

Planning regulation and the mediation of housing outcomes: new evidence from planners in four metropolitan regions

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Abstract: Declining housing affordability is a challenge for many metropolitan regions in Australia. While the causes are multifaceted, the national policy debate has focused largely on the role of the planning system, which is seen to limit new residential land supply and increase housing production costs. Procedural inefficiencies and diversity in planning controls and requirements at the local government level are often implicated (COAG Reform Council, 2012). However, evidence of these impacts, particularly in the Australian context, is currently limited. Internationally, research examining the influence of differences in planning regulation on patterns of new housing supply has focused largely on quantitative measures of regulatory 'constraint' (e.g. Gyourko et al. 2008; Glaeser and Ward 2009; Bramley 2013). However, research has also pointed to important, qualitative differences in how planning systems are implemented at the local level and mediated by regulators and the development industry, with implications for housing outcomes (Monk and Whitehead 1999). In this context, this paper goes beneath the quantitative analysis of regulatory difference to understand qualitatively how different planning settings might affect residential development decisions and patterns of new housing supply in four metropolitan regions. Drawing on the findings of in-depth interviews with state and local government planners across Brisbane, Melbourne, Perth and Sydney, the paper examines how Australian planners address housing supply and affordability through their statutory planning and development assessment roles, and how they think their planning policies influence housing outcomes. In conclusion, the paper outlines the potential implications of the study findings for planning system reform.

Introduction

Australia, like many nations internationally, has experienced rapid house price growth in recent years, restricting housing opportunities for low and moderate income households (Andrews, Caldera Sanchez, & Johansson, 2011). While the causes of these trends are multifaceted, the national policy debate has focused heavily on supply-side factors, with increased housing production viewed as the solution to declining affordability. The land use planning system has been consistently flagged as a central barrier to the delivery of increased supply. Procedural inefficiencies and diversity in planning controls and requirements at the local government level have been particularly implicated (COAG Reform Council, 2012; Productivity Commission, 2011).

While empirical evidence of the impact of planning policies and processes on housing outcomes in Australia is currently limited, internationally, there is a significant body of research examining relationships. In particular, a large body of research has sought to quantify differences in regulatory environments (Bramley 1998; Pendall 2006; Gyourko, Saiz et. al. 2008), and implications for the supply of new housing and the price and affordability of homes in the new and established markets (Glaeser & Ward, 2009; Gyourko, Saiz, & Summers, 2008; Ihlanfeldt, 2007). However, a small strand of research points to important, qualitative differences in how planning systems are implemented at the local level and mediated by regulators and the development industry, with implications for housing outcomes (Goodman, Buxton, Chhetri, Taylor, & Wood, 2010; Monk & Whitehead, 1999; White & Allmendinger, 2003). Such work offers a counterpoint to the vast number of quantitative and econometric studies, which very often reduce the planning system to a limited set of indicators and questionable proxy indicators of regulatory constraint (Hincks, Leishman, & Watkins, 2013). Such studies not only gloss over significant differences between jurisdictions and housing markets, which can influence the ways in which individual firms make investment and development decisions, but in focusing on quantitative indicators of land use regulation, such studies tend to imply a vast simplification of the planning system and process. In particular, recent studies on the operation of the housing industry in the United Kingdom (Chris Leishman, 2015), and developers in Australia (Steven Rowley & Peter Phibbs, 2012), emphasise that the relationship between local planning systems and actors, and the investment decisions of development firms, is much more complex than quantitative analysis

of planning regulations and housing market trends might imply. Such work suggests that the perceived attitudes of local authorities towards housing development and the particular strategies employed by local planners to support or control growth has a significant bearing on housing suppliers.

Of course these ideas about the importance of local planning settings underpin many of the overarching planning reform efforts implemented by governments in nations affected by underproduction of housing or affordability concerns, such as the United Kingdom, New Zealand (Gurran, Austin, & Whitehead, 2014) and Australia (COAG Reform Council, 2012). Therefore, it is somewhat surprising that there has been little attempt to ascertain the views of planners themselves, on the ways in which their activities influence patterns of new housing production and affordability. This paper reports on the findings of a study that is seeking to address that gap, as part of a wider project examining relationships between planning and housing outcomes in Australia (Gurran, Gilbert, & Phibbs, 2013; Gurran, Gilbert, & Phibbs, 2014). It examines how Australian planning systems are administered and mediated by state and local planners, and the perceived implications of policies and processes for housing supply and affordability. Drawing on the findings of semi-structured interviews and a focus group with 31 state and local planners in Sydney, Melbourne, Perth and Brisbane (conducted between July 2013 and December 2014) the paper address three key issues: how state and local government planners view their roles, and the role of the planning system, in mediating housing supply and affordability; whether local jurisdictions vary in their stance towards new development and their management of growth; and, what planners perceive as the main barriers to new housing development (at local or regional level).

The paper begins with a brief review of international research on land use planning frameworks and housing markets, focusing particularly on planning system factors thought to impede or support housing supply and affordability, as well as research on the relationship between planners and the housing/development industry. It then introduces the Australian case and describes the research approach before discussing the study findings in relation to each of the issues outlined above. In conclusion, the views of planners in our study are compared with the wider literature on the impacts of planning settings on housing development and affordability.

Planning systems and housing outcomes

Research examining relationships between planning and housing markets derives largely from the US, where there has been longstanding concern over land use planning policies designed to exclude lower income groups (referred to as exclusionary zoning) (Ihlanfeldt, 2004; Mallach & Calavita, 2010) and the UK, where new housing production rates have fallen short of demand over the past few decades (Barker, 2004). In these jurisdictions, planning has generally been positioned as a constraint on new housing supply, although several studies point out that when planning frameworks accommodate and manage, rather than stifle, growth, overall levels of development tend to follow demand (Anthony, 2003; Landis, 2006; Pendall, 2006).

Numerous studies have sought to quantify the extent to which local regulatory settings constrain new development, with implications for the supply, price and affordability of housing. Studies originating from the US have tended to focus on regulation established through land use zoning, such as minimum lot size requirements and height restrictions (Glaeser & Ward, 2009; Zabel & Dalton, 2011), while studies originating from the UK have focused more on political factors, such as constituent opposition to growth, and planning processes, such as the timeframe and outcome of development applications (Ball, 2010; Killian & Pretty, 2008). These differences reflect key differences in planning policy settings, notably the articulation of development rights through land use zoning in the US, versus the discretionary nature of planning decisions in the UK (Gurran & Phibbs, 2014 p.234).

Comparatively few studies use qualitative methods, although there are some exceptions. Monk and Whitehead (1999) combined a comparative statistical approach with behavioural analysis to examine the impact of the planning system on housing outcomes in adjacent jurisdictions in the East of England. Their findings highlight the importance of planner and

developer responses to increased housing demand, and developer anticipation of council planning decisions, in explaining housing supply patterns (Monk & Whitehead, 1999). Goodman et al. (2010), in an examination of the impact of planning policy on the characteristics of new housing supply in Melbourne, also use a mixed method approach, finding that evidence derived from developer interviews helps to explain discrepancies between practical outcomes and what was anticipated in policy.

A small body of research has focused on the practices and investment decisions of the housing industry. Studies in the UK have examined the influence of land costs and broader market factors (Adams, Leishman, & Moore, 2009), as well as firm specific characteristics and competition (particularly the proximity of other development sites) (C. Leishman, 2015) on housing developers' supply decisions. In the Australian context, research has examined development industry competitiveness and how planning regulation influences competition (Coiacetto, 2009). Research has also demonstrated how variations in the size, structure and operational characteristics of developers influences how they respond to different policy settings (Rowley, Costello, Higgins, & Phibbs, 2014), as well as capturing developer perspectives on how aspects of the land use planning system impact development feasibility (S. Rowley & P. Phibbs, 2012). While this research highlights the importance of behavioural and institutional factors in understanding housing development outcomes, to date, comparatively little attention has been paid to the practices and perspectives of land use planners. One of the purposes of this paper is to begin to address that gap.

Planning for housing development

The international research on land use planning frameworks and housing markets points to a number of ways in which the planning system can influence development outcomes. Internationally, researchers have distinguished between planning policy settings designed to control growth, for example, by setting limits or quotas for development permits or limits on permitted heights or densities, and policies designed to manage projected growth in relation to sustainable development goals, for example, by enabling or incentivising higher density development in desired locations and by requiring or incentivising affordable housing production (Pendall, 2006). A number of specific policy settings have been associated with lower rates of new housing starts and completions internationally. These include minimum lot size requirements (Glaeser & Ward, 2009) low density only zoning (Chakraborty, Knaap, Nguyen, & Shin, 2010; Schuetz, 2009) and greenbelts and open spaces zones or requirements (Hui & Ho, 2003).

Land use planning policies can also impact the economic feasibility of new housing development. As industry representatives have argued, overly prescriptive zoning or development controls can inhibit the development industry's capacity to respond to the market, while longer application processing times can add to development costs (S. Rowley & P. Phibbs, 2012). A range of feasibility challenges for infill development, in particular, have been identified (ibid).

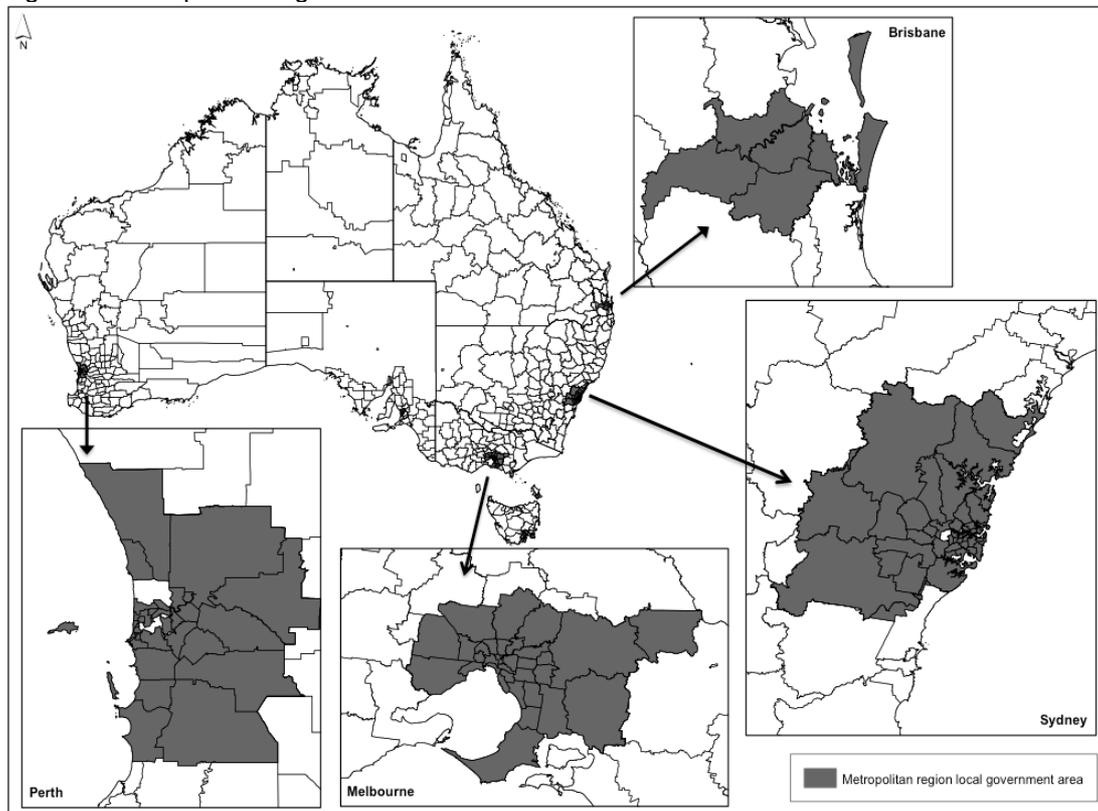
Uncertainty regarding a development application outcome can increase financial risk to developers. However, how uncertainty impacts development outcomes may vary (Otto, 2007; S. Rowley & P. Phibbs, 2012). In the literature, direct community involvement in planning application decisions has generally been interpreted as a regulatory constraint (Gyourko et al., 2008), while developers associate requirements for community consultation with increased risk (S. Rowley & P. Phibbs, 2012). In the US, research has identified correlations between the political composition of local jurisdiction and development application outcomes and approval volumes (Kahn, 2011). Likewise, supply patterns in the UK have been linked to the political composition of local authorities (Bramley, 1998; Bramley & Watkins, 2014), and developer perceptions of the likelihood of development approval have been found to influence locational decisions (Monk & Whitehead, 1999).

Planning systems and housing markets in Australia

In Australia, lower impact developments, including most classes of detached housing and even some higher density housing forms, will be approved if they comply with specified codes, but any proposals which seek to vary those codes, and major developments, will be assessed on merit, with reference to criteria and standards contained in land use plans.

Arrangements differ somewhat across the six states and two territories, each of which have their own planning laws, policies and processes. In the six states, responsibility for detailed plan making and the majority of development assessment is devolved to local government. As shown in the figure below, our four metropolitan regions contain between five and 43 individual local government areas (LGAs) and corresponding local plans.

Figure 1: Metropolitan region LGAs

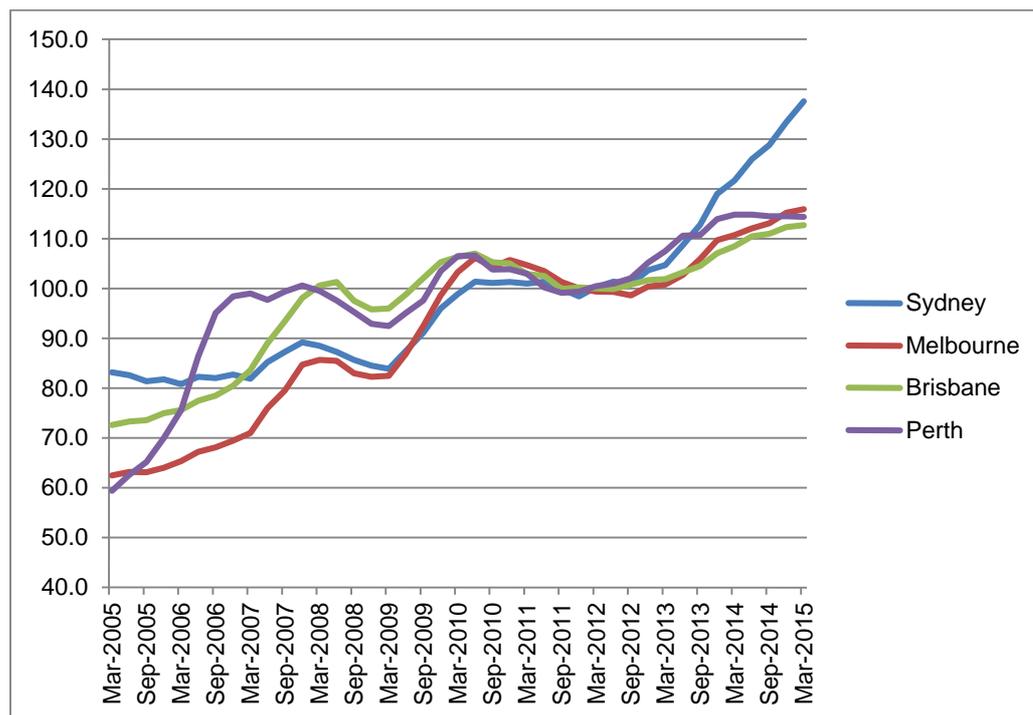


Source: the authors

Metropolitan housing market trends: demand and supply

While rapid house price growth and housing supply responsiveness have been issues of concern across Australia, price trends have differed between states and metropolitan regions. The figure below shows the residential property price index for our four metropolitan regions (ABS, 2015). At the time of the interviews, all of the regions were experiencing price growth, but relative growth was greatest in Sydney. Since the interviews, price rises have accelerated in Sydney and declined, in real terms, in Perth.

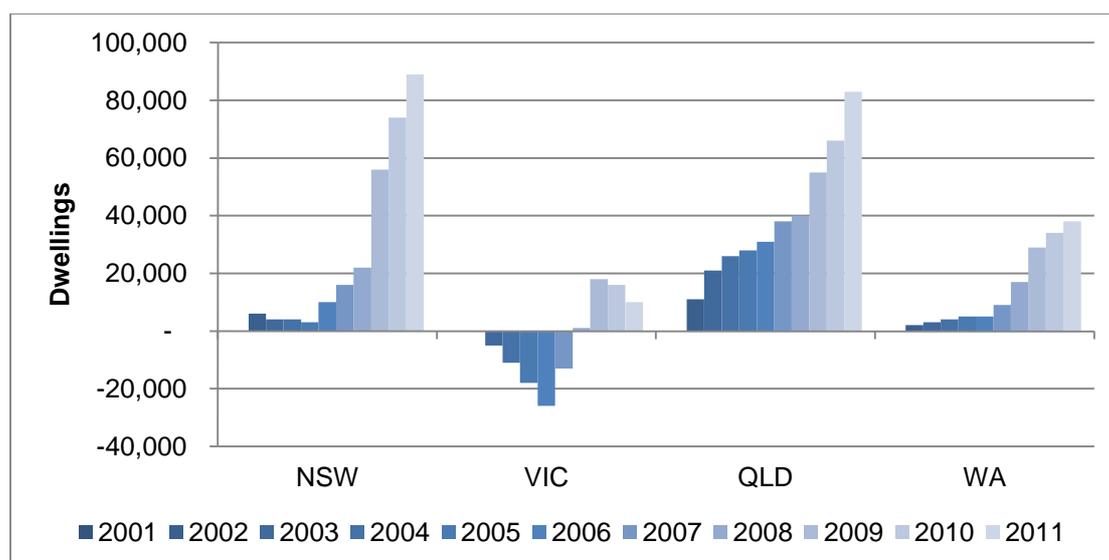
Figure 2: Residential Property Price Index (ABS 6461.0)



(Adapted from ABS 2015)

Across all of the metropolitan regions, but particularly in Sydney, rapid price growth has been attributed to sluggish rates of new housing production, combined with increased demand as investors seek to benefit from capital growth. When the interviews commenced, data from the now abolished National Housing Supply Council was pointing to a growing deficit of new housing supply relative to underlying demand, particularly in NSW and Queensland, as illustrated in the figure below (National Housing Supply Council, 2012).

Figure 3: NHSC’s estimated gap between housing supply and underlying demand, by year, and for select states, 2001-2011



Source: adapted from NHSC 2012

Study approach

Twelve state government planners and 19 local government planners were involved in the interviews and focus group, which were conducted in 2013 and 2014. Senior state government planners with responsibility for housing development or policy were identified in each jurisdiction and invited by email to participate in an interview. In addition to providing overarching insight on state policies, initiatives and reforms, participants from state level organisations were able to provide an overview of local council trends and characteristics, and assisted in selecting a range of local government areas for potential recruitment. Local government planners were also recruited via an email invitation, and the selection of areas ensured representation of a range of suburbs with different market characteristics (price growth, dwelling types and patterns of supply growth) and locations (inner, middle and outer ring areas of the metropolitan regions). The focus group involved local planners operating across a diverse range of Sydney housing market settings, and was held in December 2014. It provided an opportunity to explore the key themes that emerged from the individual interviews with a range of experienced professionals, whose dialogue provided a deeper level of insight and explanation.

The interviews and the focus group were recorded and transcribed, for subsequent analysis. The analysis included a close reading of each transcript against the interview questions. Responses to each question were grouped thematically through a manual selection process, in order to draw out patterns and key themes. Separate analyses were undertaken for each metropolitan region to allow commonalities and differences between regions to be identified. Within each regional analysis, local planner responses were further coded by broad location (i.e. inner or outer suburban) so that geographic differences within regions could also be explored.

How do planners address housing supply and affordability?

A primary focus of the interviews and focus group was to explore how local and state government planners view their roles (and by extension, the role of the planning system) in mediating housing supply and affordability. Interviewees were asked to explain firstly the ways in which their local council (or the state government) seeks to respond to existing or projected housing demand through its planning responsibilities, and whether their housing roles extended to questions of affordability and the provision of affordable housing, broadly defined.

State planners expressed their role in terms of forecasting future growth scenarios for their respective states and at metropolitan regional and subregional levels. Identifying appropriately located areas for new land release (subject to environmental and infrastructure opportunities and constraints), and investigating patterns of land ownership, and likely implications for the assembly of sites, were key responsibilities. In some jurisdictions, this role was explicitly about supporting development conditions in the market - by ensuring a pipeline of land for housing development, and of sites with planning approval.

“Our role is to ensure that we create the opportunity for the market to deliver the housing that we need, to support growth and to support our population.”
[NSW State Planner]

To this end, state government interviewees spoke of recent planning reforms as intended to promote more responsive housing supply, through greater awareness of feasibility:

“We’ve been recently looking at how not only the development controls, but approval pathways, can impact on feasibility.” [NSW State Planner]

Indeed, some of the state planners implied that increasing residential development approvals and overall rates of new housing production was a core performance measure for their agency. The notion that new housing production would resolve affordability concerns underpinned the emphasis on boosting supply. As one planner noted, housing growth is frequently talked about in terms of achieving “affordable supply” [Vic State Planner].

However, in terms of addressing housing affordability, interviewees highlighted a tension within Australian metropolitan planning between utilising the planning system to deliver

designated affordable housing, and enabling increased private sector housing provision, with the aim to foster greater affordability across the market, largely by reducing perceived regulatory impediments. That tension was particularly illustrated through recent changes in Queensland. As interviewees outlined, the previous Labor government sought to directly address the need for affordable housing by designating specific areas for (re)development and establishing statutory requirements for affordable housing inclusion. However, the current government has moved substantially away from that approach:

“The previous government was trying to chase, and build affordable homes, which is what they were about...This strategy, if it works, is about freeing all that up and generally getting greater affordability.” [QLD State Planner]

The new emphasis for Queensland was said to be on increasing land supply, in excess of anticipated demand, to allow the market to determine where viable development opportunities exist and to enable a diversity of players in the market [QLD State Planner]. State government planners in other jurisdictions also suggested that the primary role of the current planning system is to ensure land supply. However, some interviewees perceived missed opportunities to utilise the planning system to support affordable housing:

“maybe the lack of regulation is in itself impacting on affordability, because there is (sic) no requirements for development contributions towards affordable housing, or whatever, and there’s no support from the state government for local governments to adopt those kinds of provisions” [WA state government planner]

At the local government level, encouraging and allowing a diversity of dwelling types, including smaller dwellings (in both suburban and high density contexts) was the most commonly cited mechanism for addressing housing affordability:

“ensuring there's adequate supply and diversity in product I guess is probably the best way council responds. [Qld local government planner]

“seeking diversity of housing types within developments.” [Vic local government planner]

However, it was noted that that approach does not necessarily produce an affordable outcome:

“we can build some provisions into policy to help support choice and diversity, but affordability is a very, very hard one to achieve from a planning point of view.” [Qld local government planner]

As one interviewee argued, without tools to specifically address affordable housing need, affordability goals tend to remain “high level aspirations” [Vic local government planner].

Differences in the growth stance of local councils

Drawing on the international literature, another goal of the interviews was to examine differences between local government areas in their acceptance of growth, and planner perspectives on whether differences in sentiment are reflected in local policy settings or determination processes (and consequently might affect developer decisions about where to invest in housing development).

Interviewees at the state and local levels did identify differences in the extent to which local governments welcome new housing, often stemming from differences in local resident sentiment towards development or a strategy by the local council to add value to the area. Particularly at the local level, planners noted that community sentiment towards new development differs between and within local government areas, while the attitudes of individual councillors, as well as councils more broadly, can change over time. Despite

identifying differences between jurisdictions, neither state nor local interviewees characterised any local governments as anti-development:

“There are some councils that are trying to manage where the growth goes, whereas other councils are just trying to encourage growth at all costs.” [WA state government planner]

Across the metropolitan regions, it was suggested that historically lower value areas have a greater tendency to welcome or incentive new development as an opportunity to attract investment in the local area:

“it's all about growth and the benefits that brings to the city.” [Qld local government planner]

Interviewees suggested that different council and community attitudes towards growth can manifest themselves in the geographic extent of higher density development zones and the extent of conservation areas (including for heritage preservation). Similarly, they noted that triggers or thresholds for non-complying or higher impact development applications to be determined by council (rather than by council planners under delegated authority) and, the extent to which non-complying development applications are approved, might also differ between areas which are seeking to attract new growth and areas which are seeking to manage development pressures. However, state and local government planners also noted that scope to tailor local policy settings has been limited in recent years through standardisation efforts:

“...because we've got a centralised system, all [local governments are] playing by the same rules...the ability to have widely divergent outcomes is probably reduced.” [Vic state government planner]

In Victoria, standardisation through the Victorian Planning Provisions is well established. However, planners in other states also noted a movement in that direction:

“They're just going through trying to standardise all the planning schemes now so virtually you won't have too much variation in local governments.” [Qld local government planner]

What are planners' perceptions of the main barriers to new housing development?

State and local government planners were asked what they consider to be the main barriers to new housing development, including those presented by the planning system, as well as wider market or institutional factors.

The importance of the market

Overall, planners emphasised the importance of market demand, vis-à-vis, planning policy factors, in determining whether new development will occur:

“Sometimes it doesn't matter. You can have the best controls. You can have it so it's code assessable and everything's fantastic. You've dealt with all the issues. But if there isn't a market...no one's going to develop it.” [NSW state planner]

When asked whether there are any areas where development has not occurred at the pace council would like to see, local planners emphasised market factors. One outer suburban Qld Local planner commented, for example, that changes in the market conditions meant that a previously active multi-storey residential apartment sector went from several hundred completions a year to zero completions as the market turned down.

Land supply and development opportunities

Interviewees identified both land availability and the cost of land acquisition as additional challenges for new development. In some local government areas, planners identified the existing subdivision pattern, and the need for site amalgamation, as an impediment:

“It’s just really hard for any developers to get all the sites together.” [NSW local government planner]

“I think land assemblage - finding sites that are suitably large enough to carry the more compact forms of urban development” [WA state government planner]

There was a perception by some interviewees that remaining metropolitan land has complex issues, such as bushfire or flooding risks, making it hard to develop [WA local government association]. Infrastructure capacity and the timing of provision and upgrades were also cited as key issues, particularly for the development of infill sites [WA and Vic planners].

Landowner price expectations were also identified as a challenge for site acquisition. Interviewees noted that landowners can have inflated expectations regarding anticipated yield, particularly where density limitations are not specified (as in some areas of Melbourne) [Vic local government planner] or where future transport investment is anticipated [WA state government planner]. One interviewee noted that while Perth at one time had a 25 year supply of zoned land, there was a shortage of serviced lots, owing to the extremely high cost of raw land [WA government state planner]. Notably, these land supply issues are attributed to factors beyond the planning system itself.

Local planning policies and development controls

Reflecting research findings elsewhere, local government planners identified zoning controls and density/height standards that are out of step with prevailing market conditions as a problem for development feasibility. Multiple planners noted, however, that how particular regulatory settings impact development feasibility varies on a case-by-case basis, and in different market contexts. In a low value area, for example, high density zoning can be an impediment to development as developers cannot generate the revenue from dwellings to cover the cost of this type of development. Overall, local government planners demonstrated considerable knowledge of feasibility issues in their areas and, in some instances, provided examples of how council is working with developers to overcome barriers.

State planners observed that historically evolved planning systems can contain out-dated planning controls that can act as a regulatory barrier to diverse and more affordable housing development. In Western Australia, for example, a planner explained that while the minimum lot size for single dwellings under the R-codes had recently been reduced in response to demand for smaller lots, open space and setback requirements had not been adjusted, making small lot development difficult in practice, and mitigating any potential land cost savings [WA local planner]. Planners in other states noted similar issues arising from older statutory planning instruments, which were not considered to be up to date with market demand. However, across all jurisdictions, interviewees also provided examples of councils working to mitigate these issues, for example, by allowing for flexibility in assessing proposals and by updating planning policies in response to market change and development trends.

When asked whether any local planning controls or requirements appear to be particularly problematic for new housing development, participants generally expressed a view that certainty regarding development requirements is more important to developers than the controls themselves:

“[Developers] don’t necessarily mind developer contributions, or this policy or that policy as long as they know about it up front and they can factor it in.” [Vic local government planner]

Local planners identified a number of policies and development controls that are more frequently varied in development applications. The most commonly cited were controls around built form and density, which is unsurprising given their impact on development

revenue. Both state and local government planners emphasised the tendency of developers to push for variations regardless of the development controls in place:

“they will still push the boundaries. That’s always a given” [NSW state planner].

Planners noted that this can occur even in the context of generous density allowances. One planner suggested that that may reflect developers’ business models, rather than the appropriateness of a council’s development controls:

“it is such a highly competitive game now that people are moving into areas where that type of development is not anticipated as a means to making their profit margins” [Qld local planner]

Summary and conclusions

Overall, the interview findings suggest that Australian planning systems are more oriented towards growth management than growth control (Pendall 2006). While the interviews and focus group did uncover some examples of development controls that are no longer fit for purpose, or are misaligned with market demand, they also revealed instances of planners seeking to understand and respond to feasibility constraints and market change. In a counterpoint to development industry claims of overly prescriptive zoning and development control, interviewees highlighted flexibility in the administration of the planning system:

“we are prepared to adjust when there's a new model [of housing] that comes on...if we need to change something, we will adjust to that.” [WA local planner]

While it was noted that allowances for negotiation and merit assessment within planning frameworks can add to the “regulatory burden” by creating uncertainty for developers [WA local planner], interviewees generally highlighted positive outcomes.

In the context of increased plan standardisation, and the delegation of major development decisions to other determination authorities, such as state government or expert panels, interviewees noted that opportunities for local councils to ‘block’ or exclude new development through land use controls and determination processes are, in practice, quite limited. While there is still some scope for local procedural differences, effecting, for example, the extent of development applications determined by councillors versus council staff, data on development application outcomes, where available, indicates that the vast majority of development applications are eventually approved (Gurran et al., 2013).

While some defensiveness in responses to questions about planning system barriers to new housing development was anticipated, the interviews do suggest that many, and indeed the most important, barriers to new housing development relate to factors beyond local development control. In particular, these relate to market conditions, infrastructure provision, and the decisions of other actors, including landowners and commonwealth or state government. If a development is not profitable because there is no market for the dwellings the development will not occur. If the revenue from a development is not greater than the cost of construction then development will not proceed. If the banks will not lend the developer the funds to develop the scheme, it will not happen. In these cases, the planning system is irrelevant. However, if planning restricts profitability by prescribing unviable density and height, adds direct costs to development or delivers uncertainty over timelines, then the planning system can become a barrier to development.

On the whole, interviewees emphasised that the planning system is just one factor influencing the housing market. External considerations, such as proximity to jobs and services, local environmental amenity, and the quality of schools were cited as major factors seen to be driving local housing markets (i.e. demand). As such, it was suggested that scope for planning system reform to affect housing affordability is limited:

“there is definitely a narrative around government regulation which tends [to regard efforts] to reduce or streamline that as a way of achieving affordability...My personal understanding of housing systems and how they work is that that's going to have negligible effect and that the actual drivers of declining affordability are a much broader range of really macroeconomic things.” [Vic state planner]

Consistent with practitioner views captured by Rowley and Phibbs (2012), several of the interviewees emphasised the need for planning policies and incentives to support affordable housing inclusion, particularly in high demand locations.

A limitation of the work presented here is the relatively small sample of planners and the qualitative and subjective nature of their perspectives. Considering these views in the light of developer perspectives on how they navigate and utilise the planning system will enrich this analysis. However, in presenting the views of planners, the study addresses an important knowledge gap in relation to the ways in which regulatory planning systems are steered by state and local administrations in Australian cities and the potential implications for housing supply and affordability.

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