

A study on social housing and housing affordability in Australia based on zoning regulations

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Abstract: After COVID-19, Australia has been faced the issue of housing affordability. The ineffectiveness of social housing leads to more low-income families experiencing difficulty in finding affordable housing. This study examines the impact of zoning regulations on social housing. In Australia, strict zoning regulations have resulted in a limited housing supply, which is insufficient to meet the growing demand. This situation has driven up housing prices, rendering housing unaffordable for an increasing number of low-income families. Consequently, there has been a substantial increase in the demand for social housing. Therefore, it is recommended that the Australian government relax its zoning regulations to alleviate the issue of housing affordability.

1. Introduction

In recent years, Australia has experienced a severe housing crisis, which has been further worsened by COVID-19. The increasing popularity of the "work from home" has resulted in a shift in living preferences, with a growing number of tenants seeking larger living spaces, which implies that additional housing supply is required to match the demand for additional living space. Moreover, the reopening of international borders after pandemic has resulted in an influx of foreign immigrants, which has contributed to the increase in housing demand Ross and Peter (2018) argued that zoning regulations restrict the housing supply in Australia. These factors have led to an imbalance in housing supply and demand in Australia, resulting in a rise in housing prices.

According to SQM Research (2023)[1-2], the rental vacancy rate in Australia decreased to 1.1% in September 2023, implying that the demand for housing exceeds the supply of housing, resulting in increased property rents. The weekly rents rose to \$589 in 2023, which increased by 44%¹ after the pandemic. Moreover, the proportion of weekly income allocated to rent reached 32% in 2023, which has increased by 7.3% compared to 2019². When individuals allocate more than 30 percent of their income to housing costs, they might face housing affordability issues² These facts indicate that rent growth significantly exceeds income growth; consequently, households must allocate more

¹ According to SQM Research (2022), the combined national weekly rents in September 2023 reached \$589, while the combined national weekly rents in September 2019 is \$409, indicating a 44% increase in weekly rents during the pandemic.

² According to Australian Bureau of Statistics, rent as a percentage of weekly income in 2023 is 32% (weekly rents divided by average weekly income = 589/1838.1), while in 2019 it was 24.7% (weekly rents divided by average weekly income = 409/1658.4), representing a 7.3% rise over the pandemic.

income toward housing, which decreases housing affordability.

This study begins with a discussion on existing social housing policies in Australia, followed by an analysis of the impact of different zoning regulations on social welfare. Finally, it demonstrates the effectiveness of zoning regulation reforms in the United States through a detailed review of these reforms.

2. Social Housing in Australia

The increased property rents and limited housing supply significantly contribute to the housing affordability issues, which in turn contributed to the shortage of social housing. It is important to note that the number of households applying for social housing in New South Wales increased by 15% in 2022[3-4].

There are two types of social housing in Australia, which include public housing and community housing. Public housing is founded by State and Territory Governments, while community housing is owned by community and non-profit organizations.

In recent years, due to the limited investment in social housing, the dwelling of social housing shows little to no increase; there is only a small increase in the affordable housing provided by the community[5-6]. However, low-income households and homelessness still face the problem of housing affordability, as subsidies for community housing are limited.

The National Housing and Homelessness Agreement (NHHA) was implemented by the Australian Government in 2018, and it aims to mitigate the shortage of affordable and safe housing for low-income families, as well as prevent and address homelessness [7-8]. The Australian Government expected to deliver up to 30,000 new social housing over five years and provide a financial investment of 1.6 million dollars annually [7-8].

Eligibility criteria is required for tenants applying for social housing, which includes evidence of income and assets, personal identification, and proof of medical condition. Moreover, the rent for social housing is typically calculated at 25% to 30% of the family's income³ [5,9].

However, the NHHA has not demonstrated much efficiency in addressing housing affordability issues, as the waiting list for social housing applications remains long. AIHW (2023) states that over 170,000 households are on the social housing waiting list. The number of applicants has increased annually since 2018, and households are expected to wait ten years or longer to obtain affordable housing.

Another factor contributing to the inefficiency is the shortage of social housing. The dwellings of social housing increased barely by 3.8%³ between 2012 and 2022, while the population increased by 14.6%⁴ over this period[10]. Therefore, the supply of social housing cannot meet the growing demand; there is an urgent need to address the social housing shortage.

3. Proposal for Improvement

To address the problem of social housing and homelessness, it is necessary to alleviate the imbalance between housing supply and demand, thereby improving housing affordability. If low-income families can obtain affordable housing in the private market, the demand for social housing will be greatly reduced. This can be achieved by incentivizing zoning regulations reform to increase housing supply. The Australian government should incentivize more rational use of existing and unused land by allowing high-density affordable housing near public transit stations,

³ According to the Australian Institute of Health and Welfare (2023), the number of social housing dwellings in 2022 is 442737, while it was 426488 in 2012, representing a 3.8% increase over the decade.

⁴ According to Statista (2023), the population growth in decade = (total population in 2022- total population in 2012) / total population in 2012 = (26.27 million - 22.93 million) / 22.93 million = 14.6%

permitting compact accessory dwelling units, and relaxing minimum parking restrictions.

Saks (2008) argued that zoning regulations may reduce the number of buildings while rising housing demand may significantly increase housing prices[11]. At point E of Figure 1, which represents the market equilibrium, the supply and demand are balanced. However, if stricter restrictions limit supply to Q_L , the price would rise to P_H as Q_L intersects the demand curve at point B. It is obvious that tight zoning regulations have contributed to the increase in housing prices, which represents the gap between P_H and P_L .

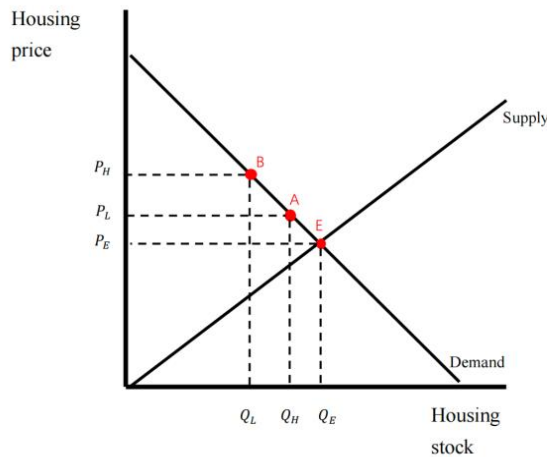


Figure 1: Supply-demand curve under zoning regulations

According to the Law of Demand, an increase in prices will result in a corresponding decrease in demand, this can be proved by inducing the price elasticity of demand. Price Elasticity of

$$\text{Demand} = \frac{\text{Change in demand \%}}{\text{Change in price \%}} = \frac{\frac{Q_L - Q_H}{Q_H}}{\frac{P_H - P_L}{P_L}}$$

Obviously, rising housing prices lead to a decrease in demand, indicating that individuals reduce their demand for purchasing houses. However, housing could be seen as a human necessity since more households cannot afford the prices in the private market; this will prompt their need for social housing.

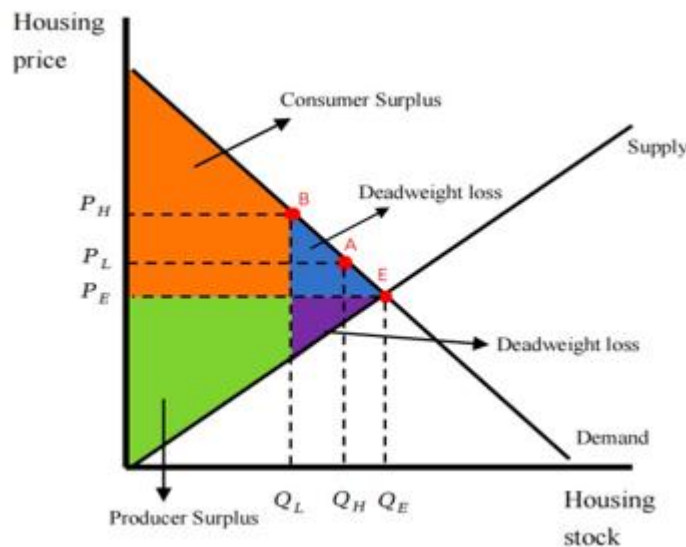


Figure 2: Welfare under stricter zoning regulations

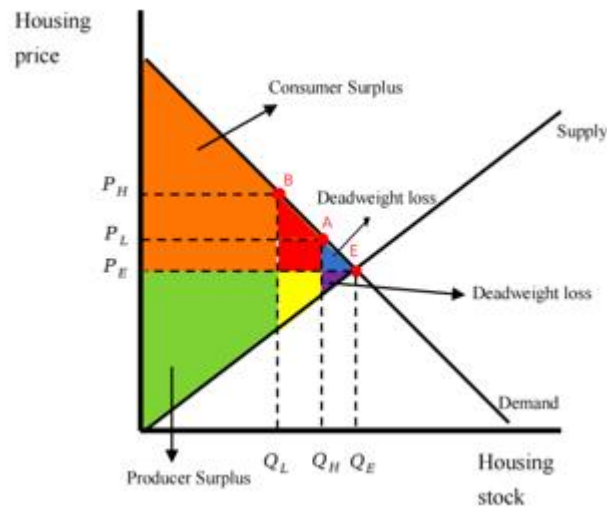


Figure 3: Welfare under loose zoning regulations

For estimating the impact of zoning restrictions on social welfare, it is essential to identify consumer surplus and producer surplus changes. As shown in these two figures above, the consumer surplus is the area below the demand curve, and the producer surplus is the area above the supply curve. Moreover, the total welfare is the sum of consumer surplus and producer surplus. It is obvious that the total welfare in Figure 3 is significantly larger than that in Figure 2, as the deadweight loss is smaller under loose zoning regulations. As a result, loose zoning regulations could increase housing affordability primarily by increasing housing stock.

4. International Evidence

Stricter zoning regulations in U.S. cities caused the problem of affordable housing shortage by inflating property rents and prices[12] (Adams-Schoen & Sullivan, 2021). The U.S. federal government has relaxed specific zoning regulations to address housing affordability issues, such as abolishing single-family zoning. Gabbe (2019) summarized five changes in zoning regulations in the U.S.A. He also identified corresponding changes in zoning regulations specific to Los Angeles, which include allowing accessory dwelling units near transportation, increasing high-density housing units, and eliminating parking requirements in public areas[13]. Chiumenti, Kulka, and Sood (2021) noticed that relaxing density restrictions could effectively increase housing supply and reduce housing prices by 3-7%[14]. It is important to note that minimum parking requirements may lead to excess parking supply, as families who do not have a car may also be required to have a parking slot, which will drive up the housing costs accordingly[15]. As a result, relaxing zoning regulations is a feasible approach to improve housing affordability by providing more affordable housing and reducing housing costs.

5. Conclusion

In conclusion, this study has argued that relaxing zoning regulations could alleviate the housing affordability issues and mitigate the social housing shortage by increasing the housing supply. The Australian government could incentivize zoning reform to allow higher-density affordable housing; this can alleviate the imbalance between housing supply and demand and provide sufficient affordable housing for low-income families, thus reducing their need for social housing.

However, host neighborhoods may oppose the development of high-density affordable housing,

as the aggregation of social housing might negatively impact their daily life and safety[16]. When implementing a zoning reform, the government should also estimate the potential impact on host neighborhoods. Furthermore, additional welfare policies, such as direct housing subsidies for low-income households, may also need to be implemented to improve housing affordability and reduce homelessness.

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