PEER REVIEWED

EXECUTIVE SUMMARY

FINAL REPORT NO. 334

The uneven distribution of housing supply 2006–2016

Authored by

Steven Rowley, Curtin University

Catherine Gilbert, University of Sydney

Nicole Gurran, University of Sydney

Chris Leishman, University of Adelaide

Chris Phelps, Curtin University

Publication Date August 2020

DOI 10.18408/ahuri-8118701

AHURI

Title

The uneven distribution of housing supply 2006–2016
—Executive Summary

Authors

Steven Rowley, Curtin University
Catherine Gilbert, University of Sydney
Nicole Gurran, University of Sydney
Chris Leishman, University of Adelaide
Chris Phelps, Curtin University

ISBN

978-1-925334-98-2

Key words

Housing supply; urban regulation; housing affordability

Series

AHURI Final Report

Number

334

ISSN

1834-7223

Publisher

Australian Housing and Urban Research Institute Limited
Melbourne, Australia

DOI

10.18408/ahuri-8118701

Format

PDF, online only

URL

http://www.ahuri.edu.au/research/final-reports/334
(full report)

Recommended citation

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

Acknowledgements

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.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

AHURI journal

AHURI Final Report journal series is a refereed series presenting the results of original research to a diverse readership of policy-makers, researchers and practitioners.

Peer review statement

An objective assessment of reports published in the AHURI journal series by carefully selected experts in the field ensures that material published is of the highest quality. The AHURI journal series employs a double-blind peer review of the full report, where anonymity is strictly observed between authors and referees.

Executive summary

Key points

- This study examines the quantity, composition and distribution of new housing supply across Australia 2006–2016, and seeks to explain variations in local rates of production. It builds on and extends earlier studies of housing supply in Australia by examining growth relative to base stock.
- The study finds that new housing supply is distributed unevenly between and within the Australian states. In cities such as Sydney and Melbourne, new supply has concentrated in high-value inner-city localities near transport and employment hubs (consistent with Ong, Dalton et al. 2017) but in all cities, significant amounts of new housing production are occurring in lower-value outer areas.
- Between 2006 and 2016 WA saw the greatest increase in the levels of dwelling stock (26 per cent) and NSW the least (just 12 per cent). Thirty-seven of the 489 local government areas (LGAs) analysed for this research increased stock levels by more than 50 per cent over 10 years, while 70 per cent increased stock by up to 25 per cent (on average around 2 per cent per annum).
- Across all states there has been a fall in the number of three-bedroom dwellings and a rise in the number of four- and five-bedroom+ dwellings. The number of three-bedroom dwellings fell from 47 per cent to 42 per cent of stock while the number of four-bedroom dwellings rose from 23 to 27 per cent.

- **While the planning system can create opportunities for development by zoning land and ensuring that zoning and development controls allow for a range of housing types, decisions about whether and when to develop are ultimately made by the development industry and reflect market factors.**
- **Ultimately housing supply is driven by market conditions and the ability of a developer to deliver an acceptable return. Variations in market conditions and the availability of quality development sites drive uneven patterns of supply.**
- **Each level of government is able to play a stronger role in supporting residential development within established and new communities by investing in major infrastructure provision and upgrades; coordinating land-supply processes and making available developable sites; and streamlining development approval processes for projects that meet local planning requirements, including expectations for diverse, well-designed and affordable housing options.**

Key findings

This study examines the quantity, composition and distribution of new housing supply across Australia 2006–2016, and seeks to explain variations in local rates of production, with reference to:

- demand-side considerations—population drivers, market cycles
- supply-side considerations—regulatory barriers, construction costs.

It builds on and extends earlier studies of housing supply in Australia by using a combination of quantitative and qualitative research methods to examine growth and compositional change relative to base stock, and to model the local price impacts of new production.

This research uses both dwelling stock and building approval data to describe patterns of housing supply over the 10-year study period, which covers three census points. Between 2006 and 2016, total dwelling stock increased by 17 per cent nationally, with WA seeing the greatest increase stock at 26 per cent and NSW the least at just 12 per cent. Thirty-seven of the 489 LGAs analysed for this research increased stock levels by more than 50 per cent over 10 years, while 70 per cent increased stock by up to 25 per cent (on average around 2 per cent per annum).

While stock has increased, the same cannot be said about diversity in terms of dwelling size. Across all states there has been a fall in the number of three-bedroom dwellings and a rise in the number of four- and five-bedroom+ dwellings. The number of three-bedroom dwellings fell from 47 per cent to 42 per cent of stock, while the number of four-bedroom dwellings rose from 23 to 27 per cent. Ninety-two per cent of LGAs saw a reduction in the proportion of three-bedroom dwellings within their jurisdiction, while around three-quarters have seen an increase in larger four- and five-bedroom dwellings (74% and 79% respectively).

Over the period 2006–2016, new dwelling supply—as proxied by building approvals—is concentrated in the inner—usually higher-value—areas in Sydney, Melbourne and Brisbane, while Adelaide and Perth see the highest number of approvals in middle and outer areas. Using a location quotient measure where a value of 1 indicates a level of supply at a level 'expected' given the base starting level (stock or population), we were able to map the relative distribution of new supply, identifying those LGAs that had grown faster than others.

Further in refining previous analyses of new housing supply, we find a variety of spatial distribution patterns within and between the Australian states and capital city regions. The cities of Sydney and Melbourne show intense supply in inner areas but also, along with the other capital cities, in outer greenfield contexts as well. Relationships between new housing supply and price change are also complex, with greenfield housing areas recording modest price growth, but areas of pronounced multi-unit development experiencing higher price inflation over the period.

Qualitative work was used to explore the reasons behind supply patterns in two states: NSW and WA. Eight case-study LGAs categorised as high supply locations were used to explore the factors behind the supply outcomes. Interviews with state and local planners and developers allowed us to identify lessons that could be learnt from these authorities and applied to other areas seeking to increase their housing supply.

Planners and developers believe that the planning system has an important role to play in allowing new housing development, by zoning land and ensuring that different housing types are permissible in locations where they are needed. However, the timing and composition of new housing supply is driven by the development industry, their reading of market conditions, and whether projects are financially viable.

In the high-growth case-study LGAs, zoning that enabled developers to respond to strong housing demand conditions when they occurred was seen to be a key factor in supporting supply growth. Other common factors that help to explain high and diverse housing supply in the case-study LGAs include:

- the presence of relatively cheap land (WA)
- large greenfield or brownfield sites conducive to larger scale, master-planned development (NSW)
- infrastructure capacity—particularly resulting from transport infrastructure investment
- proactive local planning for growth (outer ring) and or urban renewal (inner ring).

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

Policy development options

A number of potential policy development options have emerged from this study. Overall, each level of government is able to play a stronger role in supporting residential development within established and new communities by:

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

Ultimately, market conditions and the ability to deliver an acceptable return will stimulate housing development. For those LGAs looking to increase housing supply, market conditions need to be right, otherwise policy intervention is required or the public sector itself needs to lead development. While LGAs have no control over market conditions, there are some options available to deliver development that might not otherwise have occurred. There will always be an uneven supply of housing because of the different nature of locations but those LGAs chasing new development could consider the policy options outlined here.

Site availability and assembly

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

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

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

Urban regulation and the planning process

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

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

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

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

While some costs of development are unavoidable, there is a certain amount of flexibility that could be employed to ensure development projects that are financially marginal could become viable and deliver housing supply. Restructuring taxes and other contributions so they are payable at the completion of the development rather than upfront would help marginal projects. In this regard, Australia's new National Housing Finance and Investment Corporation (NHFIC) could help local governments support major projects with upfront, low-cost finance for infrastructure investments. Public–private joint ventures—particularly where government supplies the land—can also deliver developments that would not otherwise have been feasible.

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

Alternative approaches to development

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

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

- purpose-built rental accommodation
- deliberative (resident-led) or cooperative forms of housing development
- low-cost / shared-equity forms of ownership.

Diversifying housing products and producers—and stronger government involvement in land and housing development, including through demonstration projects—will help offset market cycles and enable more stable patterns of new supply.

The study

The project addressed four research questions designed to deliver new evidence on patterns of housing supply across Australia and how state and local governments can generate a more even distribution of new housing.

- **RQ1:** Has new housing stock delivered between the period 2006 and 2016 been evenly distributed, by value, type and size, between and within capital cities?
- **RQ2:** Has changing planning policy had an impact on patterns of new housing supply?
- **RQ3:** What factors determine the location of new housing supply?
- **RQ4:** What lessons can be learnt from Local Government Areas that have secured a broad distribution of diverse, new housing supply?

The research project examined the distribution and drivers of new housing supply across states from 2006 to 2016. Qualitative approaches were then used to assess why supply varies at the LGA level. This included case studies of eight LGAs that secured well above their relative share of building approvals.

Australian Bureau of Statistics (ABS) data on housing diversity—or dwelling type—was supplemented with ABS data on building approvals. While the quantum of housing supply is important, the composition and diversity of this stock is also a key to delivering opportunities for a range of household types across the income range and for addressing spatial and environmental goals for higher-density accommodation near transport and services. Therefore, as well as exploring overall changes in housing stock, this work examined shifts in housing diversity over time using ABS census data to track how different broad house types have grown or contracted over the 10-year study period.

This project also explored whether it is possible with currently available data to undertake econometric analysis of the link between stock and price change. It is notable that there has been very little analysis in Australia of the temporal linkages between housing supply and prices or affordability. The economics of the development industry are particularly important as a potential explanatory factor for differential supply patterns because, in many ways, developers' behaviour and market outcomes do not fit standard economic theory.

Further information on the ways that local conditions—including local planning regulations—influence patterns of housing supply and diversity was captured through analysis of data from the Australian Urban Land Use Planning Policy (AULUPP) survey. Data from interviews with state and local government planners was also an important input to this study. Interviews captured the perspectives of state-level and metropolitan-region level planners in NSW and WA, as well as the views of local government planners with experience in eight LGAs in Sydney and Perth, who had relatively high volumes of new supply over the study period.

Australian Housing and Urban Research Institute
Level 12, 460 Bourke Street
Melbourne VIC 3000
Australia
+61 3 9660 2300
information@ahuri.edu.au
ahuri.edu.au
twitter.com/AHURI_Research
facebook.com/AHURI.AUS
Australian Housing and Urban Research Institute