

The relationship between affordable rental housing and urban productivity



Based on AHURI Final Report No. 353: Urban productivity and affordable rental housing supply in Australian cities and regions

What this research is about

This research examined relationships between urban productivity and affordable rental housing, focusing particularly on the location and availability of affordable rental housing relative to employment and labour markets in capital cities and satellite cities.

The context of this research

Productivity—the ratio of economic outputs relative to labour or capital inputs—is known to improve in cities through agglomeration—the clustering of activities, skilled labour, and the resulting knowledge ‘spillovers’. However, agglomeration is associated with increased housing demand, as workers relocate to be close to employment opportunities. Rental housing can support this agglomeration process by enabling workers to move to job rich regions, and provides greatest flexibility in enabling a match between housing and jobs due to ease of mobility and lower transaction costs relative to other types of housing tenure (home ownership and social rental). Expensive housing markets are thought to constrain this process, by reducing the potential for workers to relocate.

The Inquiry focuses on lower income Quintile 2 (Q2) workers. Q2 refers to household incomes between 21 and 40 per cent of Australia’s income distribution. A feature of Q2 households is that most have one full-time or part-time income earner. Thus, increasing the supply of affordable housing, and particularly rental housing that is affordable to low and moderate income earners, is an important strategy to support economic growth in areas of high employment opportunity.

In Australian cities, higher paying jobs in knowledge and service industries are historically located in central areas, which in turn are well served by public transport. Housing located in proximity to these areas is more expensive, and lower paid workers employed in central city areas will face affordability burdens or long commutes.

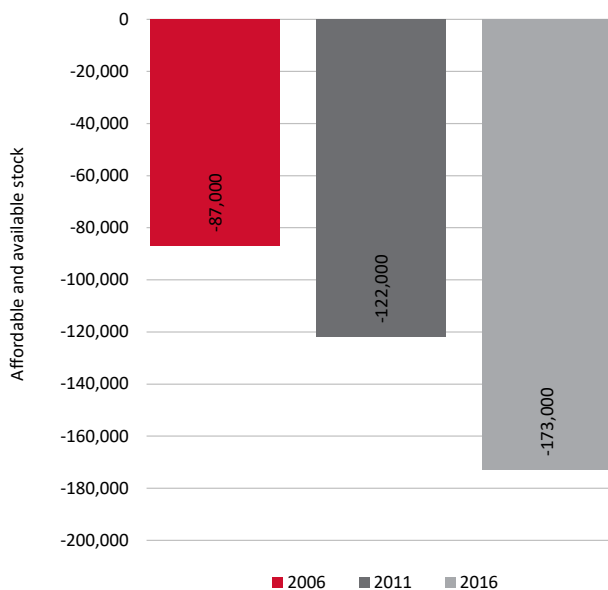
The key findings

Lower income (Q2) workers who play critical roles in urban economies are more likely to experience housing stress (exceeding 30% of their income on housing costs) near employment centres in 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. Across all Australian metropolitan regions, the percentage of Q2 households paying unaffordable rents increased from 29 per cent to 46 per cent between 2006 and 2016. In non-metropolitan regions, the equivalent figures were 17 per cent (2006) and 20 per cent (2016).

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Figure 1: Estimates of shortage of affordable and available stock for Q2 private renter households, Australia, 2006, 2011, 2016



Sydney and Melbourne: case studies

Together Sydney and Melbourne housed more than 10 million people and generated more than 75 per cent of the nation's GDP growth in 2018–19. Both cities demonstrate employment density clustering within 30 kilometres of the central business district (CBD), dispersing along major rail lines/transportation routes. There is an almost inverse relationship between the geography of employment density and affordable rental housing stock.

The shortage of affordable housing 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.

Q2 households may not be able to sustain housing affordability stress in the long term, implying higher levels of staff turnover and recruitment challenges for firms, draining productivity. Lower rates of labour market participation reduce the labour market pool, again, potentially reducing productivity. Lengthy commutes have productivity costs across the urban system, in terms of the lost time as workers sit in traffic and as goods take longer to transport. On average, low-income workers pay 8.6 per cent and 9.4 per cent of their gross income on commuting costs, in Sydney and Melbourne respectively.

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 CBD employment. There is lower overall employment participation by Q2 households living in outer suburban locations of Sydney and Melbourne.

Satellite cities (Geelong and Wollongong): case studies

The project examined two growing satellite cities in Australia: Wollongong to Sydney's south east; and Geelong, south west of Melbourne. Around 20,000 people from Wollongong and 17,000 people from Geelong commute by train to Sydney/Melbourne respectively, posing challenges in terms of retaining people to not only live but also work in the local area. It is worth noting that the analysis of commuting patterns showed that very few commuters between Wollongong and Sydney or Geelong and Melbourne were Q2 renters.

The analysis found that most Q2 renter workers in Wollongong live and work within the region. Overall, there appears to be a high level of jobs/housing balance in Wollongong and self-containment in the housing and employment market. Wollongong East attracts the highest number of commuters in the region.

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Most Q2 renter workers in Geelong travel to work within the Geelong region. Some undertake longer commutes to nearby the outer south-western suburbs of Melbourne, and some industrial zones in Melbourne's south east such as Dandenong. However, unlike the larger volume of professionals at higher income levels who commute to Melbourne's CBD, the commuting interaction of Q2 renter workers between Geelong and Melbourne is not very strong. Geelong CBD attracts the highest level of Q2 renter workers in the region.

These results indicate that Q2 renter workers living in the satellite cities of Wollongong and Geelong have been able to access relatively affordable accommodation near their employment. This means that they do not experience the affordability pressures and commuting burdens of their counterparts in Sydney or Melbourne.

The wider availability of employment opportunities in these satellite cities has recently been in question however, due to de-industrialisation, in particular of the manufacturing industry. Notably, the effects on employment and commuting patterns arising from the shutdown of the automotive sector in Geelong in late 2017 were too recent to be recorded by the 2016 ABS Census on which this study is founded.

Managing the contradictions of urban agglomeration

This Inquiry presents evidence 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 Q2 households 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.

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. 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.

Strategic 'place-based' funding interventions

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.

Place-based deals offer a model for integrating planning and policy co-ordination across different tiers of government and potentially non-governmental agencies and organisations as well. Place-based deals are essentially inter-government contracts, typically between higher (central or state) and lower (state and/or local/municipality) levels of government, typically addressing issues such as urban or regional development, planning, infrastructure investment, and housing. The potential of deal-making is to bring together separate powers, responsibilities, funds, programs and expertise into a cohesive package which is designed to reflect place-based conditions and priorities.

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Three primary lessons emerge from the review of international experience:

1. A focus on infrastructure funding in place-based deals to support economic development has meant that benefits to low-income groups (who are not directly targeted by these interventions) are often unclear.
2. When housing is considered in place-based deals, the emphasis is often on overall housing supply targets, which have not translated into improved outcomes for low-income households in the private rental market. Indeed, there is a risk that redevelopment and renewal projects, alongside wider urban investments, will lead to a further pressure on affordability.
3. The primary objectives of funding deals, as well as frameworks for monitoring and measuring performance, need to be made explicit, and governance arrangements should be robust and transparent. Additional capacity funding for local governments to undertake the detailed planning and delivery needed to implement the deals is often required.

What this research means for policy makers

The Inquiry identified three primary policy development options:

- **Increasing affordable rental housing near key employment areas.** Both Melbourne and Sydney offer significant capacity for increased housing supply even under current planning rules, however, 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.

- **Improving accessibility and connectivity to outer suburban and satellite city housing markets via strategic investment in transport and communications infrastructure.**
- **‘Concentrated decentralisation’—fostering new employment clusters through strategic place-based funding interventions and digital innovation.**

Overall, 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.

Further, policies to support ‘concentrated decentralisation’, including strategies which leverage increased work location flexibility in the context of the COVID-19 pandemic, will improve job accessibility for Q2 households. However, these strategies need to be matched by interventions to preserve and increase affordable rental housing for existing residents and those able to relocate for new employment opportunities.

Methodology

This research Inquiry explored its themes through four separate but intersecting research projects, and used Sydney, Melbourne, Wollongong and Geelong as case studies.

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