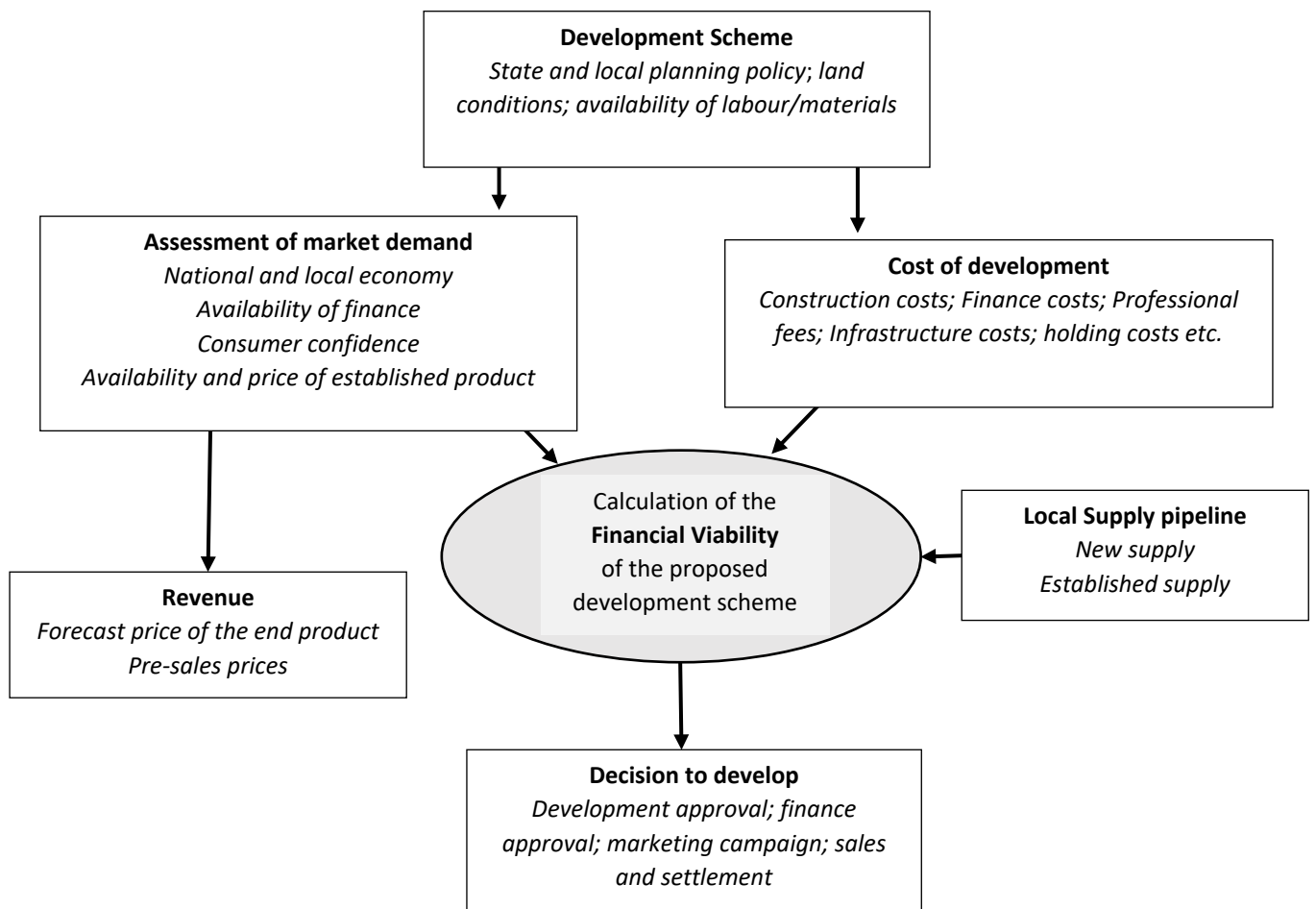


Submission to the Parliamentary Inquiry: Housing affordability and supply in Australia.

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In 2020 we published a report for the Australian Housing and Urban Research Institute (AHURI) which examined housing supply outcomes over the period 2006-2016¹. In particular it explained why some local government areas (LGA) were able to secure more housing than others and also identified the key drivers of private sector development. The work explained how the key driver of housing supply is the ability of the private sector developer to generate a defined hurdle rate of return commensurate with the risk of developing a site. Without that return, development does not occur. Ultimately, therefore, housing supply is dependent on profitable development which is assessed by developers through a feasibility modelling process as outlined below.



¹ Rowley, S., Gilbert, C., Gurran, N., Leishman, C. and Phelps, C. (2020) The uneven distribution of housing supply 2006–2016, AHURI Final Report No. 334, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/334>, doi: 10.18408/ahuri-8118701.

Increased supply is determined by the availability of potentially profitable development sites. It is not as simple as just releasing new land, or re-zoning land, and expecting housing supply to increase as such land may not deliver profitable outcomes. Governments can improve the prospects for profitable development by reducing input costs and creating certainty in the development process but market forces, which determined revenue, are the key driver. If a developer cannot sell the end product at a price which will deliver the revenue necessary to secure the required hurdle rate of return, development will not occur. The reason behind the current surge in housing supply, detached housing supply at least, is the increase in demand caused by the Covid-19 stimulus package, notably Homebuilder grants. This increased demand has generated the conditions necessary for profitable development and developers have stepped up land-subdivision activities as a result. We have not seen a similar increase in built form outcomes, notably apartments, because there has been no such surge in demand therefore revenues remain uncertain.

In our research we conducted a number of case studies withing LGAs to identify the key drivers of high and low supply outcomes. We found in LGAs that delivered relatively high rates of housing supply growth, zoning that enabled developers to respond to strong housing demand conditions was seen to be a key factor in supporting supply growth. The availability of large greenfield or brownfield sites conducive to larger scale, master-planned development increases the potential for housing supply along with supporting infrastructure capacity—particularly resulting from transport infrastructure investment. Proactive local planning for growth (outer ring) and or urban renewal (inner ring) was also a key factor driving supply.

The long-term nature of the urban development processes, including infrastructure provision or augmentation, means that it can take years before rezonings and project commitments result in new housing supply. Additionally, the capacity of infrastructure and services is an important consideration for councils in planning for future growth. In some high-growth LGAs—where housing development over the study period exceeded anticipated levels—infrastructure that is at or exceeding capacity may have implications for future growth.

Below are a number of recommendations taken from Rowley et al 2020 which could help develop policies to increase housing supply. It should be noted, however, that increasing supply does not automatically increase affordability as it depends on the concentration and nature of the supply in a given housing sub-market. Developers are also price takers, depending on the strength of the market, and have a limited ability to pass on new regulation costs to consumers if there is competition for product. This means any new costs of regulation have the potential to reduce potential profit and stifle housing supply.

Policy options to support residential development supply

Each level of government is able to play a stronger role in supporting residential development within established and new communities by:

- investing in major infrastructure provision and upgrades
- coordinating land-supply processes
- streamlining development approvals for projects meeting local planning requirements—including expectations for diverse, well-designed and affordable housing options.

Ultimately, market conditions and the ability to deliver an acceptable return will stimulate housing development. For those LGAs looking to increase housing supply, market conditions need to be right, otherwise policy intervention is required or the public sector itself needs to lead development.

While LGAs have no control over market conditions, there are some options available to deliver development that might not otherwise have occurred. There will always be an uneven supply of housing because of the different nature of locations below are key factors driving housing supply outcomes that government can control.

Site availability and assembly

The availability of development sites is crucial to new housing supply. Local governments and state development agencies such as Landcom and Development WA have a role to play in assembling sites that allow developers to deliver at scale and avoid the problems associated with piecemeal infill development (Rowley, Ong et al. 2017). State development agencies have been responsible for preparing many difficult development sites for release to the private sector and should play an expanded role, especially as most of the easy-to-develop sites are gone.

While developable state and LGA land is limited, any opportunities that do arise should be maximised, while also delivering a supply of affordable housing. Greenfield development remains an important supply of housing, despite governments seeking to control urban sprawl by increasing the proportion of infill development. Efficient utilisation of such sites, with quality supporting infrastructure, can encourage high-quality development outcomes.

Further, careful staging of new development can maximise the use and availability of infrastructure for new communities in greenfield locations. Although there is often pressure to allow new projects as they are brought forward in a piecemeal approach, smaller housing developments that are isolated from major transport or social infrastructure are costly and inefficient to service, and also disadvantage new residents.

Urban regulation and the planning process

Related to site availability is the need to ensure sites are realistically zoned in order to stimulate development and maximise development outcomes. Policy makers need to take market conditions into account when zoning sites, because if they get it wrong there will be no development or, in some cases, sites and infrastructure will be underutilised. An assessment of what would be financially feasible to develop on sites should be undertaken during any zoning or rezoning process. This includes the composition and nature of new housing, with provisions to enable diverse design typologies offering a mix of smaller and larger dwellings relating to development controls over minimum lot sizes, building heights and building setbacks.

Expectations for infrastructure contributions or affordable housing need to be predictable and consistently embedded within rezoning or master-planning processes, with developers able to factor these obligations when acquiring land. Communication and consultation with the development sector is essential for state and local governments to understand patterns of land ownership and potential capacity to meet targets for new population and housing supply. Similarly, state governments can support local councils and housing developers by:

- contributing to community consultation processes
- articulating the need for all communities to accommodate population growth and change through new and diverse residential development.

Reducing the cost of development, and adjusting the timing of infrastructure obligations

While some costs of development are unavoidable, there is a certain amount of flexibility that could be employed to ensure development projects that are financially marginal could become viable and deliver housing supply. Restructuring taxes and other contributions so they are payable at the completion of the development rather than upfront would help marginal projects. In this regard,

Australia's new National Housing Finance and Investment Corporation (NHFIC) could help local governments support major projects with upfront, low-cost finance for infrastructure investments. Public-private joint ventures—particularly where government supplies the land—can also deliver developments that would not otherwise have been feasible.

Further research and policy development is needed to explore the factors contributing to higher construction costs, and to ensure that planning regulations balance environmental and amenity considerations.

Alternative approaches to development

Beyond the land-use planning and development process, factors impacting on the feasibility of housing projects—such as residential construction costs and access to finance (Rowley, Costello et al. 2014), warrant further research and policy consideration. Alternative finance models and new construction technologies could alter the housing supply equation. Finally, a clear finding in this study was that market forces are strongly determinative of the quantity, distribution and diversity of new housing supply in the private market.

A more responsive housing system—attuned to changing population needs rather than dependent on property market cycles—is likely to require a more diversified system of production. This implies continued efforts to expand and sustain the social and affordable housing sector, as well as new initiatives to diversify housing products and choices, such as through the evolution of:

- purpose-built rental accommodation
- deliberative (resident-led) or cooperative forms of housing development
- low-cost / shared-equity forms of ownership.
- Diversifying housing products and producers—and stronger government involvement in land and housing development, including through demonstration projects—will help offset market cycles and enable more stable patterns of new supply.