

EXECUTIVE SUMMARY

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Urban productivity and affordable rental housing supply in Australian cities and regions



From the AHURI Inquiry: Urban productivity and affordable rental housing supply

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Related reports and documents

Hulse, K., Reynolds, M., Nygaard, C., Parkinson, S. and Yates, J. (2019) *The supply of affordable private rental housing in Australian cities: short-term and longer-term changes*, AHURI Final Report No. 323, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/323>, doi:10.18408/ahuri-5120101.

Pill, M., Gurrán, N., Gilbert, C., Phibbs, P. (2020) *Strategic planning, 'city deals' and affordable housing*, AHURI Final Report No. 331, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/331>, doi:10.18408/ahuri-7320301.

Dowling, R., Maalsen, S., Emmanuel, L., Wolifson, P. (2020) *Affordable housing in innovation-led employment strategies*, AHURI Final Report No. 333, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/333>, doi:10.18408/ahuri-7320401.

Dodson, J., Li, T. Taylor, E. and Goldie, X. (2020) *Commuting burden and housing affordability for low-income renters*, AHURI Final Report No. 335, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/335>, doi:10.18408/ahuri5320201.

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The Inquiry Panel are to provide guidance on ways to maximize the policy relevance of the research and draw together the research findings to address the key policy implications of the research. Panel members for this Inquiry:

- Carla Adami, Commonwealth Treasury
- Troy Daly, Greater Sydney Commission
- Bronwen Clark, National Growth Areas Alliance
- Richard Wood, Department of Infrastructure, Cities Division
- Llewellyn Reynders, Infrastructure Victoria
- Sidesh Naikar, Department of Social Services, Australian Government
- Craig Downsborough, Department of Infrastructure, Transport, Cities and Regional Development, Cities Policy, Coordination & International, Australian Government
- Margorie Ferguson, MF Plan Plus
- Bronwen Clark, National Growth Areas Alliance
- Mark Wall, Queensland Housing and Public Works

Executive summary

Key points

This Inquiry examined changes in the supply of private rental housing and the implications for strategic policy interventions geared towards improving urban productivity.

- Low-income (Q2¹) households are a critical sector of the workforce, but increasingly struggle to find affordable rental housing near employment centres of Australia's major urban areas.
- Over two decades, the nation's shortage of affordable dwellings available for Q2 households in the private rental sector has grown to 173,000, with the most extreme shortage in Sydney (60,000 dwellings), where 71 per cent of all Q2 private rental households pay unaffordable rent.
- The shortage is most acute in inner and middle ring areas which offer higher accessibility to greater concentrations of employment opportunities. Consequently, Q2 renters are either enduring affordability stress, commuting burdens, or both in order to access employment opportunities. There is lower employment participation by Q2 households who live in outer suburban locations of both Sydney and Melbourne, although the extent to which this reflects household trade-offs is unclear.
- To address this, the Inquiry identified three primary policy development options: increasing affordable rental housing near key employment areas; improving accessibility and connectivity to outer suburban and satellite city housing markets via strategic investment in transport and communications infrastructure; and 'concentrated decentralisation'—fostering new employment clusters through strategic place-based funding interventions and digital innovation.

¹ This report uses quintiles which split the national gross household income distribution into five equal parts. Quintile 1 refers to household incomes in the bottom 20 per cent of that distribution (described as Q1 or very low-income); Quintile 2 refers to household incomes between 21 and 40 per cent of that distribution (Q2 or low-income) and Quintile 3 refers to household incomes between 41 and 60 per cent of that distribution (Q3 or moderate income).

- **Providing more affordable rental opportunities in locations offering high access to employment would benefit Q2 households currently living in housing stress and support long term labour market sustainability. In particular, policies to increase affordable supply in middle suburbs through new development incorporating lower cost rental housing would assist employment participation and reduce housing stress of Q2 households.**
- **Place-based funding interventions such as ‘City Deals’ have emerged as important models for catalysing new development, including housing, through strategic investment. Growing use of these models in Australian cities represents an opportunity to link transport and infrastructure investment to affordable housing in accessible locations.**
- **Digital and innovation sectors can play an important role in urban productivity by supporting new work practices such as telecommuting, and potentially by creating economic opportunities in locations with lower cost housing, such as the outer suburbs of major cities and in satellite or regional cities. Planned innovation precincts which cluster around ‘anchor institutions’ like universities can achieve agglomeration benefits, particularly if supported by high quality transport and communications infrastructure. However, mechanisms to preserve affordability and ensure that new affordable rental housing is created as part of new development, are critical.**

Key findings

This Inquiry examined relationships between urban productivity and affordable rental housing, focusing particularly on the location and availability (shortage/surplus) of affordable rental housing relative to employment and labour market indicators, in capital cities and satellite cities.

There has been extensive economic research on factors thought to drive urban productivity, with spatial agglomeration of firms and services known to enhance productivity through positive knowledge ‘spillovers’ (Glaeser and Gottlieb 2009; Puga 2010). This can be seen in Australia where economic activity and gross domestic product (GDP) concentrates in the major cities and particularly Sydney and Melbourne. However, urban agglomeration is also associated with disadvantages—such as traffic congestion or higher housing costs (Zheng 2001; Glaeser and Gyourko 2018), requiring spatial policy to balance economic productivity goals with wider social and environmental considerations. Further, high housing costs and traffic congestion can themselves become a drain on urban productivity, as investigated in this Inquiry.

To examine potential policy development options to balance these key tensions, the Inquiry investigated strategic place-based funding interventions such as ‘City Deals’, which have become an increasingly important model in Australia and internationally. The Inquiry also examined the potential role of digital innovation to support new economic opportunities and geographies of employment.

The supply of affordable rental housing

The empirical research collected to inform the Inquiry provides strong evidence of what appears to be structural rather than cyclical change in the Australian housing system (Hulse, Reynolds et al. 2019). In particular, the private rental sector (PRS) has been growing since 2001 at twice the rate of all households and at an accelerating rate in the 10 years from 2006 to 2016.

Current policy settings—including capital city planning frameworks with ambitious new housing targets—have facilitated this increase in aggregate housing supply. However, barriers to first home ownership, particularly in the capital cities, have contributed to important structural changes in the private rental sector, namely:

1. an increase in dwellings with mid-market rents, and
2. an increase in PRS households at mid-higher income levels (Hulse, Reynolds et al. 2019).

At the same time, reduced availability of social housing for low-income (Q2) earners, and increased demand for rental housing by Q3 (moderate income) households in major cities, means that Q2 income households are facing increasing affordability burdens in seeking accommodation accessible to the majority of employment opportunities.

These findings have serious implications for urban productivity. Low-income (Q2) rental households who are strongly engaged in the labour market are sacrificing housing affordability for access to employment opportunities. Q2 workers who do not live in inner areas of large cities tend to be at the lower end of the Q2 income scale, with some enduring high commuting burdens to access central business district (CBD) employment. There is lower overall employment participation by Q2 households living in outer suburban locations of Sydney and Melbourne.

Increasing the supply of rental housing affordable and available to lower income households

There is ongoing opportunity to increase affordable housing within inner and middle ring areas. As outlined, both Melbourne and Sydney offer significant capacity for increased housing supply even under current planning rules. The findings of this Inquiry suggest, however, that complex market barriers (e.g. underlying land values and the complexities of site acquisition, amalgamation, and remediation) rather than zoning or development controls are preventing take up of these opportunities. Given that the market is not currently making full use of available planning capacity, planning system interventions that seek to stimulate new supply by further ‘upzoning’ residential areas will have limited success. Additional interventions are likely needed to catalyse new and affordable housing growth in these locations.

Catalysing new economic opportunities, while preserving affordability

Our review of strategic policy interventions and funding ‘deals’ used internationally and increasingly in Australia suggests that collaborative, place-based interventions offer opportunities to catalyse new growth through transformative infrastructure or other investment. These represent opportunities for outer suburban regions of metropolitan centres, as well as satellite and regional cities, but specific strategies are needed to ensure that affordable housing is created and/or preserved.

Finally, this Inquiry has provided ‘first cut’ evidence on the role of affordable rental housing in the context of smart cities, with the potential for digital innovation and technology industries to support economic growth in suburban and regional areas increasingly recognised in Australia. The findings suggest firstly, that access to secure and affordable housing is an important precondition for digital startups; and secondly, that strategies to foster innovation firms may be effective in high amenity satellite cities² where existing skilled workers already reside and others may be attracted to relocate. However, strategies for fostering digital innovation industry precincts accessible to existing and future affordable rental housing supply remain unexplored.

² Satellite cities refer to major regional cities which have their own infrastructure and employment base but which also offer commuting options, such as Wollongong (NSW) and Geelong (Victoria).

Managing the contradictions of urban agglomeration

The findings of this Inquiry raise policy tensions in economic and spatial planning. As noted, urban agglomeration is widely understood to generate productivity gains from shared infrastructure, deep labour pools and knowledge spillovers. There is evidence from the research undertaken in this Inquiry that in some locations the intense concentration of employment in city centres is enabling productivity, yet also spurring house price inflation by increasing demand and land values in proximate locations with high accessibility to employment centres.

This process has implications for lower income households such as Q2s who are pushed out by rising rents to less job-accessible locations, or remain and experience housing stress. There is not yet clear evidence in Australia of the relative productivity benefits and costs of intense urban economic agglomeration. Thus, a clear policy tension arises—addressing housing affordability through supply of stock in less accessible locations, and risking productivity losses from reduced agglomeration, or increasing affordable housing supply in employment concentrated areas, with associated costs.

This policy tension can also be viewed from the perspective of dispersed suburban areas with relatively few high-value jobs, but which offer housing that is affordable to Q2 renters. Policy is questioning the advantages of increasing employment in such zones, recognising longstanding debates in regional economics about the merits of place-based intervention to address spatial disadvantage (Neumark and Simpson 2015).

Despite these economic debates, recent metropolitan planning in Australia has embraced the notion of smaller, connected urban agglomerations, each with their own internal labour market and housing market dynamics, albeit with differing compositions. This is demonstrated by the 20-minute or 30-minute neighbourhood concepts being developed in Melbourne and Sydney, and in Australia's *Smart Cities Plan* (Department of the Prime Minister and Cabinet 2016). These policies seek to mix employment and housing with infrastructure in key suburban nodes, in part to avoid long-distance travel to remote worksites. Similarly, place-based funding interventions have emerged internationally and in Australia as important policy tools to stimulate economic growth in new locations, as examined in this Inquiry.

Thus, in investigating the relationships between urban productivity and affordable rental housing in this Inquiry, we recognise the need for further and ongoing research to quantify potential economic benefits or trade-offs associated with spatial, housing, or employment strategies.

Policy development options

The following policy development options were identified through this Inquiry.

Increasing affordable rental housing near key employment areas

This strategy recognises that central city areas will continue to attract and absorb higher value, productive sectors of employment and wider jobs growth, although the extent to which this will continue in the post COVID-19 era remains unclear. It is essential to mobilise more policy levers and resources towards new affordable rental supply in these central areas, with access and eligibility restrictions to ensure that Q2 households are able to access this housing. The analysis of land availability and current rental prices suggests that market-based housing delivery is unlikely to attain affordability objectives at a scale that would have substantial impact on the Q2 cohort.

Further strategies include using well located public land for affordable rental housing development; and requiring affordable homes to be included as part of all residential projects. Reviewed in this Inquiry, the City Deal framework provides a model for investing in catalytic infrastructure, which may include a direct investment in affordable housing, while leveraging local responses. These local responses might also include land dedication by councils as well as planning requirements for affordable rental housing in major new developments (now possible in NSW and SA under state planning legislation). These requirements should be 'matched to market' so could include mechanisms to maintain affordable home ownership for lower and moderate income earners (as operating in South Australia); or to ensure that a proportion of new dwellings is available to lower income households at an affordable rent.

Density bonuses are an opportunity for encouraging projects in well located areas to include affordable rental housing in exchange for increased development potential, as occurs in Sydney, where developers can achieve additional floorspace in return for ensuring that a proportion of dwelling units are rented to eligible households at a 20 per cent market discount for at least 10 years.

Concentrated decentralisation—fostering new employment clusters through strategic place-based funding interventions and digital innovation

The objective of this approach is to increase employment opportunities, including skilled employment, in selected locations that are undersupplied with jobs. In these areas, housing markets are typically more affordable, but poor job accessibility means that low-income workers usually have a long commute to work or accept lower wage rates and/or workforce participation.

Given broad scholarly agreement that concentrated employment clusters enhance productivity through agglomeration effects, any decentralisation of employment should be concentrated into nodes rather than dispersed. Such nodes should also be linked by high quality transport networks.

Demonstrated internationally and used increasingly in Australia, strategic policy interventions and place-based funding 'deals' can catalyse new economic opportunities in targeted locations, often through infrastructure and transport upgrading in areas such as Western Sydney, which are currently undersupplied with jobs. However, explicit levers to preserve and create rental housing affordable to Q2 rental households are needed in these higher value capital city markets.

Land use planning frameworks may support the development of innovation precincts, through models such as 'live/work' zones; while strategic place-based funding interventions could prioritise connectivity (physical and digital) to enable new firms to operate outside established central city areas and improve working from home options. Also, amenity qualities—local cycle/pedestrian networks, distinctive and sustainable urban design — are known to attract digital entrepreneurs and their staff. Policy initiatives linking housing and smart city initiatives are not yet embedded in Australian metropolitan planning, however models emerging in Newcastle, Adelaide, and Northern NSW provide a starting point to emulate. It is likely that experiences of working from home during the COVID-19 pandemic will fast forward some of these changes.

Improving the accessibility of outer suburban and satellite city housing markets

This approach aims to better connect locations of existing jobs and housing, through strategic investment in transport infrastructure.

Again, place-based funding interventions are an ideal vehicle for delivering transformative infrastructure investments such as (light) rail and bus networks or transit corridors, and for leveraging commensurate commitments from recipient state or local jurisdictions. Core requirements include the need for state and local governments to enact affordable housing provisions in areas targeted by the infrastructure investment. Affordable housing provisions are necessary to preserve affordability and ensure that new development catalysed by improved transport accessibility contributes to affordable rental supply, targeted to lower income earners.

Value capture—a levy on development or property which directly benefits from the investment through increased land values or business revenues—provides one model for governments to recoup some of the costs of providing infrastructure. The value capture revenue stream can help finance the project and/or support additional affordable housing provision.

This Inquiry finds some evidence of housing market driven decentralisation, particularly from Sydney to satellite areas such as Wollongong and the NSW Central Coast. Strategies to support this process include investment to deliver better transport and digital connectivity, enabling firms to establish in these locations, which already accommodate skilled workers and may attract more workers by high amenity and lower housing costs. Digital connectivity would also enhance opportunities for working from home, heightened by the COVID-19 pandemic.

However, it is unlikely that growth in satellite cities will substantively impact on Sydney and Melbourne's housing markets, at least in the short to medium term, given the disparities of scale between the major and satellite cities. Thus, developing new strategies to increase the supply of affordable rental housing for Q2 households in accessible locations is critical.

The study

This report brings together key findings from the AHURI *Inquiry into urban productivity and affordable rental housing supply in Australian cities and regions*. The Inquiry was conducted through four discrete but intersecting research projects, extending previous AHURI work (e.g. Gurran, Phibbs et al. 2015; Ong, Wood et al. 2017) to focus on the role of affordable private rental housing in Australian urban and regional economies. To this end, it brings together analysis of repeated, cross sectional data on the private rental housing supply affordable to lower income households, relative to the geography of employment opportunities, labour market participation, and commuting patterns. The Inquiry also examined existing and potential strategic planning frameworks and funding interventions which support urban and regional economies by improving accessibility to affordable homes and employment opportunities, including new opportunities in digital and innovation-led firms.

This Final Report explains the conceptual framework for the Inquiry, outlines the range of methodologies and data sources applied, and presents key findings, highlighting policy implications. Readers seeking more detail on the underlying studies which inform this Inquiry can access individual project reports at <https://www.ahuri.edu.au/research/research-in-progress/ahuri-inquiries/urban-productivity-and-affordable-rental-housing-supply>.



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