordable housing being created in metropolitan Melbourne has been developed. The partnership has been initiated through the support of

[Carlton Connect](#), the University of Melbourne's initiative to develop a sustainable development research and technology hub. The partnership is now in its second phase and to date has included funding and expertise from nine key partners:

- University of Melbourne:
 - [Carlton Connect](#)
- State Government:
 - [Places Victoria](#): the state government's property development agency
 - [The Metropolitan Planning Authority](#): the state government's coordinating body for planning and infrastructure development
- Local Government:
 - [The City of Melbourne](#), responsible for planning decisions in central Melbourne – one of 31 local governments in metropolitan Melbourne (with a population of about 100,000 out of a total of 4,000,000 in the metropolitan area)
 - [The City of Port Phillip](#), responsible for planning decisions immediately south of central Melbourne (also with a population of about 100,000)
- Private sector housing developers:
 - [Urban Development Institute of Australia](#) (Victorian chapter): the peak body for all segments of the urban development industry
 - [The Property Council of Australia](#) (Victorian chapter): the leading advocate for the property industry:
 - [Australand](#): one of Australia's leading property development groups
- Investors:
 - [The Lord Mayor's Charitable Foundation](#): philanthropic investor

The partnership has also involved a wide range of organizations who have donated time and ideas, including the [ISTP Property Fund](#), [Office of the Victorian Government Architect](#), [MGS Architects](#), [SGS Economics and Planning](#), [Housing Choices Australia](#), and [the National Affordable Housing Consortium](#).

In the first stage of this partnership, [Getting To Yes \(March 2013-June 2014\)](#), the focus was **on enabling housing actors to identify existing barriers and potential enablers to the creation of more and better affordable housing in metropolitan Melbourne**, with a focus on family friendly housing in central Melbourne. Activities included:

- A preliminary survey of housing actors (government, developers, architects, planners) to determine whether there was consensus as to barriers and enablers, and an understanding of national and international good practices in the provision of affordable housing.
- A literature review of key Australian research on barriers and enablers, as well as good practices; along with supervision of four masters' theses on: Inclusionary Zoning, the suitability of 'pop-up planning' to housing innovation, housing needs of parents living with young children in the central city, and the potential of non-profit co-operative housing in Australia.
- An interdisciplinary studio that brought together planners, architects, and construction valuation students, to cost out affordable housing ideas in four sites in the City of Melbourne neighbourhood of Arden-Macaulay, with a brief provided by Housing Choices Australia.
- A study tour of affordable housing in San Francisco, Portland and Vancouver, with participation from Australand and the City of Port Phillip.

Getting To Yes found that some key elements of successful affordable housing programs in the North American cities studied were a market based approach to funding affordable housing, using value capture revenue streams for affordable housing, and utilising enduring partnerships built around an affordable housing sub-market. Some key recommendations for Melbourne that emerged from this were that:

- Commonwealth and State Governments should support a **long term, tax-credit based investment strategy for affordable housing**, administered through Treasury Departments and the Australian Tax Office.
- State Government should enable **legislation to financially support affordable housing through value capture revenue and state owned land release** as neighbourhood gentrify and renew, implementing this through Plan Melbourne, the metropolitan planning strategy.
- State and Local Government should provide a **planning framework that mandates minimum design standards** as necessary to ensure the quality of sustainable, affordable, family friendly housing. This framework should strengthen partnerships between community groups, not-for-profit organisations, private firms and government.

At the end of *Getting To Yes*, the key sectors of state and local government and private development decided to continue this partnership model, and we attracted more partners to the table, including [Australand](#) and the [Lord Mayor's Charitable Foundation](#).

The second stage of action research, [Transforming Housing \(July 2014-June 2015\)](#), expanded the mandate to well-located and well-designed 'affordable housing for all' throughout metropolitan Melbourne. The focus has been on **exploring options in terms of better investment, land, and design/construction mechanisms, in order to move partners towards agreements**.

Approach and Methods

Definitions

Providing a consistent, agreed-upon, and implementable definition of what is meant by ‘affordable housing’ is of utmost importance, not only as a requisite for a coherent discussion around how it can be achieved, but to ensure consistent application of the term in a legal and regulatory sense.

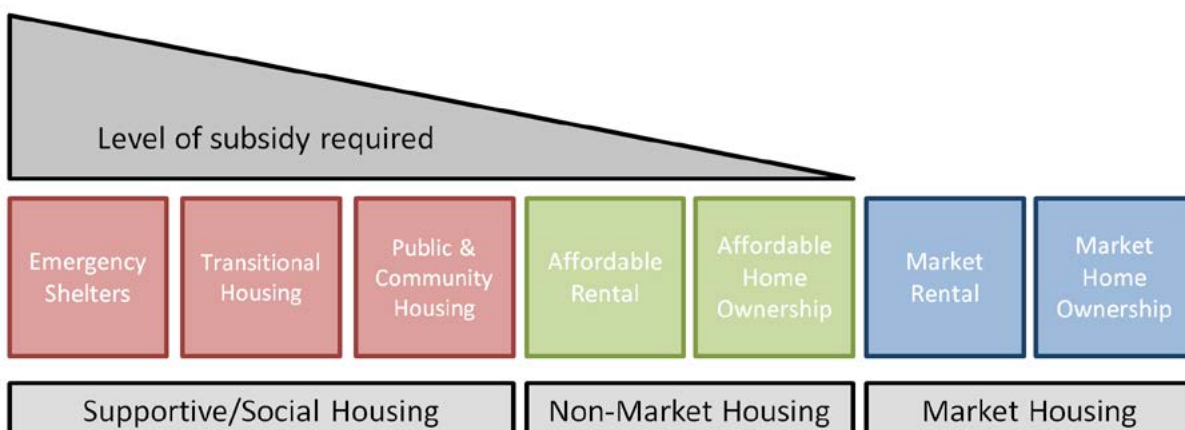
In a report prepared for Moreland City Council by SGS Economics and Planning (2013: 7), affordable housing is taken to be “housing permanently available at an affordable rent to households in the bottom two quintiles of the income distribution”. In the [City of Melbourne Housing Strategy](#) (2014: 24), it is defined as “housing outside the main housing market which is subsidised below the market rate and provided to specified eligible low and moderate income households whose needs are not met by the market”, further defining unaffordability as “when rent or mortgage payments exceed 30 per cent of the gross household income for low and moderate income households”.

Key questions in defining ‘affordable housing’ include:

- **What is considered to be affordable?** Can the 30% of gross household income be used as a simple measure, or is a broader definition of ‘affordable living’ encompassing other housing costs (e.g. utilities and maintenance, but also transport costs if housing is far from jobs and services) more appropriate?
- **For whom is this housing affordable by the above measure?** A common approach is to focus on households on ‘low to moderate incomes’, often defined as the bottom two income quintiles, but should this be calculated based on local (e.g. local government area) income profiles or at a broader metropolitan scale?
- **Must ‘affordable housing’ be provided in perpetuity?** Schemes such as the National Rental Affordability Scheme (NRAS) which operated in Australia between 2008 and 2013, provided incentives for rental housing to be made available at below market rate for up to ten years, while the City of Vancouver’s Rental 100 program secured below market rental for 60 years. By contrast, social housing, which encompasses that owned and managed by state or territory governments (public housing), and that owned or managed by housing associations and housing providers (community housing), is generally considered to be provided as affordable in perpetuity.

This paper takes a housing continuum approach to defining ‘affordable housing’, recognising that there is a range of needs and required levels of support within such housing, ranging from preventing homelessness through supporting very low income households, to facilitating affordable homeownership options for low to moderate income households.

This continuum is illustrated in the below figure:



Broadly speaking, this paper adopts the definition of affordable housing as **that which does not cost (in rent or mortgage payments) more than 30% of gross household income for households in the bottom two quintiles of area (i.e. Greater Melbourne) median income.** This definition potentially includes social housing (public and community housing), subsidised privately-owned rental housing (e.g. housing delivered through NRAS), and market rate housing. However, much of this paper focuses on community housing, as this provides a greater potential for affordability to be retained in perpetuity compared to subsidised privately-owned housing and market housing, and given a lack of growth in the public housing sector. Community housing can be developed and built by the private sector, but is generally operated as not-for-profit.

There is potential for long-term guaranteed affordable privately-owned rental housing (e.g. Rental 100 in Vancouver), and more affordable homeownership options provided that affordability can be guaranteed past first sale (as is being currently investigated in Toronto), and these options are also discussed.

Approach

As stated previously, *Transforming Housing* is an action research project utilising deliberative planning partnerships to build consensus and achieve real outcomes.

Action research is described in the inaugural issue of the journal *Action Research* (Brydon-Miller et al, 2003: 8) as **a way to bring practitioners and researchers together in a ‘collaborative process’ to develop ‘practical solutions to issues of pressing concern’.** To us, this means taking the excellent research already produced in Melbourne and across Australia, most of this under the auspices of the [Australian Housing and Urban Research Institute](#), and testing out how some key housing actors can work together to turn this research into policy action.

Through the lens of deliberative planning, the task of urban planners goes beyond explaining the ‘what’ and ‘why’ of problems, **to ‘the search for more effective ways to conduct policy’** (Innes & Booher, 2010: xii). There are a number of success factors for real deliberation to take place on problems, which are based on the philosopher Jurgen Habermas’ work on communicative rationality:

- Participants need to be **diverse**: not only government, but private sector and civil society advocates
- Participants need to be **interdependent**: there needs to be a reason why they are at the table
- They need to **learn together** and build relationships of mutual respect
- They need to have authentic dialogue **and honestly agree and disagree**
- If they are able to do this, they may be able to **adapt systems and create innovation** (Innes and Booher, 2010: 35)

This is an ambitious set of conditions, and most planning partnerships do not achieve this ideal state. **There are examples, however, of planning partnerships that have gone beyond mere *consultation*** (where governments elicit opinion from a range of conflicting parties on a draft policy, but then make the final decision), **to *deliberation*** (where parties are brought together with at least some power to discuss and determine courses of action). The disadvantageous outcomes of a traditional consultative approach are evident in Melbourne: a highly politicized process where each successive state government for five decades has developed a 30-40 year metropolitan strategy and set of major infrastructure policies, only to have them changed by the next government. Federal governments have also been unable to manage essential long-term urban infrastructure investment, including low and moderate-income housing (which according to virtually all literature, needs some investment and/or regulation to occur). Innes and Booher (2010: 8-9) call this kind of politicised process DAD (Decide, Announce, Defend), and point out that this is a mechanical, rather than a problem-solving, approach, that rarely worked to tackle deeply entrenched ‘wicked problems’. **Conversely, the advantages of a deliberative approach are that if some sense of shared goals and objectives are developed, the regulatory approach might be more stable,** allowing lower risk (which makes achieving objectives less expensive and faster). Another advantage of sharing information and debating ideas is that it often leads to innovation or new ways to solving problems.

A deliberative approach usually involves an element of joint fact finding: wherein the partnership hires researchers who can gather and analyse information in a ‘hands-off’ third party manner, keep records and organize meetings, and facilitate the achievement of objectives. Although developing partnerships can be frustrating and time-consuming, and there is no guarantee of ‘best’ or ‘fairest’ solutions, at their best, they do lead to long-term buy-in for ‘better’ and ‘fairer’ solutions, and also can develop the capacity to modify complex systems over time as some ideas work and others do not.

Methods

The research from which this paper has emerged has explored solutions to the challenge of affordable housing through a number of lenses:

- How the ‘gap’ between financial returns on affordable housing and returns expected by investors can be bridged in order to leverage greater investment into the sector;
- How mechanisms including land capture, value sharing, and inclusionary housing policies can be utilised by the government, the private sector, and the not-for-profit sector to facilitate the supply of affordable housing;
- How demonstration projects can develop necessary conversations and consensus between key stakeholders in affordable housing through testing strategies and ideas relating to design, construction, land capture, and financing; and
- How partnerships can develop innovative approaches towards more and better affordable housing, looking at partnerships in Portland, Vancouver, and Toronto.

A number of interviews were conducted by researchers on the project team – both in Melbourne, and in the US and Canada – with key stakeholders currently involved in affordable housing, or with the potential to become involved. These stakeholders included community housing organisations, property developers, local and state governments, institutional and philanthropic investors, peak bodies and advocates, and researchers. These interviews were conducted in a semi-structured style to elicit rich data from informants.

In addition, a review of relevant literature, policies, and other sources of information was undertaken to understand the current context for affordable housing, how ideas and partnerships have successfully been implemented in other cities, how these could occur in the Melbourne context, and what roles could be played by various actors working in partnership.

Portland, Vancouver, and Toronto were chosen as comparison cities for Melbourne for a number of reasons. All four metropolitan areas are roughly similar in population: ranging from 2.3 million in Portland and Vancouver, to 4 million in Melbourne and 6 million in Toronto. They are not megacities like London, New York or Tokyo, but they are large enough that they are complex to govern. All four metropolitan areas have thriving economies and are growing rapidly. Metropolitan Melbourne, which grew 2.2% from 2012-2013, making it the fastest growing city in Australia, has the highest annual growth rate, but Vancouver and Toronto grew by 1.4% over the same period, and Portland by 1.1%. Partly as a consequence of thriving economies and population growth, all four cities have a housing affordability problem. [Average owned house/ unit prices in Vancouver, Toronto, and Melbourne are considered amongst the highest in the world](#) (Cox & Pavletich, 2015).

Ten Ideas for Transforming Housing in Melbourne

Based on the research that has been conducted by the *Transforming Housing* project team in collaboration with partners, this paper presents ten ideas for discussion at the April-May 2015 Affordable Housing Summit.

Three themes that have emerged and form the structure for discussion at the summit are:

- A. Regulation** – how can government policy and regulation be used to facilitate the delivery of more affordable housing?
- B. Money and Financing** – what sources of subsidy or cost savings can be leveraged to make affordable housing feasible?
- C. Partnerships and Future Actions** – how can key actors work together to scale up the affordable housing sector in Melbourne in order to deliver more, quality, affordable housing?

The ideas and options presented below are intended as a summarised overview of the research conducted in this project. A number of more detailed papers on particular issues explored here will be available shortly on the [Transforming Housing website](#).

THEME A — Policy and Regulation

1 Integrated Policy

As stated previously, some of the key failures with respect to affordable housing in Melbourne can be traced to **policy failure, integrated planning failure, and governance failure**. Lack of policy consistency is also a barrier to building effective partnerships with other stakeholders, particularly in the private sector, as it creates additional risk. [An example of this is the cancellation of the National Rental Affordability Scheme after a few years by the federal government, which may have damaged institutional investor confidence in such schemes](#) (Milligan, Pawson, Williams & Yates, 2015), in comparison to long running schemes such as the Low Income Housing Tax Credit in the US.

There is therefore an opportunity to improve social equity outcomes, reduce commute times and congestion, and achieve better housing affordability if planning and infrastructure provision were better integrated. This would have benefits from a distributional or equity point of view, addressing increasing socio-economic polarisation, and from an efficiency point of view, by making better use of existing infrastructure rather than the expensive practice of constructing new infrastructure to serve rapidly growing outer areas. However, the lack of metropolitan governance makes it quite difficult to bring together local and state governments, private sector developers, and not-profit organisations serving low income households to develop a coordinated, long-term, consistent strategy.

There are some lessons in this respect from cities such as Portland and Vancouver. In these cities, **affordable housing initiatives are based in excellent ‘horizontal’ integration of transport and land-use planning policy with social infrastructure provision** at the local and metropolitan scales of governance. They come out of a shared ‘vertically integrated’ commitment of city, metropolitan and state government to work together to maintain a long-term urban containment boundary, within which there would be rapid expansion of public transport, making more sites available for affordable housing with good access to jobs and services.

In Portland, the [Portland Housing Bureau](#) adopts a strategic and transparent approach to planning, and sets targets for new affordable housing to be provided during urban renewal planning processes. A spatial data system called [Opportunity Mapping](#) is used to determine which areas will have easy access to good schools, public transport, employment prospects that support family households, and healthy food. The Bureau generally only funds projects in areas that score highly in this system. **This enables the retention and growth of long-term affordable rental housing in gentrifying areas while improving infrastructure and services for all residents.**

Vancouver has a good reputation for integrated and consensus-based metropolitan planning and governance, with an emphasis on transit-oriented development with a solid urban containment boundary that has lasted for over 40 years. Like Portland and Melbourne, Vancouver faces increasing housing affordability issues and declining funding from the federal government to address this challenge. Arguably, Vancouver has gone further in its innovative solutions than Portland, including **a rapid expansion of private market provided rental housing geared to moderate income households (including family-friendly housing), and new investment mechanisms with a social mandate.**

The [City of Vancouver](#) has developed a [Housing and Homelessness Strategy for 2012-2021](#), and collaborates closely with the provincial government whose funding is vital to realising such strategies. It maps out the [land assets to be used for affordable housing](#) and makes this publicly available. There is also a [regional housing affordability strategy, which is currently being revised](#) by [Metro Vancouver](#).

The consensus-building aspect of such planning is particularly important in achieving community buy-in in the context of opposition to both higher density and affordable housing from many local residents.

In Melbourne, ‘planning risk’ including the possibility of third party appeals was cited in interviews with community housing organisations and investors as a significant risk and cost in development. In Melbourne’s generally low-rise context, there is often, perhaps unsurprisingly, opposition to change and

densification, as well as some prejudice against affordable housing tenants. This opposition is likely to be partially due to planning processes that are perceived by many as not inclusive or deliberative. **Perhaps a promising alternative can be seen in the City of Vancouver, which has completed six [20-30 year community plans](#) in its most rapidly changing neighbourhoods.** These enable residents to have a say in infrastructure priorities as well as the forms that intensification will take, provide elements of certainty around additional density and land uses, and link increased density to increased community amenities and infrastructure such as public transport.

Some key opportunities to apply lessons from these cities in Melbourne include:

- For **state government** to implement a 30 year containment boundary in order to focus innovative affordable housing development along public transport corridors and fund ‘catch-up’ infrastructure investment to support housing near public transport, jobs, and services. This should take the form of genuine community planning to achieve buy-in and trust that densification will be linked with improved infrastructure and services.
- For **state government** to implement a 10 year metropolitan housing strategy in collaboration with **local governments**, setting out clear targets for each local government for housing supply, diversity, and affordability, linked to timely provision of public transport and social infrastructure.
- For **local governments** to form regional affordable housing coalitions – for example, along the lines of the Central, Northern, Eastern, Southern and Western Subregions identified in Melbourne’s current metropolitan strategy, [Plan Melbourne](#) – to develop housing and homelessness plans and implement these, along with the targets enshrined in the metropolitan housing strategy described above, tied to **state government** funding.
- For **local governments** to engage in community planning at the local level within the framework of the above housing strategy and targets for housing supply, diversity, and affordability, to frame a conversation about how best to achieve densification and greater affordable housing, rather than whether it will occur.

2 Inclusionary Zoning

Inclusionary zoning is a policy that typically mandates a certain proportion of units within a residential development to be sold or rented at a specified below-market rate, and has been used widely in a number of countries, using the US, Canada, the UK, and with some limited application in Australia. It may also provide an option to provide a cash payment to be used for affordable housing in lieu of providing said housing on site. **It is often used within a suite of possible tools within an ‘inclusionary housing program’, such as density bonuses, and expedited or streamlined planning approval processes**, which are discussed in following sections.

Inclusionary zoning is a somewhat controversial proposal, particularly in jurisdictions that have not yet adopted it. However, while it has its critics in jurisdictions that have adopted it, there is also evidence that it, when used as a suite of tools as part of integrated planning, can achieve acceptance from private sector actors such as developers (Monk et al, 2005). Critics argue that inclusionary zoning provides a disincentive for developers to operate in jurisdictions that employ it or causes them to pass increased costs onto consumers, thereby reducing overall affordability (e.g. Shuetz, Meltzer & Been, 2011). **However, its proponents argue that, if applied correctly – for example, at a broad metropolitan level, combined with incentives for affordable housing, and providing an option to make a cash in lieu payment – it is an appropriate way of dealing with negative externalities and market failures** (e.g. Beer, Kearins & Pieters, 2007).

Some examples of the application of inclusionary zoning include:

- In California, where state legislation facilitates (but does not require) the use of inclusionary zoning by municipalities, approximately 20% of municipalities have adopted inclusionary zoning (Powell &

Stringham, 2004). In addition state law requires municipalities to provide a 25% density bonus for meeting affordable housing targets.

- In the Ultimo-Pyrmont urban renewal area in inner Sydney, where a relatively modest requirement for 0.8% of residential floor space and 1.1% of commercial floor space to be set aside for affordable housing. This has yielded 445 affordable housing units by 2014, approximately 1% of dwellings within the area (Johnston, 2014).

A number of proposals have been made for its application in the Melbourne context. These proposals have typically suggested that inclusionary zoning be implemented as an overlay in the planning scheme, applicable to both residential and non-residential developments, provides a cash-in-lieu option, is combined with incentives for affordable housing (e.g. SGS, 2007). Implementation should also be phased in to allow developers to clear their existing pipelines of projects and factor increased cost into future bids for land, in order to avoid increased cost being passed onto consumers. **It is also worth noting that the Victorian Government has pledged to pilot the use of inclusionary zoning on land sold by the government for development** (Andrews, 2014).

Some key opportunities to use inclusionary zoning in Melbourne include:

- For **state government** to implement inclusionary zoning on land sold by the government for development, as pledged. Given that the land is in public ownership, it may be feasible to adopt a mandated percentage of affordable housing higher than that on private land, for example in the order of 20-25%.
- For **state government** to investigate the implementation of inclusionary zoning on private land. Ideally, inclusionary zoning would be applied broadly, such as at the metropolitan level. An option would be initially mandate a modest affordable housing requirement, such as 5%, but higher rates may be appropriate in urban renewal areas where there is a high level of value uplift.
- For **state government** to work together with **developers, community housing organisations and other key stakeholders** in both of the above options to ensure that any measures implemented are feasible and effective. In particular, where **community housing organisations** will be responsible for acquiring and managing affordable housing stock, they must be consulted on matters such as their capacity to borrow money and purchase dwellings, and the needs of their tenants in terms of design and location.
- Alternatively, for **state government** to facilitate the adoption of inclusionary zoning by interested **local governments** through changes to the Planning and Environment Act and the Victorian Planning Provisions. **Local governments** could utilise overlays (whether as schedules to existing overlays such as Design and Development Overlays, or a newly created Affordable Housing Overlay) to implement inclusionary zoning if this was supported by the State Planning Policy Framework. However, this should be connected to clear local government area targets for housing supply, diversity, and affordability, as discussed previously, to avoid burden falling disproportionately on some areas and not others.

3 Density Bonuses

As mentioned previously, mechanisms such as inclusionary zoning which mandate the provision of affordable housing generally work best when paired with incentives, as this is a way to gain support from private sector actors such as developers and help ensure development feasibility. One such method is using **density bonuses, which allow development proponents to seek approval for additional density beyond pre-defined 'baseline' limits in the planning system in return for the provision of affordable housing, additional open space, community infrastructure, and the like.** These baseline limits are generally specified as floor area ratios (that is, the ratio of gross floor area to lot area), although can be expressed as height limits.

Some examples of where this mechanism has been used include:

- In Vancouver, Community Amenity Contributions, which are voluntary contributions in addition to development levies and any inclusionary zoning requirements in return for being allowed increased density, are negotiated with developers on a case by case basis. They have generally been used for parks, community infrastructure and public art, but have increasingly been used for affordable rental units, generally provided within the development rather than as a cash in lieu contribution. **This has been used in combination with mechanisms such as waived development fees and reduced car parking requirements to fund programs such as [Rental 100, which secures below market rate rental housing for 60 years](#).**
- In the City of New Westminster, part of Greater Vancouver, a range of bonuses are set for different districts, where base floor space ratios are typically between 2:1 and 3:1. [Developers pay \\$40-80 per square foot of bonus floor space \(varying by location and land use\) and are allowed to reach up to 5.2:1. 30% of this contribution is allocated to affordable housing, while the rest is used to fund childcare, public art and general amenities.](#)
- In New South Wales, state policy enables density bonuses for developments including more than 20% affordable housing, allowing up to 20% more floor space in higher density developments where 50% affordable housing is provided. This has been used by local governments such as Waverley Municipal Council, where **a 15% floor space bonus is allowed if 50% of the additional floor space is made available as affordable rental accommodation for at least three years**, which is a considerably lower requirement than in programs such as Rental 100, mentioned above.

The facilitation of additional value through allowing greater densities seems attractive to investors as a way to encourage affordable housing; however, it appears that these ratios must be mandatory rather than discretionary to provide certainty and improve the bargaining position of responsible authorities, such as councils. Otherwise, developers may seek to exceed the discretionary limit without providing a benefit such as affordable housing, and this will also have the effect of increasing land value. **However, height limits are typically used in the Victorian context, rather than density limits (i.e. floor area ratios), and these are overwhelmingly discretionary guidelines that responsible authorities can exceed, rather than mandatory maximums.** Using density limits rather than height limits is perhaps more likely to result in a good outcome as it allows developers to achieve a specified yield in terms of floorspace while incentivising the retention of open space and greater building setback. In any case, limits should be expressed as strict maximums to provide certainty and consistent application.

Some opportunities to implement density bonuses in Melbourne include:

- For **state government** to provide a policy framework facilitating and encouraging the use of density bonuses, particularly in areas with opportunity for intensification such as along public transport corridors and in urban renewal areas, with a preference for density rather than height limits, the use of mandatory maximums, and a clear definition in state policy of which voluntary contributions can be selected as potential requirements to be eligible for a bonus. Collaboration with **community housing providers and other non-profit providers of housing** could result in a list of eligible organisations for **for-profit developers** to partner with in delivering this housing.
- For **local governments** to identify areas within their municipalities with potential for intensification, establish maximum allowed densities with and without density bonuses, and identify what sorts of voluntary contributions, including affordable housing, are most appropriate in these areas.
- For **developers** to collaborate with **local governments and community housing providers** in utilising density bonuses within developments to deliver affordable housing. Larger or more innovative **developers** could play a champion role within the industry to demonstrate the benefits and feasibility of this model.

4 Greater Regulatory Efficiency

A number of stakeholders interviewed in Melbourne indicated that regulatory inflexibility impacted on the cost of development, as did long and uncertain approval times for permits and the prospect of costly appeals processes due to local opposition. This was also indicated in interviews in Portland and Vancouver, as well as instances of where greater flexibility had enabled affordable housing outcomes.

Both investors and community housing organisations in Melbourne indicated that cost savings could be achieved from a policy point of view, largely at the state government level. Whilst these savings would not be the 'magic bullet' that would entirely bridge the gap between returns on affordable housing as an investment and investor needs, they are nevertheless worthwhile to pursue, and would mean that greater returns could be leveraged on any investment from government, or private or impact investors, making this investment more attractive.

Some ways of reducing regulatory inflexibility include:

- **Reducing the requirement for car parking within the planning system.** In Melbourne, while a variation or waiver of the statutory rate of car parking provision can be applied for, this is granted on the discretion of the responsible authority (usually the local council). **In some cases, a lower level of car parking may be justified if the tenant population has a lower rate of car ownership or the site location is conducive to greater use of public transport and active travel.** One community housing organisation that was interviewed gave the example of a middle suburban social housing development where the full statutory car parking rate was imposed despite the argument being made that the elderly tenant population would have lower levels of car use. As a result, a large underground carpark was constructed at significant expense and has proven to be underutilised. **In contrast, cities such as Vancouver have used reduced parking requirements as part of a suite of tools to facilitate affordable housing.**
- **Providing shortened and guaranteed timeframes for assessment of planning permit applications, as well as limiting third party appeal rights, at least to the extent of reducing the possibility of vexatious objections.** Interviews indicated this could help reduce both risk and cost, making affordable housing development more viable. It is relevant to note that **under the Social Housing Initiative funding arrangements in Australia, planning permit approvals were fast-tracked and given exemption from third party appeals,** although the latter was somewhat controversial.
- **Looking at opportunities to remove obstacles to smaller scale infill housing programs, such as accessory or ancillary units (e.g. 'granny flats') or laneway units.** In Victoria, 'Dependent Persons Units' are allowed as-of-right (i.e. without the need for a permit) in residential zones but only if the dwellings are removable and the occupant is dependent on the persons living in the main dwelling. These restrictions are not a feature of planning policy in NSW, where 'secondary dwellings' can be approved in 10 days if they meet criteria set out in the Affordable Rental Housing State Environmental Planning Policy. However, there is a 60 square metre limit and subdivision is not permitted, meaning that the secondary dwelling can be rented but not sold separately to the main dwelling. In 2001, there were 6,400 secondary units in Sydney with nearly half with two to three bedrooms. The average occupancy was 1.8 persons and the median rental was 33-50% lower than rents paid by similar households in other dwellings. A further 26,000 Sydney dwellings had the potential to have secondary dwellings (NSW Government, 2010). **The City of Vancouver has been actively encouraging subdivision of existing single-family homes and development of laneway housing for almost five years, including changes to zoning to enable simple conversions and publishing [simple guides for homeowners](#).** About 500 units have been created through these mechanisms, which have been adapted by several other local governments in the Metro Vancouver area.

Some opportunities to overcome such inflexibility in Melbourne include:

- For **state government** to investigate reform to planning mechanisms facilitating innovative types of housing such as laneway or accessory units, creating a stronger framework for the consideration of reduced car parking requirements where justified, streamlining planning approvals processes

for affordable housing, and limiting third party appeals in relation to affordable housing projects. It is important to note that the possibility of the latter two mechanisms is presented as an option to assist in the development of social housing, to be developed in a consultative process involving **local governments**, in Plan Melbourne.

- For **local government** to consider the benefits of reduced complexity and inflexibility in deciding planning permit applications, such as allowing greater flexibility in considering proposed reductions of car parking provision, and attempting to decide planning permit applications for affordable housing projects as speedily as possible.
- For **developers and community housing organisations** to collaborate in developing case studies that demonstrate the benefit of these efficiencies, such as demonstrating an empirical basis supporting reduced car parking requirements in certain circumstances.

THEME B — Investment and Finance

5 Direct Government Funding

The key challenge associated with delivering affordable housing is that the returns it delivers as an investment are generally too low to be attractive to investors in the absence of some form of subsidy. Interviews with community housing organisations and investors such as banks and superannuation funds indicated that **the perceived return from affordable housing may be 1-2% per annum, whereas investors seeking a commercially competitive return may expect a 7-9% return from their property portfolio**. Social, impact or philanthropic investors may be willing to receive a lower return, and this will be discussed in the next section of this paper.

Direct funding, such as grants, from government is perhaps the most straightforward way to bridge the gap between the returns from affordable housing and the returns required by many investors given the risk profile of affordable housing as an asset. Funding of this sort has been provided in the past but has decreased over time, with much government expenditure on housing focused on maintenance of its ageing public housing stock.

The **Nation Building Economic Stimulus Plan** was a \$42b investment by the Commonwealth Government in response to the Global Financial Crisis (DHS, 2013), including funding for schools and community infrastructure as well as housing. Through this stimulus, [\\$1.26b was made available to Victoria for the construction of new social housing \(the Social Housing Initiative, or SHI\), and a further \\$99m for repairs and maintenance](#). **This funding helped deliver 4,663 dwellings across more than 900 projects**. Community housing organisations indicated that this funding was essential to the significant growth in housing stock that was achieved, although the fact that the Victorian Government, which administered the funding, only funded 75% of the development cost for these projects, meaning that many of these organisations now have significant debt and limited capacity to borrow further.

Another recent and significant source of government subsidy for affordable housing was the [National Affordable Rental Scheme \(NRAS\)](#), similar to the Low Income Housing Tax Credit (LIHTC) program in the US. NRAS provided tax credits (or cash, for charitable organisations) to build dwellings and rent them to means tested tenants at least 20% below market rent (DSS, 2014). However, it was discontinued in 2014, with the announcement in the federal budget that the fifth round of the program would not proceed.

Although the SHI and NRAS have delivered affordable housing, there is still a large unmet demand for such housing with no current significant source of subsidy. Some funding is currently available through the [Victorian Property Fund \(VPF\)](#), which is a trust administered by Consumer Affairs Victoria largely funded through license fees and fines paid by estate agents and conveyances. In 2014-15, \$20.7m in grants will be available for “housing assistance for low income or disadvantaged Victorians” (CAV, 2014), including funding towards the construction of new social housing developments.

In the current political environment, it is perhaps unlikely that major direct subsidy for affordable housing will be made available, let alone one that achieves bipartisan acceptance and continues into the long term. Nevertheless, there are other options for governments at the federal and state level (although less so at the local level) to provide indirect subsidies. These options, many of which have been successfully implemented elsewhere, include:

- The use of social housing bonds by **state or federal government** to leverage private finance. For example, [the NSW government has recently issued bonds to fund family support to prevent children requiring foster care](#) (Benevolent Society, 2015). In this instance, the bond delivers performance-based returns to investors, recognising the fact that program success reduces government foster care costs.
- Providing government backing for bond instruments in a partnership between **state or federal government** and **institutional investors**. Lawson, Milligan and Yates (2012) have examined how

the Austrian Housing Construction Convertible Bond could be adapted for use in Australia. [They recommended a solution involving a low risk, low yield, long term instrument with tax incentives structured to be equally attractive to those with high and low tax rates, together with government guarantees to encourage long term investors, particularly institutional investors.](#)

- The use of Tax Increment Financing (TIF) by **state government, in collaboration with local governments working as part of regional affordable housing coalitions**. TIF in the US is used generally by local government (which are more powerful and well-resourced than local governments in Australia) and enables them to use tax revenues from increases in property values within a designated development area to fund the provision of infrastructure within that area (PwC, 2008). This represents a reallocation of the increased tax (compared to a baseline where no redevelopment occurs), rather than a new tax to property owners. Bonds are issued by the government and used to finance renewal and infrastructure development, and increased property development increases tax revenue in the area, which is then used to retire debt. Some cities have used a portion of funds raised through TIF to help fund affordable housing, such as [Portland which has provided \\$150m from TIF funds to non-profit housing projects between 2006 and 2011](#).
- The establishment of Limited Liability Partnerships (LLPs) involving **local governments, developers, and state or federal government**, as have been used in Scotland. Councils loan money to LLPs which provide 65-70% of the purchase price of dwellings upfront to developers. Developers contribute the balance as a mixture of loan funding and equity investment. Dwellings are allocated to tenants based on criteria agreed with the council and rents are set at an affordable level for 5-10 years. Income through rent is paid to the council to finance borrowing, pay interest on the loan from the developer and management costs. The federal government provides a guarantee to councils to cover capital and interest payments in case of default.
- Providing government backing for shared equity schemes in a partnership between **state or federal governments and financial institutions** to help increase access to home ownership for people on low to moderate incomes. In general, the involvement of equity partners such as financial institutions or government backed providers means households pay reduced deposits and mortgage payments. Equity partners recoup their loan and a portion of capital gains when properties are sold. Variants of this model allow households to progressively buy out the equity partner, and for resale values to be limited in order to retain ongoing affordability (a “community equity” model). There have been examples of such models in Australia, such as the [Keystart Home Loans program](#) in WA and [HomeStart Finance](#) in SA (Lawson, Berry, Hamilton & Pawson, 2014).
- The implementation of a tax credit to incentivise the delivery of new affordable housing by the **federal government**, learning from the shortcomings of the NRAS. These shortcomings and suggestions for overcoming them in a future tax credit scheme are detailed by [Milligan, Pawson, Williams and Yates](#) (2015). Such tax credits have been effective in places such as the US, where the LIHTC has produced more than 2.5m affordable housing units since its inception in 1986, as well as producing 100,000 jobs each year (New York Times, 2012).

6 Social Investment and Philanthropic Options

As discussed in the previous section, the returns expected from many investors for property assets are significantly higher than those provided by affordable housing in the absence of incentives or subsidies. Another barrier to such investment, particularly from larger institutional investors such as superannuation funds, is that the scale of many affordable housing projects is smaller than that which is considered worthwhile by these investors. Interviews with such **investors indicated that they would require an equity stake in the order of \$50m** to commit funds, while interviews with community housing organisations indicated that **affordable housing projects typically have a development cost in the order of \$20-30m**.

An alternative to such investment which may address both of these challenges is to utilise and scale up social or impact investment, which is currently more prevalent in the US than in Australia (e.g. Kelly & Duncan, 2014). In the US, this type of investment has been used to purposes including providing lower cost funding towards affordable housing (e.g. New Market Funds, 2014).

The [Meyer Memorial Trust](#), mentioned previously in this paper, provides a combination of grants, loans and investments in Portland to strengthen the affordable housing sector. It is committed to funding “pilot projects exemplifying innovative cost-efficiency in the design, construction and financing of affordable housing”. Philanthropic funding is also being utilised by private developers providing affordable housing, such as [Home first](#) which is able to combine this type of funding with private financing, as well as focusing on identifying cost savings, to deliver housing that is affordable to entry-level workers without using government subsidies.

Vancouver also utilises both social investment and philanthropy in the delivery of affordable housing. [Vancity](#), also mentioned previously, invests according to a social and environmental mission in its ‘impact real estate’ portfolio, serving moderate income households who may not require deeply subsidised social housing. It also provides bridging funding and supports innovations towards this same goal. Philanthropic groups play a key role in supporting organisations such as **Streethome**, which is aiming to eliminate street homelessness by 2019, and leverages donations from private benefactors to add to government funding for housing projects.

Some key opportunities to make greater use of social investment and philanthropy in Melbourne include:

- For **the philanthropic sector or impact investors** to partner with **community housing organisations, developers, and local and state governments** to identify ways to ‘cobble’ together small amounts of funding from multiple sources as is common in the US. There is potential for involvement from impact investors such as philanthropic organisations and socially minded lenders and non-profits, as well as leveraging small government grants such as through the Victorian Property Fund.
- For **peak bodies** and organisations such as the **Lord Mayor’s Charitable Foundation** to play a broker and facilitator role in informing philanthropic donors and impact investors of opportunities relating to affordable housing investment and the social benefits of such investment in order to scale up such investment into the sector.

7 Using Government Land

There is potential to repurpose public land for affordable housing or mixed-tenure developments including affordable housing. **Land that is currently in public ownership presents unique opportunities for affordable housing**, particularly when it is well located with respect to transport and services, or where it contains low-density or no housing.

Some examples of such approaches have included:

- In Vancouver, the city government has [leased land at no cost for affordable housing projects](#), while the provincial government (British Columbia) has [transferred a former psychiatric hospital to its Housing Ministry to be developed as mixed-income housing](#) and uses its existing social housing land assets to generate additional affordable housing, including through [the use of a Community Land Trust](#) (discussed further below).
- In Portland, the City of Portland buys land for affordable housing projects using funds raised through Tax Increment Financing (discussed previously in this paper), and either leases or donates the land as part of its contribution to these projects.
- In Melbourne, the [Carlton Housing Redevelopment](#) will result in 246 new public housing apartments to replace 192 units that were demolished (a net gain of 54 units), as well as 800 private apartments and a range of new community facilities.

Under-utilised land assets owned by local governments might be considered for affordable and mixed tenure housing developments. **Local governments typically own land for car parking, libraries, depots, halls and other community facilities. Where these assets are redundant or due for renewal there is an opportunity to leverage affordable housing outcomes.** In the case of car parks where it might be desirable to retain the ground level use, development above the car park is possible. Open space might also be included on this list of potentially 'under-utilised' land. Although redevelopment of open space may be controversial, many local government maintain open spaces that see limited 'patronage' or are poorly located (e.g. near busy roads, limited passive surveillance, etc.) or both. Using such land to boost the supply of affordable housing would contribute to net community benefit while also alleviating local governments from the burden of maintaining poor quality open space.

The State Government also has land assets that have been set aside for non-residential uses. If such land is under-utilised or no longer required for its intended purpose it could be repurposed for affordable housing. **Potential sites include hospitals, schools or reservations set aside for road or rail corridors that are no longer required.** Options for development and disposal as outlined for Office of Housing sites are generally applicable.

Existing public housing estates present an opportunity to contribute to affordable housing supply, particularly those that are well located, currently support relatively low housing densities, contain older housing stock, or stock that is no longer suited to the needs of the Office of Housing's tenants (e.g. larger dwellings). **Where intensification is feasible, there is an opportunity to increase the number of social or affordable dwellings on the site whilst providing additional market housing which can help cross-subsidise the former.**

Measures should be taken to ensure that some or all of the land in redeveloped estates remains in public ownership or is bound by other mechanisms to ensure it is being used for broader community benefit. Options here include long-term leasehold arrangements (rather than outright sale) or caveats on land title that require the provision of affordable housing for a fixed period or in perpetuity.

An alternative is to use a **Community Land Trust**, which involves trust entities maintaining ownership over the land and renting or selling dwellings under ground leases. **The ground leases include affordability formulae that balance limited equity gain with maintaining perpetual housing affordability.** When an owner occupied dwelling is sold, the equity is shared between the Trust and the seller due to limitations placed on resale prices as set by the Trust. Community Land Trusts are common in the US and the UK, but there are none yet established in Australia, although a number of organisations are planning to establish

them in Victoria and Tasmania, such as [St Kilda Community Housing](#) which operates within the City of Port Phillip. Further details can be found in the [Australian Community Land Trust Manual](#), which has been developed by a partnership including the University of Western Sydney, the City of Port Phillip and St Kilda Community Housing in 2013.

A number of options for the **state or local authorities** owning such land are to:

- Redevelop the land and retain ownership.
- Lease or sell the land at low or no cost to a community housing organisation or other non-profit to redevelop the land for affordable housing.
- Sell the land to private sector partners to redevelop the land with requirements for appropriate affordable housing outcomes set out in the tender process.
- Establishing a Community Land Trust, transferring land to the Trust, and renting or selling dwellings with ground leases.

THEME C — Partnerships and Future Actions

8 Partnerships

Partnerships between key stakeholders are essential to tackling ‘wicked’ policy problems such as affordable housing. **In Portland and Vancouver, these partnerships have developed a shared vision** (especially important for the local governments within a metropolitan area), **an action plan with locally specific targets and funding commitments**, and **a set of innovative projects which are scaled up if successful**.

Some examples of innovative and effective partnerships in these North American cities include:

- [A Home For Everyone](#), staffed by Multnomah County and the City of Portland, is tasked with ending street homelessness by 2019, and has helped more than 12,000 homeless families and individual find permanent homes over the past ten years. The partnership has received a \$20m increase in federal funding for homelessness initiatives in 2015, and has developed connections between local, state and federal homelessness initiatives that have stayed strong over time.
- In British Columbia, Canada, the provincial, metropolitan and local governments have worked with [Vancity Credit Union](#), private developers and philanthropists through the charity [Streethome](#), and community housing and service providers to meet their goals of eradicating street homelessness by 2017.
- [Metro Vancouver](#) brings together 21 local governments, one electoral area and one Treaty First Nation to collaboratively plan for services and has its own Housing Corporation, [managing about 350 public housing projects and providing housing to 10,000 people](#). Both Metro Vancouver and the City of Vancouver have affordable housing and homelessness strategies with specific targets and budgets, which are aligned with the regional transport and land use policies.
- Toronto’s [Housing Action Lab](#) is bringing together provincial and local government, social investors and the peak body for private developers and homebuilders, to deliberate on innovative policies to address Toronto’s housing crisis.

In addition to the more formal partnerships, **Portland, Vancouver, and Toronto have ‘partnership enabler’ organisations**, which bring in new partners and support innovation. In Portland, the [Meyer Foundation](#), a philanthropic investor, appears to fulfil that ‘enabler’ function. It was established through the bequest of a prominent local businessperson who died in 1978 and has operated initiatives such as the [Affordable Housing Initiative](#) between 2007 and 2013 which sought to strength the sector through a combination of grants, loans and investments, and the [Affordable Housing Cost Efficiencies Work Group](#) bringing together not-profit and market developers, banks, architects, and construction companies to support housing innovation.

In Vancouver, [VanCity Credit Union](#), a finance/investment organization with a ‘social mission’, does this work. This financial services co-operative enterprise is central to developing environments, lending bridging funding, supportive innovation and promoting a combined environment and social mission. It engages in ‘impact real estate’, lending and investing on a values basis, with an emphasis on community ownership, affordability and environmental performance. It also partners with social housing providers to deliver impact investment, and with groups such as the [BC Non-Profit Housing Association](#) to conduct rental affordability research. While its work with private developers is very limited due to its mission, there is some such collaboration, such as with the [Urban Development Institute](#) in creating the [Housing Affordability Index](#).

In Toronto, the [Evergreen Foundation](#) through its [CityWorks project](#) is beginning to fulfil this function, funded by the provincial government through its Trillium Foundation.

The key lessons from these cities is that **governments can collaborate** with a diverse set of private housing developers, peak bodies, social housing providers, and philanthropic and private investors **to undertake collaborative research, deliberate in policy groups, and carry out innovative projects together**. Where partnerships have been effective in these cities, the interdependence of the actors is acknowledged by all parties. Even and especially when they disagree, **they recognise that they need to work together to accomplish shared social, economic and environmental objectives**.

The complexity of involving a number of actors, particularly in piloting innovative ways of delivering affordable housing, makes strong partnerships and knowledge sharing of vital importance. As highlighted in *Getting To Yes*, the precursor to this project, **there are often significant knowledge gaps around the issue of affordable housing** amongst actors and potential actors such as developers, financiers, and investors in the Melbourne context. Furthermore, **there may be insufficient inter-sectoral communication**, such as between local government and other stakeholders to signal strategic intent regarding development and affordable housing provision, in order to facilitate the implementation of those governments' affordable housing strategies. Where there have been successful innovations in affordable housing, including in the context of declining federal government funding or involvement, partnerships and ongoing relationships have been forged between disparate partners in order to share knowledge and opportunities.

Some key opportunities for partnerships for affordable housing in Melbourne include:

- For **community housing organisations** to partner with **for-profit developers** and enter into an agreement to purchase a small proportion of units within a development below market value, close to or at cost price. This is beneficial to the community housing organisation as it provides the opportunity to help shape the design and development process, thus helping it acquire stock that suits its needs, and also beneficial to the developer as it reduces risk through guaranteeing a proportion of pre-sales required to receive financing.
- For **state governments** to partner with **investors, developers, and community housing organisations** to provide sources of funding such as government-backed bond instruments or social housing bonds, [such as have been recently used in NSW to fund family support to prevent children requiring foster care](#).
- For **philanthropic investors** to partner with **state and local governments, developers and community housing organisations** to scale up 'impact investment', which sees both social/environmental and financial outcomes as being of equal priority. [This type of investment has been more prevalent to date in the US](#), and there is the potential to use this type of funding together with public and private investment towards lower cost funding for affordable housing. For example, small scale grants government grants such as from the Victorian Property Fund (or from local governments if available, such as in the City of Moreland) could be combined with funds from impact investors, who may be willing to accept a smaller financial return in exchange for demonstrable social benefits.
- For **state and local governments** to partner with **a broad range of stakeholders** in providing policy certainty, removing regulatory obstacles, and disseminating useful information on strategic intent relating to development opportunities, particularly for affordable housing. Governments can also facilitate lower cost provision or use of publicly owned land, which is discussed later in this paper.
- For brokers such as **universities or peak bodies** to facilitate broad-based partnerships to enable knowledge sharing around issues such as development opportunities, cost saving mechanisms, sources of funding, and partnership benefits such as discounted materials or other pro-bono support. This facilitation activity would require funding from **state government** or other sources.

9 Design and Construction Strategies

Innovative design and construction strategies in isolation will do little to resolve Australia's lack of affordable housing; however, this section highlights the role of design and construction within more holistic approaches to promote high design quality, low life-cycle costing, efficient construction and well located accommodation. The section addresses general design and construction issues rather than distinguishing issues specific to different sectors such as social housing and rental versus owned housing. However, cost savings achieved in these ways may go some way to making housing more affordable and increasing the feasibility of affordable housing projects; they may also impact on lifecycle costs and suitability with regards to tenant needs, thus providing a benefit to long term managers of affordable housing such as community housing organisations.

There are a number of key opportunities to use best practice and innovation in design and construction for quality affordable housing:

- **High design quality** includes agile housing layouts which accommodate changing household compositions and are future-proofed for an ageing population.
- **Design for community while respecting privacy** will help strengthen social networks which are arguably even more important for residents requiring affordable housing.
- Design for **life cycle affordability** to ensure occupants' maintenance and operating costs are kept to a minimum.
- **Sustainable urbanism** will ensure occupants are near facilities and resources such as work, public transport, schools and community resources and provide models for precinct scale solutions to energy waste and water
- **Efficient construction** including new materials and processes such as prefabrication and mass customisation.
- **Participation and education** will ensure communities are involved in understanding and negotiating issues such as amenity, passive design, family friendly housing, universal access and design for adaptability.

As Melbourne spreads away from the centre, living near work and other social infrastructure will mean that medium and high-density living options for families should become more common. While low-density housing is still the predominant house type being constructed, medium and high-rise construction is increasing as a percentage. The construction of detached housing dropped from 75% in the 1980s to 68% in 2011 (Dalton, Wakefield & Horne, 2011). Currently high-density housing (and to a lesser extent medium-density housing) tends to be focused on singles and couples rather than families.

There is an opportunity to design affordable housing which changes Australian mindsets in regard to denser living for families. Good quality housing at an affordable price point should take into account the housing desires and needs of families while challenging their preconceptions by showcasing how higher-density living can provide better amenity than low-density, outer suburban living.

For more sustainable urban environments, individual dwellings should be designed within the context of good access to transport, services and facilities and open space. Precinct scale strategies for energy, waste and water along with balancing natural and built environments should be considered.

Finding the design balance between community and privacy in housing located within the context of vibrant and safe urban precincts is a key factor for all housing including affordable housing. The balance between privacy and community is particularly important in higher density developments as well as developments where the private zone is small in size and close to neighbours (Murray et al, 2013).

Australia's population is increasing but also ageing. There are currently three million people over 65 in Australia. By 2050, this number will triple (McCrindle, 2013) and this has design implications. To support an ageing population in a market which is increasingly unaffordable, houses should be future-proofed

for different housing compositions, such as being designed for easy subdivision to order to help ageing people 'age in place' while making underutilised bedrooms available for others. Another possible solution is dual houses, which are designed as a small home and attached rental property with potential for later interconnection, located on what would normally be a single house block. This could help affordability for both buyers and renters and, if well designed, increase flexibility over the life of the building enabling shifts between one and two dwellings on the site.

Along with design strategies, prefabrication strategies may help to address the current shortfall in the rate of housing construction by implementing more automated construction and mass customisation as well as reducing construction costs through efficiencies of scale once prefabrication becomes more established. Prefabrication for mass markets is currently more established overseas than it is in Australia. Germany, Japan and northern Europe have highly developed prefabrication industries with consumers understanding prefabrication as providing higher quality and life-cycle affordability for both low-density and high-density design and construction. For example:

- In Germany the **Fertighaus display villages** of prefabricated houses inform consumers about quality, cost and sustainability as well as design options.
- In Tokyo, the **Muji apartment store** contains a fully constructed prefabricated house available for purchase along with a complete range of furniture and fittings.
- **Ikea's BoKlok system**, first developed with Skanska in 1996, has been available in Europe as affordable housing using a highly insulated closed panel system. In 2012, Ikea launched an \$86,000 flat pack home in the USA.



Figure 1: ['The Green' by Australand in Parkville, Victoria](#), utilising prefabrication and hybrid construction techniques

The Australian construction industry is experiencing tipping points in prefabrication with a number of recent innovations. Australian prefabrication manufacturers are increasingly offering high quality detached housing options but the major prefabrication innovations are in medium and high-density design and construction. For example:

- **Australand** has used locally prefabricated timber components, such as flooring cassettes and wall panels, to build [The Green, a five-storey apartment building in Parkville, Melbourne in 2014](#). This allowed for cost savings of approximately 25% compared to conventional concrete construction methods, largely through time savings, as well as greater sustainability through reductions in embodied energy. There is potential for this type of construction to be applied in middle and outer suburbs, using lower cost hybrid construction processes that employ domestic tradespeople trained in commercial disciplines rather than a more expensive fully commercial operation.
- **Lend Lease** used cross-laminated timber imported from Austria to construct the world's tallest timber building in Melbourne in 2013. Called Forte, this apartment building is ten storeys high with 27 apartments. With compressed construction times and structural savings due to the lighter

weight timber, there is potential for this material to be used for affordable housing. This technology is new in Australia even though it has been incorporated into more than 20,000 projects in Europe (Collins 2013).

- Australia is also increasingly using prefabrication for medium and high-rise developments. [Irwin Consult completed the structural design for the world's tallest prefabricated modular building](#). At 29 levels, the 2014 Darwin apartment block included 21 floors of modular units set on an in situ podium.

There is also potential to explore alternate forms of low-cost housing in addressing the challenge of affordable housing in Australia: For example, **shipping container houses have started to be available in Australia but there are also many precedents internationally**. In Vancouver, there have been a number of **pilot projects of container housing units as affordable housing** by [Atira Women's Resource Society](#) (pictured below), with two projects of 12 and 26 units.



Figure 2: [Social housing built from converted shipping containers in Vancouver](#) (Photo source: [Atira Women's Resource Society](#))

The benefits of good design and construction go beyond achieving efficiencies or reducing life-cycle costs for affordable housing projects. There is an opportunity to create a housing legacy, such as through a series of Demonstration Projects or Housing Expos informed by an Affordable Housing Solutions Competition, which is discussed in a later section. This legacy would include demonstrating that quality homes are possible at an affordable price point, and providing education on the important aspects of quality homes such as amenity, passive design, family friendly housing and university access.

Some opportunities to utilise such design and construction strategies towards affordable housing in Melbourne include:

- For **designers to collaborate with developers and builders** to showcase high quality medium and high-density developments that provide amenity, lifecycle affordability and sustainable urbanism including precinct scale solutions to energy, waste and water.
- For **peak bodies and universities** to assist in disseminating best practice design and construction, on issues such as amenity, passive design, family friendly housing, universal access and design for adaptability, and to facilitate partnerships in order to scale up new methods and technologies.
- For **state government** to partner with **developers and builders** to identify ways to reduce regulatory barriers to design and construction innovation which may facilitate low-cost and affordable housing.

These design and construction strategies are best considered holistically within the context of other ideas presented within this paper. The next section suggests how this might be achieved.

10 Demonstration Projects and Solutions Competitions

In order to develop the necessary conversations and consensus between key private, non-profit, and government sector stakeholders and effect transformation in the affordable housing sector, there is significant potential for demonstration projects to be utilised, underpinned by an Affordable Housing Solutions Competition. **This competition would help test strategies and ideas, not just within design and construction, as in a design competition, but including innovative land capture, financing, and policy strategies.** This would support innovation through cross-sectoral partnerships, as well as stimulating public discussion.

Throughout the 20th century and up to the current day, **housing expositions have been used as demonstration projects to promote, develop, and showcase innovation in design, and to engage the public in new ideas on housing.** Countries such as Germany have had a long tradition of using such demonstration projects to test new ideas in housing design and urban living. More recently, countries such as Sweden and Finland have used these projects as a method to demonstrate new approaches in sustainability and their influence on housing. **There is great potential for methods such as these to be used as transformational change agents inspiring both industry and consumer confidence in innovation with regards to affordable housing.**

Some key examples of such demonstration projects and the influence they have had include:

- **Internationale Bauausstellung (IBA) in Berlin, Germany.** The IBA was an example of post-industrial regeneration using new housing and building approaches that ran in Berlin between 1979 and 1987. It involved the active restoration of the historic fabric of the city as a guiding principle for contemporary inner-city development. An emphasis on public realm, the street, the neighbourhood structure and a reinterpretation of existing housing typologies provided a template for mixed use regeneration which has been adopted in many cities including Glasgow and Rotterdam. The IBA can also be seen as a marker of important aesthetic and cultural shifts during this time, applied in the context of an 'urban village' dominated by social housing.
- **[Homes of the Future in Glasgow, Scotland.](#)** Over the past thirty years, the City of Glasgow has successfully used design festivals to help rebrand the city's image post-industrial identity. It became the UK City of Architecture and Design in 1999, with the Glasgow 1999 Festival aiming to celebrate excellence in architecture and design around the world, and to promote awareness among Glasgow residents and industry of the cultural and economic importance of the design process. Homes for the Future on Glasgow Green was a key legacy project from the 1999 programme intended to showcase an innovative and groundbreaking new approach to new build housing. The project aimed to transform and regenerate a derelict infill site and leave a lasting legacy of a mix of property types and urban character, as well as creating innovative design and construction partnerships. It resulted in a unique cluster of innovative development which engaged the public imagination and helped transform an important fringe area of the city, as well as raising the quality of development in the area.

- [Bo01 - City of Tomorrow in Malmo, Sweden](#). Bo01 is an entirely new mixed use district built on a disused historic shipbuilding area, creating as part of the European Housing Expo in 2001 with an emphasis on sustainability. It aimed to generate the harbour area in a ground-breaking way with an emphasis on high-quality permanent housing solutions and architectural diversity, as well as acting as an internationally leading example of environmental adaptation and social sustainability within a densely built urban environment. It demonstrated that good quality housing can be developed in partnership between public and private sectors, and how a strong commitment to renewable energy, green roofs, and sustainable water management can be used to enhance the attractiveness of the housing and neighbourhood. It delivered an environmentally conscious district with 600 homes and associated business and recreational areas in partnership, and with the enthusiastic support of, the private sector.
- [Finnish Housing Fairs, Finland](#). The Finnish fairs have been held in a different municipality each year since 1970 and are permanent developments consisting of a master-planned site with a series of plots containing one or more dwellings designed and constructed by different teams of designers and constructors. Some fairs include plots for blocks of flats and there are usually also community facilities included in the project. Responsibility for planning, constructing the project, and organising the fairs lies jointly with the Finnish Housing Co-operative and the host municipality. Although the Co-operative was initially funded by the banks represented on its board, it no longer received any external funding, and self-funds from ticket sales and income from commercial organisations which exhibit their products. 75% of funding is derived from ticket sales from approximately 200,000 visitors each year. Although there are temporary facilities during the fair, houses are sold and occupied by residents after the fair.

There have also been a small number of notable examples of such projects in Melbourne:

- The **Small Homes Service**, directed by Australian architect Robin Boyd between 1947 and 1953, allowed people to purchase, for a modest fee, working drawings and specifications for a small home and arrange for its construction themselves. The exhibition of these plans attracted 1000 visitors within the first nine days and constructed homes comprised 10% of new homes built across Melbourne just before 1950. Two full-scale demonstration houses were also built and displayed in the Royal Exhibition Building.
- The **Victorian Ministry of Housing infill housing programme** in the early 1980s operated on a policy of spot purchase and restoration of existing houses, using younger, local architectural practices to develop infill projects sensitive to the scale, language, and grain of existing urban contexts. This programme was influenced by the Berlin IBA, described above, particularly in the emphasis on urban integration, revaluing and reinterpreting traditional urbanism, and the pursuit of diversity. The body of work produced between 1982 and 1985 functioned as a kind of open air exhibition of revived urbanism and architectural postmodernism.
- A number of smaller projects have sought to take on the role of demonstrating, testing, and showcasing sustainable housing principles, including the [Inkerman Oasis project](#), a redevelopment of a council depot site in the City of Port Phillip, run as a public-private partnerships and pioneering on-site water recycling and management; [Westwyck EcoVillage](#), an adaptive re-use of a former primary school in Brunswick as a medium density residential community adhering to strict Environmentally Sustainable Design principles, and which has regular open days and other public engagement events; [Living Places](#), a public housing redevelopment project in Dandenong which consists of fifteen houses with high environmental performance, arising from an open design competition run by the Office of the Victorian Government Architect (OVGA) and the Office of Housing; and [Habitat 21](#) (originally called the Sustainable Affordable Housing Initiative), also resulting from a design competition run by the OVGA and VicUrban (now called Places Victoria).

The demonstration projects briefly surveyed here have coincided with but have also helped to precipitate key turning points in the development of urban settlements. Crucially, they have highlighted the role of housing design in urban transformation. The turning points identified chart the progress of housing design in the modern city from its engagement with improving living standards and advancing the autonomy of the individual, towards more social and ecological concerns. **The influence of these seminal demonstration sites can be detected in most large cities throughout the developed world, including Melbourne.**

However, with a small number of notable exceptions as detailed above, the potential of demonstration projects remains relatively unexplored in Australia. As such, **there is potential for Australian demonstration projects to stimulate and exchange new possibilities for housing development in general and affordable housing in particular, helping to overcome the inertia within Australia's arguably risk-averse residential market.** These projects can help shift cultural expectations by encouraging innovation within industry, and engaging a wide variety of housing typologies and sites which might not otherwise attract a mainstream market. In learning from precedents, it is likely that creating housing demonstration projects in Melbourne could:

- Demonstrate viable examples of land capture, value sharing, inclusionary housing programme, and investment mechanisms
- Include examples of affordable and innovative construction
- Demonstrate sustainable urbanism using life-cycle costing strategies, including access to transport, services and facilities, and open space, as well as precinct scale solutions to energy, waste, and water
- Explore innovative housing typologies to support changing demographics within the context of Australia's ageing population
- Link design into issues of community and place-making
- Challenge the broadly held Australian perception that high density family living is undesirable

Within the context of such demonstration projects, design and ideas competitions can also act as change agents. However, these competitions should not be linear problem-and-solution strategies with competitors simply responding to the needs of the competition sponsor. **Instead, competitions could be strategically conceived to leverage knowledge between academia, consumers, government, and industry using the competition brief as an educative tool aimed at shifting knowledge within areas such as design, development, finance, and policy.** In this sense, competitions might be less about seeking solutions and more about driving cultural change in a deliberative manner.

An Affordable Housing Solutions Competition as part of the demonstration projects programme would have several advantages. **Effectively a form of crowd-sourcing, the competition would ensure a broad selection of multidisciplinary solutions, delivering much more than just an architectural competition.** Best practice identified in some of the case studies above recognise the importance of place-making to unlock opportunities, build vibrant communities, and contribute to a flourishing economy while at the same time driving effective cross-sector partnerships to effect positive change.

Key opportunities to develop an Affordable Housing Solutions Competition and resultant demonstration projects include:

- For **state government** to sponsor an Affordable Housing Solutions Competition, seek to engage a wide range of stakeholders, and demonstrate ongoing support for the initiative, such as through facilitating the availability of land for demonstration projects.
- For a facilitator such as a **university** to help form and build partnerships between the array of stakeholders, providing information and inspiration from best practice examples, and coordinate the Competition in collaboration with partners such as **architects, developers, builders, urban planners, investors, local governments, and researchers.**
- For **developers, architects and other design professionals, and investors** to collaboratively deliver demonstration projects arising from the Competition.
- For **researchers** to document the Competition and demonstration project process to help inform and inspire industry and consumers, and to establish outcomes as a basis for future work.

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