Housing, multi-level governance and economic productivity

Inquiry into housing policies, labour force participation and economic growth

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Acronyms and abbreviations used in this report

ABS Australian Bureau of Statistics
ACCC Australian Competition and Consumer Commission
AHURI Australian Housing and Urban Research Institute Limited
AIHW Australian Institute of Health and Welfare
APRA Australian Prudential Regulation Authority
ASIC Australian Securities Investment Commission
ATO Australian Tax Office
ATRAC Australian Transaction Reports and Analysis Centre
COAG Council of Australian Governments
CRA Commonwealth Rent Assistance
CSHA Commonwealth State Housing Agreement
EPI AHURI Evidence-based Policy Inquiry
EU European Union
FHOG First Home Owner Grant
FIRB Foreign Investment Review Board
FRHH Federation Review of Housing and Homelessness
FSI Financial System Inquiry
FTS Future Tax System
GFC Global Financial Crisis
NAHA National Affordable Housing Agreement
NHSC National Housing Supply Council
NRAS National Rental Affordability Scheme
RBA Reserve Bank of Australia
SIHA Senate Inquiry into Housing Affordability
UDIA Urban Development Institute of Australia
VCAT Victorian Civil and Administrative Appeals Tribunal
UGB Urban Growth Boundary
Executive summary

Key points

- This research investigated how housing policy and policy instruments intersect with economic processes and productivity at multiple spatial scales; different levels of government and different locations. It has also sought to illuminate how economic policy instruments that are not specifically housing oriented have housing effects.

- This research supported the AHURI Inquiry into housing policies, labour force participation and economic growth by developing and testing frameworks which support understanding of housing policy and policy instruments and productivity.

- Two main conceptual frameworks were constructed to appraise how various housing and economic policy instruments intersect in policy and via the actions of economic actors. The first framework was an inventory of housing and economic policy instruments at federal, state and local scales that identified the mechanisms in operation, their economic effects and any influence on economic productivity, plus the geographic scale at which these effects occurred along with the key actors involved. The second framework established a schematic through which the effects of various instruments could be traced through the housing system via housing economic actors responding to changes in their user cost of capital.

- The research tested the conceptual frameworks via three focus groups appraising the effects of four selected housing policy instruments on the housing system within metropolitan Melbourne at three spatial scales: inner, middle suburban and outer suburban and demonstrated that the ways governments shape economic decisions can be better understood.

- The research concluded by identifying a set of enhancements to Australia’s national approach to housing policy and economic policy coordination. The principal recommendation is the formation of a dedicated housing policy capability oriented to strengthening the formal policy treatment of housing as an economic asset that has implications for national economic productivity.

- This should be supported by a strengthened policy perspective on how various elements of the housing and economic spheres intersect with a view to improving policy coordination and coherence.

- A stronger understanding of the positioning of housing policy in relation to economic policy and thus a broader conceptual framework is necessary to develop evidence-based policy that encompasses the complexity of housing in a systematic way.
Key findings

This research investigated how housing policy and policy instruments intersect with economic productivity at multiple spatial scales. The research sought to address the Inquiry research question of how can an appropriate framework assist us to better understand the way in which housing policy mechanisms contribute to economic productivity and growth, at multiple governmental and spatial scales? The research sought to assess how the connections between housing policy mechanisms and economic productivity have been conceived in the Australian context and how a basic typology of current housing supply can provide insights into housing-economic connections. Finally, the research asks a third research question concerning how future reviews of housing policy frameworks might incorporate an improved understanding of how housing policy and policy mechanisms intersect with economic processes and outcomes.

In responding to the Inquiry research questions the research team undertook a systematic review of the literature on multi-level governance and economic productivity within the context of Australia's multi-level federal system. The multi-level governance perspective was found to be useful within the context of a shifting macro-structural and governance context, including the increased use in recent decades of market mechanisms in housing provision. Multi-level governance as a theoretical standpoint was well suited to the Australian setting in which three tiers of government operate policies that intersect with the housing system and which also have economic effects. Governments often need to negotiate particular policy settings within this multi-level governance framework and often with market and sectoral actors who have taken an increasingly prominent role in shaping policy. The shift in the macro-economic regime in Australia from a Keynesian framework to a neoliberal framework was noted as complicating the governance arrangements for housing in relation to economic processes.

The research found that the literature on multi-level governance in relation to housing policy is underdeveloped. Although there is some literature on urban policy within a multi-level governance setting, this is not extensive. There is almost no literature on the intersection of multi-level governance arrangements and economic processes and their productivity. Consequently, the research task of establishing a basic typology for housing policy and economic processes and productivity took on a novel dimension in filling this knowledge gap.

How have the connections between housing policy mechanisms and economic growth and productivity been conceived within the Australian context, in terms of governmental and spatial scale?

The research conducted a review of major reports on housing policy or of policy instruments that have housing effects as undertaken by Federal Governments since 2010. Reviewed were:

- Australia’s Future Tax System (FTS) (Henry 2010)
- National Housing Supply Council reports (2009–13)
- Productivity Commission Inquiry into Planning and Zoning (2011)
- Council of Australian Governments Housing Supply Affordability Report (HSAR) 2012
- Financial System Inquiry (FSI) (2014)
- Federation Review on Housing and Homelessness 2014
- Senate Inquiry into Housing Affordability (SIHA) 2014

The review revealed that there is almost no effort within high-level policy thinking at the federal level that is dedicated to constructing and articulating a systematic conceptual understanding of the links between housing policy objectives, housing policy instruments and mechanisms, and
their effect on the economics of housing systems or economic productivity. This absence contrasts with the considerable significance of housing as a national asset worth an aggregate $6 trillion in 2015 (Core Logic RP Data 2015). The research found this seems to partly reflect the residualisation of housing as a portfolio within the Federal Government such that housing is primarily located within the welfare portfolio. Consequently, housing is not conceived within the machinery of government as a prominent economic or policy area, despite its very large asset value. This mismatch of aggregate economic significance with policy attention seems to be a failing of Australia's policy architecture. The research notes that there is evidence that this neglect is deliberate on the part of the present Federal Government and argues for stronger policy treatment of housing within the federal administrative arrangements. In particular, there is a need for a clear conceptual understanding of the policy importance of housing both as a factor in national welfare and economic performance and in terms of articulating a federal perspective on housing that sets out policy objectives and mechanisms for attaining them, linked to economic processes and instruments.

How can a basic typology of current housing supply provide insights into housing-economic connections, including the role of multiple governance tiers and effects at multiple spatial scales?

Given the lacuna in national policy thinking around housing the research responded to this research question by constructing a basic framework through which to understand the links between housing policy and economic productivity.

The research undertook an inventory of Federal Government housing and economic policy instruments and their economic effects which appear to be primarily demand stimulating effects:

- Home Buyer Grants including First Home Owner grants,
- Commonwealth Rent Assistance,
- Reserve Bank of Australia Monetary Policy (wholesale interest rates),
- Monetary Policy (Exchange rates, National Affordable Housing Agreement (NAHA),
- National Rental Affordability Scheme (NRAS),
- Department of Social Security; individual housing providers,
- Taxation policy (Negative gearing),
- Macro Prudential Regulation (Capital requirements of lenders and borrowers),
- Superannuation tax concessions,
- Taxation policy (Capital Gains Tax Concession)

State and territory housing intervention considered were: Home Buyer Grants including First Home Owner grants, Revenue policy (Stamp duty, Land Tax), Tenancy regulation, Planning and land-use regulation (Urban growth boundary), Public Housing. These were found to be primarily regulatory and fiscal.

Local governments operate interventions into the housing market in municipal planning, and rating.

It was found that there is a wide array of housing and economic policy instruments operating in Australia at multiple levels of government. A notable feature of the various interventions undertaken by governments is the lack of systematic integration between them, and the absence of an overarching policy framework that articulates how these interventions fit within a nationally-coherent set of objectives around housing.

The research team applied the construct of 'user cost of capital' which was used to impute the behaviour of various housing actors at multiple points in the spatial housing market and in response to policy instruments applied by governments at varying scales.
Three focus groups were conducted to test the framework, which investigated market actors’ decisions and perceptions of housing policy instruments and their economic effects on housing supply.

These focus groups revealed a general understanding of key housing policy instruments, but this understanding was based on very practical understandings of the policy instruments. Direct tangible constraints on development, such as planning regulations around building design were appreciated more sharply by those involved in housing supply than mechanisms that operated via other actors, such as the availability or cost of capital as provided by the major lending banks.

Focus group respondents did not articulate extensive understanding of economic productivity questions. To the extent that productivity was understood, it was in terms of the efficiency of delivering dwelling stock to the market relative to capital, holding, development approval, financing and marketing costs. There was a general sense expressed by some focus group recipients that government regulatory actions were often applied without a sufficiently sensitive understanding of how market actors would respond, which imposed risks in terms of inadvertent shocks that could destabilise housing demand and supply.

How might future reviews of housing policy frameworks incorporate improved understanding of the multiple governance and spatial scales at which housing policy intersects with economic processes and outcomes?

The research suggests there is considerable potential to improve how housing policy is formulated in Australia and the way the understanding of the role and contribution of the housing system is linked to wider understanding of economic processes and the productivity of the national economy. This includes;

• developing a conceptual framework for housing that can guide policy formation,
• improving the allocation of resources to housing policy within the federal administrative arrangements, including consideration of a dedicated Ministerial Portfolio and agency, linking the welfare and economic perspectives on housing within the Department of Social Services and Treasury,
• establishing a clear conceptual framework for understanding the role of housing in the economy, providing more substantial policy explanation and justification for extant housing policy instruments and economic policy mechanisms that affect housing, and
• improving policy coordination among federal, state and local governments.

Policy development options

Our major finding is that there is substantial scope for an improvement in housing policy dialogue within Australia, especially among the policy agencies of the Commonwealth Government. In particular, our analysis suggests there is a need to grow an understanding of how housing defines aspects of economic activity, including productivity, among the general public as well as the policy community. Several measures that could be taken to achieve this are:

1 Establishment of a stronger housing policy agency.

With the abolition of the National Housing Supply Council (NHSC) by the current government, Australia lacks clear capability to understand best policy for housing and its impact on the broader economy. To cover this gap, an agency within government should be tasked with exploring and reporting on housing across various levels of government, and its role within the broader economy, including improving economic productivity. This would go beyond the supply
focus of the NHSC. Regular reporting requirements as well as a requirement to engage with the media, policy-makers and researchers and industry stakeholders should be a mandate of the agency. The agency should have direct reporting line to Treasury as well as other relevant portfolios including Social Services. This may be best facilitated by the formation of a formal Ministerial role.

2 Regular housing social and economic impact statement requirements.

Our research shows that housing is a complex phenomenon that is intricately woven throughout the economy. It therefore seems appropriate that government departments and authorities provide regular housing impact statements (independent of whether 1 above) is enacted).

An important feature of such reports would be to adopt a unifying framework such as the one presented in this research. Employing concepts like the 'user cost of capital' such as we have done would provide a valuable analytical perspective.

3 A national review of housing policy within the federation.

A review of national level housing policy and its intersection with social and economic processes and policy is overdue. This review should assess all housing policy instruments identified in this report, including those not formally designated as specific to housing (e.g. negative gearing) to improve their formulation and coordination, including effectiveness in achieving housing objectives. The review would need to go beyond the limited scope of the Federation Review of Housing and Homelessness (FRHH) paper (see below).

The study

This study informs the wider AHURI Inquiry into housing policies, labour force participation and economic growth conducted during 2015–16. By providing a perspective on how policy processes and frameworks conceive of the economic dimensions of housing, the research complements the wider program of research supporting the Inquiry, including: housing supply responsiveness; housing and consumption; housing and labour mobility; and employment decisions. The policy perspective and the economic framework offered by the research assists to position the implications of these wider projects within the housing policy and economic policy arrangements operating in Australia.

The research undertook a systematic review of the literature, key Federal Government policy statements and reports released over the past decade, developed a typology of the mechanisms through which housing policy influences economic behaviour and tested frameworks through focus groups to better illuminate these processes

The research necessarily has some limitations. It was not able to undertake a comprehensive investigation of national multi-level housing policy involving systematic primary research, such as interviews with policy actors. Further work of this sort could strengthen the findings by offering additional empirical clarity of the issues addressed beyond that achievable via the method of systematic review adopted in the research.
1 Understanding links between housing and economic policy

- Research was conducted to improve understanding of how housing policy is organised within Australia’s multi-level governance system.

- The research was motivated by the recognition that Australia operates many housing policy instruments but that these are not conceptually or practically coordinated.

- This lack of coordination seems mismatched to the $6 trillion value of Australian housing which positions the housing system as a preeminent national asset.

- The literature reveals a lack of study of the multi-level nature of Australia’s housing policy, the mix of instruments applied to housing systems and the economic policy instruments that intersect with housing systems.

- The research provides a systematic review of the literature on multi-level governance, appraises the current state of housing policy-making in Australia, constructs a framework to integrate housing policy with economic processes, and tests this framework with a set of focus groups.

1.1 Why this research was conducted

This research has been conducted to improve understanding of how housing policy is organised within Australia’s multi-level federal system of government and how the mix of policy processes and instruments influences economic productivity at multiple spatial scales. The research is motivated by the recognition that Australia operates many housing policy instruments that have economic effects. Moreover, there are a number of economic policy settings and economic policy instruments that are operated in recognition of housing as a major feature of the national economy and which in turn have economic effects. Yet these policy instruments are disparately applied with apparently no clearly stated conceptual oversight as to their respective collective and interactive purpose, effects and interaction. This appears to be a major policy problem given the scale of the housing sector and its effects on the national economy. The absence of a coherent framework for housing policy poses risks of policy fragmentation, politicisation and ad hoc short-term reaction.

Various housing and economic policies and instruments operate at different levels within Australia’s multi-level federal structure. At the national scale, major housing programs such as Commonwealth Rent Assistance (CRA) are present while state and local governments apply such programs as land-use planning zones or local building regulations and rates. Each of these interventions into the housing and urban system will have economic effects of varying degree.

The multi-level nature of Australia’s housing policy and, in turn, the mix of instruments applied to housing systems by policy, is not widely appreciated in Australian research and policy circles as a phenomenon of study in its own right. Moreover, the appearance and distribution of economic policy instruments that intersect with housing systems is also not often appreciated as a feature of the housing system.
The multi-level federal nature of Australia’s governance system has implications for the way housing policy is developed and the way policy instruments are applied to the national housing system. At present, however, little effort is being expended to comprehend the way that Australia’s multi-level governance arrangements affect the formulation and application of housing policy and its economic effects. In this absence, substantive consideration of the broader economic effects of housing policy and, in turn, how economic policy in general affects housing, is largely lacking. Given the centrality of housing to Australian public welfare, it is surprising that nationally Australia lacks either a Ministerial or Departmental housing portfolio. To the extent that housing exists as a concern of the National Government it is in the Social Services portfolio area where the department’s role is to provide ‘support to those in need of affordable housing and homelessness services’. Within the economic portfolios, the Treasury does not currently operate dedicated policy capability around housing economics, nor does the Reserve Bank of Australia (RBA), which is responsible for financial stability.

The lack of housing capability in either the social or economic policy portfolios is surprising, given the $6 trillion capitalisation of residential property as an asset class. This contrasts with the $1.5 trillion value of listed equities or the $2 trillion contained in Australian superannuation accounts. It seems curious that this scale of asset does not merit greater attention within policy given its contribution to national wealth and the potential for changes within this class to affect national wealth. In this context, it is worth noting Australia’s limited housing market exposure to the Global Financial Crisis (GFC) of 2008 following which house price patterns were largely inflationary. Nonetheless, the GFC has intensified regulatory agency attention on housing issues, in particular the RBA including additional regulation of housing investor activity. Moreover, the significance of housing as an asset class has economic effects that flow through the national economy via an array of channels, yet these are not being systematically observed, measured and appraised by policy organisations. There is a system-wide disjuncture in housing policy between the scale of housing as a form of social infrastructure and as an economic asset and the level of policy attention and action that is dedicated to it. Simply put, Australia currently lacks the necessary policy capacity and institutional arrangements to understand housing as a complex multi-tiered multi-sector national system with important economic effects that are transmitted via various policy and actor networks and channels. The consequence of this limited and disjointed policy space is that there is no active and dedicated state sector site for analysis and debate of housing and economic policy interactions, particularly in relation to future housing and economic dynamics. Housing analytical capability is split among portfolios with no single coordinating point. In the absence of such a systematic point of policy communion, consideration of the potential for improved coordination of housing and economic policy—potentially considerable given the $6 trillion value of housing—does not occur. This and related questions about housing and economic policy are thus not raised. Discussion of housing and economic policy thus occurs via other channels, such as political contestation, media reportage and non-government and industry lobbying—each episodic, fragmented and disparate.

This relative weakness of government policy capacity is contrasted by a powerful array of housing system actors that exert influence on how the housing system operates. These are primarily economic agents such as major financial and property organisations. However, a number of social agencies, such as non-profit housing providers, are also active within the housing system, including at multiple levels of government. Much of what occurs within the housing system is influenced by government policy and policy instruments, however well-coordinated, but is broadly actioned by an array of non-government actors. This context is suitably addressed by the literature on multi-level governance which focuses on how contemporary policy is shaped and applied by a mix of governmental, private and civic actors. Another dimension of Australia’s current housing policy arrangements is that the effects of various housing policy instruments are not well understood in terms of their geographic
distribution. Australia’s multi-level governance arrangements are geographically structured, but not all policy instruments have explicit geographic scope nor are appreciated spatially. At the national level of government most policy is geographically disinterested, such that housing assistance or taxation concessions are available to households without geographic criteria. However, many national policies have geographic effects when transmitted through the economic and spatial channels in Australia’s housing system. In particular, most housing activity occurs in Australia’s major cities, thus the economic effects of an a-spatial national housing policy are nonetheless differentially experienced in cities and city sub-regions, and where they intersect more directly and intensely with other social and economic dynamics. Policy settings that ignore the spatial character of housing systems risk misunderstanding national housing problems. In contrast, state government policies necessarily have sub-national effects within state bounds, principally within the major cities, although states have greater constitutional freedom to make spatially-expressed or targeted policy.

A further problem that this research confronts is the need to understand how housing policies impact the broader economy and the ‘transmission lines’ via which these effects occur. Transmission lines in housing comprise the network of economic relationships and interactors that connect policy instruments to housing user behaviour, including the intermediaries between the policy and the user. A useful way of identifying transmission lines in policy is via the ‘user cost of capital’ which shapes economic decisions made by various actors in achieving their economic preferences and objectives.

The user cost of capital captures three costs: acquisition, ongoing (maintenance) costs and capital gains. By examining the likely effect of policy changes on each of these costs we can anticipate possible changes in the market (Poterba and Sinai 2008: 86).

In the context of this research and the AHURI Inquiry in which it is situated, there is a further specific need to understand how policy transmission lines intersect with four major areas of economic behaviour in relation to housing and their effects on overall economic productivity. These areas are 1) housing supply elasticity; 2) consumption effects; 3) labour mobility; and 4) employment participation. These areas were selected by the Inquiry team as having considerable relevance to economic productivity. This research seeks to extend the work done by the specific teams investigating those four projects by appraising the housing policy dimensions of their findings.

Given what is known about the policy and economic productivity questions posed above in the context of Australia’s multi-level federal governance arrangements, there is a need to better understand how housing policy operates on the housing system and what its economic effects are, including for economic productivity and at varying spatial scales. To provide a comprehensive account of the multiple dimensions of Australian housing policy, the myriad of policy programs and instruments and the poorly understood links between these and wider economic processes would be a major undertaking.

This research offers insight into these problems via an Inquiry Research Question and three related research questions.

- Inquiry Research Question—How can an appropriate framework assist us to better understand the way in which housing policy mechanisms contribute to economic productivity and growth, at multiple governmental and spatial scales?
- Supporting Research Question 1—How have the connections between housing policy mechanisms and economic growth and productivity been conceived within the Australian context, in terms of governmental and spatial scale?
- Supporting Research Question 2—How can a basic typology of current housing supply provide insights into housing-economic connections, including the role of multiple governance tiers and effects at multiple spatial scales?
- Supporting Research Question 3—How might future reviews of housing policy frameworks incorporate improved understanding of the multiple governance and spatial scales at which housing policy intersects with economic processes and outcomes?

The research responds to these research questions in three main ways. First, the research undertakes a systematic review of the literature on housing policy and multi-level governance to understand how housing policy has been understood in the context of multi-tiered governance arrangements and how these have been linked to economic issues, including economic outcomes and productivity. This includes a focus on key Federal Government policy statements and reports released over the past decade. Second, the research provides a review of national-level housing policy-making in Australia, including reference to major recent policy analyses and the extent to which they conceive of and discuss governance arrangements, housing policy, economic linkages and economic effects, including any scalar spatial perspectives. Third, the research offers a typology of the mechanisms through which housing policy influences economic behaviour in housing, particularly the transmission lines through which this influence occurs and the key actor groups. Finally, the research offers recommendations as to how Australia’s multi-level governance system might be improved in order to take better account of the links between housing policy and its instruments with economic processes and outcomes and the spatial effects of these. The approach taken is via a literature and policy review, development of a summary typology and framework for transmission lines, supported by the results of focus groups with key housing capital intermediaries and users.

The research has some scope bounds. First, as a review it is not intended to directly evaluate and enumerate potential national productivity gains to be obtained from improved housing and economic policy coordination; that task is methodologically more complex than the more preliminary ambition of this research. Second, the research is not intended to directly address questions of the productivity interactions of particular elements of the housing system; such concerns are addressed within other research undertaken under the AHURI Inquiry within which this research is situated. Third, the research is not intended to provide specific arguments about housing policy instruments that the Australian Government should develop and implement. Rather, the focus is on the context within which policy is developed and the degree of coordination of conceptual framings between specifically housing policy and economic policy. Fourth, the research did not intend a review of international comparators’ policy arrangements. Such an effort would require resourcing beyond this research.

The research addressed a large and complex problem yet faced a number of constraints that limited the degree of primary policy investigation that could be undertaken. Resources did not permit extensive engagement with policy agency respondents via interviews except where such persons were involved in the focus groups. Given the nature of those instruments, such policy respondents were largely local government officials rather than State or Commonwealth actors. Constraints on resources also prevented the construction of an economic model that could measure the productivity loss from poor housing and economic policy coordination; the user cost of capital framework offered in the research provides the basis for a future model of this relationship. These limitations do not necessarily diminish the insights of the research but nonetheless helpfully point to future potential to broaden our understanding of the problem of housing and economic policy coordination.

1.2 Policy context—housing and public policy

Australia’s housing comprises a $6 trillion asset (Core Logic RP Data 2015). The economic exchange value embodied in housing is more than double that contained in either the $1.6 trillion Australian equity market or the $1.2 trillion in Australian superannuation holdings. The way Australian housing is managed across both private and public sectors has non-trivial
implications for national wealth and prosperity beyond its fundamental use value as a means of shelter.

Housing policy, broadly described, is widely appreciated as contributing to and influencing economic growth, directly via the construction industry but also indirectly through factors such as the lost productivity implicit in commutes times between the residential home and workplace. Another example is where the amenity of the house provides an opportunity for efficient home-based work or study contributing to labour market related skill development.

This policy influence on economic processes can occur at multiple governmental and spatial scales and may be transmitted via a range of economic channels. Yet most Australian housing and economic policy and commentary does not actively consider such policy-economy relationships within Australia’s multi-level and multi-scalar national governance context. In general, the level at which policy is formed and its instruments applied, and the scale at which the economic policy influence of housing occurs, is not well appreciated in policy discussions. This is evident even though these relationships are often referred to in housing debates, such as those around the role of the state governments ensuring future land supply. Australia’s housing policy system lacks a systematic overarching conceptualisation of the links between the formulation of housing policy at multiple governmental levels and the application of policy instruments at various governmental levels. And although there are good accounts of how individual policy instruments affect the housing system, including robust models that represent these relationships, the conceptual account, from a policy perspective, is less well developed.

How is policy formed in Australia’s multi-level governance arrangements and how does policy in turn affect the economic productivity of the housing sector?

The absence of multi-level policy formation and governance issues in Australian housing policy debates is reflected by a shift in recent decades from national state coordination of housing provision to a market-based mode of housing provision, accompanied by a reduction in housing policy attention and effort at various levels of government. For example, the Australian Government has over the past few decades reduced its level of direct intervention in housing supply except for the provision of demand-side rental housing assistance, in contrast to an earlier phase in which active state-level production of housing and management of national level circuits of housing finance were coordinated to boost housing supply, in concert with demand-side labour market policies.

Further, the past two decades have seen increasing reliance on market allocation mechanisms in housing supply and a focus on demand-side policy measures. National competition policy, for example has broadened and deepened housing supply capacity at the national scale, particularly around the corporate tiers, and has encouraged housing suppliers to compete around quality and price. Similarly, deregulation of financial markets has encouraged greater competition in mortgage and investor lending, which has expanded credit availability and in turn added to housing demand. The exposure of the housing sector to increased credit competition accompanied by additional demand has resulted in market expansion, underpinned by wider economic and demographic growth. An accompanying phenomenon has been an increase in the volume of market information and commentary around housing market conditions.

A policy corollary of the shift towards greater reliance on market allocation mechanisms in housing has been a restructuring of state capacity to observe and assess conditions in the national housing system. During the earlier period of greater national state involvement in housing supply, an identifiable national housing policy portfolio operated within government and commanded a substantial policy capability. However, with the increasing withdrawal of the national state from housing supply and the attachment and residualisation of housing policy to the welfare portfolio within government, a persistent policy knowledge and capacity vacuum has emerged (Milligan and Tiernan 2011). The national state currently lacks coordinated standing policy capability in housing beyond the narrow confines of the social security portfolio. There
have been occasional recent instances of greater attention to non-welfare housing questions, such as the efforts of the Reserve Bank and Treasury during the late-2000s to understand Australian housing markets (Ellis 2006). But there have been relatively few instances of this analytical capacity being overtly translated from observation to policy development. The Australian Government remains largely disengaged from the wider economic and social dimensions of housing policy beyond the welfare portfolio. Even the National Housing Supply Council, for example, which was tasked with monitoring housing conditions during 2008–13 was not expected to undertake policy development.

Nearly a quarter-century after the National Housing Strategy (Edwards 1991) was prepared and largely set aside, the Australian Government lacks clear and identifiable portfolio capacity to comprehend and advise on the breadth of housing policy issues beyond social assistance, at the national level. This phenomenon is not unique to housing however, recent reporting has suggested there are serious institutional weaknesses in policy formation across many portfolios at the national level (Megalogenis 2016; Tingle 2015).

In the housing policy area when both state and national government capabilities are included in the assessment, this policy capacity, as Gurran and Phibbs (2015) note, largely focused on 'busy work', much of which relates to managing public housing residualisation. Although there have been broader inquiries, there has been little follow up. There has been little development of wider economic and social housing policy initiatives. Another way of recognising the lassitude in policy-making is to note the split in housing policy focus between the state and national governments. Jacobs, Berry et al. (2013), have identified, for example, the divergence of housing policy interest between the federal and state governments where the states focus on the public housing system that houses 4 per cent of households, while the Federal Government focuses on 25 per cent of low-income private renter households through the income security system but with little focus on supply.

Broadly, the observation by Tomlinson (2012) seems to be correct. Australia’s federal system in the housing policy area is characterised by confused roles and responsibilities between government levels, including fiscal transfers, that has produced a ‘vacuum’ in macro-level housing policy. No level of government is presently dedicating any significant effort to housing policy development beyond social assistance, and especially not to the economic dimensions of housing, though the role of AHURI in providing an evidence-base that could support improved systematic policy is noted.

1.3 Research methods

The methods used in this research were designed to be appropriate to the needs of the research and given the framing of the research as primarily a desk-based response to the research questions without extensive primary research.

1.3.1 Literature review

The main method applied in the research was a literature review. This involved four steps: identifying the domain of literature to be reviewed, collecting the literature, filtering the literature for relevance, organising the literature, and finally preparing summary material for writing-up.

The domain of literature covered by the review focused on research in the area of multi-level governance and federalism and economic productivity and policy. The key texts relevant to these areas were identified via a literature search and review. The second domain of literature investigated was housing (or urban) research which was framed within a multi-level governance perspective. Urban research was included given the greater volume of this focus and its relevance to housing problems. This process identified a selected sub-set of the overall multi-level governance literature that was relevant to housing policy. A similar filtering was
undertaken with the economic policy and productivity literature by focusing on work that sought to consider these issues from both a housing and a policy perspective. This produced a similar sub-set of relevant work to the housing and multi-level governance material. Each sub-set of material that was collated was then reviewed to identify how it contributed to an understanding of the issues in question, including summary tables to aid write-up against identified criteria.

1.3.2 Policy objectives review

To complement the literature review, and given the focus on housing policy within the research, a review of current housing policy instruments, major policy statements and major policy discussion reports was conducted. This was intended to identify both policy instruments and instances where the conceptualisation and purpose of various instruments was identified through policy or through reports supporting policy development, including major policy reviews. Within this framing, reports examining the economic dimensions of housing or housing-related policy were a focus. Some of these policy reports were not specifically focused on housing problems but typically had major elements with economic bearing on the housing system. A volume of notable policy reports was identified, including such examples as the 2010 Henry Tax Review, the 2014 housing paper within the ongoing Review of the Federation, the Senate Inquiry into Housing Affordability (2015) and the 2014 Murray Report into the financial system. These were then systematically summarised as to their discussion of policy objectives and the links to economic processes identified.

In addition to the policy review, we undertook a short survey of institutional responsibility for housing policy within government via the Australian Government’s Administrative Orders as of mid-2015. This sought to identify where housing or housing-relevant policy responsibility lies within the current policy and agency structures.

1.3.3 Policy instruments inventory

Accompanying the housing policy review was an inventory of housing policy instruments at varying governmental scales in Australia. The purpose of this inventory was to record all examples of either housing policy or economic and financial policy that has either direct or indirect housing effects. This task was undertaken via three main methods. First, the research team held a workshop to identify relevant policy instruments via background knowledge; this was then accompanied by reviewing key summary reports on housing policy, such as the AIHW housing report. Last, a review of the major policy reports described in Section 1.3.2 above was surveyed to identify any further instruments not considered.

The inventory of housing policy instruments was conceived via direct and indirect channels. This differentiated between two sets of policy instruments. First, we sought to inventory policy instruments directly targeting housing via supply or demand subsidies or direct provision, or via regulation, such as rental tenancy legislation or land-use planning regulation. The second set of policy instruments inventoried had indirect effects through influence on economic decisions made by economic actors in recognition of housing as a major investment type. This latter set of instruments includes a variety of economic and macro-prudential policy tools and levers, such as the Reserve Bank of Australia’s interest rate settings, which influence mortgage lending and borrowing, and Australian Prudential Regulation Authority requirements for bank capital reserves and risk profiles, which affect levels of housing investment lending.

1.3.4 Framework for understanding housing policy and economic instruments

The inventory of policy instruments was used to construct a typology of housing policy instruments that informed the housing policy transmission channels’ mapping (see below). This was undertaken by preparing a table organised by federal, state and local policy scales and by housing policy instruments and economic policy instruments. This produced a series of cells addressing the effects of various policies at differing governmental scales. Sub-headings within
the cells were used to identify the policy, its mechanism, its economic impact in terms of change in economic activity as well as its effect on productivity (ratio of inputs to outputs) and the spatial scale at which these effects occurred. This table was then converted to conflate the housing and economic policies into a single column which were then appraised according to the four research topics within the other SRPs: 1) Elasticity of housing supply; 2) Consumption effects 3) Labour mobility and 4) Employment participation. This revised table was then presented to the leaders of the four other SRPs for their summary commentary on the economic effects of the individual policy instruments on their focal economic area.

1.3.5 Economic transmission channels' mapping
In addition to the typology of housing instruments, the research team sought to map the transmission channels for housing policy instruments to have effects on housing economic actors and, in turn, on housing markets and the prices for housing stocks and services. This was undertaken via internal research team conceptual workshops drawing on and developing on existing conceptualisations within the literature. The output of this was a diagrammatic representation of housing policy channels that is represented in Figure 2, Chapter 2.

1.3.6 Framework testing via focus groups
As set out in the research proposal, the research sought to undertake a light-handed empirical verification of the conceptualisation advanced in the review of policy and economic effects conducted by the research via a select set of focus groups.

Three focus groups were undertaken with policy and economic actors in the building sector, organised around the three housing forms—greenfield, infill and high-rise. The focus groups tested the exemplar models against the experience of respondents. This engagement with relevant industry actors served to validate and refine the models and the relationships they embody.
2 Housing policy and multi-level governance

- Australia’s federal system means housing policy is distributed between differing government levels and few analyses have used a multi-level perspective to understand Australia’s housing system particularly how this links to economic productivity.

- Australian national level housing policy has shifted in recent decades from an interventionist to a market regulation regime.

- The research finds that there is little systematic policy understanding of the links between the housing system and economic productivity.

- In reviewing a range of Government reports dealing with national level housing policy issues the research finds few have directly addressed economic productivity. This holds for reviews that are expressly directed towards financial and economic concerns.

- There is considerable scope to improve the policy understanding of the housing system and its links to economic productivity.

In the inattentive institutional landscape for housing described above, questions about governance of the housing system can be raised. Who acts upon the housing system? What is the scope of government capacity to shape housing system outcomes across a wide array of desirable dimensions? What risks are associated with various dimensions of the housing market? How can government act upon the housing system to achieve more efficient or equitable housing effects? Are current housing system institutions and processes efficient or could more be gained through better management or coordination of policy and institutional arrangements? More significantly for this research, how does housing policy intersect with economic productivity at varying levels? These questions directly query the current state of housing policy affairs. Their tenor reflects wider shifts in economic and social affairs from conventional government models of policy and institutional design to questions of ‘governance’, including at multiple scales and across multiple sectors. Through which channels, at what scales, do policy instruments affect macroeconomic productivity, for example, and how do the interactions between policy instruments influence housing market actors? How does Australia’s system of federal government support or impede housing policy-making through the application of differing policy instruments at differing policy scales?

The report responds to these questions by considering the literature in the following areas:

- housing policy in Australia’s federal system
- multi-level governance core ideas
- housing and multi-level governance in the international literature
- Australian multi-level governance and housing
- housing in contemporary Australian multi-level governance.
2.1 Housing policy in Australia’s federal system

Australia has a history of Federal Government intervention in housing systems dating back to the early-20th Century. Interventions in the early-20th Century involved provision for workers’ housing and returned services housing but were small in scope and fragmented in provision (Hayward 1996). It was not until the period following WWII that the Australian Federal Government became systematically involved in Australia’s housing system at the national scale. This systematic involvement reflected public concern over the nearly 20 years of depression and war that had led to a housing shortage, accompanied by the establishment of new aspirations for state provision of public welfare and an expectation that government would provide a framework for economic development and employment growth (Watts 1987). This involvement combined financial and fiscal interventions with governance instruments to mobilise state and private sector coordination of housing provision and support the capacity of households to purchase housing.

The model adopted by the Australian Government after WWII was a broadly Keynesian model of economic management coordinated through Australia’s separation of federal and state powers in taxation and land development, including the strong revenue powers gained by the Commonwealth during the war (Smyth 1994). This involved the government using its taxation powers to raise revenue for finance that was recycled into investment in housing supply via loan agreements with state governments and oriented to initially public rental, and from 1956, private ownership tenures. The loans were set at interest rates comparable to the long-term bond rate of 3 per cent with fifty-year payback periods (Hayward 1996). The states in turn would be responsible for the delivery of housing via their ability to coordinate land development and housing production. A commitment to full employment as an economic strategy meant that unemployment remained low. The resulting growth in household incomes and borrowing capacities strengthened demand for housing and consumer items further spurring aggregate economic demand. State governments were made responsible for housing supply and established large housing production capabilities from the 1950s onwards, typically via Housing Commissions established for this purpose and which also became public rental landlords and wholesalers of homes for private sale (Howe 1988).

This statist model of housing intervention was combined with a spatial industrial strategy to advance Australia’s economic capacities towards sophisticated manufactures. In particular, the Australian Government encouraged the establishment of large-scale motor vehicle manufacturing in Adelaide, Melbourne and Sydney. Many of these facilities were located on suburban sites with nearby government-owned land being used for housing development (Winter and Bryson 1998). This led to the production of extensive suburban estates associated with industrial activity, most prominently motor vehicle manufacturing in Melbourne and Adelaide.

The main instrument used by the Commonwealth to manage the housing system from 1945 until the late-2000s was the Commonwealth State Housing Agreement (CSHA). The CSHA had been initiated following the recommendations of the Commonwealth Housing Commission (1944) that a funding mechanism for public housing was needed (Hayward 1996; Troy 2012). The CSHA set out the objectives of policy and the mechanism for delivery, principally concessionary loans to the states for housing production. Initially the CSHA focused on rental housing, but the 1956 iteration of the agreement enabled the sale of state housing for home ownership. Although large numbers of dwellings were constructed for rental or sale, the CSHA began to lose its importance from the 1970s onwards. There was a move away from direct state involvement in owner-occupied housing production and increasing concern over the costs of delivering public rental housing from 1978 onwards. Increasingly public housing was targeted towards very low-income and otherwise disadvantaged households who were eligible for rebated rents and the share of funding dedicated to producing new stock began to fall relative to
expenditure on maintenance of existing stock and subsidies for non-economic tenants (Dalton and Ong 2007).

During the 1980s and 1990s the public housing system in the states became confirmed as a part of the welfare system and it largely ceased to be a form of housing that housed families near manufacturing employment opportunities. This process was hastened by the decline in manufacturing employment. The decline of funding through the CSHA was accompanied by the expansion of the Commonwealth Rent Assistance (CRA) payments paid to private renter households in receipt of other Commonwealth financial assistance. Federal Government policymakers increasingly favoured direct income security payments as the best response to housing-related poverty. The work of the National Housing Strategy in the early 1990s established the context for ascendancy of this policy preference. Subsidising supply through the public housing system was increasingly viewed as indirect and inefficient. From a Commonwealth-state relations perspective, the CRA was seen as a more direct means for subsidising private rental tenants.

From the late-1980s onwards, the CSHA waned as an instrument of housing policy. Although it continued to coordinate Commonwealth with state policy on the provision of welfare housing, its significance as an instrument of housing supply at best remained stable in total dwelling terms but on relative measure declined as a share of total housing stock. The CRA subsidy remains in place and has expanded over time to the point that its fiscal value far exceeds that of the CHSA (and the subsequent NAHA).

The period from the 1980s onwards saw an increasing adoption of market processes to achieve national economic and social goals with this emphasis intensifying from the late-1990s. Under the influence of ‘economic rationalism’, the Commonwealth Government began to reduce its direct intervention in the national economy via a ‘national competition policy’ which viewed competitive lightly regulated markets as the optimal means of allocation of economic resources. The implication of this newly liberalised economic environment for housing had various effects. First, deregulation of the financial sector meant greater supply of retail finance for home purchasers and subsequently investors. Second, this increased financial supply translated into a sustained wave of house price inflation since the late-1990s leading to pressure on household affordability ratios. Further deregulation occurred within the taxation sector and building construction sectors leading to a national market for housing served by national lending and constructor corporations. Third, although there was some increased flexibility on the housing supply side, the state governments which oversee land-use regulation continued to control housing development. Lastly, with the growth of the financial services sector following deregulation, Australia’s model of macro-economic regulation has evolved to include an array of regulatory agencies that have oversight of different aspects of the financial sector. These include the Reserve Bank of Australia as well as the Australian Prudential Regulation Authority. With housing comprising a major share of national wealth, these instrumentalities have taken greater interest in housing to the point that they now exert a policy influence on housing that is more than simply a financial oversight. Australia’s approach to macro-economic management is now far from the Keynesian model and is often described as ‘neoliberal’.

With increased reliance on market mechanisms to achieve societal welfare goals, housing policy became residualised, mirroring the declining status of public housing. Housing policy within the federal administrative structures followed housing out of a dedicated housing policy portfolio and, over successive governments, into the social security and welfare portfolio. With the residualisation of public housing, the CSHA increasingly became a means of managing the decline of this tenure. In 2009, the CHSA was replaced by a National Affordable Housing Agreement (NAHA) reflecting the shift in focus of housing policy from welfare housing to ‘affordable’ housing as well as a renewed interest among the then Rudd Labor Government in national coordination mechanisms across various policy areas including health, education,
disability and Indigenous support. The NAHA also sought to set out the respective responsibilities of the federal and state governments with, in summary, the federal role focusing on national perspectives and on income support while the states primarily took a housing and homelessness services and administration role. The residualisation of state public housing was also reflected in the Rudd Labor Government’s new vehicle for social housing supply known as the National Rental Affordability Scheme. This vehicle bypassed the states in the provision of 30,000 additional rental dwellings preferring to deal directly with housing providers. Although the scheme was intended to draw institutional investment for housing its effect was rather to enable social and community housing providers to expand their stock.

As of the mid-2000s therefore, Australian housing policy sits in a highly deregulated environment. The historical Keynesian approach to housing policy that typified the early post-WWII era has given way to a deregulated neoliberal form of government housing involvement in which the provision of private rental or owner-occupied housing, supported by private financial and construction sectors, is overwhelmingly dominated by market relations and with very light governmental intervention. Yet problems persist within the housing system and can be in part traced to macro-scale policy arrangements. The increasing economic role of housing in a financialised economy has highlighted contradictions between its use value as a form of shelter and its asset value as an investment class. The Australian Government has relatively few mechanisms through which to manage housing within the national economy and the instruments it does operate are often crude and weakly coordinated. Similarly, there is a division between federal and state policy responsibilities that often leads to gaps in response to emerging problems such as declining housing affordability or increasing homelessness. Governments must also deal with greater complexity within market systems and multiple agencies and lobby groups involved in housing provision and in turn seeking to influence housing policy.

In this context, a simple federal-state relationship is not sufficient to adequately understand the way that housing policy is crafted and enacted. Moreover, for its efforts to be effective government policy, particularly at the federal level must have some appreciation not only of the regulatory mechanisms that it operates and how they integrate, if at all, but also an appreciation of the strategic complexity of contemporary policy formation in a neoliberal policy environment and the contradictions this poses for government action. The multi-level and multi-sector nature of the housing system including the delegation of major aspects of supply to market actors and the extensive shaping of demand by market institutions, such as banks, means that a multi-dimensional perspective is needed.

This research deploys the multi-level governance perspective which developed in the context of an increasingly complex European governance context including much greater prominence for market institutions. The remainder of this research takes the multi-level perspective and applies it to housing in the Australian context by way of theoretical exposition. The investigation then seeks to link this to economic understandings to provide an improved analytical framework for understanding the links between housing, governance, policy and economic productivity in the Australian setting.

2.2 Multi-level governance core ideas

The past two decades have witnessed an intensive research focus on multi-level governance systems (Stephenson 2013). Multi-level governance systems draw on earlier theoretical and conceptual work on policy formation within federal systems (Grey 2010; Stein and Turkewitsch 2008). They typically refer to policy processes within territorially nested governments across multiple scales, including within federal systems, that combine a mix of state and non-state actors (Marks 1993). These debates often consider the interdependence of and contradistinctions between government actions at differing territorial levels as well as the
dispersion of government activity to non-government actors. In this sense therefore, the multi-level aspect refers to the scaled territoriality of government arrangements while the governance dimension refers to the interplay between government and non-government actors often operating with loosely or un-coordinated networks (Rhodes 1988). Hooghe and Marks (2003) argue that the effect is to create flexible forms of governance that disperses governing capacity across multiple jurisdictions and actors. Sabel and Zeitlin (2008) describe a diverse array of arrangements, a multiplicity of frameworks for interaction, integration and compromise, between previously separate yet increasingly operationally interconnected authorities with complicated interrelationships.

Multi-level governance emerged as a policy scientific analytical perspective in the 1990s as many scholars were grappling with the institutional implications of the emergence of the European Union as a supra-national tier that had many features of a state but also many non-governmental attributes, as well as relationships with non-state actors. For example, although the EU has the capacity to develop policy it is not founded on a sovereign right of jurisdiction over national territory and government, which remains with the member-states from which it is formed. Thus, while adding a super-ordinate governance tier the EU's governing authority is constrained and subject to negotiation with territorially sovereign actors, who nonetheless have voluntarily agreed to collectively subject themselves, if only partially and selectively, to governance through EU level institutions. But the European experience also shares similarities with other multi-level jurisdictions such as constitutional federations. The Australian federation is an example of a federal nation state where both centralising and decentralising tendencies are imbricated in governance processes (Brown 2006). Understood in this way, federalism is a particular form of multi-level governance.

The multi-level governance perspective is also reflective of political and economic restructuring since the 1970s. This restructuring has been typified by a weakening or hollowing of state institutions and a shift towards greater policy influence by non-state actors, including both market actors as well as non-governmental organisations (Hooghe and Marks 2003). In some instances, this includes partnerships and collaborative processes between multiple levels of government, quasi-governmental agencies and non-state actors (Bradford 2004). Accordingly, the literature recognises that the formation of policy in the contemporary political environment is complicated by the array of institutional inputs and negotiations around policy directions and instruments. Also, governments typically have to rely on multiple institutional actors, government and non-government, at multiple scales, for the actioning of policy directions for implementation.

Features of the multi-level governance literature include a focus on systems of governance (including formal and non-formal instruments and processual channels of policy action) and networks of diverse actors, both vertical and horizontal through the actions of which policy is formed and applied. The multi-level governance literature recognises the continuing presence of a centralised state authority, but appreciates that this is increasingly interconnected with a panoply of para-state and non-state institutions (Hooghe and Marks 2003). This influence of the role of non-state actors is a particular feature of the multi-level governance literature.

The advantages of the multi-level governance approach, also informed by the study of the more formal constitutional arrangements of federations, provides the conceptual framework which assists in understanding the phenomena of proliferating governance arrangements in contemporary political and policy spheres (Bache and Flinders 2004; Piattoni 2009). This assists in analysing the governance arrangements associated with policy-making in contexts where conventional rigid hierarchical government structures are no longer in place and there is uncertainty about where responsibility rests and accompanying normative debate about the role of government.
2.3 Housing and multi-level governance

Although housing has sometimes been a focus of multi-level governance scholarship, the literature is underdeveloped and few authors specifically address housing issues (Cole 2003; Doberstein 2012; Maclennan and O'Sullivan 2013; Muir 2013). This weakness is even more evident when the links between housing policy and economic productivity at multiple levels is made the focus of a research question. There is almost no literature that systematically investigates the housing system-macro-economy relationship. There is, however, a substantial literature on multi-level administrative governance and on spatial planning (Bradford 2004; Healey 2004; Salet, Thornley et al. 2003; Stead and Meijers 2009; Tewdwr-Jones and Allmendinger 2006; Tosics and Dukes 2005) often with a regional development focus. This literature can serve as a kind of proxy for the governance questions in housing policy, although spatial planning has a more strongly territorialised application than housing policy.

Much of this planning literature focuses on increasing differentiation of urban space and polarisation. For example, Salet, Thornley et al. (2003) found that as metropolitan regions became more globalised in the 1990s and 2000s they produced economic and social spaces that were more differentiated, decentralised and polarised. They concluded that a key governance task is to increase the connectivity between policy spheres. Similarly, in an analysis of Canada’s urban policy, Bradford (2004) notes that there was little evidence of a coherent agenda, coordination or recognition of the importance of good planning. Poor relationships between tiers of government—federal, provincial, local—contributed to this problem. The solution, Bradford (2004) argued, was to develop a multi-level perspective that recognised the possibilities of fluid governmental capacities and interdependencies. Similarly, Tosics and Dukes (2005) note the increasing interconnectedness of supra-national and national policy arenas accompanied by a dispersion of authoritative decision-making at multiple territorial levels. They argue, in the case of urban development projects, for clear policy guidance at multiple governmental levels; projects without upper level support in particular may be successful but their replicability and external influence may be comparatively reduced.

Stilwell and Troy (2000) deploy a multi-level perspective to undertake a review of Australia’s historical approach to urban management via an appraisal of the influence of the country’s multi-tiered governance structures and the administrative and fiscal effects these have in the context of a nationally uneven spatial economic and urban development. They argue that the existing arrangements—which largely persist some 16 years later—have marked deficiencies. A particular deficiency they identify is the ‘lock in’ of spatial inertia in urban settlement patterns which reinforces the dominance of metropolitan capital cities and the lack of coordination or governance at the metropolitan scale that can intermediate between state government and multiple local governments.

A particular weakness in the multi-level governance literature is the underdeveloped examination of the connection between governance and economic policy outcomes. This topic does not appear to have caught the attention of scholars to any significant degree with Perraton and Wells (2004) among the few contributors. The conclusion these authors make is that ‘different configurations of multi-level governance can be held, a priori, to have an effect on economic policy outcomes although the evidence is not clear as to the scale and direction of its effect’ (Perraton and Wells 2004: 193). However, the authors also caution that research efforts that seek to identify and analyse the relationship between multi-level governance and economic outcomes should also focus on the relationship between states and markets. In other words, they caution against the idea that theories of and research into multi-level governance should be expected to explain too much.
### 2.4 Australian multi-level governance and housing

Appraisals of the Australian multi-level governance in the area of urban housing policy are limited. There is an extensive literature about the housing system itself with a focus on features such as the way in which different groups fare in the housing market, tenurial arrangements and change, homelessness, changes in the supply of different types of housing, the economy and housing, housing and tax, and investment in different types of housing. Most of this research, supported by several decades of the AHURI research program, has had an applied policy focus that has been addressed to state and federal governments as key participants in setting the research agenda through their housing agencies. However, research examining the governance of housing within the Australian federation, or the way in which housing policy is made, although present in the research agenda has been limited. Nevertheless, there is a small body of literature, contributed by AHURI-supported researchers and other contributors, that is sufficient for an account of multi-level governance in the housing area.

This account is presented using five themes: housing policy and ‘generative conditions’; phases or periods in housing policy; intergovernmental relations in housing policy; government agencies and housing policy; and industry associations and civil society organisations and housing policy.

‘Generative conditions’ refers to the simple but important idea that housing policy is shaped by the way in which households in a country engage with the social and economic structures that enable or block access to secure and affordable housing. Of course, this idea refers not just to the ‘structures’ themselves but to the way these structures are understood and policy seeks to change them. In a comparative study of housing policy developments across eleven developed countries, Lawson and Milligan (2007) show that approaches to housing policy vary significantly between countries, even though there is considerable similarity in the social and economic conditions that shape access to housing. They discern two features of governance arrangements that assist in explaining national policy outcomes. First, there are differences in ‘institutional structures and networks, and well-resourced processes of capacity building, monitoring and evaluation’ that help explain policy development and implementation. Second, there is the organisational capacity of third sector not-for-profit housing providers and their ability to leverage new supply that complements demand-side support provided through government income support. Lawson and Milligan (2007:153) find that Australia in this context ‘lacks many of the structures that have enabled new ways of financing and delivering various forms of affordable housing and neighbourhood renewal’ that are found in other countries.

A focus on phases or shifts in housing policy over time is evident in many of the contributions on the governance of housing in Australia. Comparisons of policy settings and institutional arrangements over time are seen as a way of revealing underlying arrangements and policy settings. Walter and Holbrook (2015), on the basis of their account of housing policy in the Australian federation from the 1940s to the present, suggest that the unintended consequences of decisions in other policy domains, such as tax and immigration, results in increasing complexity and uncertainty in the housing field. They use the metaphor ‘complexity cascade’ to describe the policy development in the housing policy domain. Similarly, Milligan and Tiernan (2011), who focus on the period 1988–2010, identify four ‘policy cycles’ and ‘discern the beginnings of a fifth’. An argument for a focus on larger scale changes in the way housing policy is framed is made by Dalton (2009) in a comparison between Australian and Canadian housing policy-making. Using the regime concept, he argues that there has been a significant change in the way governments frame and steer policy that is partly explained by the exhaustion of the Keynesian policy thinking and the ascendancy of neoliberal ideas. The effect on housing policy is even more profound than in other areas of policy because, even during the Keynesian period when housing policy was an acknowledged priority, the ideas used in the development of housing policy remained underdeveloped. In the main, the focus was on regulating the
production of new housing in the broader context of macro-economic management of supply and demand.

Beyond the conduct of ongoing housing policy and program development by federal, state and local government agencies, there has been a long running debate about which level of government is responsible for housing policy. Debate about which level of government has responsibility for ‘housing policy’ has long been contested. The most recent manifestation of this debate is found in the publication of the report on ‘Roles and Responsibilities in Housing and Homelessness’ as a part of the Reform of the federation white paper process initiated by the Commonwealth Government in 2014 (DPMC 2014). However, there is evidence of uncertainty and debate as far back as the 1940s and 1950s when the Commonwealth Government was, within a Keynesian economic policy framework, managing a steady expansion of the housing stock in the context of a shortage of housing and rapid population growth (Dalton 1999, Ch. 5). However, there have been different views principally between the main political parties. As Walter and Holbrook (2015: 459) conclude, there has been ‘vacillation between federal engagement in, and disavowal of, the [housing] domain, with ALP Governments inclined towards the former and Coalition administrations the latter’. ALP Governments have been more active in undertaking policy reviews and supporting program developments. The debate has also involved local government. Although Australian local government has no formal responsibility within the federation, there is a history of local government initiatives. However, as Gurran (2003) notes, ‘these efforts are often frustrated by poor planning frameworks and a lack of strategic policy at both state and federal levels’. In sum, there is a continuing unresolved debate about where responsibility for different aspects of housing policy should be assigned.

Behind this debate about where responsibility for housing should be assigned within the federation, there are agencies at federal and state levels with housing responsibilities. They are important elements in initiating and supporting governance. As Dalton (2009: 77) observes, there is the accepted ‘argument that the bureaucratic and professional capacities of state agencies are important in explaining the way in which policy ideas are proposed and responded to within the interstices of the state’. In the Australian context, it is clear that Australian housing agencies, either at the central level and state levels in the post WW II period, did not develop a senior agency or ministerial status. They have been largely focused on housing production and program management and have had limited influence on broader policy-making processes. An analysis of agency arrangements just within the Federal Government sphere confirms that the arrangements limit capacity to contribute to policy leadership and governance. Milligan and Tiernan (2011: 398) point to extensive ‘fragmentation’ where responsibility for social housing and homelessness programs; Indigenous housing; aged person housing policy; urban policy; social inclusion; and housing industry are distributed across separate ministerial agencies within the Federal Government. In addition, there are two significant independent statutory authorities, the Reserve Bank of Australia and the Productivity Commission, that are also involved in housing policy-making processes. In the area of affordable housing policy, the research evidence is that these arrangements have resulted in a type of policy paralysis when it comes to resolving the future of the public housing system in collaboration with state government public housing agencies (Jacobs, Berry et al. 2013). Overall, the policy and administrative arrangements supporting the governance of housing within central government is constrained.

Governance of a policy domain is also shaped by the way civil society organisations and industry associations organise and mobilise. In practice, governments are highly permeable and there are many arrangements for interactions between government agencies and committees of inquiry etc., and civil society organisations and industry associations. The main political parties can also be important through the way they develop and propose policy. Governments are constantly seeking policy advice from these constituencies and associations and civil society organisations often generate policy positions and present them, at times demonstrably mobilising in support of their positions (Dalton 2009). Recent research on this process suggests
that it is the housing industry producer organisations that have dominated. At a national level, Gurran and Phibbs (2015) argue that conservative political ideologies and industry interests combined to shift the policy discourse away from direct support for social housing towards support for freeing development constraints applying production for the private market. They present evidence for a similar outcome in New South Wales. In summing up, they argue that the idea of ‘policy capture’ is apposite in a context where housing industry land and housing producer associations have been successful in framing the housing affordability problem as one of inadequate new supply and the solution as freeing up constraints on supply. Associations pressing for additional support for social housing have been largely unsuccessful.

2.5 Housing in contemporary Australian multi-level governance

A major policy challenge in multi-level governance systems is coordination among differing levels of government. Australia operates a three-tiered governance framework comprising the national Federal Government, seven main states or territories and 565 local governments. In the Australian multi-level governance framework, responsibilities for differing areas of public policy are distributed between three main tiers of government. This multi-level framework has evolved over time with periods of greater coordination and harmonisation of policy interspersed with moments of reduced integration. For example, the establishment at the Commonwealth level of a National Competition Policy and the harmonisation of state policy under this regime has been one of the distinctive features of the post-1980s economic productivity reforms. Similar policy coordination and economic productivity agendas have been pursued in areas cognate to housing policy, such as infrastructure and transport (Infrastructure Australia 2009) or the effort to institute a National Urban Policy harmonising state plans for major cities (Dodson 2013).

Policies that link housing systems and economic growth are distributed across all levels of the Australian governance system. At the federal scale, interest rate, taxation, and superannuation regulation, for example, all influence the housing investment decisions made by a range of economic actors. At the state level, rental tenancy statutes, land-use regulation and building and construction regulation influence housing and economic processes. Stamp duty, for example, imposes a major tax impost on housing transactions. Local governments can exert considerable influence on the distribution of housing within urban sub-markets via land-use zoning and development assessment.

Notwithstanding the plethora of instruments applied to housing, the governance of Australia’s housing system is weakly coordinated both horizontally or vertically. For example, there is little harmonisation of interest rate or taxation policy with regard to housing between the federal and state scales. Land-use policy and regulation is not coordinated between state jurisdictions such that differing states operate varying spatial plans and differing development approval processes. These impose potential economic costs which the long-running multi-level and multi-sector reform program sought to correct, for example, the nationally organised, cross-sector and cross-jurisdictional Development Assessment Forum. The Productivity Commission (2011) has, for example, identified state land-use regimes as affecting national housing-economic productivity, yet systematic reform in support of national housing-economic objectives would require complex interaction with state policy processes.

The Australian Government does not currently operate an explicit or overarching housing policy. Housing interventions are spread across various multiple portfolios—such as defence, social security and treasury. The current Administrative Arrangements Orders (C2016Q00010; 30/9/2015) identify the Department of Social Services as having responsibility for social housing, rent assistance and home ownership as well as housing affordability while the Department of Treasury is listed as having responsibility for housing supply policy. The current Department of Treasury organisational chart includes no listing for housing and has not hosted
any sizeable dedicated standing capacity since the abolition of the National Housing Supply Council in 2013.

Notwithstanding the limited degree of dedicated continuing analytical or policy capability in government at the national scale, various official reviews and appraisals in recent years have offered commentary and guidance on the Australian housing system, its governance and its effect on economic processes and growth. This includes policy coordination and market supply (COAG 2012), State land-use regulation (Productivity Commission 2011); overall national market conditions (National Housing Supply Council 2013), housing-related taxation and investment (Henry 2010), and the wider role of housing within the economy, as the Reserve Bank commentaries often note. Although the COAG has initiated a degree of national housing policy coordination, this has been ad-hoc and unsystematic (COAG 2012). The remainder of this chapter briefly summarises and reviews a selection of these documents, focusing on those that have been released since 2010. The emphasis is on the extent to which the reviews identify housing as having an economic productivity dimension and the way that they link housing policy, via housing policy instruments, to economic productivity.

2.5.1 Australia’s future tax system (2010)

The report on Australia’s Future Tax System (FTS) was prepared in 2010 (Henry 2010). The report reviews an array of relationships between taxation policy, national economic activity and social and environmental patterns. The FTS report recognises the significance of affordable housing to the community and the traditional and deliberate treatment of home ownership as a preferred tenure by government. The main economic discussion in the FTS concerns the dynamics of demand and supply for housing. In particular, the report assesses how the tax mix in relation to housing might alter consumption and production. Issues assessed include stamp duties and land taxes, the tax treatment of investment properties via personal income tax concessions on rental losses, and the influence of capital gains taxes and concessions.

The main economic discussion in housing within the Future Tax System report was around changes to stamp duties, land tax and investment property treatment. The reduction of stamp duty, the review found, would improve housing supply and reduce wider adverse housing market effects. Land tax changes to focus on land value would, according to the Future Tax System report, reduce adverse impacts on the housing market of current holdings-based methods. Lastly, discount of net rental income at the same rate as capital gains would ensure the tax treatment of investor housing would be less responsive to gearing and capital gains leading to more neutral treatment of differing savings classes. The report also made a variety of observations arguing for institutional changes around land-use regulation to avoid inhibition of housing supply as well as pricing infrastructure charges in a transparent way. The FTS report noted various forms of housing assistance, but did not comment at length on these.

It is worth noting the relatively limited detail within the FTS report that addresses the quality or scale of impact of housing and economic policy instruments on economic activity in housing. Most of the observations appear to be based on argument from micro-economic first principles rather than drawn from empirical evidence about the nature and scale of economic effects.

2.5.2 National Housing Supply Council reports (2009–13)

The National Housing Supply Council (NHSC) operated from 2008–2013. The NHSC was established to monitor and advise on housing affordability and supply issues within the Australian housing system. The main outputs of the NHSC were annual housing supply and affordability reports. These dealt primarily with housing supply and affordability issues but occasionally offered commentary on housing policy and wider economic issues. The Council’s mandated focus on housing affordability and supply meant that most of the NHSC’s discussion of housing policy was focused on equilibrium concerns. Housing policy barely figured in the
Council's reports and, where this was discussed, it was typically in a very general sense. For example, in assessing the ‘balance’ of housing demand and supply, the Council (2011) observed that:

… while the gap between estimated underlying demand and supply is an indicator of housing shortage or surplus, neither is necessarily a mark of market failure or policy failure … An enduring gap between underlying demand and supply would indicate market failure or the failure of policy settings in one or more submarkets.

The Council was mute on the question of economic productivity in housing. Although the Council's 2008 report noted that the Council would consider the economic productivity of land, labour and materials, it offered few appraisals of these in its reports. To the extent that it did consider productivity, this was largely in relation to the housing supply sector (e.g. NHSC 2008: 140; NHSC 2010: 150).

2.5.3 Productivity Commission Inquiry into Planning and Zoning (2011)

The Productivity Commission was asked to investigate a benchmarking of state and territory planning and zoning systems and to report on matters including competition, efficiency and effectiveness in the functioning of cities (Productivity Commission 2011: v). The focus was primarily on supply of land and eliminating protections from competition. Economic productivity was not a consideration in the Commission's report terms of reference, nor was housing a direct focus. Housing policy was not discussed in the Commission's report, although outcomes from the housing system, such as housing affordability and availability were assessed, with much of the discussion circling the problem of defining housing affordability.

Housing affordability issues were widely appraised by the Productivity Commission as having social and some economic effects, but there was almost no connection drawn between affordability and economic productivity. Presumably because the implicit focus of the inquiry was on housing affordability, questions of demand and supply of housing were foremost in the Commission's analysis, and framed in terms of their effect on housing affordability terms. This emphasis on equilibrium in housing markets meant that wider economic issues such as productivity barely appeared in the Commission's discussion. The Commission identified in great detail the factors that could intensify demand for housing and limit supply responses, resulting in increased costs to producers and consumers, but did not connect these to any wider economic effects let alone productivity. For an organisation dedicated to economic productivity, it is remarkable that no discussion of this topic was offered within the 642 pages of the Productivity Commission's report. Any national productivity objectives in relation to housing, land-supply and planning were absent from consideration. Indeed, housing policy as a construct appeared only once, listed as a driver of urban efficiency, but with nil elaboration.

2.5.4 Council of Australian Governments Housing Supply Affordability Report (HSAR) 2012

The Council of Australian Governments (COAG) is the principal institutional mechanism through which policy matters involving negotiations between the Commonwealth and the states (and by proxy local government) within the Australian federation have been deliberated and negotiated since 1992. Housing has been an occasional concern of COAG. In 1992 COAG released a report into Housing Supply Affordability (COAG 2012) that sought to identify and respond to issues within Australia’s housing system. The report had been commissioned in 2010 and was asked to examine the housing supply pipeline and the way that government policies may act as barriers to supply, or alternatively that stimulate demand for housing. The main issues considered related to land-use and development regulation, including land supply, infrastructure costs and consenting processes. Economic resource allocation was an explicit focus of the
report identifying a number of factors that could prevent land from being allocated to its highest value use.

The HSAR report recognised that 'the housing market makes an important contribution to broader economic efficiency, productivity growth, and the liveability of cities' (p.4). It argued that a number of government regulatory requirements were placing upward pressure on the cost of housing that reduced the flow-through of supply and thus reduced affordability. However, the productivity contribution of the housing system to wider economic performance was not discussed in detail. Instead, the report focused on efficiency in the housing supply system and its ability to respond to demand pressures. The specific efficiency concerns expressed by the report concerned land-development and housing supply issues particularly greenfield site availability, rezoning and infrastructure provision, development assessment and approval processes, and local government regulation. The main recommendations included a series of suggestions relating to development assessment and rezoning, infrastructure charges, building codes, strata titling regulations, land release planning, strategic metropolitan planning, under-utilised government land and private land banking as well as effects of other policies such as the First Home Owner Scheme and Commonwealth Housing Programs. Almost no attention was given to wider productivity concerns within the overall Australian housing system.

2.5.5 Financial System Inquiry (FSI) (2014)
The Financial System Inquiry (Murray 2014) sought to understand how the financial system should be shaped to meet Australia’s needs and support economic growth. The Inquiry identified housing market instability as one of the main systemic risks to Australia’s financial system, and thus potentially to wider economic performance, yet treated this solely as a regulatory question not as a connected multi-level policy issue. In particular, the exposure of Australian banks to housing mortgage risk due to high household indebtedness was viewed as a factor that could damage economic growth while, in the case of a negative shock, compromising the rate of economic recovery. The recommendation advanced by the FSI was for the Australian Prudential Regulation Authority to adjust risk calculation weights among housing lenders to narrow the difference between average internal and standardised weights. Perhaps, given the focus on financial system stability, it is not surprising that the FSI did not go further into assessing the economic productivity impacts of housing finance and regulation.

2.5.6 Federation Review on housing and homelessness 2014
The Federation Review issues paper no.2, Roles and responsibilities in housing and homelessness (DPMC 2014) included a specific focus on housing. The Federation Review’s ongoing policy status is unclear as of January 2017, however, its discussion of housing questions deserves inclusion in this policy review as one of the more recent points of policy contemplation of housing from the Federal Government. The Federation Review’s housing discussion is limited to housing assistance and homelessness services. This discussion is nested within a wider appraisal of the roles and responsibilities of Australia’s differing levels of government. The objective of the Federation Review issues paper is to ensure that every level of government is ‘sovereign in its own sphere’. The housing paper examines the roles and responsibilities of federal and state governments in relation to housing assistance and homelessness services. It makes this assessment via a mix of historical review, and current pressures on these areas. The review recognises that there are a number of policy influences on housing supply and includes land release, land planning and zoning as well as stamp duty and land taxes as examples. It also notes the regulatory role of governments in the private rental market, building and construction and transactions. The review also recognises federal influences via tax settings, immigration settings and the regulation of financial services and overseas investment, plus infrastructure delivery and, usefully, it represents these influences via a diagram (Figure 1 below). However, because it is focused on the structures and activities of
government, the paper does not explore the economic effects of housing policies except to note the scale of housing as an economic sector.

**Figure 1: Government housing responsibilities**

![Government housing responsibilities](source)

Source: Department of Premier and Cabinet (2014: 8)

### 2.5.7 Senate Inquiry into Housing Affordability (SIHA) 2014

The Senate Inquiry into Housing Affordability report, *Out of reach? The Australian housing affordability challenge* (2015) largely focused on policy coordination and sectoral dimensions of affordability and gave modest attention to productivity or economic processes in housing policy. The SIHA recognised that that ‘… poor housing affordability damages economic productivity and increases risks to the stability of the financial system’ and that such measures as stamp duty reduce household flexibility and thus ‘[damage] labour mobility and [hurt] labour mobility more generally’ (2015: 84). Many of the submissions to the SIHA mentioned productivity (Anglicare Australia, cited by SIHA 2015: 25; ACOSS, cited by SIHA 2015: 26, UDIA, cited by SIHA 2015: 31).

In contrast to the limited economic productivity discussion, the housing policy coordination elements of SIHA were extensive. A major reform called for by the SIHA was for a Minister of Housing and Homelessness to be appointed with the portfolio to be positioned within a central agency such as the Department of Premier and Cabinet, or Treasury. In addition, the SIHA recommended that a Ministerial Council on Housing and Homelessness be established within COAG and that a national Urban Policy Forum be re-established to provide a multi-level multi-sectoral framework for stakeholder review and debate of housing policy.

In terms of economic questions, the SIHA recognised that housing was more than welfare (p. 47) and that ‘greater emphasis needs to be given to the economic dimensions of policy settings than has been the case in recent years’ (p. 50). However, there was relatively limited discussion within SIHA of the links between housing policy and economic dynamics whether via dedicated housing policy instruments or via wider economic instruments. Macro-prudential regulation was noted, but the economic effects of this policy area were only lightly discussed. Overall, the SIHA did not pursue issues of the economic dynamic or the channels by which policy affected housing markets and the activities of market actors. Nonetheless, Recommendation 13 of the SIHA was that Treasury should investigate negative gearing and capital gains tax exemptions effects on various matters, including economic productivity.
2.5.8 Assessment of current policy coordination

The reports discussed above are some of the significant efforts undertaken by Australian governments to understand how housing is situated within Australia’s wider social and economic system. The reports are illuminating in their consideration of housing policy and economic productivity issues, largely because of the almost complete absence of sustained or conceptually advanced deliberation. The overall impression gained from these reports is of a housing policy system that is largely detached from the overall housing system with occasional instances in which very specific instruments are addressed in isolation. Similarly, the economic productivity discussion around housing appears detached from anything more than a cursory consideration of housing as an economic issue, let alone as a factor in wider national economic productivity. Moreover, to the extent that each report deals with housing policy and economic productivity, it is within its very bounded perspective; there appears to be no instance since 2009 of any agency of government preparing a report that systematically appraises the relationship of housing policy to the housing system and in turn to questions of economic performance and productivity.

This inattentiveness to housing and economic productivity linkages within current policy at federal and state levels seems to be unappreciated by government and housing sector observers and commentators with the exception of scholarly contributors (Gurran and Phibbs 2015; Horne and Adams 2016; Jacobs, Berry et al. 2013; Whitzman 2015). The recent Senate Inquiry (2015) seems to be the only instance of a dedicated effort to understand how the housing system, housing policy and economic performance and productivity intersect, yet that was a Parliamentary report, not one initiated by an Australian Government. As an inquiry, it did not attempt to construct a framework through which to comprehend Australia’s multi-level housing and economic policy instruments and institutional arrangements. That the majority of the Senate’s recommendations on housing were rejected by the Australian Government in its reply (Senate Economics References Committee 2015) suggests that the inattentiveness to housing issues is deliberate rather than inadvertent.

The deliberate avoidance of a strategic perspective in housing seems idiosyncratic, given that the Federal Government is not averse to preparing and acting upon national level strategies for a diverse array of policy portfolios, such as energy, defence, biosecurity, disability, heritage, drugs and road safety, to give but a few examples of many such schemes. Among these strategies relatively few address sectors of the economic scale of the housing sector whether viewed from the perspective of productivity and efficiency or from the standpoint of population welfare. It seems peculiar therefore that housing is not the subject of any coherent, integrated and comprehensive national strategy or policy. There is clearly considerable untapped potential for strategic housing policy development at the federal level, particularly policy oriented to integrating housing with economic productivity efforts both conceptually and institutionally.

In recognising the lack of systematic strategic thinking in relation to housing and economics we also note the dearth of systematic economic conceptualisation within the various arrangements that make up Australia’s housing policy. There appears to be no document that seeks to systematically understand how the economics of housing intersect with its shelter function and which uses this understanding to craft suitable coordination arrangements for current policy, or to develop or improve policy instruments and their application. The following chapter responds to this gap via an appraisal of the economic and policy dynamics of Australian housing, in particular the mechanisms through which housing policy instruments transmit economic signals to actors and agents within the housing system.
3 Inventory of policy instruments and productivity effects

- Australia operates an array of housing and economic policy instruments that have housing and economic effects.

- There is almost no coordination between different housing policy instruments nor a conceptual framework through which the role and purpose of these instruments is identified.

- The various housing policy instruments are likely to be having effects on economic productivity though this is hard to determine given the complexity of the system.

Few studies have offered a comprehensive presentation of the various housing policy instruments operating in Australia. This chapter seeks to record the main policy instruments that have housing effects and to identify their economic productivity effects at varying economic scales. The inventory, prepared by the authors via a search of the existing literature and background knowledge of housing policy, is a summary way of setting out what instruments Australia operates, at differing levels of government so that the range and breadth of instruments can be observed. In this exercise, we have used the term 'instrument' to encapsulate both specific policy settings such as the negative gearing tax concession on investment rental property as well as housing programs such as public housing or the National Rental Affordability Scheme (NRAS).

The inventory is structured according to federal, state and local government levels, with commentary provided as to the economic effects that are understood to derive from each instrument. In the context of Tables 1, 2 and 3 we differentiate between economic effects and economic productivity. Economic effects are the pressures that the instruments exert on housing demand and supply while economic productivity is the effect that the instrument has on the relative ratio of inputs to outputs in housing that make the market work in ways that are more productive or directly improve the level of outputs relative to inputs.

The tables are addressed in greater detail in the overall Inquiry within which this research sits, relative to the topics addressed by the other four EPI projects. The tables demonstrate with some clarity that there is a large number of policy instruments within the Australian housing system, at varying levels of government, and with a range of economic effects, including on productivity. The tables raise questions of coordination of policy, given that, for example FHOGs enable first home owners to exercise greater demand within the market, while negative gearing empowers investors to exercise demand, perhaps to a greater degree than first home owners. The contradiction from an economic policy perspective, in expending federal fiscal resources in subsidising competing housing market actors does not appear to be recognised or addressed in contemporary policy. Clearly, greater understanding of the range of policy instruments operating in the Australian housing system and their economic effects, in isolation and collectively, has scope for improvement. The following section explores this issue in greater detail and proposes an analytical framework through which to address this conceptual and policy problem.

3.1 Federal Government housing and economic policy instruments and their economic effects

The Federal Government operates an array of housing policy and economic policy instruments, each of which has housing policy effects at the national scale (Table 1). These include
regulatory mechanisms such as macro-prudential and macro-economic (monetary) regulation, fiscal policy such as taxation concessions on various forms of investment and equity, as well as supply subsidies such as the National Affordable Housing Agreement or National Rental Affordable Scheme, and demand subsidies such as the Commonwealth Rent Assistance and the plus home buyer grants such as the FHOGs (administered by the states).

These various interventions in the housing and economic policy sphere have various effects. Demand subsidies can generate additional demand for housing within the market while macro-economic (monetary) regulation can also affect housing demand via flow-on effects to the supply of credit.

Taxation policy also includes measures that have an implicit housing dimension, such as the superannuation tax concession, capital gains tax exemption and the ‘negative gearing’ tax concession for losses incurred in investment (implicitly in rented housing).

These various federal instruments in turn have various effects (Table 1 below). For example, a key effect of home owner grants is to spur demand for owner occupation (relative to renting, *ceteris paribus*). Similarly, capital gains tax exemptions on owner-occupied housing provide an implicit signal to housing investors that this tenure category is to be preferred over others, such as renting.

The high proportion of 10 instruments catalogued here appear to have demand stimulating effects. First home owner grants and Commonwealth Rent Assistance are direct demand subsidies while superannuation tax concessions, negative gearing and capital gains tax concessions all offer implicit demand stimulus over other investment classes. In contrast, there are relatively few supply subsidies operated by the Federal Government, with such interventions limited to the NAHA and to the (now ceased) NRAS. Although it is outside the scope of this research, the combined effects of the housing demand interventions operated by the Federal Government with modest compensating supply subsidies may offer a degree of explanation for Australia’s high rate of house price inflation.
### Table 1: Inventory of Federal Government housing and economic policy instruments and their economic effects

<table>
<thead>
<tr>
<th>Name</th>
<th>Mechanism</th>
<th>Key actors</th>
<th>Impact on economic activity</th>
<th>Productivity effect</th>
<th>Spatial scale: national</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Buyer Grants including First Home Owner grants</td>
<td>Cash subsidy</td>
<td>Home purchasers</td>
<td>Increased demand within this actor cohort</td>
<td>Increased housing demand for owner occupation</td>
<td></td>
</tr>
<tr>
<td>Commonwealth Rent Assistance</td>
<td>Cash payment</td>
<td>Low-income renter households</td>
<td>Additional demand from low-income households</td>
<td>Strengthened market signals at low end of housing market</td>
<td></td>
</tr>
<tr>
<td>Reserve Bank of Australia Monetary Policy</td>
<td>Wholesale interest rates</td>
<td>Lending institutions</td>
<td>Modulates cost of credit within economy</td>
<td>Policy signals as to greater or lesser macro-economic investment</td>
<td></td>
</tr>
<tr>
<td>Monetary Policy</td>
<td>Exchange rates (floating)</td>
<td>Foreign investors</td>
<td>Depreciate AUD pressure on house prices</td>
<td>More or less capital availability</td>
<td></td>
</tr>
<tr>
<td>National Affordable Housing Agreement (NAHA)</td>
<td>Bilateral funding and institutional agreement supporting direct supply of dwellings</td>
<td>Commonwealth Department of Social Security</td>
<td>Increased housing supply through public provision</td>
<td>Increased housing</td>
<td></td>
</tr>
<tr>
<td>National Rental Affordability Scheme (NRAS)</td>
<td>Public-private partnership</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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Key actors: Department of Social Security; individual housing providers

Impact on economic activity: New ‘affordable’ housing supply

Productivity effect: Increased industry contribution to new affordable housing supply

Spatial scale: national, metropolitan

Name: Taxation policy

Mechanism: Negative gearing (tax concession for costs incurred earning rental income)

Key actors: Investor residential landlords

Impact on economic activity: Taxation benefits to loss-making housing investment

Productivity effect: Increased housing share of investment relative to other investment classes

Spatial scale: national

Name: Macro Prudential Regulation

Mechanism: Capital requirements of lenders and borrowers

Key actors: Lending institutions, individual borrowers

Impact on economic activity: Increase or reduce supply of credit to particular borrowers

Productivity effect: Reduced level of macro-economic risk

Spatial scale: national

Name: Superannuation tax concessions

Mechanism: Portfolio allocation tax efficiency

Key actors: Households with superannuation equity

Impact on economic activity: Bias in superannuation investment preferences

Productivity effect: Increased demand for housing as investment class

Spatial scale: national

Name: Taxation policy

Mechanism: Capital Gains Tax Concession

Actors: Individual household investors

Impact on economic activity: Preferential targeting of investment in property

Productivity effect: Biases in investment efficiency

Spatial scale: national
3.2 State and territory government housing and economic policy instruments and their economic effects

Australia’s state and territory governments intervene in the housing market in various ways via both specific housing instruments as well as wider fiscal mechanisms (Table 2). Such interventions include direct demand subsidies such as delivery of home purchaser grants, such as the FHOG as well as supply subsidies such as the provision of public housing under the NAHA. Much of state and territory housing intervention is regulatory and fiscal. Regulatory activity includes land-use zoning and building design regulations as well as control of tenure relations in the rental sector. Fiscal interventions are principally in the form of land taxation or more typically via stamp duties on property transactions of which housing forms a high proportion.

State and territory fiscal and regulatory interventions have a mix of economic effects on the housing market. For example, land-use and design regulations may constrain market actors in terms of the location and form of housing they supply leading to less efficient match between demand and supply. However, this may be offset by public welfare benefits in terms of greater urban coherence and reduced servicing costs as well as higher health and safety outcomes from building design controls.

The key state and territory fiscal interventions are via stamp duties and land taxes. Stamp duties are of particular interest because of their potential economic effects on housing prices and their application specifically at the point of housing purchase. Such taxes raise the cost of housing transactions and thus potentially reduce allocative efficiency in the housing market. Land taxes on housing are relatively rarer, but may have greater allocative efficiency as they apply generally not solely to transactors.

Table 2: Inventory of state and territory government housing and economic policy instruments and their economic effects

<table>
<thead>
<tr>
<th>Name: Home Buyer Grants including First Home Owner</th>
<th>Mechanism: Cash subsidy</th>
<th>Key actors: Home purchasers</th>
<th>Impact on economic activity: Increased demand within this actor cohort</th>
<th>Productivity effect: Increased housing demand for owner occupation</th>
<th>Spatial scale: state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name: Revenue policy</td>
<td>Mechanism: Stamp duty</td>
<td>Actors: House purchasers</td>
<td>Impact on economic activity: Increased housing transaction cost</td>
<td>Productivity effect: Reduced market efficiency due to higher transaction costs</td>
<td>Spatial scale: state</td>
</tr>
<tr>
<td>Name: Revenue policy</td>
<td>Mechanism: Land tax</td>
<td>Actors: Land (housing) owners</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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**Impact on economic activity:** Property related revenue stream. Relative avoidance of investment distortion.

**Productivity effects:** Increased efficiency in taxation

**Spatial scale:** state, metropolitan

---

**Name:** Tenancy regulation  
**Mechanism:** Residential Tenancies Legislation (various)  
**Key actors:** Landlords and tenants  
**Impact on economic activity:** Improved market operation and reduced transaction costs  
**Productivity effects:** Efficient market operation  
**Spatial scale:** state

---

**Name:** Planning and land-use regulation  
**Mechanism:** Urban growth boundary  
**Key actors:** Local governments, developers  
**Impact on economic activity:** Limits on spatial development  
**Productivity effect:** More or less coherence and efficiency in urban form and structure  
**Spatial scale:** metropolitan

---

**Name:** Public Housing  
**Mechanism:** Direct housing supply  
**Key actors:** State housing agencies, public housing tenants  
**Impact on economic activity:** Direct housing of vulnerable groups  
**Productivity effect:** Additional social housing supply  
**Spatial scale:** state, local

---

**Name:** Planning and land-use regulation  
**Mechanism:** Zoning and overlays  
**Key actors:** Local governments, developers  
**Impact on economic activity:** Limits on spatial development  
**Productivity effect:** More or less coherence and efficiency in urban form and structure  
**Spatial scale:** metropolitan
3.3 Local government housing and economic policy instruments and their economic effects

Local governments operate some interventions into the housing market though these are relatively minor and locally focused in contrast to federal and state interventions (Table 3). The main local interventions in housing are via the specific spatial application of land-use zones that provide for residential housing activity in particular locations and excluded from other locations, within municipalities. Local rates and levies may be considered to be housing-related as these apply specifically to residential activity.

Local government activities are likely to have modest economic effects that are localised in scale, unless replicated systematically across local governments within a metropolitan area. Land-use planning zone application is the main mechanism through which local government has housing effects such as raising or reducing the potential for additional housing supply to be provided in their municipality. Controlling the rate of construction of new dwellings via zoning regulations may allow municipalities, implicitly or explicitly, to preserve the prevailing stock levels (and type) within their area (see inner-city discussion in Chapter 5).

Some local governments provide social housing, however this is relatively rare at the national scale and is not included here.

Table 3: Inventory of local government housing and economic policy instruments and their economic effects

<table>
<thead>
<tr>
<th>Name: Municipal planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanism: Land-use decisions and zoning</td>
</tr>
<tr>
<td>Actors: Local proponents, council staff, councillors</td>
</tr>
<tr>
<td>Impact on economic activity: Local amenity</td>
</tr>
<tr>
<td>Productivity effect: Rate and location of development</td>
</tr>
<tr>
<td>Spatial scale: local</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name: Municipal rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanism: Rates and levies</td>
</tr>
<tr>
<td>Actors: Local councils, households</td>
</tr>
<tr>
<td>Impact on economic activity: Local service delivery</td>
</tr>
<tr>
<td>Productivity effect: Relative cost of housing services within municipality</td>
</tr>
<tr>
<td>Spatial scale: local with state commonalities</td>
</tr>
</tbody>
</table>
3.4 Summary of housing policy instruments inventory

The foregoing discussion demonstrates that there is a wide array of housing and economic policy instruments operating in Australia at multiple levels of government. Indeed, all levels of government in Australia are operating in some way to influence the way the housing market operates. The mechanisms through which governments at different levels intervene in housing are broad, including demand and supply subsidies, fiscal and taxation policy, and regulatory mechanisms.

A notable feature of the various interventions undertaken by governments is the lack of systematic integration between them, and the absence of an overarching policy framework that articulates how these interventions fit within a nationally-coherent set of objectives around housing. The overarching observation of the housing policy instruments identified in Tables 1, 2 and 3 is their disconnection, whether from clear policy strategy or from each other in terms of housing system effects. This appears to be a deficit within the current mechanisms for coordinating housing and economic policy in Australia. Some of the implications of this weak integration are discussed in Chapter 4.
4 The economic and policy dynamics of Australian housing

- This chapter develops the analytical approach used to understand how housing policy and economic policy instruments influence the practices of actors and agents in the housing system.

- A user cost of capital approach is used to understand how various agents and actors respond to shifting market and policy conditions.

- The analytical framework is designed to trace the effects of policy instruments via the notion of ‘transmission lines’ linking actors, housing markets, capital costs and spatial scales.

The foregoing discussion has noted the absence of any substantial conceptual or instrumental account of the interconnections between housing policy and economic activity (productivity or otherwise), within Australia’s multi-level system of governance. Yet, it is well appreciated by scholars, policy-makers and the wider community that housing is an important sector within the national economy. The $6 trillion asset value of Australian housing as a stock is accompanied by approximately $190 billion in annual economic gross value added by the rental and home ownership sectors (ABS 2016). The rental, home ownership and construction sectors all depend on housing demand for their vitality, while housing as a site of social reproduction and consumption has immense economic value in sustaining the labour force while also comprising a major financial asset.

The global financial crisis clearly demonstrates that the health of housing markets is fundamental to the wider economy. Importantly, it demonstrated how a localised disruption in a housing market brought about by a financial correction can have significant global ramifications.

Although housing research has often taken the economic value of the sector as a given, it is less common for housing researchers to attend in detail to the connections between housing (and economic) policy instruments and economic productivity in terms of the relationships within a national economy. This chapter seeks to identify the ‘transmission lines’ through which various elements of housing and economic policy have effects on economic activity through the actions of actors and agents within the housing sector.

These transmission lines are represented in our housing policy framework. In developing this framework, it was necessary to identify and define key attributes of the housing economy, specifically:

1. housing market actors
2. housing market actor motives
3. housing market complexities.

The housing policy conceptual framework provides a means to consider the (spatial) implications of a policy change on the behaviour of diverse housing market actors. The actors’ likely behavioral changes are considered by applying the concept of the ‘user cost of capital’. As the user cost of capital measure includes purchase price, ongoing costs and expected capital appreciation, it allows for consideration of those market actors holding a housing asset, those using the asset in the rental market, and those hoping to enter the market.
4.1 Housing market actors

We use the notion of economic actors and agents to develop our housing policy and economic transmission framework. Economic actors and agents are individuals or households that pursue their housing objectives through market (and non-market transactions). In this analysis, we focus only on market actors. Eight key actor groups that operate within the housing economy are identified (Table 4). The list comprises two groups: demand- and supply-side actors.

Table 4: Housing market actors according to roles and gross economic effects

<table>
<thead>
<tr>
<th>Effect</th>
<th>Actor group</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand</td>
<td>Rental investors</td>
<td>Households seeking to purchase dwellings for investment purposes</td>
</tr>
<tr>
<td></td>
<td>First home buyers</td>
<td>Households seeking to buy their first property, the group is often discussed in the context of housing affordability</td>
</tr>
<tr>
<td></td>
<td>Repeat home buyers</td>
<td>Households looking to up- or down-size in quality or size. Such events are often associated with life stage transitions</td>
</tr>
<tr>
<td></td>
<td>Renters</td>
<td>Households making periodic payments so that they can live in dwellings that they do not own (either outright or via mortgage)</td>
</tr>
<tr>
<td>Supply</td>
<td>Vendors (established dwellings)</td>
<td>Entities looking to divest themselves of their investment property or primary place of residence</td>
</tr>
<tr>
<td></td>
<td>Raw land vendors</td>
<td>Entities supplying brownfield, in-fill or greenfield development sites</td>
</tr>
<tr>
<td></td>
<td>Land developers</td>
<td>Entities facilitating the development of land, typically in the outer regions, for dwelling construction</td>
</tr>
<tr>
<td></td>
<td>Property developers</td>
<td>Entities specialising in constructing property including high-rise</td>
</tr>
<tr>
<td></td>
<td>Builders</td>
<td>Organisations specialising in the construction of buildings, typically more focused on residential housing</td>
</tr>
</tbody>
</table>

These groups are not necessarily mutually exclusive, further, within each group there is a high degree of variation and overlap. For example, on the demand side:

- Investors may be households looking to fund future retirement or it may be individuals looking to live off investment proceeds through the ownership of multiple properties.
• First home buyers, although probably containing the least degree of variability, come in various forms including the single professional and the household comprising two wage earners and multiple dependents.

• Repeat buyers could represent the retiree looking to move into more age-friendly accommodation or the newly formed family transitioning from an inner-city apartment to a free-standing dwelling on the urban fringe.

• Renters can range significantly, including low-income households unable to purchase a dwelling or indeed be relatively high-income households looking for short to medium-term accommodation induced by employment opportunities.

On the supply side:

• An established house vendor could either be a repeat buyer or investor.

• Raw land vendors could be once-farmers owning vast amounts of land or those within inner suburbs subdividing their current (and only) land holding.

• Land developers have many forms including those facilitating the development of residential and industrial properties.

• Similar to land developers, property developers also come in many forms, including multinationals specialising in large-scale dwellings and boutique firms specialising in unique development forms.

• Building forms vary considerably as do the construction skills.

In short, this summary demonstrates that actor groups are distinct, each containing a high degree of variation. A necessary quality of any housing policy framework is therefore to capture the scope of actors as well as their inherent variation—something we have been careful to include.

4.2 Motivations of housing market actors

If actor motivations are to be understood, it is necessary to first define the field of operation, that is the economy. Only once ‘economy’ is defined will motivations become tangible.

James (2015) defines the economy ‘as a social domain that emphasises the practices, discourses, and material expressions associated with the production, use and management of resources’. In addition, we consider the economy as a sphere of activity dedicated to the maximisation of wellbeing, where wellbeing is subjective and means more than just accumulation of wealth—thus representing a more holistic view.

To understand the likely behaviour change of market actors, we frame expected behaviour changes around the user cost of capital and the components therein. The user cost of capital captures three costs, each of which will flow through to actors’ decision-making in different ways and in different magnitudes (Brown, Brown et al. 2011):

• Acquisition cost, which comprises the purchase price and lump sum closing costs such as conveyancing costs and stamp duty.

• Operating and other periodic costs, such as depreciation, maintenance, local government rates and interest charges on capital borrowed.

• Expected capital gain, net of tax and transaction costs, which represents a negative cost.

Included in the second group (operating and other periodic costs) are economic depreciation of the building, maintenance and other costs of ownership, such as local government rates, any
interest paid on funds borrowed to finance the purchase and income tax paid on net income or income tax saved through negative gearing if the property is a rent-paying investment.

The standard economic application of the user cost of capital is to identify the optimal level of investment, that is, where the marginal return of holding one unit of capital equals the user cost of capital. Our application here differs in that we use the composition of the user cost to conceptualise actor behaviours. By examining the likely effect of policy changes on each of these costs, we can anticipate possible changes in the market (Poterba and Sinai 2008).

Following on from our definition of economy, it is important to stipulate that each of these costs are not just an accounting construct. For example, acquisition cost is partly determined by actors maximising their utility (also sometimes referred to as satisfaction or wellbeing) subject to their budget constraints. Here we consider subjective wellbeing as a proxy for utility assuming that an individual’s wellbeing is dependent on a range of tastes and preferences, needs and necessities, both of their own and their household members. Accordingly, we assume:

- Actors maximise their (subjective) wellbeing subject to budget constraints.
- The greater the subjective wellbeing derived from certain housing attributes, the greater the demand observed in the market for those particular attributes and the higher the acquisition price associated with them.

Further user costs, particularly acquisition cost, are a function of prevailing economic and market conditions comprising factors that change across time and circumstances.

In summary, there are three actions any agent may have the potential to undertake—buy, sell or hold-off. The user cost of capital taxonomy provides a means to understand the rationale for these actions. Importantly, the user-cost of capital underpins our housing policy framework.

Employing the user-cost trichotomy provides the means to anticipate agent behaviour and thus the (ultimate) effects on economic activity. Importantly productivity (one aspect of economic activity) has several drivers, some are short-run—others long-run. Several theories exist as to what drives economic growth and productivity, one example is:

> All determinants of productivity growth and efficiency gains are fundamentally the result of, first, individual economic calculation, and second, individual human action. (Allen, Wild et al. 2016)

These individual actions, such as where to live and how much labour to supply, collectively lead to macro-economic effects, such as labour force participation rates and mobility. Growth patterns of various forms of residential housing are driven by individuals subject to budget constraints. Policy that adjusts the budget constraints of particular groups can lead to changes in spatial dispersion of the workforce, labour force participation, consumption patterns, general wellbeing and subsequently productivity.

Interestingly the focus here is being ‘individual’, therefore in the context of our analysis productivity is directly affected to the extent that the housing market enables or inhibits individual calculation and action (Allen, Wild et al. 2016). Such enablers may include, for example, happiness (Oswald, Proto et al. 2009) and efficient matching skills with job opportunities (McGowan, Andrews et al. 2015).
4.3 Complex environment

There are many complex dimensions to housing. In this section, we identify key influences on housing. This is followed by an outline of dimensions that overlay the influences.

In Figure 2 below we have provided a conceptual overview of nine important influences. The style of diagram is deliberate, demonstrating pictorially that housing is defined by these different influences. Specifically:

- **Architecture**—dwelling design is crucial as it influences the occupier and the community at large. In particular, the design of buildings has the potential to influence prices of neighbouring properties also.
- **Culture**—the growing acceptance of the apartment lifestyle is an important consideration for all economic actors—this will have wider economic consequences such as the provision for public infrastructure.
- **Demography**—demand for housing, including volume and segment preferences. House types have been slowly changing over the past decades. Growth in smaller households is likely which will necessarily influence the new dwelling mixes.
- **Engineering**—new advances in building materials that are lighter and more durable or less input intensive can significantly change build times and overall costs.
- **Environment**—the preservation of local ecosystems and the value of greenery are important aspects of new developments. Further, art installations also have the potential to change the feel and therefore value of the community.
- **Geography**—local developments are heavily influenced by topography, soil types and landscape factors.
- **Health**—consequences for demography as well as necessitating design requirements for dwelling quality, such as buildings that are more age-friendly will be necessary.
- **Taxation and law**—tax law in terms of the tax treatment of housing and the legal arrangements around housing and housing wealth is likely to affect housing outcomes. For example, changes in capital gains tax and so-called negative gearing could significantly influence housing.
- **Politics**—public contestation of regulatory and investment in housing, such as via planning controls and strategies are all factors that influence housing activity.

Overlaying these influences are a number of dimensions. For the sake of brevity, we outline four.
4.3.1 Governance

There are three layers of governance in Australia—federal, states and territories (6+2), and local governments (556). Each of these can change regulation, legislation and therefore affect housing activity. In addition, there are a set of ‘autonomous’ government bodies that can also influence the market. This includes those with financial oversight such as the Reserve Bank of Australia and the Australian Prudential Regulatory Authority as well as those more directly linked with housing, such as the Australian Building Codes Committee, which has oversight on the minimum construction code standards.

4.3.2 Space

Housing patterns can be spatially specific. Different locations have different attractions. Some suburbs within Melbourne’s metropolitan area are well known for their leafy character whereas others are valued for the vibrant culture and nightlife. Further, topography also has a major influence on the character of an area economically and socially. Compare, for example, the acute topographical challenges Sydney is grappling with compared to other major centres including Melbourne and Adelaide which are naturally endowed with relatively more opportunities for greenfield development. Importantly, because housing is different by location, changes in price and costs will be augmented by location.

4.3.3 Time

Semper mutans (always changing) is a key characteristic of housing (and more broadly the economy). Many articles have demonstrated the unique evolution of the different segments of housing markets (see, e.g., Wood, Sommervoll et al. 2016). Importantly, this means that the sensitivity of the components of user costs will also vary over time according to changing market conditions.
4.3.4 Use
Housing is not like any other good or service. It is a durable good that simultaneously provides service to owners and occupiers as well as the local community and is often the largest purchase a household will ever make. For renters, it is likely to represent the largest weekly expense. This means decisions to consume housing are likely to be strongly hyperopic, that is long-term factors heavily influence the ultimate decision. It is well known that housing decisions are not necessarily financially motivated. For example, conclusions from an ABS (2010) survey indicate that employment reasons are less influential than ‘housing’ or ‘family’ reasons. Thus, housing is distinctly peculiar as a use value despite its status as an economic asset.

In summary, the discussion in this section demonstrates that housing is a complex phenomenon subjected to many influencing factors. The housing policy framework we develop has taken this into account. In particular, it does not offer predictive insight into the most likely outcome per se, rather having taken into account the complexity in actor motivations, potential actions—via the user cost of capital—as well as noting the many ‘voices of influence’ it provides a framework for policy-makers, advocates and researchers to trace through and identify the potential range of likely outcomes.

4.4 Housing policy framework
In this section, we set out our Housing Policy Framework (Figure 3 below). Given that the focus of this report is on governance, that sector appears at the highest level within the framework. However, the framework is flexible enough to accommodate the analytical path, commencing at any point of the strata identified.
Our housing policy framework is made up of eight strata. Although seemingly presented as a hierarchy, the ordering is convenient as it reflects the research objective of this investigation. Further, each stratum may also be split according to intent, for example, in some situations it may be desirable to respecify location to include regional and rural areas.

Note we distinguish between the notion of a ‘housing policy framework’, which pertains to the overall national approach to housing and economic policy, and the notion of a ‘transmission lines framework’ which relates to the specific pathways via which economic action is transmitted through the housing and macro-economy.
4.4.1 Government policy-making
Consistent with the objective of this research, we have divided government into three tiers noting that within each layer there also exists a set of bodies that have differing functions and jurisdictional responsibilities. For example, the Reserve Bank of Australia and the Australian Prudential Regulation Authority are separate entities that have complementary responsibilities for macro-financial regulation.

4.4.2 Policy targets
Dwelling assets and services overlap as the stock of dwellings provides the flow of housing services to users. The asset side refers to the wealth obtained from holding the dwelling. Services are the benefits received from having a secure dwelling including those fundamental needs relating to having safe and secure shelter.

4.4.3 Actor groups
We identify eight key actor groups as exemplars. It is likely that the impact of policy changes will vary significantly within each of these groups. Consider, for example, the repeat buyers looking to secure a home for retirement compared to the household looking to upsize to accommodate the needs of a growing household. Importantly, understanding the range of responses of actor groups is essential for effective policy formation.

The user-cost of housing mechanism is the underlying mechanism used to facilitate an understanding of the expected behaviour of various actors in the market. As stated earlier, it is commonly crafted as having three components:

- Acquisition cost, which comprises the purchase price and lump sum closing costs such as conveyancing costs and stamp duty.
- Operating and other periodic costs—included in this second group are economic depreciation of the building, maintenance and other costs of ownership, such as local government rates, any interest paid on funds borrowed to finance the purchase and income tax paid on net income or income tax saved through negative gearing if the property is a rent-paying investment.
- Capital gain, net of tax and transaction costs, which represents a negative cost.

Finally, we note that no actor is an island. If one actor changes their behaviour then potentially all actors are influenced, depending on the scale of their action. Below, we briefly explain how change in policy has been played out.

4.4.4 Stock and service price effects
Directly related to wealth is the price/value of a dwelling. Importantly, wealth is more than just a function of price. Factors that affect the cost of housing services may include rental rebates, tenancy laws, etc. It is not possible to determine the effect of policy changes on stock and service outcomes without a comprehensive econometric analysis. We note a major limitation of most contemporary policy development is a lack of a comprehensive evidentiary and analytical base to inform policy directions. Such an analysis requires investment in data and personnel—investment that does not seem to be favoured by current authorities.

4.4.5 Outcomes relating to stock and service
As our diagram indicates, outcomes will vary across various dimensions. In addition to the factors discussed in the previous section, we have included size and form as well as access to services. Size depicts the physical size of the dwelling while form is the distinction between building types, such as stand-alone houses versus terraced or apartment buildings etc. Importantly, these factors will inevitably be linked to the type of household (see below).
4.4.6 Location
As discussed in the previous section, outcomes vary by location. Actors will modify their strategies across location reflecting local opportunities.

4.4.7 Housing outcomes for household types
Demography is a major determinant, as discussed above. The influence of policy change will significantly influence the overall impact. The taxonomy presented in the diagram captures aspects of life-cycle stages as well its variations—for example, consider the multigenerational households comprising an aged couple as well as two-parent families.

4.4.8 Macro-economic effects
It has been noted previously that understanding the different determinants of long-term economic growth and productivity is much like the search for the Holy Grail (Davidson and de Silva 2012). Everyone knows what it is, yet finding its exact location is problematic. It is therefore not surprising that researchers and housing stakeholders (more generally), to date, have struggled to scope and measure direct links between housing and productivity phenomena.

Nonetheless, we have been careful to explore the latent links between housing and the four economic foci of this AHURI Evidence-based Policy Inquiry. As noted previously, housing does impact on productivity. This includes the impact of dwelling and location quality on a labour market participants’ happiness. Individual happiness is also likely to influence innovative endeavour and thus productivity gains resulting from entrepreneurial and firm level activities. Further a firm’s willingness and ability to adopt new technologies is also likely to reflect the level of job matching efficiency.

However, the framework is general enough to accommodate any number and type of outcome. In summary, our framework provides a conceptual key to connecting the linkages that lie between policy changes and outcomes. We demonstrate this in the following section by way of an example using a currently-debated policy instrument via its objectives and housing market effects on various actors.

4.5 Applying the framework: macro-prudential and financial regulation
Australia’s housing system is intrinsically linked to the financial system via the economic status of housing as a durable use value and a typically large exchange value. In this chapter, we explore significant policy levers of influence, in particular those that influence the supply of credit, principally home mortgages. Importantly, this is not a complete set of policy levers—there are many other subtle and coarse measures that can, and frequently do, have an economic effect on the housing system. Further, regulation of Australia’s financial system is regarded as distinctive when compared to many of our major trading partners due to its independence from government.

In the diagram below, an overview of the four main entities that regulate the financial system are identified. It is notable that only the Treasury sits within government.
Each of the entities in the first row has the capacity to significantly influence the housing system, particularly mortgage lending. In the remainder of this section we review three mechanisms through which actions by the Reserve Bank of Australia (RBA) can influence housing activity. The Australian Prudential Regulatory Authority (APRA) and Australian Securities Investment Commission (ASIC) in exercising their responsibilities as regulators have the capacity to moderate the behaviour of financial lenders. APRA’s charter requires it to ensure the integrity of the entities that lend or invest while ASIC’s role is to ensure that consumers and investors are ‘well-informed’ in consuming financial and investment services.

Treasury’s fiscal and financial influence upon the housing sector is complex, though it is typically guided by government policy rather than by statute as the independent regulatory agencies are. Treasury can apply housing-specific policy instruments such as first home buyer grants or changes to superannuation tax rates which can have an indirect effect on housing wealth. Importantly, its influence is non-trivial but is inherently difficult to be precise over space and time.

The second row of entities complement the main financial regulators. Importantly, they assist in facilitating economic regulation and influencing conditions. The Australian Competition and Consumer Commission (ACCC) enforces the Competition and Consumer Act. In recent years, it has had the responsibility of endorsing financial mergers and acquisitions for Government Approval where market competition for financial services may demand consideration, such as Westpac Bank’s takeover of St George’s Bank in 2008. The Australian Tax Office (ATO) administers the Australian Government’s Tax policy. This includes facilitating policies such as negative gearing and capital gains tax. Being a ‘non-corporate’ Commonwealth entity, it has no discretion to change the economic environment, rather it implements legislation determined by the Federal Parliament. The Australian Bureau of Statistics (ABS) provides data and analysis to key stakeholders in the Australian economy. Much of this data is publicly available providing information and commentary about conditions in the housing system, such as the number and value of loans made to investors to the wider community. The Australian Transaction Reports and Analysis Centre (ATRAC) oversees the compliance of businesses with respect to criminal activities such as money laundering.

Importantly, none of the policy or regulatory entities is specifically assigned to monitoring the housing system. Rather, each entity is tasked with a particular responsibility that contributes to overall financial system and economic stability. Therefore, it is only as far as housing activity affects overall financial and economic stability that these macro-prudential entities may choose
to influence an aspect of the housing system. This suggests that the degree to which any such entity focuses on the housing system may vary over time depending on its particular priorities.

Further, we note that the second row (Figure 4) of regulatory entities are not tasked with monitoring economic stability per se and as such do not exercise any substantive influence over the housing market. Although it may be argued that the ACCC can influence the housing market directly in monitoring mergers and acquisitions—including across all stakeholders such as construction as well as finance—within its mandate of facilitating competition. The entities administering the financial system control are not explicitly identified in the framework proposed—rather they are latent in the federal domain.

### 4.5.1 Policy overview

Prior to descending through the framework, we need to briefly explain the policy context. The Australian Prudential Regulatory Authority (APRA), established on 1 July 1998, is the prudential regulator of the Australian Financial Services Industry. The role of APRA is to regulate the behaviour of financial institutions that engage in lending and investment activities, including banks, building societies and credit unions. It also oversees a large proportion of the superannuation market. APRA is independent of government and is largely funded by the industry it regulates through various fees and levies.

A major activity of APRA is the implementation (and interpretation) of recommendations arising from the Basel Committee via mechanisms known as the Basel Accords. These comprise a series of agreements, each seeking to strengthen the resilience of the (international) banking system to shocks and disruptions.

Australia’s financial system is arguably one of the most deregulated financial markets in the world. Many of the companies that operate in Australia are best described as financial conglomerates, that is, each company has many and varied financial interests both domestically and offshore. Further, there is a high degree of company heterogeneity in terms of major shareholders and corporate governance.

### 4.5.2 Government policy-making

Globally, implementation of macro-prudential policy has been growing (Lim, Columba et al 2011). Many countries have restricted the types of loan products that can be offered to consumers with the objective of slowing down housing market activity. For example, the New Zealand Government has restricted the amount that can be loaned under particular circumstances in response to a fear of a high-risk housing market bubble.

This type of approach is different to what has generally been practiced in Australia to date—see, for example, de Silva, et al. (2015), although recently APRA has demonstrated its capacity and willingness to engineer a similar policy measure. Specifically, APRA has required major bank lenders to hold greater capital. They have engineered this by requiring banks to increase the risk weight with respect to Australian residential mortgages from 16 per cent to 25 per cent. Further, it has been reported that APRA does not rule out targeting the Sydney and Melbourne market.

### 4.5.3 Policy targets

In this part of the framework, the macro-prudential policy targets set by APRA in concert with other agencies are not the dwelling per se. Rather, the policy instrument addresses the institution that lends the money to purchasers to facilitate the purchase. It is therefore likely that it will primarily have an impact on the asset price. Given the change towards more sensitive permissible risk settings on the part of banks and how these have been manifested via the banking system, specifically increasing the credit costs to investors, it is likely that macro-prudential regulation of this sort will dampen activity in this sector.
Superficially, it may be that dwelling services may improve for those in direct competition with investors though this is likely to be an impact at the margins and only in aggregate.

### 4.5.4 Actor response

Nine actor groups are identified in our housing and economic policy framework. An overview of the likely effect by the components of user-costs by each actor group is provided in Table 5 below. Importantly, the entries indicate a likely transmission direction only—they do not anticipate the ‘flow’. We note that there is likely to be a considerable amount of variation in the magnitude of the flow within each actor group.

**Table 5: User cost of capital and probable responses of housing actors**

<table>
<thead>
<tr>
<th>Actor group</th>
<th>Acquisition cost</th>
<th>Operating and other periodic costs</th>
<th>Capital gain</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demand</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental investors</td>
<td>Increase*</td>
<td>Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>First home buyers</td>
<td>Decrease</td>
<td>Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>Repeat home buyers</td>
<td>Decrease</td>
<td>Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>Renters</td>
<td>NA</td>
<td>Increase**</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Supply</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vendors</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Raw land vendors</td>
<td>N/A</td>
<td>Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>Land developers</td>
<td>N/A or decrease?</td>
<td>Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>Property developers</td>
<td>N/A or decrease</td>
<td>Decrease</td>
<td>Decrease</td>
</tr>
<tr>
<td>Builders</td>
<td>Decrease</td>
<td>N/A</td>
<td>Decrease</td>
</tr>
</tbody>
</table>

*assuming the investor is borrowing funds to facilitate the purchase and no significant changes to prices occur. ** We assume that renters do not own (other) properties. In reality, the probable responses will vary on a case-by-case basis, therefore these entries should be ultimately regarded as a likely outcome in the aggregate.

Source: Authors.

According to economic theory, the tightening of lending criteria for housing will, *ceteris paribus*, subdue housing demand. Notably, given the particular impact on investors, it is likely to soften investor demand specifically. Interestingly, the implementation of this new APRA requirement has coincided with a significant downturn in investment housing commitments (ABS 2015)—reported to be 8.5 per cent. This is due, in part, to the banks passing on the costs of this new
requirement. Westpac in particular, which is a major lender to investors, has increased its rates on investment loans by 10 to 40 basis points.

This decrease in investor activity manifests within the Rental Investors ellipse. In addition, it is likely that those actors dealing with new supply may decrease activity as a result of less investor interest. First home buyers, on the other hand, may have greater opportunity to purchase a (more desirable) dwelling as they are relieved of competition (to a degree) from investors. The effect of repeat home buyers and vendors is unclear as this group benefits and loses from softer housing demand, being more able to purchase new property but less able to sell their existing property. Arguably, such changed demand conditions are more likely to favour the up-sizer than the down-sizer, assuming investor activity is more concentrated in the smaller dwelling markets.

4.5.5 Stock and service price effects in market segments
It is likely that the effect of tightening lending criteria will dampen activity in the market, however, it is not possible to determine the counterfactual as the economy is *semper mutandis*. We would expect prices to be lower than they might have been otherwise in market segments that attract investors which would indicate that the costs of services are also decreasing for home owners. Importantly, if the dampening effects were large, it could conceivably increase the costs of services to renters in particular locations.

4.5.6 Outcomes relating to stock and service effects
A tightening of lending criteria is likely to have a greater effect on small-scale rental investors, in particular owners who may be looking to grow wealth by accessing equity (for a deposit) in their current property to secure an investment property.

Limiting home owners with accumulated housing equity access to credit to invest in housing may result in a redirection of investment into the owner-occupied home—capital improvements in the own home, renovating or knock-down rebuild would improve the housing services for the home owner. Trading up may result in an increase in demand for 'Blue chip' housing stock—as 'would be' investors consolidate housing equity into one rather than multiple properties.

Affordability of housing stock providing basic housing services should improve for those seeking to access home ownership. However, those accessing housing services through the rental market may be negatively affected through a reduction in supply and/or a transfer of increased credit costs to those consuming the housing services. Available rental housing may become less heterogeneous and spatially diverse.

Conceivably smaller dwellings (i.e. apartments and units) are more likely to be affected than larger established houses. Due to the market’s complexity, however, we are unable to state an overall effect noting that it is a ‘micro’ story that very much depends on local demand and supply conditions at a particular point in time.

4.5.7 Location and spatial effects
Interestingly, given the investor focus, it is likely that inner areas of Australia’s major cities, particularly Melbourne and Sydney, are likely to be most affected by the macro-prudential policy changes. These markets have a relatively high proportion of household-renters and therefore (we would anticipate) a high proportion of housing investors as dwelling purchasers.

Conversely, outer areas are likely to be less sensitive given the higher share of owner-occupiers among users of housing in these zones.

4.5.8 Housing outcomes for various cohorts
Anticipating the particular effect of policy instruments on different household types is non-trivial given that within each type there will be variation across income and life stages. Further, a subdued market may have negative and positive impacts within the same group. Consider an
aged couple who are 10 years into retirement looking to release equity in their primary place of residence, either through downsizing or an equity product. Dampered prices will result in less cash flow to facilitate lifestyle choices and needs. Conversely, an aged couple earlier in their retirement phase looking to invest in housing may find it now more attractive to purchase a property for retirement purposes, whether it was to sell for future capital gains or move into in the years to come.

4.5.9 Macro-economic effects

Further macro-economic effects in relation to the four key topics investigated by the AHURI Inquiry can be surmised in summary form as follows:

Housing supply responsiveness—a softening of market activity is likely to lead to dampening of supply resulting from profit margins becoming tighter.

Consumption—consumption will vary according to the market segment, i.e., home buyers with mortgages may have more discretionary income as a result of lower prices and lower loan repayments, although this is likely to be marginal given the typical duration and interest rates on home loans.

Home buyers with mortgages will have more in their discretionary budget than they might otherwise have had. Renters, if the dampening of investor activity is significant, might consume less having to trade into higher rental costs.

Labour mobility—low-skilled job seekers who are renters may find it more difficult to access employment opportunities close to inner areas if the dampening is significant, leading to a more competitive rental market. Conversely, low-skilled job seekers who are looking to purchase may find increased opportunities depending on the peculiarities of local markets.

Employment decisions—similar to labour mobility, the effect of a dampening of investor activity will vary according to household demographics. Households nearing retirement may be encouraged to stay in employment longer if the anticipated capital gain decreases. Alternatively, for those households with sufficient savings it may result in some leaving the workforce earlier if the extent to which prices are subdued more than offsets the increase in costs of credit.

4.5.10 The multi-level governance and spatial effects of housing economic instruments at varying spatial scales

The foregoing chapter has both demonstrated and argued that an analytical framework is needed to better conceptualise how housing and economic policy instruments are articulated within the housing system in Australia at multiple governance levels and at different spatial scales and segments within the housing market. The chapter further identified the need for a coherent understanding of the application of specific policy instruments by different levels of government and to trace their effects via the housing system. To do this, it argued in favour of a housing and economic policy framework that applies the notion of the ‘user cost of capital’ to understand the utility (or wellbeing) maximising behaviour of actors and agents in the housing system. The user cost of capital was thus able to be used to trace the ‘transmission lines’ through which housing and economic policy instruments had economic effects in housing.

The framework was applied to the currently highly debated topic of macro-prudential regulation as enacted principally by the Australian Prudential Regulation Agency to moderate aggregate risk levels in the housing market, particularly around apartment production. This involved identifying how that policy is coordinated among agencies with complementary roles at the federal level and then charting its influence through various scales and types of actors within the housing system. By using this approach, the complexity and contingency of housing policy instruments at the individual scale could be discerned though with more certainty at the aggregate scale. In the case of macro-prudential regulation, the policy was observed to likely
affect particular housing actors, principally investors, which appears to be an ostensible aim of the policy, though with a diffusion of wider effects through the housing system and a number of unknown second-round effects. The policy was also observed to affect particular spatial sub-markets, principally the investor apartment market.

The example we selected is just one of many that could be chosen from the set of policy instruments we identified in Table 3 above.
5 Applying the economic framework to housing at varying spatial scales within Melbourne

- Three focus groups involving a mix of participants in the land development and housing industry and regulators, were used to test the analytical framework at three spatial scales: inner-city, middle suburban and outer/peri-urban and the influence of macro-prudential regulation; foreign investment laws; urban growth boundary strategic planning; and local government development controls.

- The focus groups revealed a general understanding of key housing policy instruments. Direct tangible constraints on development, such as planning regulations around building design were appreciated more sharply than, for example, the availability or cost of capital as provided by the major lending banks.

- Productivity was understood in terms of the efficiency of delivering dwelling stock to the market relative to capital, holding, development approval, financing and marketing costs. Respondents did not articulate extensive understanding of economic productivity questions.

- The framework was found to be broadly valid, however, the housing system and actor practices within it are highly complex and do not directly reflect theorised expectations.

The preceding discussion has established an economic framework for understanding relationships between housing policy instruments and the anticipated behaviour of economic agents and actors in relation to the costs of capital. The research is designed to test the policy and economic theoretical perspective against the understandings and reports of real actors within the housing system whose role it is to produce and manage the supply of housing. This testing of the research framework was undertaken via three focus groups corresponding to three spatial scales within metropolitan Melbourne that were of interest to the research—inner urban development, middle suburban development and outer- or peri-urban development. These scales reflect those used by Gitelman and Otto (2012) and as applied in the other research within this Inquiry. Melbourne was selected because as Australia’s fastest growing metropolitan region it is likely to be more sensitive to economic policy shifts that affect decisions by users of capital within the housing system.

The focus groups were conducted in August 2016 at RMIT University, and respondents were selected via a key contact snowball recruitment process. This process sought to bring a mix of participants in the land development and housing industry and regulators into structured conversation around the key housing and economic policy instruments identified within the conceptual and theoretical review phases of the research. Three focus groups were held of approximately eight participants per group. Participants were provided with a pre-circulated paper outlining the research and an outline of the conceptual approach to understanding the nexus between housing and economic policy. It was suggested that this was a useful way to explore how policy levers may affect housing investment flows by recognising:

- acquisition cost—upfront purchase costs
- operating cost—ongoing user costs
• capital gain or loss—change in the value of the residential housing asset.

The paper also invited participants to consider four ‘case study’ policies that shape housing development: macro-prudential regulation; foreign investment laws; urban growth boundary strategic planning; and local government development controls. The paper presented a short background discussion of each issue and posed a set of discussion starter questions. This provided some detail on the particular housing system contexts within each spatial zone (Appendix 1). The focus group discussions were recorded and transcribed and then analysed. Analysis within the report is presented using the growth area, middle ring and city core spatial scale that was used to comprise the focus groups.

5.1 Key policy instruments

5.1.1 Macro-prudential regulation
Macro-prudential regulation refers to the rules set by the Australian Prudential Regulation Authority on bank risk profiles. From 2015, APRA has initiated macro-prudential policy measures aimed at addressing concerns about financial stability. As of 1 July 2016, APRA now requires major deposit-taking (and lending) institutions to increase their capital reserves by increasing the risk weight applying to Australian residential mortgages from 16 per cent to at least 25 per cent in order to enhance internal capital adequacy of banks’ risk provisions. The mechanism of change is to the internal risk assessment models used by the banks as certified by APRA for this purpose. This change reflects Australia’s ratification of the global Basel Accords on financial regulation and capital adequacy of banks globally following the Global Financial Crisis.

5.1.2 Foreign investment regulation
The Foreign Investment Review Board (FIRB) requires all foreign persons to obtain approval before purchasing a dwelling or land in Australia. The approval incurs a fee of at least $5,000 and, once approved, purchase is limited to a new dwelling only. The aim of the residential real estate foreign ownership rules is to encourage increased housing supply through foreign investment into new dwellings ‘as this creates additional jobs in the construction industry and helps support economic growth’ (FIRB 2016). The FIRB prohibits the purchase of existing dwellings on the grounds that this increases demand, which flows through into price increases. Over the past twelve months the Federal Government has been proactive in applying foreign investment rules prohibiting the purchase of existing dwellings. This includes the forced divestment of properties held by foreign owners who have breached investment rules by purchasing existing dwellings.

5.1.3 Growth boundary
The Urban Growth Boundary (UGB) is a Victorian Government planning instrument that is intended to provide a spatial constraint on the urban expansion of Metropolitan Melbourne. The UGB is a state instrument, but is applied via Local Government planning schemes. The UGB was established in 2002 via legislation and has been amended and altered a number of times since by the Victorian Government.

5.1.4 Development controls
Development controls comprise state and local government statutory planning regulations concerning the type and location of land-uses and the scale, size and height of development on that land. In the case of housing, state residential design rules specify the differing development types permitted within designated land-use zones. Local governments have discretion to determine the spatial extent of state land-use zones via local planning schemes, subject to state
approval of their application. Development controls vary according to residential land-use and building type, such as single-detached versus multi-unit residential buildings.

5.2 Housing development in the inner-city core

Melbourne’s inner-city housing market comprises a mix of dwelling types typically at relatively high dwelling densities compared to middle or fringe developments. There is extensive development of attached one and two-storey dwellings in the areas extending a few kilometres around the CBD. The CBD zone is almost entirely comprised of apartment stock, most of which is above six stories. Apartment development has expanded since the late-1980s reflecting economic restructuring that favours decentralisation of economic activity via knowledge-based work over historical (post-war suburban) manufacturing employment. Land prices have increased due to market demand for CBD proximate housing, providing a spur to additional development. Within the CBD, high rise apartment towers of over 50 storeys proliferated during the 2010s. The economic factors behind this expansion in apartment housing include population growth and consequent demand for dwellings as well as a confluence of international factors that have positioned Melbourne as an attractive destination for overseas investors seeking to locate capital within Australia’s regulatory environment. Factors of importance to the inner-city housing market include macro-prudential and overseas investment regulation as well as planning controls around the height of apartment blocks and internal apartment size. These two factors of height and size in part determine the profit yield of the development as the greater the height the more floors that can be incorporated while smaller apartment sizes allow for greater numbers of units per floor.

The central city apartment market has become a topic of considerable controversy in Melbourne during the 2010s as an influx of foreign investment has stimulated extensive development. This has coincided with a relatively permissive approach to height and design controls that have raised public concerns about the habitability of small apartments, particularly those with limited light access and ventilation, as well as the building bulk relative to the scale of surrounding development, including overshadowing and intrusion into the Melbourne skyline. Consequently, the Victorian Government in 2015 initiated reviews of building height regulations (DELWP 2015) and of apartment design standards (Department of Environment 2016). These regulatory changes propose to limit the ratios of building floor area to height and to require improved apartment design around light access, ventilation and storage. Necessarily, regulation limits the potential design and construction avenues available to the development sector.

Beyond questions of design and height, considerable public debate in Melbourne concerns the sustainability of the growth in the CBD apartment market, especially concerning the level of influx of foreign investment relative to underlying residential demand. During 2016, a number of media articles raised the possibility of market instability should the foreign investment apartment market experience a negative shock. Sitting behind some of this anxiety is the reliance of the Victorian Government on stamp duty revenue from property sales and the demand of the apartment construction industry for construction labour.

5.2.1 Macro-prudential regulation and inner-city housing

Macro-prudential regulation via APRA has the potential to affect investment in apartments by requiring greater risk assurance from lending institutions, principally banks. Focus group participants with inner-city interests were very aware of recent macro-prudential regulations introduced by the Federal Government that required banks to reduce their lending risk. The effect on investor capacities to borrow for housing investment, which in the CBD is universally for apartments, was widely appreciated.
One of the practices observed is that the requirement for banks to reduce their lending risk was affecting particular apartment sub-markets. In particular, the foreign purchase market, especially where the purchase is for investment rather than occupation, was seen as particularly affected by APRA rules. Developers perceived banks as disregarding foreign purchases in their lending decisions based on pre-sales, given the risk profile they were seeking in their lending and the dangers of further regulatory impost or external shock on the apartment market. This means that developers requiring pre-sales in order to obtain finance to commence a development now need to have 100 per cent non-foreign pre-sales.

The rapid change in the macro-prudential rules was seen by participants as having immediate effect on the apartment-lending market in Melbourne’s CBD. One major bank that historically has lent extensively to apartment developers and also has a high market share in lending to foreign investors was described as withdrawing almost immediately from financing foreign purchase of new apartments in the Melbourne CBD following the new macro-prudential rules. This withdrawal in turn was said to have sent economic ripples through the sector as it raised linked uncertainties about both the direction of the market and the availability of credit.

Another dimension of the perceived tightening of credit availability has been the valuation advice provided to lending institutions. Participants reported that property valuation agencies have begun discounting the sales values of new apartments in the order of 10–30 per cent. For some developers, this was viewed as being an overly cautious response given resale values. This, in turn, has implications for purchasers who have placed a pre-sale deposit on an apartment. If those purchasers face unexpected constraints in accessing credit for apartment purchase, then they may face foreclosure on their deposit or may need to source credit from alternative lenders. That, in turn, leads to increased borrowing costs and reduces their own appetite for purchase.

This tighter macro-prudential environment was viewed as highly uncertain and with information constraints about the direction the market was heading in terms of investor and purchaser demand and the viability of future apartment developments. The market was viewed as highly sensitive to negative information within the context of a news media that was seeking sensational stories of developer woes or wider negative market patterns. Some participants felt that the media played an unconstructive role in providing public information about the apartment market and was focused on finding salacious material reflecting some previous instances of shoddy development or of financial failure of apartment developments in which investors had lost considerable sums. In some instances, participants considered the media to have misreported lending institution motivations and response to macro-prudential regulation, particularly around current portfolio versus new lending risk management.

Focus group participants noted that a critical market signal is the resale value of central city apartments. These were treated as a form of third party market test of the apartment valuation beyond those with a direct interest in the production of the apartment, its initial sale or valuation. Participants argued that developments that were experiencing resale price growth could be treated as indicating continued demand for that development type and quality and which merited buoyant valuations for like properties. The small number of valuation agencies was viewed as being a particular business factor that participants needed to manage as part of the development financing process, though this group was viewed as being independent of developer influence given its clients were lending institutions and often having a firm conservative view of apartment pricing. For instance, one participant noted that valuation firms were currently declining to value apartments at more than $9,000 per square metre.

5.2.2 Overseas investment regulation and inner-city housing

Foreign investment into Melbourne’s apartment market was viewed as crucially underpinning Melbourne’s recent economic development and growth. There was a concern that the risks of
damaging this economic sector had not been sufficiently appreciated by regulators. Participants noted that the development sector was very concerned about the regulatory changes on its continued prosperity and that of the metropolitan and state economy. They did recognise, however, that there was a regulatory case for some ‘tidying up’ of the market to ensure its continued stability.

Participants viewed the foreign investment rule changes as being comparable in effect to the macro-prudential regulations though targeting the investors directly rather than the lending institutions. There was a strong view among participants that the motivations, metrics and even ‘philosophies’ of foreign investors were different to those of local investors. For example, some foreign investors were viewed as land banking rather than treating apartments as a conventional property investment. This meant that the risk profile and market position that foreign investors were prepared to adopt were different to local investors.

The foreign investment market was, however, recognised to be differentiated by investor category, though with gradations. Participants noted that a relatively modest number of high net worth foreign individuals were prepared to take prominent market positions within the apartment sector that they were willing to support by paying above conventional market valuations. Smaller investors were viewed by some participants as relatively less sophisticated in that the quality of apartment that they were willing to purchase was perceived as lower than that tolerated by local investors, media reports on apartment design quality notwithstanding. This difference was ascribed to prevailing quality standards in the foreign location of the investor. Nonetheless, participants noted that individual foreign investors were beginning to appreciate the range of quality within the Melbourne CBD apartment market and to adjust their expectations upwards in terms of what they would purchase. The aspiration of foreign purchasers to ‘live like a Westerner’ was viewed as a factor in this growing demand for quality.

5.2.3 The growth boundary and inner-city housing

Participants did not identify any effects of the Melbourne metropolitan growth boundary on the apartment market.

5.2.4 Development control and inner-city housing

The regulation and control of development at both building and internal dwelling scale was a major topic of concern to participants who operate within the CBD apartment market. Changes to Melbourne’s planning scheme were identified as adding additional complexity to the housing market in the CBD, particularly the new planning controls known as Amendment C270 which regulate the height and floor area of new buildings (whether commercial or residential) within the CBD. Three themes were apparent in the focus group discussion.

First, participants were concerned about the intrusion of new planning regulations into a market and design context that had previously been lightly controlled and the clarity in the institutional oversight of these regulations. Some participants viewed planning regulations as political tools that were used to reflect Councils’ constituency preferences in relation to development rather than as an appropriate instrument for managing legitimate development proposals. There was a clear preference for long-term certainty in the use of planning regulations among focus group participants, with one stating that ‘all developers want to do is do a deal with someone that can make a decision and stick to it. That’s all’. One participant noted that in some instances City Council, DELWP and PlacesVic input was required for development approval sometimes with differing views among the agencies that reduced clarity as to what was expected of developers.

Second, the participants were concerned about the direct costs of planning regulation on their business. Some claimed that the new standards would reduce innovation because they included specifications about access to light and ventilation. They argued that the market was a better gauge of quality as it provided an incentive to developers to provide saleable dwellings.
Concerns were further raised about the review of proposals including the role of the Victorian Civil and Administrative Appeals Tribunal (VCAT) which was viewed as having a backward understanding of design quality.

Third, participants raised concerns about the timeliness of processing of development controls. Along with certainty as to process and Council expectations, the time processing of development applications was viewed as a major issue for participants and which translated directly into holding costs. One suggested that a 5-month delay in development permit processing had cost them $9 million on a particular project. They believed that timeliness of approval processing was a major point of leverage that Councils weren't exercising adequately. For instance, one participant noted: 'The time, time’s the biggest leverage [Local] Government has got'.

A final observation offered was that the Melbourne apartment market was very resilient despite the GFC, soft economic growth and increasing global uncertainty.

5.3 Housing development in the middle ring suburbs

New housing supply in the middle ring suburbs has four main forms. The most obvious addition to the housing stock of the suburbs are apartments also referred to as multi-unit dwellings. Typically, they are three floors or more in height and built as new buildings with basement car parks with concrete-framed structures above. Some apartments have been created by retrofitting older already existing commercial or industrial buildings. The second built form is town houses which are typically two-story dwellings that are attached or semi-attached to a neighbouring dwelling. The third form is new detached dwellings that are built on land where another house has stood previously. The common term used to describe this process is ‘knock over and rebuild’. Very often this will be a one-for-one replacement but sometimes, depending on the land size, two new houses will replace the original house. The fourth form is what is referred to as dual occupancy where the owners of an existing house will build a second dwelling on the lot alongside the original house if there is street access.

The focus group established to consider housing development in the middle ring suburbs was designed to focus in the main on multi-unit developments. This is a building type that relies on financial institutions to finance apartments by the end purchaser and the finance that the developer requires to undertake the project. As Rowley and Phibbs (2012: 56) note in their research into infill development: ‘The vast majority of development is debt funded and without this funding there is no development, large or small’. Consequently, the developers of this type of residential housing are very cognisant of changes in macro-prudential and regulation of investment in apartments. It shapes the way in which they go about designing and organising their developments and it shapes who is eligible for the finance required for purchasing an apartment.

5.3.1 Macro-prudential regulation and middle suburban housing

Focus group participants involved in apartment development accepted the need for active macro-prudential regulation. They recognised that they work in a very dynamic context where their industry is subject to a number of global influences. At the most obvious level, there has been growth in purchases of apartments by overseas people over a long period of time. Most of these purchasers are currently from China, but in the earlier periods they were from other countries. ‘My recollection is going back 10 years we didn’t sell in mainland China. We only sold in Malaysia, Singapore, Jakarta and Hong Kong’.

Focus group participants also noted the rules applying to local financial institutions were also shaped by changes to the Basel Committee on Banking Supervision rules developing new standards on risk assessment through Basel III and more stringent capital requirements and
greater financial disclosure rules through Basel 4. Developers also recognised that they do not always have adequate knowledge about the state of the market. In the context of rapid growth in the level of activity in the apartment market, one developer stated ‘you’ve got to say it’s a good thing to take the heat out, because the longer you leave it going too fast, too high, the steeper the other side is. So, I’m rapt they’ve taken the heat out’. One of the ways this has been done is through APRA who have required the lenders to increase loan-to-valuation ratios and required purchasers to increase their equity in their purchases.

At the same time, developers note that considerable discussion and consultation is required about the state of the industry and the effects of regulatory change between regulators, industry participants and the financial institutions that are subject to regulation. This consultation appears to be an accepted feature of the industry. Key players in these processes are the industry associations who are able to bring their members together and make summative assessments of the effects of changing regulation. A developer notes, ‘yeah, we provide direct feedback to the Reserve Bank; they ask us for feedback on all these kinds of matters and the general direction of the market, and we would provide that, our senior economists would be the primary point of contact’.

The associations will also work with their members. For example, the Urban Development Institute of Australia (UDIA) has recently brought together developers and the banks that are subject to revised regulatory settings. They have encouraged the banks to be internally consistent because, as a developer points out, they are involved in financing development in two ways in two different parts of the bank: ‘they’ll provide debt funding to purchases on projects where they’ve provided the construction debt’. In this context, it is important to recognise that ‘within the bank there’s already a bit of conflict because one [part] is causing a problem for the other’ when they begin to lift standards for retail lending.

This dynamic is of particular concern for developers that have projects underway when the regulatory settings change. As one developer notes, they ‘make their profit in the last 20 per cent [of apartment sales]’. If they experience difficulties during the sale of this last 20 per cent of sales and have to lower prices, they can get into significant financial trouble which can spread to the industry more broadly. As a developer noted, ‘if you let one rescinded [denied finance] apartment sell for 20 per cent below retail in your project you’re f**ked for the rest’. There is also the risk of broader contagion because this outcome is picked up by the valuers who are contracted by the banks to value the properties for which purchasers are seeking loan finance. The outcome can be ‘you start this sort of spiral of valuers spooking each other and the valuations getting talked down. Then the stats come out that the median house price has fallen because there’s transactions going through, and so it is a bit of a spiral’.

5.3.2 Overseas investment regulation and middle suburban housing

As noted above, the focus group participants were aware of the different national groups that have been purchasing property in the new build market in recent decades. They were also aware of the different motivations for these investments. For example, they note that Singaporean and Malaysian purchasers are often repeat purchasers who are purchasing for other family members. Their association with the housing market now spans several generations. Purchase is often associated with achieving residency status. This is in contrast to the recent wave of Chinese purchasers who have ‘a deeper desire to get money into Australia than the average Australian would understand; it’s sort of a bit of a hedge against, you know, local pressures and probably pressures back home’. The general understanding of the pattern of investment by overseas investors is that they tend to keep the property for a long time: ‘they’re not really sellers’ and ‘they’re not traders’. In general terms, ‘they’re trying to get money into a place and it’s either for a family purpose or a security purpose, and if anything, their only trading to trade up, or maybe the first purchase they bought was a one-bedroom, but they realise they want a bigger one’.
The recent rapid growth of Chinese investment in apartments has stimulated increased attention to overseas investment by the regulatory authorities for all overseas buyers. In the colloquial language of the development industry, they are referred to as ‘FIRB buyers’. These buyers are foreign citizens, resident outside Australia, who are neither Australian citizens nor permanent residents who must seek approval for each property purchase from FIRB and pay a fee related to the purchase price of the property. In this context ASIC has encouraged the banks to establish ‘FIRB buyer’ probity standards by making sure that they ‘know their client’ and assist in responding to ‘global sort of money laundering’. It seems that one of the ways the banks have responded is to ‘rule a line through a lot of foreign buyers because they didn’t have a domestic banking history’ … [and could not] … see through into their own sources of income in their home country’. Further, there is a suggestion that the banks ‘actually don’t like the loans they make to foreign purchasers because they pay them off too quickly. So, they don’t make any money in the first three or four years of the loan… So, it has been convenient to stop doing it’.

The development and implementation of overseas investment regulation policy settings has led, it seems, to two responses which indicates how dynamic the market is and why regulations continue to be adjusted. Overseas purchasers who had committed to purchases and wanted to follow through experienced difficulties in finding finance. A developer described how in one of his developments, ‘three of them did not settle, they were all foreign purchasers who couldn’t get money’. However, they all ‘eventually settled because they got the cash from offshore, but they could not borrow [onshore]’. Perhaps more significantly, another response has been that ‘foreign developers have come in and they’ve said, ’Well, we don’t need to sell domestically, really at all. We can sell 100 per cent or 80 per cent offshore’ because they’ve already got a client base back in their home country. So, the market's gone from a semi-stale position to one where there’s a number of developers selling the large portion of buildings offshore … and then funding them offshore as well. So, the local banks who used to be the policemen … have actually lost their ability to influence the market. … So, it’s sort of like you squeeze a balloon and something else pops out’.

5.3.3 Development control and middle ring housing

There was a consensus that there is a need for development control so the debate is not about controls or no controls, but the type of controls and their administration. For example, one participant stated: ‘we need controls though. Can you imagine if there wasn’t controls? … It’d be horrendous’. Rather, what participants were seeking was a system that they understood and could comply with: ‘we’re not talking certainly about having no controls, but where a development by and large complies with the requirements of that council, then it should reasonably be allowed to proceed quickly. There shouldn’t be unnecessary delays to that.’ It is in this context that the discussion of development control and middle ring housing centred around three main themes: broader patterns of use of development controls at the local government level; development controls and the built form configuration; and development controls and affordability.

Development control systems are established in a broader policy context and there was recognition of this within the focus group. The nature of the present context was summed up by a planner working in the middle ring suburbs who was able to comment on the current context where the Victorian Government is seeking to increase the proportion of new housing supply in existing urban areas and reduce the proportion in growth areas. This is happening in a context of sustained population increase and strong demand for new housing. The challenge in this context is ‘to balance a low tolerance for change against the state government imperative to help people realise that we’ve got to house our growing population somewhere, comes the tension of making the decisions of where to draw lines on the maps. My insight into the motivation of a community to have a low tolerance of change is at its heart about otherness. It’s
not about the built form, and it's actually not about the car parking, and they'll express it in all kinds of sophisticated ways, but it's, 'They're not part of our community. We don't know who they are and we think they're going to be different to us'. How this process plays out was seen to vary across metropolitan Melbourne, resulting in considerable differences in development control arrangements across municipalities. As one developer noted, 'what you can do here you can't do there. And that adds cost, and people, as you've quite rightly put it, people forget that every single thing you do there's a cost to it'.

Using development controls to control the configuration of multi-unit apartment buildings was the second issue. Of particular concern to developers are development controls that specify the number of bedrooms that the apartments must have. In part this relates back to the way in which people in the surrounding neighbourhood respond to development proposals. A planner sums up a typical situation in the following terms ‘a response I’ve always [had], there’s too many of one- and two-bedroom and not enough three-bedroom apartments, and therefore we won’t have anywhere for families to live kind of logic’. Whereas the approach taken by developers is to let the ‘market’ decide. For the developer, the ‘market’ is something they will describe based on the results of their previous similar projects and other intelligence that they gain from real estate agents and others in the industry. A developer stated ‘the right way is to let the market dictate what it wants. So, we as developers have to have a degree of flexibility, because there’s no point dictating that you’ve got to have so many three bedrooms in Melbourne’. At the same time, there seems to be some innovation underway that responds to the challenge faced by the regulators and the developers. Some developers are now designing apartment buildings in such a way that they can reconfigure the size of apartments by amalgamating apartments or separating them out according to demand. ‘They [a purchaser] might want to combine, and so that ability to muck around with it to satisfy what they’re looking for is really attractive’.

Throughout the discussion, housing affordability was referred to many times often associated with internal design that relied on ‘borrowed light’ for bedrooms and ‘saddle back’ bedrooms. A developer stated a clear position that ‘to build a small one-bedder efficiently, borrowed light is an obvious solution, because if you put it the other way so everyone gets lots of windows that’s great, but it costs you a s**tload more and you can’t afford to do it. Another developer stated it in these terms: ‘I keep saying to people it’s like cars; if Holden only made $150,000 cars they would have gone out of business 40 years ago. We can only survive in business if we’re making a product that people can afford to buy and suit their other requirements’. In this context, development controls that change the parameters, such as borrowed light in bedrooms, imposes additional costs. There’s already a whole lot of cost associated with compliance and regulation, and the meddling puts a whole bunch of other costs in. In other words, the type of dwellings being produced are being related back to particular price points that owner occupiers or investors who have previously purchased properties are prepared to meet.

There was also recognition of a broader affordability issue. One developer noted that what the planners and developers were talking about when they spoke of affordability in these terms was that ‘they see affordability you’re talking about, that is producing full market dwellings at prices people can afford without lowering the market …’. However, participants recognised that this new housing and the already existing housing that sold at similar prices was unaffordable to a significant proportion of households. Further, additional new supply would not result in prices that were affordable to low-income households. As one developer noted, ‘you cannot produce or increase affordability unless you supply the submarket sector’ which has to be led by government’. For this developer, it was not sufficient to expect developers to be required on a project-by-project basis to contribute affordable housing. Effectively this would require a system of cross-subsidies which would be ‘robbing Peter to pay Paul. If I’ve got to take it off someone else to pay for that over there you’re just making it more unaffordable for somebody else’. There was support for social housing provision for low and moderate-income households, but it should be provided with broader government support for its financing.
5.4 Outer and peri-urban housing

Melbourne’s outer and peri-urban housing market is typified by housing estates of scales ranging from a few dozen to more than a thousand residential lots located on greenfield sites. The absence of existing development means that infrastructure provision is a major task for developers and governments. Two major policy initiatives govern the development of greenfield outer suburban and peri-urban housing: the Urban Growth Boundary which is a statutory limit on development extent, though with a 30-year supply capacity of land at prevailing lot sizes; and the Victorian Planning Authority which is responsible for preparing Precinct Structure Plans for new growth areas that provides the urban infrastructure and land-use framework within which development occurs. Outer suburban residential lot production generated 19,774 lots in Melbourne in 2015 (UDIA 2016), sufficient to accommodate approximately half of Victoria’s current annual population growth of around 90,000 persons, assuming a household size of 2.5.

Outer suburban housing production is typified by a mix of large and small land developers who prepare land for housing and other uses with a similarly multi-scaled mix of house builders who construct housing (Dalton, Hurley et al. 2013; Dalton, Wakefield et al. 2011). The demographic and tenure patterns in outer suburban areas tend to be dominated by home owners though with some landlordism. The bias towards home ownership means that investment is heavily shaped by the prudential practices of mortgage lending institutions, particularly retail banks.

5.4.1 Macro-prudential regulation and outer and peri-urban housing

Focus group participants were in broad agreement that macro-prudential regulatory instruments had a positive effect on the cost of capital for home purchasers. Recently the Australian Prudential Regulatory Authority has implemented macro-prudential policy measures aimed at addressing concerns about financial stability. APRA now requires major bank lenders to increase their capital reserves by increasing the risk weight applying to Australian residential mortgages from 16 per cent to 25 per cent. Participants were in agreement that the APRA changes were affecting their ability as development firms to access credit to undertake development. One participant noted:

… being on the land side of things, I can certainly reinforce that. The APRA changes are having a big impact on borrowings. We use the traditional banks. And banks that we’ve used for 30 years are now questioning some projects and we are looking at alternate funding from the big banks.

These shifts in lending practices were flowing through not only the cost of accessing capital, but also the rates of return that developers could obtain given market conditions. For example, one participant noted that previously financing at 80 per cent of value had been available on the land with a marginally higher level for the initial infrastructure provision. This, however, had shifted to a ratio of 60 to 70 per cent meaning a financing shortfall that had to be sourced elsewhere and which, due to additional cost, undermines project long-run returns.

A number of participants suggested that the role of valuation consultants within the mortgage lending sector was also an increasingly important factor in the viability of developments. The valuations that valuers were prepared to certify had shifted from 100–110 per cent of project price to one of considerable discounting reflecting perceptions that the housing market was reaching the top of the price cycle. Some participants agreed that the market was in ‘the last quarter’ of the cycle. Valuers were viewed by participants as applying coarse value discounts such as ‘list price less 30 per cent or contract price less 30 per cent’ reflecting the perceived risk margin on settlement or long-term value. This role of valuers in the growth area market reflected similar value discounting in the central city apartment market. At the base of this valuation, discounting was the risk appetite of the banks who are the main clients of the valuation firms. As
one participant noted 'it's all about insurance risk. And the way you avoid that is you don't overexpose yourself'.

The consequences of this shift in APRA’s permissible loan ratios have flowed through to retail borrowers. Participants noted that this group was facing difficulties as the new lending criteria were sometimes only appreciated mid-way through the sale process, potentially leaving house purchasers facing additional unanticipated borrowing costs. One participant noted that customers don’t realise that the valuation ratios have shifted until they get a long way through the purchase process; they may have finance approved, but are then advised by their bank that the underlying value of the property needs to be discounted from the purchase price, meaning the purchaser needs to obtain a further $40,000–$50,000 in finance from a third party.

The greenfield developers, however, felt that the APRA rules were most likely to be problematic for inner urban developments which they felt were the agency’s target rather than greenfield developments that catered much more to a home owner market less frequented by investors. They recognised the differing demand structure for inner urban housing versus greenfield that biased the latter towards owner occupier purchasers rather than overseas investors in particular. Foreign investors were perceived as not understanding the peri-urban market for various reasons including market familiarity, capital gain assurance or local amenity including access to public and retail services.

5.4.2 Overseas investment regulation and outer and peri-urban housing

The participants noted that some inner urban developers were beginning to consider greenfield investment due to the growing inner urban market uncertainty, particularly around the FIRB rules, though they also observed that most of the major institutional developers were positioned in both inner urban and greenfield markets.

The participants recognised that there was a great deal unknown about the effects of the APRA policy changes both on developers and on purchasers. Some speculated that foreign investors and purchasers were generally unfamiliar with outer suburban housing stock and markets; many of the foreign investors in Melbourne’s market were believed to be domiciled in cities where single-storey detached housing on the urban periphery was uncommon. Hence, one participant observed:

... but of those, some of them have been in here for quite some time, and it’s not new, property development’s not new to them. Land maybe, but retailing then becomes the issue, whether they’re going to do investment house and land product at seminars in Beijing like they’ve been doing for apartments.

There was also a perception that overseas investor-developers may not understand market conditions on the fringe, should they enter that market particularly if oriented towards a higher per hectare lot yield.

5.4.3 Growth boundary and outer and peri-urban housing

The focus group participants were very aware of the role of the urban growth boundary in shaping housing in conjunction with the land-use regulations that apply on the fringe in terms of Precinct Structure Plans prepared by the Victorian Planning Authority. These set out the land-use pattern of new development at the precinct scale and provide for infrastructure delivery as part of the approval process. Participants were not concerned about the UGB’s effect on their capacities to develop outer and peri-urban land. They largely perceived that there was sufficient supply within the existing UGB limit to accommodate projected future demand, in agreement with Victorian Government projections. They did recognise that within 10 years the UGB may begin to influence land prices and, in turn, affect housing prices. However, this was contextualised in terms of what they perceived as structural shifts in Melbourne’s housing
market away from simple owner occupation wherever it is affordable towards factoring amenity in terms of access to jobs and services as an increasingly determining variable in purchaser decisions.

Participants had a reasonably sophisticated appreciation of the UGB as a planning instrument recognising that it had a prescriptive status in some locations where the Victorian Government did not want to encourage development and had a more flexible status as a medium-term spatial management tool in corridors where the government sought to encourage further development. In this regard the participants noted that state level economic decision-making was a factor in decisions about the UGB, particularly in relation to prevailing lot prices on Melbourne’s fringe compared to similar lots in outer metropolitan Sydney. Relatively lower home ownership entry costs in Melbourne were viewed as a factor in household locational decisions and in turn underpinned Melbourne’s population growth which, in turn, ensured continued economic development.

5.4.4 Development control and outer and peri-urban housing

The focus group participants recognised the importance of development controls to their ability to design, construct and sell housing in their locations. However, they were largely unconcerned by regulatory requirements around increasing dwelling densities. Given continuing demand for fringe housing, participants noted that they would typically be guided by Victorian Government planning stipulations around density and dwelling yield. Their main concern was in relation to the staging of new planning requirements in terms of competitive advantage within the outer urban housing market. A developer required to meet a higher dwelling density target that necessitated a shift to a more compact design from a conventional detached single-story model, was viewed as facing competitive risk in a market that preferred the latter. However, where new government density regulations were applied uniformly, developers were comfortable with meeting the requirements although this would require new design effort to achieve higher densities under prevailing house design rules.

Some complaint was voiced by participants around the application of Growth Area Infrastructure Charges which they viewed as exceeding financing requirements and resulting in a large surplus fund accruing to the Victorian Government. Nonetheless, they recognised that infrastructure delivery needed to be coordinated and integrated and appreciated the implicit limit that infrastructure rollout placed on spatial development. Participants also were comfortable with the notion that developers seeming to develop ahead of Precinct Structure Plan infrastructure rollout should be able to fund their own infrastructure provision.

5.5 Summary: focus group insights into housing policy instruments and economic productivity

How might the material collected via the focus groups be related to the understanding of housing policy and economic productivity in a multi-level context. To what extent is the economic framework advanced in this report reflected in the conversations with real market actors in the development sector?

First, participants in the focus groups had a very practical understanding of the economics of property development within market processes. They recognised the absolute discipline offered by the market in determining sale volumes and prices for the dwellings they offered. This was broadly recognised as a necessary and appropriate reality of doing business. The user cost of capital to developers as economic actors was well appreciated though this was manifest in direct and indirect ways. Direct ways included the purchase cost of land and the cost of finance. Indirect costs were recognised in terms of holding cost (under financed development) and regulatory cost which imposed a time cost which in turn raised capital costs. In a general sense,
developers who could operate effectively within the market by accessing well located land, managing the design and approval process efficiently, and delivering product to market on time and within budget, were appreciated as legitimately deserving to profit. To the extent this discipline enhances the productivity of the sector, the profits available through productive development processes were viewed as appropriate.

Second, participants had close insight into actor-level market processes. They largely understood their customers and sought to deliver to those customers within the limits of the prevailing regulatory and market factors. The participants had an acute understanding of the marginal user cost of capital and the way it shaped actor’s decisions. This was particularly the case in terms of the high-rise apartment sector in the CBD and the detached single-storey market in the peri-urban zone. A variety of factors were appreciated as shaping actors’ preferences, including socio-economic status, household structure and cultural background. Participants were very sensitive to factors that might reduce customers’ capacity to demand housing within the market as this would translate into viable sales prices for dwellings and in turn their profitability.

Third, focus group participants had limited detailed understanding of the macro-scale regulatory changes. In part this is because they are not the direct agents of those regulations. In the case of macro-prudential regulations, the agents of the change in risk profile are the lending banks. However, the participants had an acute appreciation of the effects of regulations on the practical aspects of their business, particularly how regulation affects their ability to finance development and the capacities of purchase to fund their purchase of new dwellings. In this sense, regulation was viewed as an abstract environmental force that structured overall market conditions to which they adapted as best possible. State and local government regulation was viewed more intrusively particularly as they interacted directly with the agents of the regulation in the form of state and local government planners.

Lastly, participants did not have an extensive view on either housing policy or economic productivity. Their roles as market actors were principally around deploying capital to fund development and produce a profit within the prevailing market context. Certainty in market outlook and regulatory impost was viewed as preferable to uncertainty, not because it improved productivity, however, but because it enabled a more stable decision-making process around project development.
6 Conclusions

- There is considerable scope for improving how housing policy is formulated and applied in Australia.
- There is wide scope for improvements to the institutional arrangements for housing policy in Australia at the federal level, including a dedicated Housing Minister.
- There is value in establishing a clear agency responsibility that draws together housing welfare and economic perspectives to better craft and apply housing policy.
- The multi-level governance perspective is useful to understand Australian housing policy dynamics.
- The research analytical framework based on the user cost of capital is a helpful means of appreciating the practices of housing actors based on their wellbeing preferences.

This research has investigated how housing policy and policy instruments intersect with economic productivity at multiple spatial scales. The research sought to address the overarching question (IRQ 1): How can an appropriate framework assist us to better understand the way in which housing policy mechanisms contribute to economic productivity and growth, at multiple governmental and spatial scales? Next, the research sought (Supporting Research Question 1) to assess how the connections between housing policy mechanisms and economic productivity have been conceived in the Australian context. Then the research investigated (Supporting Research Question 2) how a basic typology of current housing supply can provide insights into housing-economic connections, including via multi-level governance and spatial scales. Last, the research asked (Supporting Research Question 3) how future reviews of housing policy frameworks might incorporate an improved understanding of how housing policy and policy mechanisms intersect with economic processes and outcomes.

In responding to the overarching research question (Inquiry Research Question 1), the research team undertook a systematic review of the literature on multi-level governance and economic productivity within the context of Australia’s multi-level federal system. The multi-level governance perspective was found to be useful within the context of a shifting macro-structural and governance context including the increased use in recent decades of market mechanisms in housing provision. Multi-level governance as a theoretical standpoint was well suited to the Australian setting in which three tiers of government operate policies that intersect with the housing system and which also have economic effects. Governments often need to negotiate particular policy settings within this multi-level governance framework and often with market and sectoral actors who have taken an increasingly prominent role in shaping policy. The shift in the macro-economic regime in Australia from a Keynesian framework to a neoliberal framework was noted as complicating the governance arrangements for housing in relation to economic processes.

The research noted, however, that the literature on multi-level governance in relation to housing policy is underdeveloped. Although there is some literature on urban policy within multi-level governance setting, this is not extensive. There is almost no literature on the intersection of multi-level governance arrangements and economic processes and their productivity.
Consequently, the research task of establishing a basic typology for housing policy and economic processes and productivity took on a novel dimension in filling this knowledge gap.

In response to Supporting Research Question 1, the research conducted a review of major reports on housing policy or of policy instruments that have housing effects as undertaken by Federal Governments since 2010. The review revealed that there is almost no effort within high-level policy thinking at the federal level that is dedicated to constructing and articulating a systematic conceptual understanding of the links between housing policy objectives, housing policy instruments and mechanisms, and their effect on the economics of housing systems or economic productivity. This absence contrasts with the considerable significance of housing as a national asset worth an aggregate $6 trillion in 2015. This seems to partly reflect the residualisation of housing as a portfolio within the Federal Government such that housing is primarily located within the welfare portfolio. Consequently, housing is not conceived within the machinery of government as a prominent economic area, despite its very large asset value. This mismatch of aggregate economic significance with policy attention seems to be a failing of Australia’s policy architecture. The research notes that there is evidence that this neglect is deliberate on the part of the present Federal Government and argues for stronger policy treatment of housing within the federal administrative arrangements. In particular, there is a need for a clear conceptual understanding of the policy importance of housing both as a factor in national welfare and economic performance and in terms of articulating a federal perspective on housing that sets out policy objectives and mechanisms for attaining them, linked to economic processes and instruments.

Given the lacuna in national policy thinking around housing, the research responded to Supporting Research Question 2 by constructing a basic framework through which to understand the links between housing policy and economic productivity. To do this, the research team applied the construct of ‘user cost of capital’ which was used to impute the behaviour of various housing actors at multiple points in the spatial housing market and in response to policy instruments applied by governments at varying scales. This framework was not intended to be deterministic. It was crafted as a guide to the way that different policy settings in housing or wider economic policy may adjust the cost of capital faced by users and, in turn, shape their decision-making within the housing system. As an example, the research explored the role of macro-prudential regulation in altering the cost of capital for various market actors with these costs being transmitted through the housing system with effects on the economics of the housing market.

To test the framework, the research team conducted three focus groups that investigated market actors’—principally those involved in housing supply—decisions and perceptions of housing policy instruments and their economic effects on housing supply. These focus groups revealed a general understanding of key housing policy instruments, but this understanding was based on very practical understandings of the policy instruments. Direct tangible constraints on development, such as planning regulations around building design, were appreciated more sharply by those involved in housing supply than mechanisms that operated in a less embodied sense and via other actors, such as the availability or cost of capital as provided by the major lending banks. Focus group respondents did not articulate extensive understanding of economic productivity questions. To the extent that productivity was understood, it was in terms of the efficiency of delivering dwelling stock to the market relative to capital, holding, development approval, financing and marketing costs. There was a general sense expressed by some focus group recipients that government regulatory actions were often applied without a sufficiently sensitive understanding of how market actors would respond, imposing risks in terms of inadvertent shocks that could destabilise housing demand and supply.

In response to Supporting Research Question 3, there is considerable potential to improve how housing policy is formulated in Australia and the way the understanding of the role and
contribution of the housing system is linked to economic processes and the productivity of the national economy. This includes developing a conceptual framework for housing that can guide policy formation, improving the allocation of resources to housing policy within the federal administrative arrangements, including consideration of a dedicated Ministerial Portfolio and agency, linking of the welfare and economic perspectives on housing within the Department of Social Services and Treasury, establishing a clear conceptual framework for understanding the role of housing in the economy, providing more substantial policy explanation and justification for extant housing policy instruments and economic policy mechanisms that affect housing, and improving policy coordination among federal, state and local governments.

6.1 Policy development implications

The research provides a useful framework for understanding how housing policies flow through the housing system via the decisions of actors within the housing economy based on the ‘user cost of capital’. The research authors are not aware of an existing policy conceptual framework used by any level of government in the Australian system and our review has not identified one. Thus, the research offers a potential framework that could assist policy-makers to better understand the effect of policy instruments. The user cost of capital is a productive concept that can aid policy thinking.

The framework we have articulated offers a way of understanding the interconnected nature of policy instruments within the housing system including in relation to housing economics and economic productivity. Currently housing policy deals with housing as welfare and housing as an asset class but does not successfully conceive of these two factors in a linked way. There is almost no understanding within government of how the housing system contributes to national economic productivity, nor of how economic policy instruments are designed with specific productivity objectives. Clear opportunity exists to improve this dimension of government housing policy.

There is clear potential for improved policy understanding of the links between housing policy and economic policy including through the way that portfolio responsibilities are administered and resourced within the federal administrative arrangements, including Ministerial responsibilities and departmental structures. At least one major review of housing policy had identified the need for a dedicated Housing Minister. This should be supported via a dedicated high-level housing agency within government that links the welfare and economic dimensions of housing within a single policy responsibility.

The research reveals the dearth of comprehensive system-thinking within housing policy in relation to economic instruments that have housing effects. Policy objectives are rarely stated and there have been few instances of a review of existing instruments in terms of where they sit within a conceptual understanding of the housing system and the need for policy interventions and their effects. Most of the major reviews of housing policy or of economic policies with housing implications have offered scant conceptual development and typically focus on the instrumental level. There is almost no understanding within government of the role of the housing system in supporting improved national economic productivity. Clearly there is scope for a more sophisticated government perspective on housing that can inform improvements to the design and application of policy instruments.

There is scope to improve the coordination of housing policy between levels of government including federal and state policy mechanisms across both housing and economic policy. The COAG process can play a greater role, however, agreements through COAG to date suffer from many of the policy problems identified above.
In summary, there is considerable scope for improvements to Australia’s housing policy architecture and strategic conceptualisation of housing, linked to improved understanding of the contribution of housing to economic productivity at multiple spatial scales.

The research also signals future directions for research into the intersection of policy for both housing and economic productivity. Such directions might include—evaluation of the productivity opportunity costs of weakly articulated and fragmented housing and economic policy; comparative investigation of appropriate international case studies of housing and economic policy coordination; extending and advancing the ‘user cost of capital’ model in the housing sphere—all within an ongoing effort to understand how the housing system intersects with the wider national economy.

### 6.2 Policy development options

The research offers a number of policy development options. These include:

1. Creation of a Federal Government Minister for Housing role.
2. Establishment of stronger Federal Government portfolio capacity in housing linked to economic productivity.
3. Preparation of a comprehensive federal perspective on the housing system and its role in supporting national economic productivity.
5. Improvements to national-level coordination of housing policy and instruments in concert with states and local governments.
References


Appendix 1: Background Paper for Focus Group Discussions

Background paper for three focus group discussions

Harnessing housing policy for economic productivity: a multilevel governance and spatial perspective

A research project

supported by

The Australian Housing and Urban Research Institute

Research team
Centre for Urban Research

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Introduction

This paper provides background for three focus group discussions that will assist to shed light on the interactions between housing and economic policy decisions. Decisions made in the overlapping spheres of economic and housing policy have effects on different types of housing development in Australian metropolitan cities. These focus groups, which forms part of a research project, will contribute ideas about how housing issues and policy might be more clearly considered within economic policy debates.

The focus group discussions will contribute to the research project *Harnessing housing policy for economic productivity: a multi-level governance and spatial perspective*. This project is one project in a suite of five projects seeking to answer the following question:

*How might a range of housing policy mechanisms be implemented to support labour force participation and promote economic growth?*

The other four projects are examining: key drivers of housing supply responsiveness; effects of house prices and increased housing debt on consumption spending; housing and labour mobility; and housing assistance and individuals’ decisions to work. The Australian Housing and Urban Research Institute is supporting all five projects in the suite.

Discussion framework

The aim of this project is to develop a framework that helps to better understand how housing policy, where more than one level of government is involved, influences economic decisions. The focus is on the connections between housing and the economy, or the ‘housing-economic nexus’. The purpose of the project is to support policy makers understand how housing and economic policy can be better coordinated within the Australian system of government. This is being done through both desk-based research and focus group discussion.

An initial conceptual framework for appraising the ‘housing-economic nexus’ is being developed based two types of desk-based research. First, the conceptual framework for understanding the way in which housing and economic policies interact is being clarified through a review of the international and national research literature. Second, against the background of this review of concepts, the policy debates found in inquiries, stakeholder statements and submissions, policy reviews and statements are being reviewed.

The focus group discussions will compliment and test the conceptual framework for appraising the ‘housing-economic nexus’. We have identified three ways in which policy levers may affect housing investment flows within this nexus.

- acquisition cost—upfront purchase costs
- operating cost—ongoing user costs
- capital gain or loss—change in the value of the residential housing asset.

These effects can be related directly to stakeholders in the housing market which include: first home buyers; investor buyers; repeat home buyers; renters; vendors; land owners; developers; builders; professional consultants; real estate agents; building material suppliers; mortgagors; and mortgagees.

Of course relationships between these stakeholders in a complex and multi-layered housing market with distinct spatial dimensions is dynamic. In this context we do not presume that policy change effects are always easily identified. Also we do not presume that there will necessarily be agreement between analysts, or the many associations that represent stakeholders, about
the flow and incidence of costs through the supply chains for existing and new residential housing.

The focus groups

There will be three focus groups and they will be organised in the following way.

- Participants will be invited so that each focus group includes people working in government, the land and housing development industries, and the finance sector.

- Three distinct housing forms will be considered—greenfield peri-urban housing development, middle ring infill development and inner-city high rise development—with one focus group for each development type.

- Each focus group will consider four areas of policy that shape housing development: macro-prudential regulation; foreign investment laws; urban growth boundary strategic planning; and local government development controls.

The focus group discussions will be guided so that we can draw conclusions on three broad issues in relation to each of these policy areas. The themes to be considered are ‘the economic model’, ‘opportunities for and constraints on innovation’, and ‘opportunities for productivity increases’. In sum, the participants in each of the three focus groups will have an opportunity to discuss four policy areas, supported by material presented in the remainder of this paper, which will deepen our understanding of the way housing policy decisions interact with economic factors and influence housing investment flows.

Macro-prudential regulation—Federal Government policy

Recently the Australian Prudential Regulatory Authority (an autonomous government regulatory authority) has implemented macro-prudential policy measures aimed at addressing concerns about financial stability\(^2\). Our understanding of the efficacy of these changes on the housing system is limited. Specifically, APRA now requires major bank lenders to increase their capital reserves by increasing the risk weight applying to Australian residential mortgages from 16 per cent to 25 per cent. Further, it has been reported that APRA does not rule out targeting the Sydney and Melbourne market.\(^3\)

We suggest that this policy change has:

- placed downward pressure on acquisition costs stemming from reduced home buyer and investor demand flowing from increases in borrowing costs

- had little effect on operating costs as funds and borrowing rates have been locked in

- decreased the rate of increase in capital gain and equity appreciation as a result of reduced home buyer and investor demand.

However, these effects may vary across housing submarkets that stretch from the CBD to peri-urban greenfield development areas.

Questions for focus group participants:


• To what extent do you agree with the above statements on the effects of policy change on acquisition and operating costs?
• To what extent has this policy measure affected each of these costs (acquisition, operational and asset valuations)?
• How have these changes in costs influenced recent decisions by stakeholders?
• How might this policy measure affect strategic business plans in the land and housing development industry?
• In your view to what extent have these measures affected housing sector stakeholders including first home buyers; investor buyers; repeat home buyers; renters; vendors; land owners; developers; builders; mortgagors; and mortgagees.

Foreign investment laws—Federal Government policy

The aim of the residential real estate foreign ownership rules are to encourage increased housing supply through foreign investment into new dwellings ‘as this creates additional jobs in the construction industry and helps support economic growth’4. It prohibits the purchase of existing dwellings on the grounds that this increases demand, which flows through into price increases. Over the past twelve months the Federal Government has been careful to be seen to be more proactive in implementing foreign investment rules prohibiting the purchase of existing dwellings. This includes the forced divestment of properties held by foreign owners who have breached investment rules by purchasing existing dwellings. See for example:

• Strengthened foreign investment rules already producing results.
• Government orders more forced sales of properties illegally held by foreign nationals.

We suggest this policy change has:

• placed downward pressure on acquisition costs stemming from an increase in available new housing stock supported by overseas investors
• reduced acquisition costs for existing dwellings by reducing demand for existing housing stock
• had little effect on operating costs
• decreased capital gains and equity appreciation as a result of increased investor activity in new stock and reduced investment in exiting stock in particular sub markets.

Questions for focus group participants:

• To what extent do you agree with the above statements on the effects of policy change on acquisition and operating costs?
• To what extent has this policy measure affected each of these costs (acquisition, operational and asset valuations)?
• How have these changes in costs influenced recent decisions by stakeholders?
• How might this policy measure affect strategic business plans in the land and housing development industry?

In your view to what extent have these measures affected housing sector stakeholders including first home buyers; investor buyers; repeat home buyers; renters; vendors; land owners; developers; builders; mortgagors; and mortgagees.

Urban growth boundaries—state government policy

An urban growth boundary (UGB) is a state government policy measure that establishes a boundary designating land for continuing peri-urban development and constraining development beyond this boundary. This policy is typically coupled to a complimentary urban consolidation policy that supports a change in urban form. Key urban consolidation objectives are decreasing the rate of urban development in peri-urban areas and increasing the rate of urban development in existing urban areas, increasing accessibility within cities through greater use of public transport, conservation of the natural environment and protection of near city food production areas.

In Victoria the state government has set urban growth boundaries for Melbourne in 1971, 2003 and 2009. The 2009 UGB was adjusted in 2012 following a process overseen by the Logical Inclusions Advisory Committee. In 2005 the Victorian state government, following the 2003 resetting of the UGB, established a ‘precinct structure planning’ (PSP) system for the land designated for urban development. This PSP system is progressively master planning areas for between 10,000 to 30,000 people and sequencing peri-urban areas for development over several decades.

Opposition to Melbourne UGB policy has been evident from time to time. In the main this opposition has come from land development and housing industry associations. They have argued that the UGB constrains the land available for housing and leads to increased competition for developable land resulting in price increases and therefore contributes to a decline in affordability. There has been limited research on the price effects of UGBs and other land use planning measures in Australia. However, one substantive review of the land price effects of the Melbourne UGB presents the nuanced conclusion that ‘overall land prices have not moved wholly consistently with claims linking UGBs with land price inflation’.

It is also important to note that during the period that a Melbourne UGB has been in place there have been other significant changes in the urban system, which makes simple cause and effect judgements difficult to make. These changes include the growing significance of larger land developers becoming responsible for a larger share of the production of new housing lots, regional city growth beyond the UGB supported by new rail infrastructure, and greater transparency and certainty in the sequencing of development in the peri-urban areas through the PSP system.

We suggest the UGB policy change has:

- been accompanied by other policy changes, in particular urban consolidation policy and the policy leading to PSP induced sequenced and orderly development of peri-urban areas, which makes it difficult to be clear what the effect of the UGB has had on acquisition costs for developers and subsequently for household purchasers

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5 Urban growth boundaries in some jurisdictions are referred to as urban growth footprints Productivity Commission 2011, Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments, Productivity Commission, Canberra.

• been implemented in a period during which Melbourne has grown considerably and travel times between different parts of the city have increased road and public transport congestion, resulting in growing operating costs for purchaser and renter households.

• had little or no effect on capital gain or losses by land developers because the oligopolistic nature of the market enables developers of peri-urban land to pace the way they release developed lots so that land sales achieve bench mark prices and rates of return set in business plans.

• had little or no effect on capital gain or losses by purchasers of developed lots because the price of housing is primarily established within the broader metropolitan housing market where accessibility to the labour market and transport infrastructure are overriding factors in setting land and house prices.

Questions for focus group participants:

• To what extent do you agree with the above statements on the effects of this policy change on acquisition and operating costs?

• To what extent has this policy measure affected each of these costs (acquisition, operational and asset valuations)?

• How have these changes in costs influenced recent decisions by stakeholders?

• How might this policy measure affect strategic business plans in the land and housing development industry?

• In your view to what extent have these measures affected housing sector stakeholders including first home buyers; investor buyers; repeat home buyers; renters; vendors; land owners; developers; builders; mortgagors; and mortgagees.

Development control—local government policy

Development controls set requirements for the future development of particular areas of land by specifying permitted uses, building types and design and infrastructure provision. In areas designated for residential housing development these controls typically include requirements specifying height, configuration, appearance, volume, building materials, access, parking, site coverage, floor space to site area ratio, heritage preservation, environmental performance, conservation and landscaping. If an area is being converted from rural to urban these controls, might extend to the provision of recreational open space, roads, bicycle paths, some types of social infrastructure, bush fire prevention and natural environment conservation.

The broad policy direction for development control in recent decades has been to reduce regulation. An argument that emerged from the 1980s is that the system used to regulate development was overly rule bound and because of this it stifled innovation in construction and design of buildings, restricted the emergence of new forms of urban development, opened up too many opportunities for third party objection and increased the cost of development by increasing the time taken for approvals. This has been followed by several decades of policy work that has on one hand sought to simplify the system and provide applicants with greater certainty and on the other increase the responsiveness and flexibility of the system.

Local government is the level of government with primary responsibility for developing and implementing planning controls supported by policy objectives. The most complete overview of

development controls is found in the Sydney University Australian Urban Land Use Planning Policy (AULUPP) monitor database. It has been compiled from the survey responses, between 2007 and 2009, of 291 local government authorities representing nearly 50 per cent of LGAs in Australia. In metropolitan Brisbane, Perth, Melbourne and Sydney the coverage of LGAs was close to 100 per cent and the data provides a basis for understanding the nature and extent of local government use of planning controls.

The purpose of the AULUPP surveys and follow up analysis provides an understanding of the content of local policy and planning frameworks. This is done within the broad definition of ‘sustainability’ that includes the ecological, economic and social dimensions of sustainability in planning controls. The findings are presented under the headings of sustainable urban form; sustainable land use transport; biodiversity conservation; environmental conservation or offsets; and controls supporting climate change mitigation and adaptation. Also the policy variability, or the intensity in the use of controls, is mapped across local government areas by summing the number of planning controls found in each local jurisdiction as a single score.

The following figures present a summary of the way that LGAs use different types of controls. The map of Melbourne presents a score for planning control use by each LGA adopted across metropolitan local government areas.

Land use controls encouraging a sustainable urban form

[Diagram showing the use of mixed use zones, high/medium density residential development zones, medium density residential zone, urban growth boundary, high density residential zone, and incentives for mixed commercial/residential development.]

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9 Ibid.
Land use controls encouraging sustainable land use transport

- Requirement for footpaths / walkways in new subdivisions or applicable developments
- Requirement for bicycle paths in new subdivisions or applicable developments
- Requirement for bicycle facilities in employment buildings
- Reduced car parking requirements for developments in proximity to public...
**Land use controls encouraging biodiversity conservation measures**

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<th>Measure</th>
<th>Zone</th>
<th>Overlay</th>
<th>Development Prohibition</th>
<th>EIS / Special Assessment Requirement</th>
<th>Referral to Agency Required</th>
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<td>Protect landscape values</td>
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<td>Protect wetlands</td>
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<td>Protect catchment values</td>
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<td>Manage interface between protected areas and surrounding...</td>
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**Land use controls encouraging environmental conservation or offsets**

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<td>Incentives for conservation agreements</td>
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<tr>
<td>Trade-able development rights</td>
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Local government controls encouraging climate change mitigation and adaptation

Environmental sustainability score through the use of planning controls for Melbourne
A number of summary observations can be made about the use of planning controls in these figures.

- Controls that significantly challenge suburban sprawl, especially mixed use zoning, are not ubiquitous. They are evident in under 70 per cent of the plans. Further, less than half the plans included high or medium density residential development zones in proximity to public transport, major nodes, or corridors and only 15 per cent of plans provide incentives for mixed use development.

- Land use zoning is the most common mechanism used by local authorities to identify environmentally significant areas and protect vegetation, habitat, catchments, and coastal processes from development pressure. However, the use of conservation tools and environmental offsets in LGA planning schemes is relatively limited.

- Measures that reduce vulnerability to bushfire are potentially important in adapting to changed climatic conditions. In total over half of the plans included at least one provision for bushfire protection with zoning being the most common protective mechanism.

- There is considerable variation in local planning schemes. This is evident in metropolitan Melbourne where there is a greater use of controls in the outer areas perhaps. This may be because LGAs have responded to rapid growth in the peri-urban areas. Two established Melbourne LGAs stand in contrast to the broader pattern of controls increasing towards the periphery.

We suggest that the debate about development controls can be understood in the following terms

- The debate about development needing to provide both certainty and flexibility for proponents has been somewhat misplaced. It is largely a debate about development and planning procedures and operating costs associated with development application and approval times. It is not a debate about urban development goals and outcomes. There is little reference in these debates to the research that finds that broader housing affordability, accessibility and environmental sustainability issues present significant challenges to Australian cities.

- There is an underlying assumption in much of the debate that relaxing development controls will increase the supply of developable land, in existing urban areas and the peri-urban areas, by lowering the capital cost of land resulting in increased housing supply and improve housing affordability. In other words, increasing housing supply will result in improved housing affordability through a ‘filter down’ effect in the housing market—more dwellings equal lower prices and rents.

- There is insufficient recognition of the different categories of land developers and builders who participate in land development and housing production in quite different ways. The land and housing development industry is highly differentiated around the value of development, differences in the built form, location of development and development finance. The way

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businesses in the different categories count and understand the operating costs incurred in responding to development controls varies considerably.

Questions for focus group participants:

- Are the main concerns of land developers and builders with the requirements of planning controls about the number of controls, the policy objectives behind the controls or the time taken to process development applications?

- How does the application of different types of planning controls and the number of controls help explain housing supply outcomes in Melbourne and would relaxation of the use and application of controls result in increased housing supply?

- Are there differences within the industry in the capacity of land developers and builders evident in the way that they engage with and respond to development controls?

- To what extent should development controls be used to pursue urban policy objectives that improve housing affordability, accessibility and environmental sustainability?
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