

EXECUTIVE SUMMARY

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Urban regulation and diverse housing supply: An Investigative Panel



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Executive summary

Key points

- **Diversifying housing supply in response to changing demographic profiles and declining housing affordability has become a significant policy aspiration in Australia's major cities.**
- **However, despite this aspiration, the majority of housing is delivered in the form of detached housing in greenfield locations and, to a lesser extent, high-rise apartments, both of which are sold at market rates to owner-occupiers and small-scale buy-to-let investors.**
- **In this context, this study engaged the expertise of 50 housing and built-environment professionals in Sydney, Melbourne and Perth on Investigative Panels to examine barriers and challenges within the housing system for delivering housing supply that is more diverse in terms of size and built form, tenure, development model and, importantly, affordability level.**
- **Across these three cities, the housing industry and built-environment experts who took part in the study perceived a need for: greater diversity in housing types and sizes, particularly in lower-density suburban areas; medium- and higher-density housing forms able to accommodate a wider variety of household types and lifestyle preferences; rental housing that can offer greater security of tenure; and, more housing supply across tenures that is affordable to very low to moderate income households.**

- In addressing these gaps, panellists saw a need for more medium-density housing such as townhouses and other attached housing types with ground access; dwelling designs that cater to different household needs and preferences (in terms of size, facilities, adaptability, etc.), and alternative processes for developing new supply, including deliberative development models managed by future residents/owners. Panellists also emphasised the importance of affordable home ownership and rental housing options and increased supply of social housing.
- The Investigative Panels revealed that these types of projects can face a range of development challenges. In terms of the planning system, challenges can include difficulty accessing sites where medium- and higher-density built form is permitted and financially viable; lack of clarity as to the permissibility of unconventional housing or development types within land-use zones; lack of flexibility in development controls to allow for design innovations, such as reduced car parking; and uncertainty around the time frame and outcome of development assessment decisions.
- Uncertainty has a particular impact on less conventional developments with tight development margins, which are less able to cope with unexpected costs associated with time delays. At the same time such projects—often lower cost rental or home ownership developments—can also face greater community opposition in established areas, potentially prolonging assessment processes and uncertainty regarding an application outcome.

- **Other important challenges relate to factors beyond the planning system. These include high urban land costs; challenges obtaining development finance; and a lack of appropriate skills and expertise in the housing industry.**
- **Competing for access to land and finance can be particularly difficult for housing projects that do not constitute highest value land use and that are initiated by start-up organisations and small developers without significant balance sheets or development track records.**
- **Projects designed for long-term affordability and affordable housing projects by not-for-profit housing providers face additional economic viability challenges, while subsidies to support project viability are limited and inconsistent.**
- **The drive for innovation in new housing supply must ultimately come from the private housing development industry, which currently produces more than 97 per cent of Australia’s new homes.**
- **However, all levels of government can play a role in de-risking and supporting the viability of diverse housing projects through subsidies in the form of land, grants, and access to special mortgage products for purchasers of diverse housing products; as well as through access to development finance, and special development assessment pathways.**
- **State and local governments can ensure that land-use zoning allows for or requires a range of dwelling densities in different locations. Zoning rules can also be designed to limit competition from higher value land uses where a particular form or tenure of housing is desired.**

- **Flexibility and concessions on development requirements and fees and charges, where appropriate, could also help to support the viability of diverse housing projects.**
- **While planning-based interventions can play an important role in supporting the permissibility and viability of projects delivering diverse housing dwelling types and sizes, tenures and development models, deeper forms of subsidy are required to support significant supply of housing that is affordable to low-income groups.**
- **All levels of government can play an important role in communicating the need for more diverse housing supply and enabling more diverse housing supply through strong leadership. In addition to Commonwealth financial support, state governments should take a leadership role in establishing targets and strategic directions for increasing diversity of housing supply; and supporting innovation through demonstration projects that can be replicated across the industry. Local governments have a crucial role in building support for housing designed to meet the full spectrum of needs in their communities, and in helping developers and community organisations interested in delivering diverse types and tenures of housing and development models to navigate the planning system.**

Key findings

Dimensions of housing diversity that are lacking in Australia's major cities

There has long been concern that new housing supply is failing to meet the changing needs of Australia's diverse population. Diversifying housing stock has become a goal of metropolitan region planning in the context of demographic changes; increased barriers to home purchase; growth in private renting; and concerns about the environmental and social performance of Australian homes and communities.

Dimensions of housing diversity include not only built form, but factors such as tenure and price/ affordability. The need for diverse housing supply reflects not only varying capacities to pay for housing, but housing and lifestyle preferences across age cohorts and household types.

The built-environment and housing industry experts involved in this study emphasised that housing diversity embraces a wide range of factors relating to dwelling size and design; tenure and governance arrangements; construction method; and the development and financing model. In the three cities that were the focus of the research, they perceived a need for:

- More diversity in dwelling types and sizes, particularly in lower-density suburban areas characterised by detached houses.
- Medium and high-density housing forms that can better accommodate resident design and lifestyle preferences.
- Rental housing that can offer increased security of tenure compared to the private rental sector which, in Australia, is dominated by small-scale buy-to-let investors.
- Housing across tenures that is affordable to very low to moderate income households.

Panel participants saw a role for different housing types and sizes, tenures and development models that are generating policy and industry interest in Australia—and, in some cases, have been demonstrated on a small scale—in addressing these gaps if able to be scaled up. In terms of the lack of diversity in built form in new and established lower-density areas, built-environment and housing industry experts saw a need for more medium-density housing forms which, in the Australian context, include terraced and semi-detached homes and two-storey apartment buildings. These were seen as important for enabling downsizing among older households within their local areas, as well as offering more affordable entry points for first homebuyers. However, it was recognised that medium-density housing forms delivered by private housing suppliers are not always more affordable than other products in a local market. Deliberative and non-speculative development models were seen to offer potential to deliver medium-density and higher-density housing forms that better meet the needs and lifestyle preferences of different household types, while community-led development models oriented to long-term affordability, shared ownership housing, and the scaling up of more traditional affordable and social rental housing provision are needed to address persistent unmet affordable housing need.

If delivered on a wider scale, panel participants pointed out that these housing types, tenures and delivery models—which can be considered diverse in the Australian context—could allow for greater mobility within the housing system, enabling households to better match their housing with their needs, aspirations and capacity to pay for housing across life stages.

Barriers and challenges for delivering diverse housing

International research, particularly from the US, has found that planning systems can reinforce patterns of housing supply that are dominated by single family homes and biased towards home ownership. In Australia, previous research has demonstrated similar concerns from developers about planning system barriers to innovation.

However, there is evidence—particularly over the past five years—both of new development types emerging in Sydney, Perth and Melbourne, and of ongoing reforms to metropolitan planning frameworks to support more diverse housing supply. In this context, the Investigative Panels examined the extent to which planning systems in Sydney, Melbourne and Perth remain barriers to the implementation and scaling up of diverse housing types and tenures and new development models, as well as other important housing system factors that impact the financial viability and overall feasibility of different housing models in the Australian context.

A range of challenges for delivering diverse sizes, designs and tenures of housing, and for the scaling up of deliberative and non-speculative development models were identified through the Investigative Panel deliberations. Some of the issues raised are also relevant for the feasibility more conventional housing projects, including the high cost of land, inflexible development controls or requirements, and uncertainty regarding the timing and outcome of development assessment processes. However, projects that deliver housing that differs to the majority of housing stock can face additional challenges as they move through the development process as a result of tighter development margins, lack of precedence both in terms of planning permissibility and valuation for financing and lack of industry experience. Particularly for projects delivering housing for lower income groups, and additional barrier is the need for subsidy for projects to be viable.

Planning

Across Sydney, Melbourne and Perth, land-use zoning is the primary means of development control. Zones specify maximum residential densities as well as land uses that are potentially permissible with development consent. The built-environment and housing industry experts who took part in the panels explained that local land-use zoning can have a significant impact on whether diverse housing types are permitted in residential areas, as well as whether medium-density housing is financially viable. They argued that medium-density and higher-density housing forms are often not permitted in established residential areas. Where zoning allows for apartment buildings, land prices are typically higher, meaning that medium-density housing forms, including townhouses, are not financially viable. While some specific housing types, such as boarding or rooming houses and secondary or ancillary dwellings are now specified as potentially permissible uses in some land-use zones, many other types of residential development are not specifically named—meaning that their potential permissibility is unclear.

Particularly in infill development contexts where there are potential impacts on surrounding lower-density land uses, projects with medium- and higher-density built forms can face increased community opposition. That opposition can be stronger where projects are also delivering affordable housing. As panel participants explained, that can lead to prolonged development application processes and increase uncertainty as to whether a project will be approved. They explained that projects that have tighter development margins, particularly non-speculative and affordable housing projects, are less able to cope with additional costs of attaining development approval and may become unviable if processes are drawn out.

Land

The high cost of land, particularly in accessible locations that are well suited to medium and higher-density built form and non-speculative and affordable housing projects, presents as a significant challenge for site acquisition. As panel participants explained, land vendor expectations typically reflect the highest and best economic use value of land. This means that the projects that are best able to compete for sites are those that maximise density allowances and deliver housing for sale at market rates. The high cost of land also makes it difficult to amalgamate sites in order to undertake larger-scale, planned redevelopment to include a variety of residential densities and housing tenures.

Finance

Access to finance and finance costs were also identified as a particular challenge for projects that include unique housing products or tenure arrangements, or that are delivered through an alternative development model, as lenders perceive them to be higher risk. Lack of comparable dwelling types can also be a problem for accurately valuing diverse housing products.

A further challenge for obtaining finance is that developers and organisations looking to develop medium-density infill housing and non-speculative and community-led housing projects are often small scale and in some cases start-up organisations that do not have a development track record or significant balance sheets. Projects delivering housing for low-income households also need additional subsidy to be financially viable, but sources of subsidy are limited and inconsistent.

The development industry

Barriers to innovation also exist within the housing development industry itself. Panel participants pointed out that the larger developers who dominate the development industry can be averse to economic risk and slow to change their housing products. Smaller developers may be more agile in terms of the housing products they can produce, but can face challenges in scaling up their production. Innovation is also hindered by lack of necessary skills and experience within the housing development industry. This can include lack of knowledge or lack of experience with different housing delivery models, building forms and dwelling configurations, as well as building materials and construction methods.

Enabling diverse housing supply: policy development options

There are significant opportunities for governments to support more diverse housing supply in Australian cities. Although important, particularly in terms of the permissibility of different housing types, planning reform alone is unlikely to ‘unlock’ innovation or support significant scaling up of diverse housing supply. In part, this is because important barriers and challenges to delivering diverse housing relate to factors beyond the planning system. There is an opportunity for governments to initiate and extend more holistic approaches, including:

- leadership in articulating the need for different dwelling types, housing tenures, development models and pricepoints
- guidance and support for suppliers interested in delivering diverse housing products
- proactive measures to subsidise and de-risk projects that deliver affordable housing for low-income and moderate-income groups
- engaging in potentially replicable projects that demonstrate diverse housing types, tenures and delivery models.

Reforms to planning

State and local government can support diverse housing supply and innovative housing projects through regulatory reforms to:

- Ensure land-use zoning allows for medium-density and higher-density land uses in a range of locations. This could extend to permitting rental housing or affordable housing tenures in appropriate non-residential zones where land-use conflicts can be managed—for example, affordable ‘live/work’ precincts in light industrial zones.
- Ensure that diverse housing types and models are named in state planning strategies and in statutory planning instruments, and that their permissibility (with consent) is clear.
- Require a mix of housing types and tenures, including lower cost or affordable housing as part of significant new residential development projects.

- Expedite or provide priority development assessment processes for projects that can demonstrate an affordability outcome or address an identified unmet housing need.
- Allow concessions such as waived development application fees, council taxes, and development contribution requirements, as appropriate, for projects that can demonstrate an affordability outcome or address an identified unmet housing need.

Scaled subsidy

Projects delivering housing at below-market rates for those on lower incomes require additional subsidy—beyond what can be generated from sales or rents—to be financially viable. All levels of governments could support the viability of projects that deliver housing that is affordable for low-income and moderate-income groups through:

- provision of government land—through discounted sale, long-term lease or through joint ventures
- access to special loans for developers and purchasers
- grants to support the development of new sectors within the housing industry, particularly organisations interested in undertaking non-speculative and community-led development, as well as funding to support demonstration projects
- long-term sources of funding to support not-for-profit housing developers to deliver new affordable housing supply, in addition to funding from the National Housing Finance and Investment Corporation (NHFIC).

Government leadership

Apart from regulatory reform and subsidies, governments have an important role to play in developing the strategic framework in which to situate policies and programs to support diverse housing supply and in demonstrating diverse housing projects. Key areas for government leadership include:

- Communicating the need for diverse housing supply to communities, government agencies and the housing development industry.
- Establishing targets and strategic directions for increasing the diversity of housing supply.
- Making detailed data available and undertaking or commissioning detailed research on housing needs, preferences and housing supply.
- Helping community organisations interested in developing housing and affordable housing developers to navigate the planning system.
- Supporting innovation through projects that demonstrate demand for—and potential profitability of—diverse housing products, and that work through development challenges.

Industry innovation

The drive for housing innovation, however, also needs to come from industry. This includes developing understanding of new models, working through feasibility challenges and developing skills in alternative construction methods and building styles appropriate to diverse housing delivery.

The study

The research captured the perspectives of 50 built-environment and housing industry experts through six Investigative Panels held in Sydney, Melbourne and Perth between 21 November and 2 December 2019, as well as through four separate interviews. Focussing on these three cities enabled exploration of the opportunities and challenges for delivering diverse types and tenures of housing and development models within different planning system and housing market contexts. Two 3-hour panels were run consecutively in each city. Panellists were invited to participate in the Investigative Panels based on their professional expertise and familiarity and experience with diverse housing types and development models. The first session (morning) focussed on the perspectives of housing, development and finance professionals and researchers. The second session (afternoon) focussed on the perspectives of planners, urban policy makers and financial regulators. The discussion was guided by a common set of questions, with slight modifications across morning and afternoon sessions to account for different professional experience and expertise.

The question prompts and discussion focussed on:

- dimensions of diversity and gaps within the current housing stock of Australian cities
- diverse types and tenures of housing and development models emerging in industry and potential opportunities and barriers for their scaling in Australia
- specific aspects of the planning system that inhibit or challenge diverse housing production
- broader factors inhibiting diverse housing production, including those internal to the construction industry
- how all levels of government could better enable diverse housing supply.

Transcripts of the Investigative Panels were analysed and key ideas and text coded against the series of questions outlined in the discussion paper. Transcripts for each city were analysed separately, and then the results were compared.

In addition to the Investigative Panels, the research team examined select international practice in Canada and the UK in enabling new diverse housing types and development models. This was done through a desk-based review of research findings, policy and program documents and program evaluation materials, accompanied by a small number of interviews. Current policy settings, programs and initiatives in Sydney, Melbourne and Perth to support diverse types and tenures of housing were also examined as background to the Investigative Panels.

The analysis focussed on identifying high-level institutional factors that impact the supply of diverse housing, and potential for regulatory changes and other interventions by government to better enable diverse housing supply across a range of housing types and development models.



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