

Improving the diversity of Australia's future housing stock



Based on AHURI Final Report No. 349: Urban regulation and diverse housing supply: An Investigative Panel

What this research is about

This research examined the 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 affordability level.

The context of this research

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 long-term private renting; and concerns about the environmental and social performance of Australian homes and communities.

Dimensions of housing diversity include not only built form (including dwelling size), but factors such as tenure, the development and finance model that housing is delivered through and price/affordability. The need for diverse housing supply reflects not only varying capacities to pay for housing, but housing needs and lifestyle preferences across age cohorts and household types.

The key findings

Diverse housing supply is required in both type and tenure. In Sydney, Melbourne and Perth there is a perceived 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.

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Planning and development viability challenges

Medium-density and higher-density housing can be difficult to develop within established residential areas, even when these areas are well located to transport and services. Constraints may include land use planning controls, the difficulties acquiring appropriate sites and the complexities of 'infill' development projects where there are sensitive interfaces with neighbouring properties. Where zoning allows for apartment buildings, land prices are typically higher, meaning that medium-density housing forms, including townhouses, are not financially viable. This leads to prominent supply patterns defined by separate houses or apartments, with little in between.

While some specific housing types, such as boarding or rooming houses and secondary or ancillary dwellings are now expressly permissible in some land-use zones in Australian cities, for other types of residential development the situation is less clear. This can lead to lengthier and uncertain planning processes, which is a major risk for residential developers. Community-led and affordable housing projects, in particular, typically have tighter development margins, meaning that they are less able to cope with these unanticipated costs.

The prohibitive cost of land

The high cost of land, particularly in accessible locations that are well suited to the provision of affordable medium and higher-density built form, inhibits diversity. 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.

Financing innovative development

Access to finance is a particular challenge for projects that include innovative housing products or tenure arrangements, or that are delivered through an alternative development model, as lenders perceive them to be higher risk. High-risk development requires higher development margins, which is not possible with affordable housing. Lack of comparable dwelling types can also be a problem for accurately valuing diverse housing products, again adding to risk.

A further challenge for obtaining finance is that developers and organisations looking to develop medium-density infill housing 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. Project specific finance is very sensitive to market conditions making it difficult for small developers to develop counter cyclically. Projects delivering housing for low-income households also need additional subsidy to be financially viable, but sources of subsidy are limited and inconsistent.

The conservative development industry

Barriers to innovation also exist within the housing development industry itself, as 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.

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Role of government in supporting change and innovation in housing supply

Governments can address a number of issues that often challenge the generation and scaling of housing innovation, including:

- site assembly
- access to finance
- regulatory barriers
- lack of partnerships across sectors
- lack of 'safe spaces' for testing new models.

Research suggests that long-term consistent funding is most effective in supporting the supply of affordable housing for low- and moderate-income groups. However, governments can also provide one-off support for specific projects. This support may take the form of financial support or land contributions (State development agencies such as Landcom and Development WA have a key role to play in supporting innovation through land provision). Recent examples in Australia, Canada and the UK have shown the value of governments either leasing or selling their land to organisations delivering diverse housing products aimed at vulnerable members of the community. Not-for-profit housing associations often layer land contributions with other funding streams to deliver affordable housing projects.

In the UK, governments have used special loans, tax incentives and income guarantees to support the development and scaling up of a purpose-built rental sector. While Covid-19 has prompted new thinking around build-to-rent housing in Australia there is a long way to go for this to become a mainstream source of housing.

Funding in the form of capital grants can also help to support diversification within the housing industry. In England, a special fund has recently been developed by government to support the scaling up of the community-led housing sector and the viability of community-led housing projects that would not otherwise be able to proceed.

Through their land use planning responsibilities and other regulatory functions, governments can also ensure that diverse housing types are permissible in different zones or locations and can offer planning and tax concessions to support the feasibility of diverse housing projects. In parts of Canada, planning-based incentives, such as density bonuses and waiving of some development requirements, have been used to support the viability of purpose-built rental housing, in particular, as well as cohousing and community land trust models.

Governments can also support housing innovation through knowledge sharing, design competitions or the creation of 'protective spaces'—often referred to as a 'niche'. For example, Housing Expositions have been used extensively internationally—especially in Europe—to provide a platform for stimulating housing innovation.

As housing innovation inevitably involves the testing of new business models and heightened levels of market risk, governments can also support housing variety by demonstrating new housing models and dwelling types on their own sites to understand and work through development challenges.

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What this research means for policy makers

There is an opportunity for governments to initiate and extend more approaches, including:

- leadership in articulating the need for different dwelling types, housing tenures, development models and price points
- 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:

- 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
- ensure land-use zoning allows for medium-density and higher-density land uses in accessible, well located areas
- ensure that diverse housing types and models are named in state planning strategies and in statutory planning instruments, as permissible residential development.

Scaled subsidy

Projects delivering housing at below-market rates for those on lower incomes require additional subsidy. All levels of governments could support the viability of projects that deliver affordable housing through:

- provision of government land—through discounted sale, long-term lease or through joint ventures
- access to special finance for developers and purchasers
- grants to support the development of new sectors within the housing industry, particularly organisations interested in undertaking 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

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 an understanding of new models, working through feasibility challenges and developing skills in alternative construction methods and building styles appropriate to diverse housing delivery.

Methodology

This research drew on the expertise of 50 housing and built-environment professionals through workshops in Sydney, Melbourne and Perth to examine barriers and challenges within the housing system for delivering diverse housing supply.

To cite the AHURI research, please refer to:

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