

# Housing Targets for Local Councils

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Paper: <https://www.cis.org.au/publication/where-should-we-build-new-housing-better-targets-for-local-councils/>

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# Motivation

- The excessive cost of housing is one of Australia's top social policy issues
- My preferred solution: State governments should set high targets for local councils
- But how to determine?

# 3 main objectives

- 1) Improve affordability;
- 2) Allocate housing to where it is most in need; and
- 3) Base targets on evidence and clear principles.

There are trade-offs between these objectives.

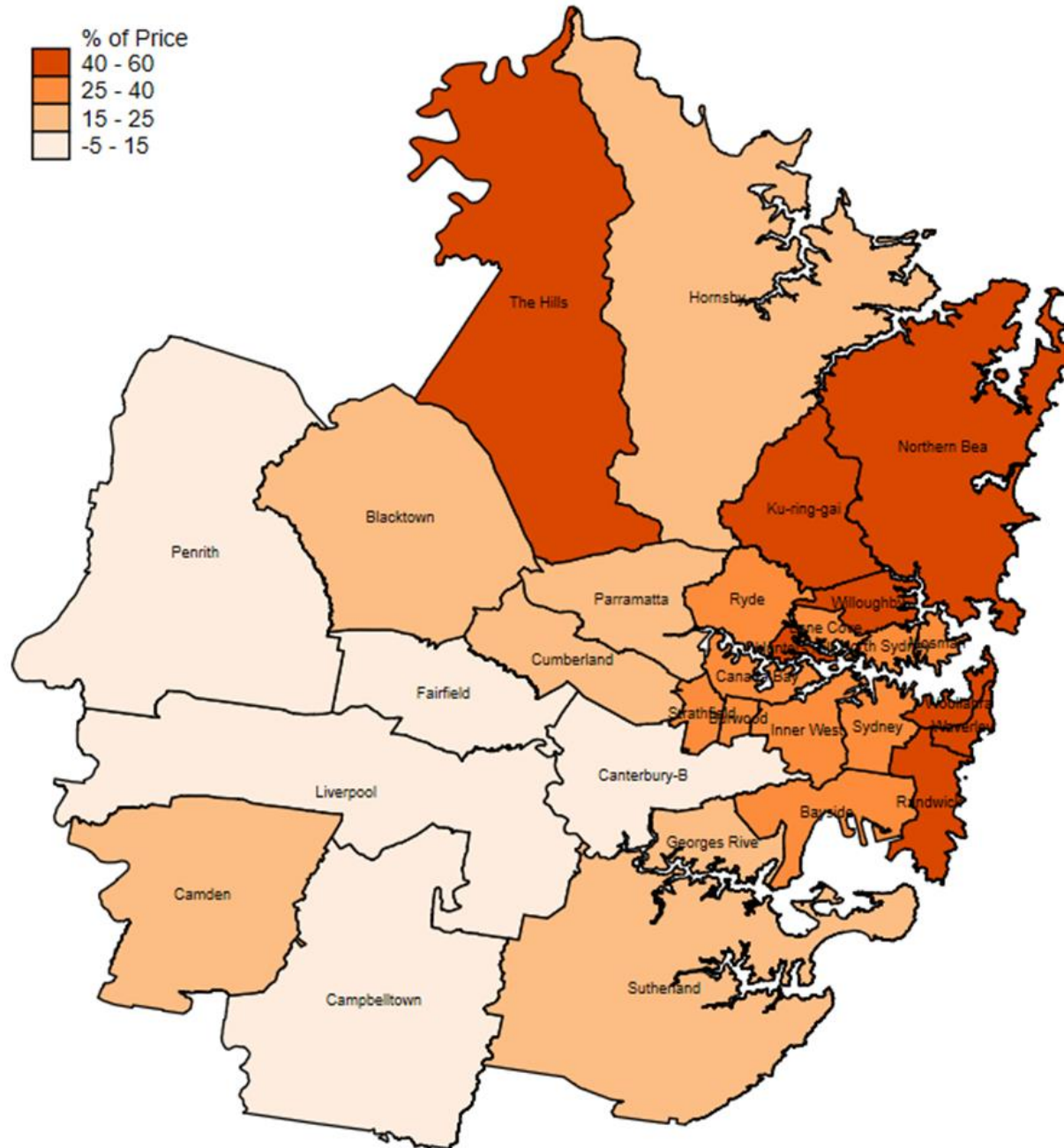
# Problem 1: Housing is Unaffordable

- Apartment prices exceed costs by 41%
- Zoning creates an artificial shortage
- We need to allow more building to drive down prices
- Endorsed by:
  - Lots of economic research
  - Lots of official enquiries
  - “Criticisms” are misunderstandings that are not taken seriously by researchers
    - Tulip (2021)

# Problem 2: We are not building where people want to live

- Gauge demand by willingness to pay; i.e. prices
- In Sydney, buyers want to live in the Eastern and Inner suburbs
  - Apartments there are large and high-quality.
  - We control for that by taking difference between price and cost of supply
  - Buyers pay far more than the cost of supply
  - They are paying \$\$\$ for the location

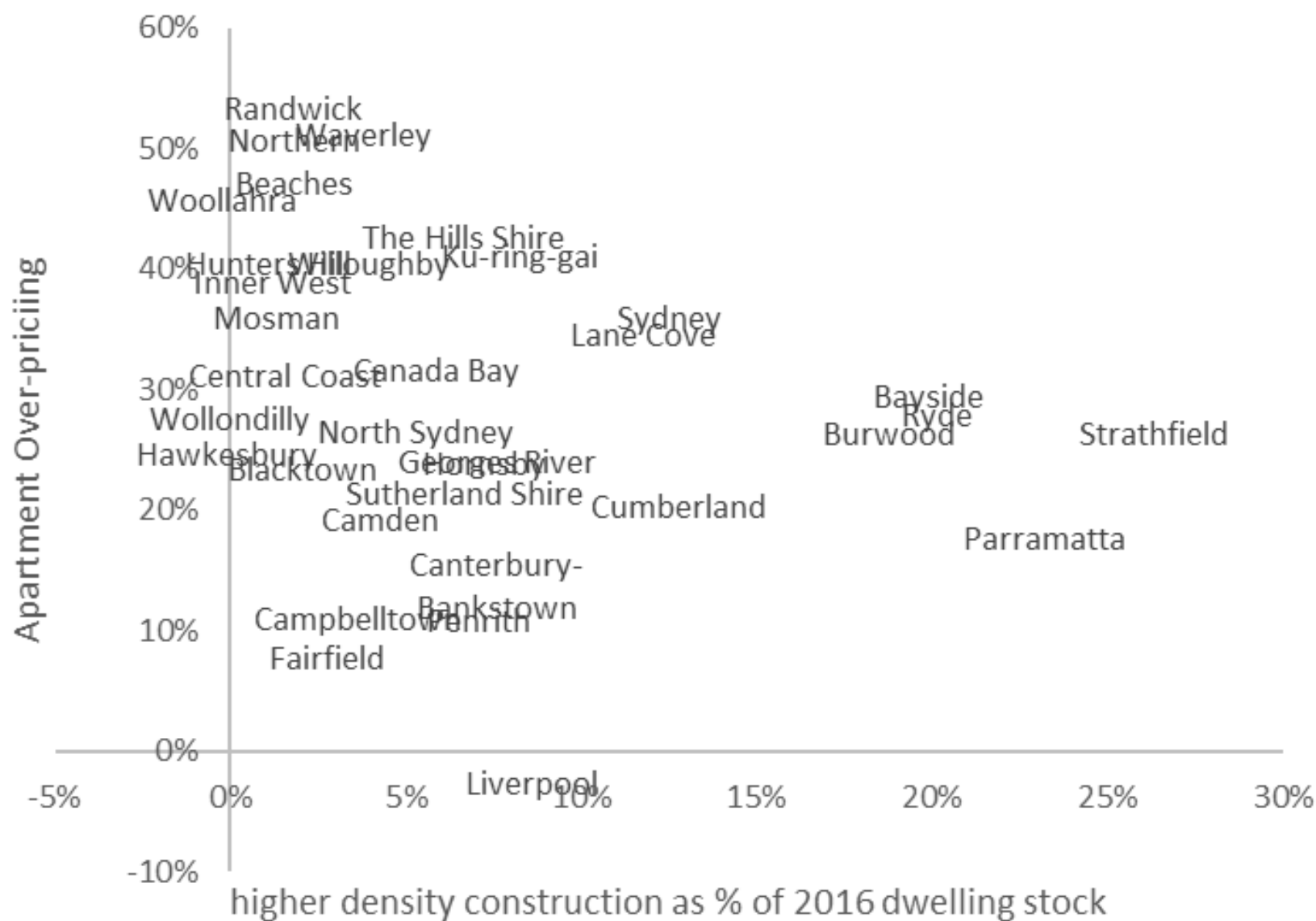
### 3: Apartment Over-pricing



# Problem 2: we are not building where people want to live (cont)

- Instead, we are building apartments in the Western suburbs

# We don't build apartments where they are wanted





# Problem 3: GCC's targets

- GCC targets are:
  - Too low
  - Lack a clear basis in evidence or principle
  - Do not allocate housing to where it is most in demand
  - Lack a clear enforcement mechanism

# Proposed Targets

3 components, for each local council

each based on data:

- 1) Extra apartments to improve affordability
- 2) Extra apartments to match population
- 3) Houses in same location and level as before

# 1: Affordability

- Apartment prices exceed cost by 41%
- As a rule of thumb, every 1% increase in housing supply reduces price by 2.5%
- So to eliminate over-pricing requires 16% ( $= 41\%/2.5$ ) increase in supply
- Aggregated over local councils = 82,000 apartments
  - My estimate of “the apartment shortage”
- Allowing 10 years to eliminate the shortage = 8,200 apartments a year.

## 2: Population

- Pre-pandemic estimates of population growth = 1.6% p.a.
  - Basis of then GSC targets
- If there are no local shortages, then extra apartments for this population should be evenly spread around the city

# 3: Houses

- There is a shortage of houses, but it is not clear how precisely to respond
  - Houses or apartments?
  - Where?
- Pending resolution, maintain the status quo

Examples		
	Waverley	Penrith
Type	Affluent, inner East	Low income, West
Affordability	447	38
Population	321	793
Houses	19	1,023
<b>Total</b>	<b>786</b>	<b>1,854</b>
% growth	2.4%	2.3%
Compare GCC target	250	1,500

## Greater Sydney: Annual housing targets

Affordability	8,200
Population	18,800
Houses	16,300
<b>Total</b>	<b>43,300</b>
% growth	2.2%
In comparison:	
Past 5-year growth (census)	42,500
GCC target	38,520
Projected supply	32,256

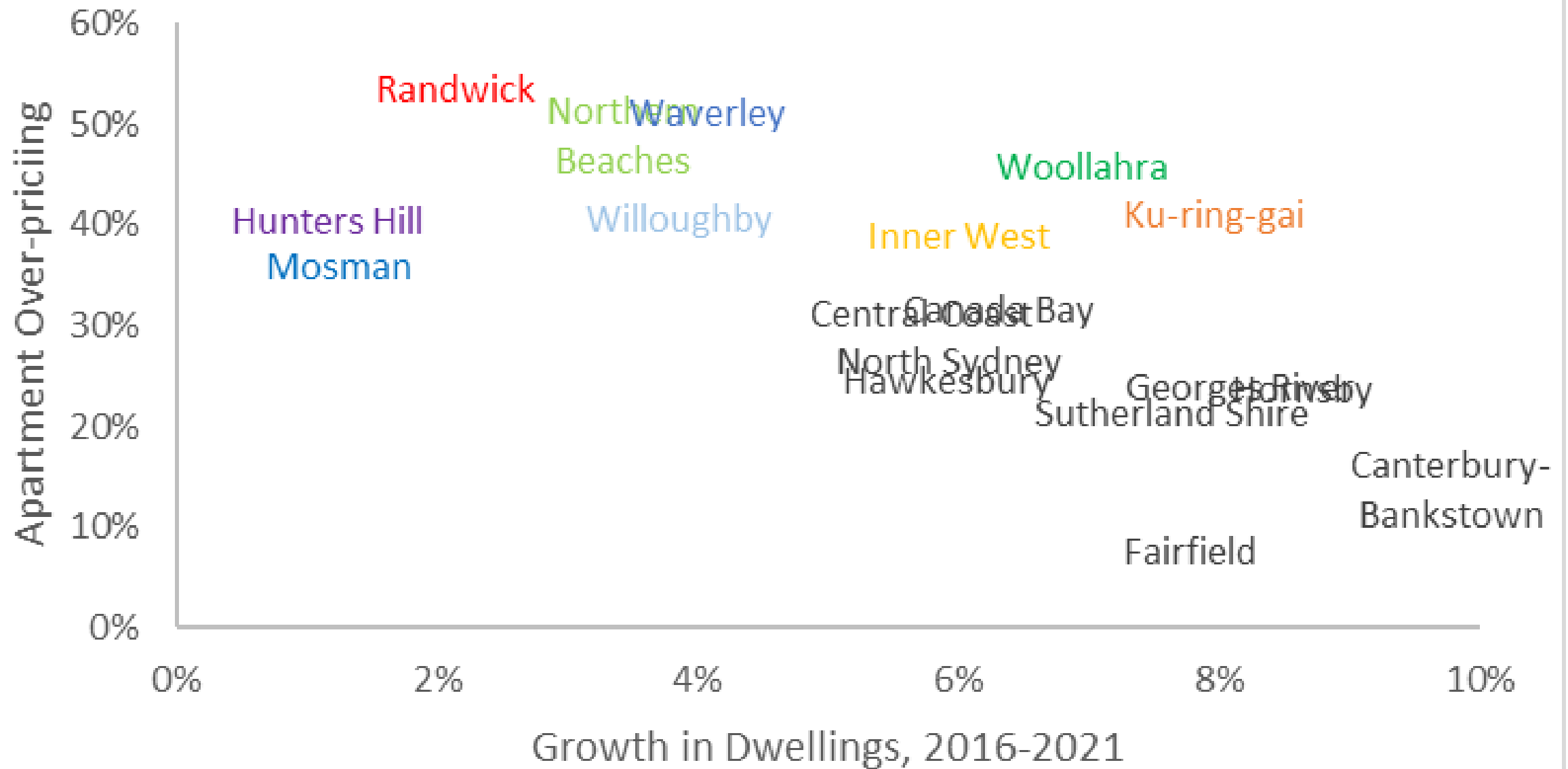
# Further Work

- What should be done about shortage of houses?
- How to predict changes in desired household size?
- High density at train stations.
- All of these will probably imply higher targets
- But given capacity and political constraints, not urgent



Spares

# The Biggest NIMBYs



# Enforcement

- Need regular monitoring at all stages, from LEP to completions
- If not making satisfactory progress remedies need to be automatic and specified in legislation
- start with mild remedies, then get stronger
- Mild: Local and district planning panels should make adherence to the target a top criterion.
  - The UK approach
- Stronger: medium density approved as of right near transit stations
  - The NZ approach