

MANDATORY
INCLUSIONARY
ZONING AND DENSITY
BONUSES AT ARDEN-
MACAULAY

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Executive Summary

This paper will propose an inclusionary program at Arden-Macaulay comprised of mandatory inclusionary zoning (MIZ) and a generous density bonus incentive scheme in order to leverage private sector development of family-friendly, affordable inner city housing. The combination of these two inclusionary housing policy tools has been proposed in light of the literature which highlights that these tools, when combined together, are much more effective in promoting affordable housing production compared with when they are used in isolation. This paper will demonstrate how MIZ and density bonuses, when incorporated amongst a broader, more comprehensive housing strategy, can achieve substantial numbers of affordable units that are well-integrated into communities, helping to foster mixed, vibrant communities.

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Introduction

This paper will propose a small-scale inclusionary housing program at the Arden Macaulay urban renewal area in North Melbourne in order to achieve between 2-2.5 percent affordable housing aimed at lower income families. The inclusionary housing program will consist of a mandatory inclusionary zoning (MIZ) ordinance coupled with a flexible density bonus incentive designed to entice family-friendly, multi-bedroom housing units. The paper will give greater focus to the more controversial MIZ aspect, as this becomes the central mechanism of achieving affordable housing when included in any inclusionary housing program that is mandatory (discussed later). The aim of the paper is not to suggest broad, institutional changes to Australian housing policy. Rather, the purpose is to propose a highly practical and feasible precinct-scale affordable housing strategy to set a precedent for future, urban renewal projects in Melbourne. If adopted and successful, this development could be further replicated at other renewal sites across the city. The paper will define 'successful' inclusionary housing programs as those that deliver a substantial amount of affordable units, as well as achieving mixed, socioeconomically integrated communities. The proposal will aim to deliver this definition of success. The paper will engage with an extensive literature review plus case studies in demonstrating that inclusionary housing programs delivered via MIZ and density bonuses are both feasible and profitable in Melbourne, especially in the urban renewal context. An analysis of California's extensive inclusionary housing programs will be given to provide an international understanding of successful inclusionary housing programs implemented abroad. Adelaide's recent and successful MIZ program will be then be discussed, as well as Sydney's Ultimo-Pyrmont and Green Square developments. The Arden-Macaulay proposal will be modelled on these developments. The paper will begin with a definition of key terms, followed by an analysis of the main arguments surrounding various inclusionary housing approaches. The aforementioned case studies will then be explored, followed by a detailed explanation of the paper's overall proposal, as well as its applicability and justification at Arden-Macaulay.

Definitions

An 'Inclusionary housing program' refers to a broader housing strategy that aims to deliver housing that is "affordable to low-and moderate-income households in a community" through the private sector, employing a suite of policy instruments and mechanisms (Mallach 1984, p. 2). These instruments can include an inclusionary zoning ordinance, density bonuses, expedited planning approvals, application fee and parking waivers. The term 'inclusionary housing program' should not be confused with an 'inclusionary zoning ordinance', as the latter is simply one of the many tools which can make up an inclusionary housing program. Inclusionary housing programs can be mandatory or voluntary. Mandatory inclusionary housing programs are achieved through the implementation of a compulsory inclusionary zoning ordinance, known as mandatory inclusionary zoning (MIZ), which mandates that developments must include a certain percentage of below market-rate housing units. On the other hand, density bonuses are generally the central policy instruments that make up voluntary inclusionary housing programs, which are designed to incentivise the delivery of affordable units in exchange for increased floor area ratios or height limits. A key objective of IH programs is to achieve affordable housing in communities in a "manner that fosters greater economic and racial integration" (Schofield & Brown-Graham 2004, p. 3). Programs that mainly employ density bonuses to achieve affordable housing are typically referred to as voluntary inclusionary zoning (VIZ) programs. To further complicate matters, an inclusionary housing

program may be comprised of both a mandatory inclusionary zoning ordinance and a voluntary density bonus. It is the presence of the former that makes the inclusionary housing program considered 'mandatory'. The distinction between mandatory and voluntary inclusionary housing programs is important, as this paper will propose a localised, mandatory program at Arden-Macaulay based on its greater effectiveness in delivering socioeconomically integrated, affordable housing compared with voluntary programs, based on literature reviews and case study analyses.

Arguments against MIZ

The aim of this section is to dispel the arguments dismissing the effectiveness of MIZ along theoretical, economic lines. One of the main arguments against MIZ, outlined in Ellickson's (1981) highly influential paper, 'The Irony of Inclusionary Zoning', is that it ultimately leads to lower housing production in the long term. This argument is based on classical economic theory, which interprets MIZ as a distortion of market logic, arguing that "virtually all taxes... whether on income, sales, value-added, or whatever – discourage some form of productive activity" (Ellickson 1981, p. 1192). Similarly, according to Powell and Stringham, the "laws of economics predict" that "taxing new housing makes the vast majority of housing less affordable" (2004, p. 3). These taxes interfere with the 'filtering effect' within free housing markets, pushing up the price of housing construction and ultimately leading to a decrease in supply. The 'filter effect' refers to the notion that new housing stock is ultimately 'passed down' from higher income residents to poorer residents over time, as the stock's "components depreciate, and as its layout and equipment become obsolete" (Ellickson 1981, p. 1185). MIZ interferes with this process by reducing both the supply and demand for new housing, leading to fewer houses to be 'passed down' the less wealthy. The 'irony' is that MIZ ultimately disadvantages those it is intended to help the most by reducing overall supply and limiting poorer people's capacity to enter the housing market (Ellickson 1981). Perhaps the greater 'irony' is that the logic of the filtering effect leads to Ellickson's interesting conclusion that "best way to improve the housing conditions of low and moderate income families" is through an active redistribution of public resources towards the upper sections of society by increasing the "production of housing priced beyond their (poorer peoples') reach" (Ellickson 1981, p. 1185).

There are a number of problems with Ellickson's theory. The first is that Ellickson uses, for the baseline of his theoretical position, the situation where MIZ is used on its own to deliver affordable housing but without adequate incentives to offset the associated costs. This is an interesting intellectual base point for his argument, as "no jurisdiction [in the US] has ever tried to implement... an inclusionary zoning program without cost offsetting incentives" (Dietderich 1996, p. 26). Further, many IZ experts agree that incentives should be provided alongside MIZ in order to offset its costs (for example Dietderich 1996; Mallach 1984; Lerman 2006; Mukhija, Regus, Slovin & Das 2010). Thus, it is careless for Ellickson to dismiss MIZ altogether based on a particular type of implementation program that is rarely employed in practice. Other critique's of Ellickson's theory can be levelled against the 'filtering' theory. For example, Mallach (1984) disagrees that most housing stock is eventually 'passed down' from the wealthy to the poor, suggesting that most housing stock typically stays within the hands of certain socioeconomic groups and regions of the city. Even if the filtering concept was true, a moral objection can be raised on humanitarian grounds. Mallach suggests that it is "generally acknowledged that units deteriorate physically as they reach the lower levels of the filtering chain", thus exposing poorer populations to sub-standard housing (1984, p. 40). Finally, the notion that MIZ represents a 'tax' on housing development is debateable. Dietderich (1996) argues

MIZ can actually be interpreted as a ‘tax relief’ when it is used to contest restrictive exclusionary zoning practices, such as large, minimum lots, restrictive set-backs and prohibitions on multifamily units. In this case, MIZ is “more analogous to a ‘tax relief’ than ‘taxation’” because it “tends to increase supply... by mitigating cartel restrictions on the supply of residential land” (Dietderich 1996 p. 42).

Problems with density bonuses on their own

This section seeks to explain the relative limitations of inclusionary housing programs that rely exclusively on either MIZ ordinances or density bonuses (also referred to as ‘voluntary inclusionary zoning, or VIZ). The aim is to demonstrate that a successful IH program must be comprised of both MIZ and a density bonus incentive scheme, in order to achieve substantial affordable housing and mixed, socioeconomically integrated communities.

When density bonuses are employed on their own as part of an inclusionary housing program, a number of problems arise. According to Bruncik, “without a mandatory requirement, communities will most likely have to provide an extremely high level of subsidy to entice developers to produce homes and apartments affordable to low- and very-low-income households” (2004, p.3). For example, Mallach (1984) argues that the jurisdictions that used density bonuses only in East Brunswick and Piscataway in the US, required substantial public subsidies to make them viable. In this case, it was the actual subsidy that was enticing the developers, rather than the increased density bonus (Mallach 1984). This substantial involvement of public funds contradicts the central premise of IH; that it is predominantly delivered by the private sector. Another problem with an exclusive reliance on density bonuses is that they are characterised by a very low take up from developers due to their voluntary nature (Mallach 1984; Porter 2004; Calivita & Grimes 1998; Mukhija et al 2010; Rowley & Phibbs 2012; Schofield & Brown-Graham 2004; Ryan & Enderle 2011). Finally, voluntary density bonus programs are unlikely to achieve their goal of achieving racial and/or socioeconomic integration. For example, in their San Diego study, Ryan and Enderle (2011) found that the program failed to break down spatial segregation across the city as the voluntary nature of the program led to developers only adopting the incentives in lower value parts of the city, thus exacerbating segregation.

Problems with MIZ on its own

MIZ, if used on its own, can impose an excessive onus on developers to deliver affordable units, which may discourage development. Without adequate incentives, MIZ programs can produce the negative effects outlined by Powell and Stringham (2005) and Ellickson (1981), by discouraging development, leading to a lower production of AH and thus, a lowering of overall housing affordability. This is especially the case with infill developments, such as inner city urban renewal, like that of Arden Macaulay. Infill development is typically very expensive, sometimes delivering “marginal profitability” due to the costs associated with higher density development and contamination remediation (Rowley & Phibbs 2012). Thus, market-rate developments on their own can be incredibly unattractive in such circumstances. Mandating the inclusion of affordable units, which, by definition must be sold at a loss, can make infill development very unattractive (Rowley & Phibbs 2012). Thus, the need to attempt to offset the costs associated with mandated inclusionary ordinances at infill sites is of even greater importance. According to Rowley and Phibbs, “incentives need to be used in a way that will at least replace that lost revenue by allowing the developer to

deliver additional, or more profitable, units in the overall scheme”, especially through density bonuses (2012, p. 48).

Further, many IZ experts contend that mandatory inclusionary zoning programs that do not offer subsidies, especially density bonuses, tend to produce insignificant numbers of affordable housing (for example, Burchell, Conine, Dubin, Flanagan, Galley & Larsen 2000; Mallach 1984; Porter 2004; Calivita & Grimes 1998; Mukhija et al 2010; Rowley & Phibbs 2012; Schofield & Brown-Graham 2004; Ryan & Enderle 2011). According to the non-profit Housing Association of Northern California’s (HANC), “mandatory approaches were critical to the success of inclusionary zoning programs” in California (2003, p. 4). On the other hand, Cambridge’s 10 year voluntary inclusionary program “failed to produce any affordable housing” (Brunick 2004, p. 2). It was only after the introduction of a mandatory ordinance that resulted in 135 homes being produced (Brunick 2004, p. 2). The advantages of MIZ compared with VIZ are backed by the CCRH Rural Housing, who suggest that “mandatory programs produce the most very-low- and low-income affordable units compared with voluntary programs, both in terms of absolute numbers and percentage of total development,” based on a 1994 comprehensive temporal study of housing planning permit applications in California (HANC 2003, p. 3).

Successful model: MIZ with density bonuses

The intention of this section is to explore case study examples of successful inclusionary housing programs that have used both MIZ and density bonus schemes to achieve affordable housing. Again, the benchmark of success for these examples is their capacity to achieve substantial numbers of affordable housing and to achieve socioeconomically integrated communities.

California

The success of the combination of mandatory inclusionary zoning with density bonus incentives is demonstrated in the case of California, USA, which has the largest IH program in the country. At the state level, inclusionary zoning is not mandatory, thus IZ programs have been adopted by individual municipalities in the past few decades in response to an acute housing affordability crisis in the 1970s (Kautz 2002). As of 2003, 20 percent of the state’s communities had implemented some kind of inclusionary housing program (Powell & Stringham 2004), rising from 29 programs in 1970 to 107 in 2003 (Powell & Stringham 2004). Where inclusionary zoning is mandatory, the average required affordable housing contribution varies from 6-35 percent (Porter 2004, p. 277). On top of this, according to Californian state law (Government Code Section 65915), local governments are required to offer all new residential developments a 25 percent density bonus if they agree to provide a proportion of affordable housing, ranging from 10-25 percent, depending on the level of income of the future inhabitants (HANC 2003). Consequently, “over 90% of local governments [in California] offer density bonuses” (Mukhija et al 2010, p. 235). The success of these local, MIZ programs, coupled with the state density bonus law, can be measured in the total amount of affordable housing units produced. According to Calivita and Grimes, California’s inclusionary zoning programs had produced 24,000 affordable homes by 1998 (1998, p. 150). By 2002, 25,000 homes had been produced (Kautz 2002, p. 971). In their longitudinal analysis of 98 of the 107 known IZ programs, Mukhija et al 2010 found 34,000 affordable units had been constructed by 2010 (2010, p. 251). This can be compared with similar IH programs considered success, such as New Jersey, Florida and Massachusetts, which had produced 29,000, 1,600 and 1,200 affordable units up to 2000 (Porter

2004, p. 249). Many authors attribute the overall success of California's IH programs with their general effectiveness in combining mandatory ordinances that are offset with generous density bonus incentives (for example, Mallach 1984; Porter 2004, Mukhija et al 2010; Lerman 2006; Kautz 2002; Calivita & Grimes 1998). Ryan and Enderle suggest that the communities in the state with successful IH comprised of MIZ and density bonuses, are "far less likely to experience severe racial segregation along urban, geographical lines" (2011, p. 414).

Of course there are criticisms of the above-mentioned examples. Difficulties in terms of data analysis for IH programs are common, given the enormous variation that exists between programs, as noted by numerous theorists (for example, Powell & Stringham 2005; Bento, Lowe, Knaap & Chakraborty 2009; Porter 2004; Yowell 2007). Nevertheless, the relative consistency between the numerous studies mentioned above, in the estimated production of affordable housing units produced by the California's various IZ programs, indicates a broad, general consensus on the productivity of the programs. Others have argued that, although the number of units produced by California's IH programs is "commendable", the overall numbers are "manifestly insufficient to meet the housing needs of all lower-income households" (Calivita & Grimes 1998, p. 98). This paper agrees that IH cannot solve the issue of affordable housing on its own. Rather, it is suggesting that an IH program, when incorporated in to a broader, more comprehensive affordable housing strategy, can play a major role in contributing to reducing the overall supply of affordable housing. This sentiment is captured well by Brownstein and Zwick, who argue that;

"If a policy to create affordable housing generated more than 30,000 new affordable homes over the past 10 years, would you call that a success? We sure would, and so would many others in the 170 cities and counties in California that rely on such policies, called inclusionary housing, as one of their tools to create affordable places to live." (Brownstein & Zwick 2013)

South Australia

In a national context, IH utilising MIZ with incentives has also been used successfully in South Australia (SA). As part of its 2005 Strategic Plan for the state, which outlines the major strategic urban and regional planning directions for 2050, the South Australian Government introduced the Housing Plan for South Australia, an implementation plan for the state's housing policies. Legislative and policy changes at the state level were introduced to achieve the affordable targets outlined in the strategic plan. Among these were the recognition of the importance of affordable housing in the upper levels of the SA planning scheme, strategic targets for affordable housing, and definitions of 'housing affordability' (Davison, Gurran, van den Nouwelant, Pinnegar, Randolph & Bramley 2012). Most significantly, an overlay to the planning scheme was introduced, mandating 15 percent affordable housing contributions by developers for all 'significant' developments (Davison et al 2012, p. 49). 'Significant' developments are those subject to structure plans, where rezoning substantially increases dwelling potential, and residential developments on surplus government land (Davison et al 2012, p. 50). Overall the policy is working well. Such developments are offered incentives such as expedited planning approval and reduced application fees. Importantly, however, the scheme does not offer density bonuses (discussed later).

The scheme has been successful at greenfield sites, having delivered 2248 affordable units out of a total of 13790 by October 2011, or 16 percent affordable, thus exceeding the 15 percent mandate

(Davison et al 2012, p. 52). The figures are less promising, however, at urban renewal sites. Although the policy is beginning to deliver affordable units at such sites, almost all the developments have been funded and delivered by the public sector. Interestingly, only one urban renewal development so far has been delivered by a private developer, which was heavily subsidised by the SA government (Davison et al 2012, p. 52). Although the scheme offers 'light subsidies', it does not offer density bonuses. Perhaps this goes back to Mallach's (1984) Porter's (2004) and Rowley and Phibbs' (2012) points that successful IH programs at renewal sites must offer strong incentives in order to overcome the costs associated with a mandatory IZ ordinance when applied to infill sites. This point is important and will be built upon in the following proposal.

Sydney

Sydney has implemented a similarly successful IH program, albeit on a much smaller scale. In the 1990s, the Sydney and South Sydney city councils conducted an extensive urban renewal development across two inner city, former industrial sites, one at Ultimo-Pyrmont and one at Green Square. The former was a 300 hectare urban renewal site, which planned to deliver up to 9000 dwellings, including 600 affordable units, for a projected population of up to 17,000 over a 20-30 time frame (Harbour Foreshore Authority 2004, p. 5). An amendment to the local planning scheme in 1995 incorporated "statutory requirements for private development within the Ultimo-Pyrmont precinct to contribute to affordable housing" (Harbour Foreshore Authority 2004, p. 6). Under the MIZ arrangements, all residential developments were required to contribute 0.8 floor space to affordable housing, while commercial developments had to provide 1.1 percent (Harbour Foreshore Authority 2004, p. 3). The incentive provided was an in lieu payment option of \$30 per square meter, with the money going towards a state affordable housing fund (Looney 2011, p. 32). To date, 547 of the originally proposed 600 units have been built, making the project a success. The 1999 Green Square development was similarly successful. This was a 275 hectare urban renewal development led by the South Sydney City Council and delivered under the Green Square Affordable Housing Development Control Plan (City of Sydney 2012, p. 6). The plan aimed to construct 1100 market rate units by 2030, including 330 affordable units, using a MIZ mandate. Under the MIZ element, non-residential developments were required to contribute 1 percent of total floor space to affordable units, with a 3 percent mandate for residential uses (City of Sydney 2012, p. 6). Up until 2012, 102 of the 330 affordable units had been delivered, meaning that the program is well on its way to achieving its target before 2030 (City of Sydney 2012, p. 6). It should be noted however, that neither of these two projects offered density bonuses as an incentive for affordable housing delivery. Although these programs have been relatively successful, the next section will argue that these programs could have been more successful had they included the lucrative incentive into their schemes.

Arden-Macaulay: Site Context

The Arden-Macaulay area, located just north of the Melbourne CBD, is touted as a major urban renewal precinct (**insert map** of AM urban renewal area). The Arden-Macaulay Structure Plan (AMSP) outlines a substantial projected population increase for the local area from 2,670 people in 2011, to over 20,500 people beyond 2040, as well as an increase of around 17,000 jobs (City of Melbourne 2012, p. 5). The plan identifies the establishment of three new major activity centres, based on high density, mixed use development, strategically located adjacent to the precinct's rich transport nodes

and infrastructure (see figure 1). There is a strong emphasis on increasing the area's population density from 18 to 139 people/square km, as well as an increased job density of 38 to 153 jobs/square kilometre (City of Melbourne 2012, p. 5). The establishment of "liveable dwellings that house a diverse and inclusive community", is also a central objective of the plan outlined under Principle 7 (City of Melbourne 2012, p. 6). The plan aims to achieve this principle by providing a "mix of housing sizes, types and tenures at appropriate scales", as well as "dwellings that are accessible, easily adaptable and appropriate for all age groups" (City of Melbourne 2012, p. 42). Affordable housing with well-integrated communities is clearly a major objective of the overall plan. The tension between achieving intensified, higher density development and protecting existing residential amenity is also acknowledged in the scheme, which aims to achieve the former while "respecting the character and identity of existing adjacent suburbs" (City of Melbourne 2012, p. 44). The plan's focus on higher density and equitable development that respects the existing character of surrounding communities is important, as the following proposal is based on achieving these key objectives as outlined in the structure plan.



Figure 1. Shows proposed activity centres centred around key transport nodes, including the proposed Melbourne Metro railway station

(Source: City of Melbourne 2012, p. 76)

Proposal

This paper is proposing an inclusionary housing program for the Arden-Macaulay urban renewal area that combines MIZ and a generous density bonus scheme as a means to leverage private sector delivery of family friendly, affordable housing in the precinct. This proposal will attempt to draw

upon the successes and limitations of the above case study examples, in developing a precinct-specific IH scheme. It will be modelled on Sydney's successful IH projects at Ultimo-Pyrmont and Green Square. The proposal will provide specific affordable housing targets based on a MIZ ordinance, as well as a flexible density bonus scheme to be offered in conjunction with the former.

It should be noted that most of the IH literature accepts that there exists no 'magic formula' for the delivery of a successful IH program (as noted by Porter 2004; Mallach 1984; Calavita and Grimes 1998; Schuetz, Metzger, & Been 2009; Mah & Hackworth 2011; Dietderich 1996). Porter suggests that, "computing a feasible and fair bonus is more of an art than a science, since so many variables enter into the formula" (2004, p.227). Also, Mah and Hackworth (2011) note that, given that IH is a distinctly American phenomenon, most of the literature on IH is based on empirical analyses from the US, making cross-comparisons across different national and local contexts incredibly difficult. In the absence of any widely accepted formula for the application of IH programs, as well as difficulty in comparative analysis, it is imperative that the development of any IH program very carefully consider its local contexts and numerous, potentially influential variables. The following section will attempt to consider such local variables in constructing a locally applicable IH program for Arden-Macaulay.

This paper proposes a MIZ overlay across the entire precinct outlined in the Arden-Macaulay Structure Plan for redevelopment (See Figure 2). This aspect of the proposal is not new, and was first suggested in a 2007 SGS report commissioned by the Inner Region Affordable Housing Working Group, which is a coalition of four inner city councils (SGS 2007). The report proposed a MIZ overlay for the council areas of Yarra, Stonington and Melbourne of 15 percent (SGS 2007). Although the overlay was not adopted, the report clearly demonstrated how a MIZ overlay could be feasibly introduced into the Victorian Planning Provisions and be given statutory weight (see SGS 2007 for details). Since the proposed overlay spanned four entire council areas, perhaps the scale of the proposal was too broad for a first step towards MIZ. Thus, this paper is proposing an overlay at a much smaller, precinct-level, rather than a multi-council scale. The intention is to minimise the political anxieties and difficulties associated with such a relatively controversial concept as MIZ by reducing the scale of its implementation. The overlay could take the form of a 'special zone', such as the Docklands Zone, which contains precinct-specific planning controls (DPCD 2006). The scale of this proposal fits with the overall intention of this paper to develop a small-scale, urban renewal project that demonstrates how affordable housing can be incorporated into urban renewal redevelopments in a profitable, financially sustainable fashion.

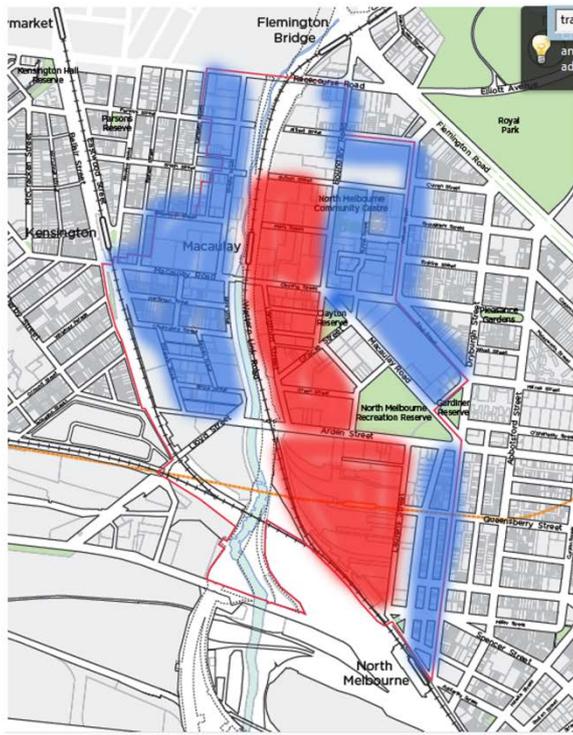


Figure 2: Shows potential areas for concentrated development in red, and lower density areas in blue.

The aims of the aims of the SGS report were arguably too ambitious as first step towards MIZ in Victoria, as it suggested an ordinance of 15 percent, which was arguably too bold given the status quo is formally zero (SGS 2007). This paper is proposing a far more modest MIZ ordinance of 2.5 percent for all commercial floor space developments, and 2 percent for all residential floor space. The reason for the differential targets is based on the logic underpinning the two Sydney projects at Ultimo-Pyrmont and Green Square, which deliberately offered a ‘discount’ on affordable housing delivery for residential floor space in order to attract more residential development. The proposal’s figure of 2.5 percent is also informed by the relative sizes of the Sydney projects. The Arden-Macaulay urban renewal area is 476 hectares (City of Melbourne 2012, p. 10), while Ultimo-Pyrmont is 300 hectares (Harbour Foreshore Authority 2004, p. 5), and Green Square is 275 hectares (City of Sydney 2012, p. 6). The 2.5 percent figure is based on the Green Square development, which, at 275 hectares is far smaller than Arden-Macaulay’s 476 hectares, yet the former was successful in achieving its affordable housing targets by using a MIZ ordinance of 3 percent, as outlined previously. If this target was possible on a much smaller site at Green Square, there is no reason why it cannot be achieved on a modestly larger development at Arden-Macaulay. The more modest proposal of 2.5 percent for Arden-Macaulay is designed to reflect this difference in size compared with Green Square, recognising the difficulties of more ambitious affordable housing targets for larger sites. The 2.5 percent figure is also exactly half of the 5 percent MIZ figure which has been informally touted for Victoria, but which has obviously proved too politically difficult given the current planning Minister’s opposition to MIZ (Harbour Foreshore Authority 2004). The absence of MIZ in the latest

metropolitan plan is further indicative of the sensitivity towards MIZ in the Victorian political context (DPCD 2013). Therefore, a modest approach is required.

As argued above, MIZ works best when coupled with a generous density bonus scheme. Thus, this paper is proposing a density bonus scheme to compliment the proposed MIZ ordinance as means to offset the costs to developers of incorporating affordable units. The aim is to incentivise developers to invest in Arden-Macaulay, include affordable housing and prevent the discouragement of investment as a result of the precinct-specific MIZ ordinance. Again, there is no “set formula” for setting appropriate density bonuses (Porter 2004, p.227), with the ‘ideal’ numbers in the literature varying from 10 percent (Mah & Hackworth 2011, p. 60), to 15 percent (Mukhija et al 2010, p. 229), to 20 percent (Porter 2004, p. 227), and up to 30 percent (Mallach 1984, p. 108). Given this variation, this paper is calling for a flexible density bonus scheme which changes according to the sensitivity of the surrounding area. For example, a lower density bonus towards the lower end of the spectrum of around 10 percent, for example, may be offered at developments that abut low-rise, residential areas, such as site 3 (Robertson Street) and site 4 (Chelmsford Street). The purpose is to recognise that increased densities may result in a loss of amenity by “...burdening the environment and local infrastructure” (Lerman 2006, p. 391). A flexible approach to the offering of density bonuses would aim to concentrate the higher incentives towards less sensitive areas, for example site 4, which abuts the noisy CityLink, busy Macaulay and Boundary roads, and is surrounded by industrial sites. The intention is to strike a balance between protecting the existing, residential character of neighbouring areas, whilst maximising densities where appropriate as part of the broader affordable housing agenda. In order to promote the construction of specifically family friendly affordable housing, which is the aim of the paper, the higher density bonuses could be offered to developments which promise to deliver multi-bedroom family-friendly apartments. The aim is to incentivise the construction of family-friendly units that are in such short supply in the inner city (AHURI 2006).

Conclusion

This paper has proposed that MIZ and density bonuses are effective inclusionary housing policy tools in achieving affordable, family-friendly housing for families in inner city Melbourne. It has devised a precinct-specific inclusionary housing ordinance comprised of these mechanisms in attempting to deliver a substantial number of affordable units to lower income people, in homes that are well-integrated into the broader community. Specifically, a MIZ ordinance of 2-2.5 percent has been suggested at Arden-Macaulay in order to modestly boost affordable housing production. An accompanying, generous density bonus scheme as also been proposed to further leverage private sector support. This has been designed in a manner to respect the existing sensitive surrounding areas of the area, whilst attempting to maximise density in desired, concentrated areas. This precinct-scale IH scheme has been proposed as a prototype development, intended to demonstrate a benchmark in the profitable, feasible and equitable delivery of family-friendly, affordable inner city housing. The paper has drawn upon extensive literature reviews, as well as case studies from California, South Australia and Sydney to inform the proposal and provide both international and national understandings of previously successful IH programs based on MIZ and density bonuses. It is hoped that successful implementation of IH programs such as this, may encourage other municipalities across the city to begin to develop more comprehensive housing strategies to address the housing affordability crisis.

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