

Economists and planners debate housing affordability

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For the past two decades, governments have been designing policy based on the assumption that increasing housing supply will reduce pressure on house prices and address the crisis of housing unaffordability. As the debate between economists and planners heats up, we examine the key competing narratives and suggest a new way forward.

The economists' case

In March 2022, the Federal government released their inquiry into 'housing affordability and supply'. The terms of reference were limited to the regulatory impacts on housing supply, thus excluding other non-regulatory pressures, or any consideration of demand-side strategies for improving housing affordability. The consequent report inevitably recommended that urban densities should be increased, planning policy administration should be streamlined, and councils should be financially rewarded for increasing housing supply.

There seems to be no doubt that the entire process was designed to perpetuate the narrative that increasing housing supply will put downward pressure on house prices. Submissions by Australian Housing and Urban Research Institute (AHURI) and City Futures at UNSW, that contested the direct causal link between housing supply and housing affordability, were dismissed as "a denial of basic economics" (cl. 3.27).

Influential in this debate is a report by the Reserve Bank of Australia in 2018², which sought to quantify the effect of planning processes on house prices. Their analysis found that "the average Sydney house, valued at \$1.16 million in 2016, represents a \$395,000 structure on a \$765,000 block of land." The assessment then determines that homeowners actually "value land at \$400 a square metre on the margin, or \$277 000 for the average Sydney block". The difference of \$489,000 is then referred to as the cost of "administrative scarcity".

The planners' counter

Following are some of the planning arguments contesting the characterisation of house prices as the sum of construction costs and notional land value, inflated by administrative restrictions.

Locational values

Phibbs and Gurran³ note that housing values include the perceived value of the "bundle of goods and services in the locality", which they refer to as the locational value. "These might include access to a train station, beaches, cultural facilities, a short commute to work, status, sea breezes, shops, a view from the front room, a park and good schools."

Note that these values are entirely subjective and reflect the distinction in economics between the perceived value of a good in the market, what someone is willing to pay, and the cost of producing that good.

Costs of providing public infrastructure

Any new housing increases the pressure on public infrastructure and utilities, including water supply, sewer, electricity, telecommunication, public roads, open space, stormwater systems and proximate community facilities. Housing developments are required to pay for the upgrade of these either as conditions of consent, through development contributions or negotiated via planning agreements. Such costs are therefore borne by the developer and passed on to the home buyer. Of course, this increases the cost of new housing but reflects the expectation of home buyers that a house includes these as they contribute to the locational values.

The problem here is that housing cannot, and should not, be planned, costed, or delivered separately from the ecosystem of services and infrastructure upon which it depends. There is a lengthy history of the development industry seeking to limit its contribution to supporting public infrastructure by capping development contributions. This only results in reduced locational values or in the costs being shifted onto other segments of the community.

Land banking

Murray⁴ provides a comprehensive analysis of land banking practices, confirming the obvious, that it is in a developer's interests to with-hold supply and keep prices high, because basic economics suggests that if housing supply is increased then prices will fall.

Housing supply not simply a numbers game

Simplistic analyses by economists, that have made the provision of housing a numbers game in housing supply, essentially ignore the many intricacies involved, including environmental constraints, congestion and capacity of infrastructure, the interests of the existing community, the availability of and access to, work opportunities, and so on.

Yet, even as a numbers game, the pie charts in Figures 1 and 2 illustrate the extra-ordinary oversupply of detached housing, essentially designed for families (67 per cent), relative to the number of households with three or more persons (43 per cent).

To better align household sizes with dwelling structures, a demand management strategy should be adopted, providing incentives to increase the average occupancy rate of existing houses. Household sizes have fallen from 4.5 persons/dwelling in 1911, to about 3.5 in the 1960's and 2.6 in 2016⁵. Increasing household occupancy rates would have social and environmental benefits, reduce demand for new housing while also improving affordability, yet this is not even on the table as a policy consideration.

Managing migration as a demand-side strategy

Another demand management strategy would be to dampen net overseas migration. Table 1 suggests that migration policy may have been influenced by the 2004 Productivity Commission report⁶ that found that "immigration has been an important contributor to underlying demand

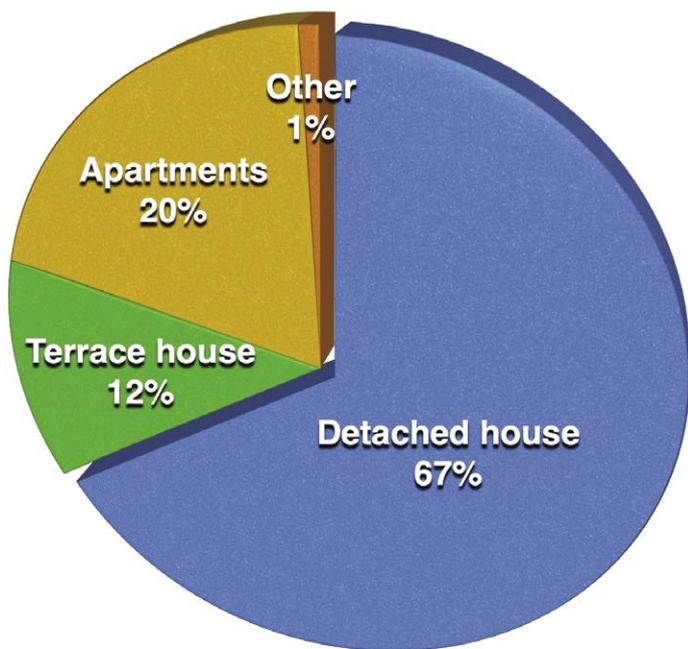


Figure 1: Dwelling structure in NSW of occupied dwellings (Source: ABS (2016) Census of Population and Housing, table G32)

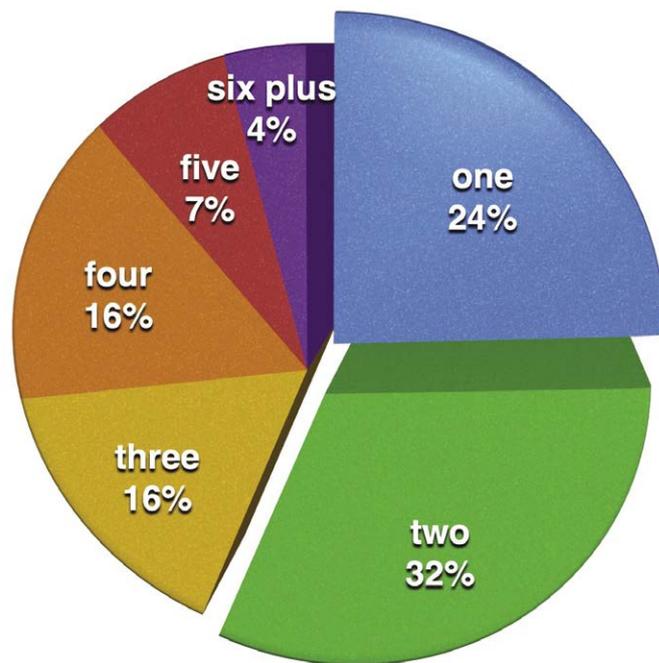


Figure 2: Occupants per occupied dwelling in NSW (Source: ABS (2016) Census of Population and Housing, table G31)

growth [for housing], especially in Sydney and Melbourne".

Table 1: Net Overseas Migration - Australia

Decade	Net Overseas Migration
1990-1999	790,000
2000-2009	1,700,300
2010-2019	2,181,400

Source: ABS Time Series, 3101.0 Table 1. Population Change Summary - Australia

The central problem with the housing market is that it has become a game of land speculation, dependent on constantly increasing house prices. To continue pushing prices upwards, and keep the treadmill going, new migrants are needed to keep increasing demand. It is no wonder that as early as March 2021, after the first COVID lockdown, the property industry was lobbying to kickstart migration⁷.

A way forward

It is time to acknowledge the complete dysfunction of the housing market and re-design it with the end users in mind. Some general directions that should be explored include:

1. Develop new housing at a precinct or community scale incorporating an integrated ecosystem of facilities, assets and services that create a more liveable environment. Include renewable energy systems, open space, community facilities, work hubs, shared electric vehicles, even water cycle management and food production;
2. Such precincts should be developed using build-to-rent and co-living models that do not depend on land speculation. Feasibility is based on life-cycle costing, with higher capital costs but lower maintenance and management costs, resulting in lower living costs for residents;
3. While Managed Investment Trusts provide debt funding, a Community Land Trust for each project would allow residents to own equity in their community precinct, also reducing land tax obligations for developer-operators; and
4. Housing could be designed with options for different household sizes, allowing residents to move within their precinct as their housing demands change at different life stages.

Finally, all of this will only be possible if the rezoning process is carefully managed so that the land value uplift, arising from the rezoning of land, is captured to pay for the public

infrastructure and locational values that convert housing into communities. ■

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Endnotes

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2. Kendall, R and Tulip, P 2018, The Effect of Zoning on Housing Prices (March 8, 2018), Reserve Bank of Australia Research Discussion Paper No. 2018-03, see: <http://dx.doi.org/10.2139/ssrn.3149272>
3. Phibbs, P and Gurrin, N 2021, The role and significance of planning in the determination of house prices in Australia: Recent policy debates, Economy and Space, Vol. 53(3) 457-479, <https://doi.org/10.1177/2F0308518X21988942>
4. Murray, C 2020, Time is money: How landbanking constrains housing supply, Journal of Housing Economics, vol. 49, 101708-. <https://doi.org/10.1016/j.jhe.2020.101708>
5. See: <https://aifs.gov.au/facts-and-figures/population-and-households>
6. Productivity Commission 2004, First Home Ownership, Report, No. 28, Melbourne
7. See: <https://www.theurbandev.com/articles/property-industry-lobbies-to-kickstart-international-immigration>



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