

# An efficient and responsive housing market for sustainable urban growth and social inclusion

**SHORTAGE OF AFFORDABLE AND WELL LOCATED ACCESSIBLE HOMES IN OUR MAJOR CITIES RISKS FUTURE PROSPERITY AND WELLBEING.**

## KEY POINTS

- The mismatch between the location of jobs and affordable homes has implications for Australia's labour market mobility, participation and employment rates.
- High housing costs undermine international competitiveness, placing pressure on wages and making Australia a more expensive place to 'do business'.
- Dedicated resources are required to assist lower income groups access appropriate housing. Funding for capital provision, suitably leveraged, is a critical lever for increasing affordable housing supply.
- Further work is needed to support all sectors of the housing industry in delivering new housing products, particularly within existing urban settings and within more complex regional markets.
- A more holistic approach at all scales of government is needed to examine and address the potential effects of government policies on housing demand and supply, while ensuring that planning and infrastructure settings support the delivery of diverse and affordable homes in preferred locations.

*This bulletin is based on research conducted by **Prof Nicole Gurrán**, **Prof Peter Phibbs**, **A/Prof Judith Yates** and **Ms Catherine Gilbert** at the AHURI Research Centre—The University of Sydney, **Prof Christine Whitehead** at London School of Economics, **Dr Michelle Norris** at University College Dublin, **Prof Kirk McClure** at University of Kansas, **A/Prof Paul Maginn** at the AHURI Research Centre—The University of Western Australia, and **Prof Mike Berry** and **Prof Robin Goodman** at the AHURI Research Centre—RMIT University. The research summarised the outcomes of an expert panel investigating how the Australian housing system might become more efficient and generate good economic and social outcomes.*

## CONTEXT

This report examined the notion of an efficient housing market and identified key indicators of housing system efficiency, responsiveness, and risk. It examined implications of particular housing supply settings and outcomes to understand economic productivity and participation at regional and local scales.

## RESEARCH METHOD

This study was based on the views of an expert Investigative Panel composed of international scholars, Australian industry experts and industry leaders, as well as policy officers and practitioners from Commonwealth, state and local governments.

## KEY FINDINGS

### ***Defining an efficient and responsive housing market***

The panel expressed the view that many definitions of housing market efficiency and responsiveness seem too narrow as they focus on the housing market and on supply in isolation to other considerations. They developed an expanded definition along with a description of supporting factors and outcomes:

- An efficient housing market responds to population, employment and income growth through adjustments to the existing housing stock and through timely and cost effective production of new and affordable dwellings in accessible locations.
- An efficient housing market is supported by a competitive land market offering a variety of sites for residential development in accessible locations; a dynamic housing industry able to adjust products and output in response to changing demographic and economic demand; regulatory settings that coordinate provision of new housing and adjustments to the existing stock in response to long-term changes in demand; a prudent financial sector able to finance a variety of housing products, and financial settings that support new housing

supply without increasing speculation or risk.

- An efficient and responsive housing market should support sustainable urban growth, labour mobility, social inclusion and community wellbeing.

### ***Measuring housing market efficiency and responsiveness***

Currently, state and local governments attempt to measure the efficiency of housing supply through annual reporting of dwelling approvals and completions, in relation to projected demand (e.g. household formation).

However, panel experts advised that such measures focus on trends occurring in the private market, which does not necessarily cater to the full spectrum of housing needs. To bring Australia in line with other countries, such as the UK and the USA, a range of other housing indicators associated with demand (house prices, rents and mortgage payments), access (tenure patterns across the population, vacancy rates) and potential market imbalance or instability (levels of mortgage debt, investor activity, volatility in dwelling approvals/completions) should be examined as part of local or metropolitan-level reporting.

### ***Housing policy levers and regional economic growth***

Policy levers can have differential impacts across distinct urban and regional settings. For instance, government investment in transport and other infrastructure can improve the accessibility of outer metropolitan and regional locations, spreading housing and employment opportunities and boosting demand.

However, new government investment in urban renewal projects within existing inner and middle ring locations can support housing production but will not necessarily deliver housing affordable to moderate and lower income groups, due to the existing high market value of these areas or the value uplift arising from new investment.

This value uplift associated with new infrastructure and/or changes in planning rules, which release significant new development potential, could be better harnessed to deliver more affordable homes. This approach is used routinely in the UK and the USA.

### ***Economic productivity and housing supply***

The research focused on four aspects of economic productivity in relation to housing markets:

- *Labour market mobility*, which is constrained when there is a shortage of affordable homes accessible to employment opportunities.
- *Labour market participation and employment rates*, which is constrained by a shortage of affordable housing opportunities in locations near employment. Previous studies have shown that participation rates among women is further affected by long distances between home and work.
- *Costs associated with urban congestion*, which are exacerbated by a mismatch between the location of jobs and affordable housing, and inadequate public transport.
- *Costs to the wider economy arising from high housing costs and levels of borrowing and expenditure on housing*.

The panel noted that the empirical evidence base to quantify these emerging productivity problems in Australia remains limited and depends on a variety of government sources (census data, Commonwealth and state transport and infrastructure departments) and through sporadic consultancy or funded research efforts.

### ***Wider economic risks within Australia's housing market***

The panel discussed a series of wider economic risks arising within Australia's housing market.

- *Risks to consumption and non-housing investments* arising from high proportions of household budgets and borrowing capacity being diverted towards the housing sector.

- *Volatility arising from speculation*, particularly during a period of low interest rates; *and potential oversupply in some market sectors* arising from new models of housing provision through medium and high density development.
- *Growing disparity between housing markets that are accessible to capital city employment opportunities and outer metropolitan and regional areas*, meaning that new housing construction in these less accessible locations will not ease overall affordability pressures.
- *Growing welfare dependency as lower income groups and retirees face ongoing housing costs in private rental*, particularly given the demographic challenges presented by the ageing population.

## **POLICY IMPLICATIONS**

Panellists questioned whether an 'efficient' housing market, however defined, is the best policy aspiration for Australia's housing system, and whether other normative policy goals might provide a more appropriate set of objectives and criteria. These objectives for Australia's housing system might include:

- stability (e.g. steady new supply in response to population growth, reduced friction between demand shifts and new supply, demand moderation in response to new supply)
- diversity of housing choices (e.g. dwelling sizes, prices, and locations, and forms of tenure)
- equity and accessibility (e.g. location and availability of housing at different price points).

The panel called for a source of independent and reliable diagnostic information on housing market trends. This source should recognise a range of market pressures and measures of housing market efficiency and responsiveness to these pressures.

Key policy challenges include developing strategies that can promote housing production during periods of price stagnation, and overcoming problems associated with land supply monopolies and speculative planning applications. Further, it is important that taxes and transfers which have direct or indirect effects on demand, support rather than distort, housing choices across the market.

Funding dedicated for affordable housing may support more stable housing supply under different market conditions, addressing ongoing demographic demand and enabling the housing industry to retain skills and capacity.

## FURTHER INFORMATION

This bulletin is based on AHURI Project 73038, *Housing markets, economic productivity, and risk: International evidence and policy implications for Australia*.

Reports from this project can be found on the AHURI website: [www.ahuri.edu.au](http://www.ahuri.edu.au) or by contacting AHURI Limited on +61 3 9660 2300.

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**ACKNOWLEDGMENTS** This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

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