KPMG

Bridging the Housing Gap

Strategies for enabling affordable housing development

KPMG Australia

—

August 2025

Executive summary

The Problem

The Australian housing system has been under stress for decades. Over the past 30 years, the lack of sufficient investment in social and affordable housing has exposed lower-income households to an increasingly unaffordable private housing sector. This historical underfunding has also led to a decrease in the percentage of social housing as part of the overall housing stock, resulting in a net loss of social housing. Although, while the National Rental Affordability Scheme (NRAS) was in place, it temporarily slowed the growing undersupply.

This structural undersupply was exacerbated by the pandemic, which led to steep increases in construction costs and rendered large areas of Australia commercially unfeasible for development despite strong demand. Home prices and rents have escalated sharply, creating challenges for buyers and renters amid historically low vacancy rates. This environment of constrained new supply, combined with market economics, suggests continued growth in home prices and rents.

The housing crisis of the 2020s is very different in nature and requires a reassessment of the entire housing system and the complex interactions between various stakeholders. Since the onset of the pandemic, Australia and the rest of the world have faced a significant housing crisis.

Historically, governmental measures have primarily focused on supporting the most vulnerable individuals (e.g. household on less than $50,000 annual income). The Housing Accord, along with initiatives such as social housing construction and the Housing Australia Future Fund Facility (HAFFF), exemplifies efforts to mitigate housing insecurity among lower-income populations. Concurrently, reforms in the planning system have aimed to increase housing supply.

Tenant and consumer rights are also a focus for policymakers, along with measures to ease the experience of renting and intra-mobility within the private rental market.

Despite these initiatives, KPMG analysis indicates that, based on 2023-24 data, the housing market has failed under the current market conditions to adequately serve households earning between $50,000 and $110,000 annually, which represent approximately one-third of all households.

Current policy efforts to boost affordable housing, such as public housing investments and the HAFFF, are primarily aimed at households with annual incomes below $50,000.

These initiatives should continue expanding housing delivery and building scale in both the social housing and lower-income affordable housing sectors to ensure the long-term viability of this market segment. While these efforts are essential for supporting the most vulnerable in society, it is also important to focus on households with annual incomes between $50,000 and $110,000.

The Players

Housing involves all levels of government, private landlords, Community Housing Providers (CHP), not for profit housing developers, infrastructure providers, the development sector, the construction industry, and the families who live in the homes. Understanding these different actors in the housing system helps to craft effective new policy solutions.

The various players are also at different levels of maturity and growth pathways. For example, the highly fragmented private landlord sector has provided the bulk of the supply of rental properties over the past thirty years, but it is not currently in a growth mode.

Conversely, CHPs are relatively small compared to those in other developed nations, and the overall social and affordable housing asset class is new and emerging in Australia. Build to Rent (BTR) is a small but rapidly developing development sector. Understanding the maturity and growth trajectory for the various players will help craft effective policy solutions to boost supply.

From the perspective of the Commonwealth, population growth contributes to economic expansion, which in turn leads to increased generation of taxation revenue. However, State and Local governments are often faced with the direct costs associated with accommodating this growth. They shoulder the responsibility of providing new local infrastructure and services (e.g. schools, community facilities, local roads) to ensure that the quality of life is maintained.

Households have complex needs within the constraints of a budget. The attitudinal mindset acts as a mediator between the notional ideal home that home hunters envision and the reality of available options. It encompasses needs and preferences, aspirations, values, and a balance between preconceptions and open-mindedness. These preferences, aspirations, and values change across the lifecycle.

A Proposed Solution Framework

This report provides a high-level overview of the current housing crisis and proposes the development of the *Housing Delivery Collaboration Program*, a significant economic reform initiative designed to address the pressing need for affordable housing across Australia.

KPMG supports the introduction of a *Housing Delivery Collaboration Program*, which would bring together Local, State, and Commonwealth governments, along with the broader housing sector.

This ambitious program necessitates a concerted and collaborative effort from all levels of government, as well as active participation from the private development sector, to focus on increasing realisable housing capacity.

To understand how best government action can achieve commercial feasibility, a detailed assessment of the theoretical housing capacity, based on maximum building envelopes, and the feasible housing capacity, considering a range of development factors such as land costs, building costs, and sales values, can be used to determine which development scenarios are profitable. Realisable housing capacity, which evaluates the 'likelihood of development,' takes into account dwelling typology, development options, and local market conditions.

Rather than starting with a 'blank piece of paper,' the program would draw upon existing frameworks (e.g. Housing Accord, HAFFF, HAIF, State Government Housing Supply Targets).

By utilising these pre-existing structures, the program ensures continuity and coherence, making it easier to implement new programs quickly and efficiently to close the commercial feasibility gap.

This would be in addition to using existing activities, but aimed at a segment of society that currently earns too much for social or affordable housing programs, yet not enough to warrant the significant attention of private sector developers (e.g. households earning between $50,000 and $110,000 per year).

By fostering cooperation among diverse stakeholders, the program aims to create a synergistic approach that maximises resources and expertise, thereby enhancing the overall effectiveness of housing delivery initiatives.

A key plank of the solution framework would be to transition from intermittent funding rounds, characterised by stops and starts, to long-term housing strategies. This will enable each player to establish clear and reasonable goals regarding their ambitions, roles, and areas of focus.

From year to year there would need to be certainty, which would allow replicable in the provisions of housing and overtime allow a step change in the scale of housing being provided.

It is important to clarify that the proposed *Housing Delivery Collaboration Program* would not replace the focus on boosting housing supply for the most vulnerable in the community but would serve as an additional layer to increase affordable housing delivery.

Contents

01

The Problem

The Problem

The housing crisis of the 2020s presents unique challenges that necessitate a reassessment of the housing system and its complex interactions among various stakeholders. Australia, along with many other countries, has been grappling with a significant housing crisis.

The Australian housing market has experienced persistent pressures over many years. Inadequate investment in social housing over the past three decades has increasingly exposed lower-income households to an unaffordable private housing market. This underlying shortage was further aggravated by the COVID-19 pandemic, which caused a sharp rise in construction costs and made many areas in Australia commercially unfeasible for development despite high demand.

The impact following the pandemic has exacerbated existing stresses through economic instability, supply chain disruptions contributing to a volatile housing market both domestically and globally.

This situation has exposed deep-seated vulnerabilities while introducing novel challenges, particularly across different income groups in Australia.

Historically, governmental measures have focused on supporting the most vulnerable individuals. For example, the Housing Accord, along with initiatives such as social housing constructions, Housing Australia Future Fund Facility (HAFFF), and the Housing Australia Infrastructure Facility (HAIF), exemplifies efforts to mitigate housing insecurity among lower-income populations.

For households higher up the income scale, programs like National Rental Affordability Scheme (NRAS) and the NSW State Environmental Planning Policy (Affordable Rental Housing) (AHSEPP) have targeted high income cohorts.

Concurrently, reforms in the planning system have aimed to enhance market accessibility and fairness for these groups. Tenant and consumer rights are also a focus for policymakers, along with measures to ease the experience of renting and intra-mobility within the private rental market.

There has also been an increased focus on shared equity schemes at both the Commonwealth and State levels. These schemes involve a government or other entity contributing financially to a home purchase in exchange for a share of the property's equity. Schemes are also added at supporting first home buyers to buy their first home with reduced deposits.

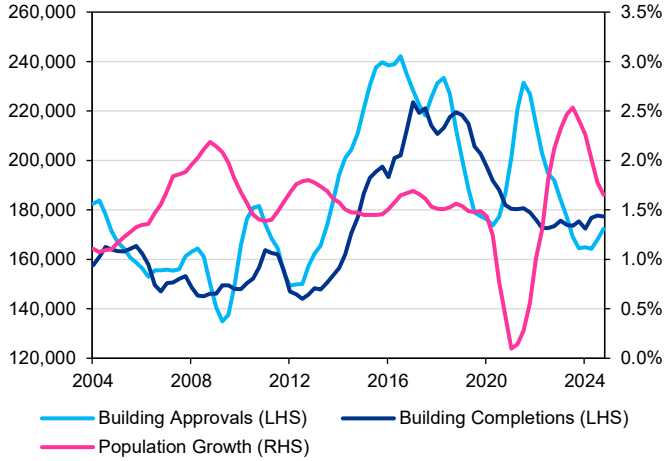
Despite these initiatives, a substantial portion of the middle-income population remains underserved in terms of the housing availability. The pressing need to extend affordable housing solutions to middle-income households necessitates a shift in policy focus. Unlike previous reforms that were predominantly socially driven, it is essential to incorporate a robust economic perspective in future housing policies.

This recalibration could draw on the success of comprehensive policies such as the National Competition Policy, advocating an approach where economic stability and growth are integral to housing reform. The Housing Accord, with its wide-ranging framework, offers a suitable platform for this economically driven shift.

To effectively serve the middle-income segment, existing policy mechanisms—such as the HAIF, planning reforms, and Build-to-Rent (BTR) initiatives—must be adapted and refined. While many necessary instruments are already established, targeted modifications are crucial to address the specific needs and demands of this economically diverse group. By aligning housing policies with broader economic goals, the government can ensure a balanced supply that meets demand across various income levels, promoting a more inclusive and sustainable housing market.

This report provides a high-level overview into the current housing crisis and suggest strategic policy adaptations (referred to as the *Housing Delivery Collaboration Program*) to better serve middle-income households. By considering both social and economic dimensions, the goal is to foster a resilient housing market that supports diverse income levels and sustains overall economic growth.

Figure 1: Dwelling approvals, completions, and annual population growth rate



Source: ABS Building Approvals, Building Activity and National Population

1.1 – Housing affordability & availability

Australia is facing a shortage of affordable housing, driven by a combination of supply and demand issues. On the supply side, affordable housing developments have not kept pace with the growing population, placing pressure on the private housing market. The impacts of decreasing rental vacancies, along with rapid increases in rents, are leading to more households experiencing housing stress. This housing stress is not being felt evening across the community.

The housing continuum framework illustrates (Figure 2) the range of housing types available to the community. Personal circumstances can cause individuals to move up or down the housing continuum. Generally, moving along the continuum signifies an improvement in housing stability, employment security, and income. However, higher market housing prices and increasing housing stress are pushing more people towards the non-market housing end of the continuum.

Examining rental supply by type between 2011 and 2016 (see Figure 3) reveals the price points of new supply. Examining rents offers a clearer view of market dynamics compared to mortgage repayments, which can be muddied by factors such as the length of mortgages and the timing of property purchases.

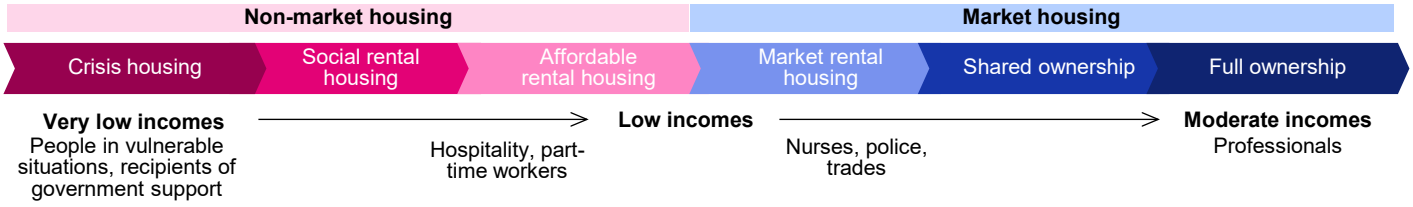
There was a reduction in the supply of properties being rented for less than $250 per week. In contrast, there has been a substantial increase in the supply of properties being rented at the $450 per week level.

The level of rental stress recorded by the 2021 Census shows that the incidence of households experiencing rental stress declines around this level. This suggests that the additional supply during the 2010s did help renters at those higher price points.

As shown in Figure 4 (see page 8) the share of dwellings with four or more bedrooms has increased significantly during the 2010s, primarily in greenfield development areas. Meanwhile, one and two-bedroom dwellings have maintained their share, with most of these being in CBDs. Three-bedroom dwellings, which can accommodate the widest range of demographics, are less common than they were a decade ago.

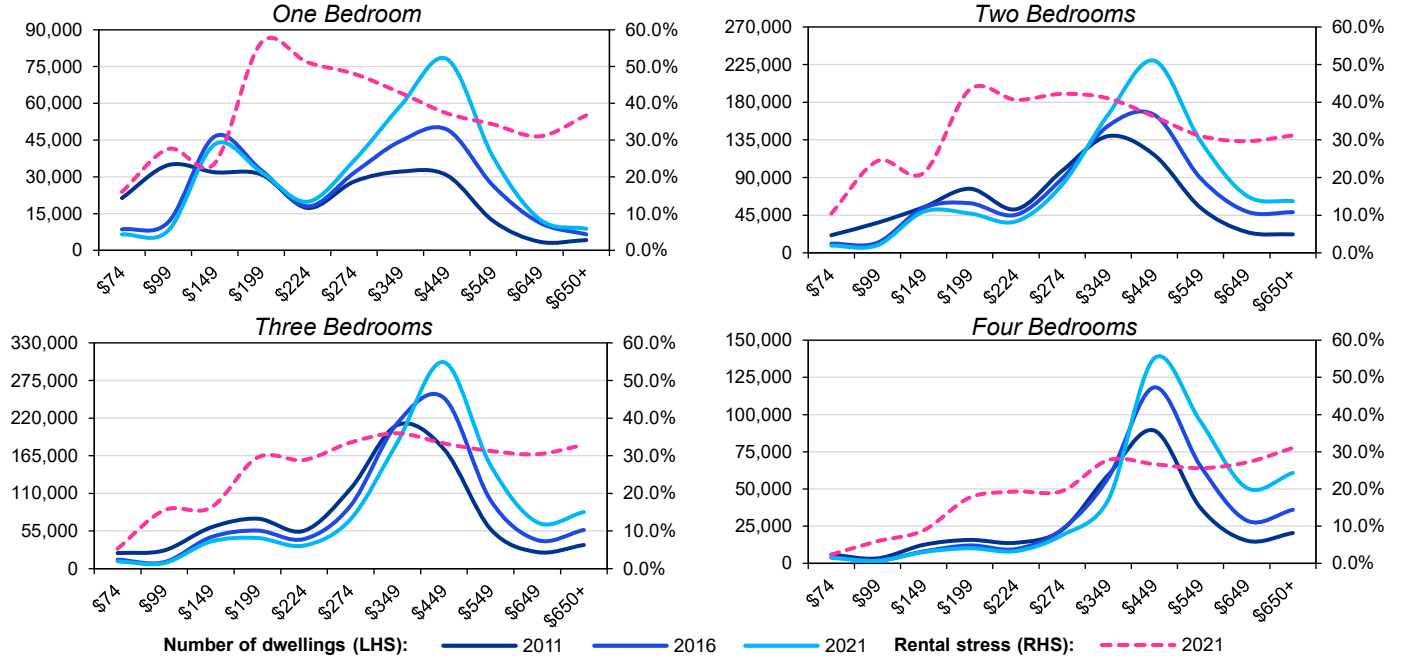
There is a mismatch between the size of houses, and the types of families requiring housing (see Figure 5 on page 8). This discrepancy is partly explained by the relative ease of developing affordable housing in greenfield locations. These areas often provide ample space and fewer regulatory hurdles, making it easier to build larger homes with multiple bedrooms. On the other hand, infill development in urban areas faces significantly greater challenges.

Figure 2: Typical housing continuum



Source: KPMG

Figure 3: Count of dwellings and rental stress, by number of bedrooms



Source: KPMG analysis of ABS Census

These include strict zoning laws, higher land costs, and limited available space, making it difficult to construct smaller, more affordable housing units that align with the needs of diverse family types.

This imbalance highlights the need for strategies that address both the ease of development in greenfield locations and the challenges of urban infill projects to better match housing sizes with the requirements of modern families.

1.2 – What housing do people want?

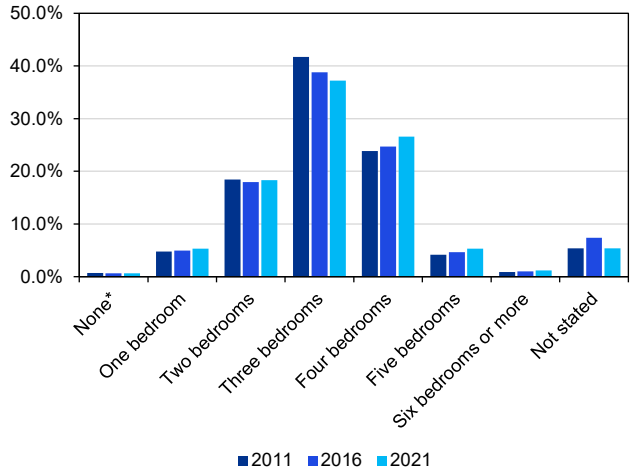
Households have complex needs which evolve over the life cycle, impacting developers' decisions. The *Older Australians and the housing aspirations gap* report published by the Australian Housing and Urban Research Institute (AHURI) provides insights into people housing aspirations. These aspirations are summarised below.

Three-bedroom homes are often associated with greatest satisfaction, particularly for older Australians. Preferences for larger dwellings drop with age, with retirees often preferring smaller homes.

In terms of dwelling type, over 85% of mid-life and older Australians prefer houses, but only 67% of younger Australians share this preference. Many young Australians (21%) desire smaller dwellings in high-amenity areas, though only half of those living in apartments feel they meet their long-term aspirations.

There is an appetite for non-traditional dwelling types; almost 10% of younger Australians and 7%-6% of mid-life and older Australians prefer alternative dwellings like tiny houses. Despite this, detached or semi-detached houses of average size (three-bedrooms) remain the dominant long-term aspiration. Location preferences also vary by age.

Figure 4: Share of dwellings, by number of bedrooms

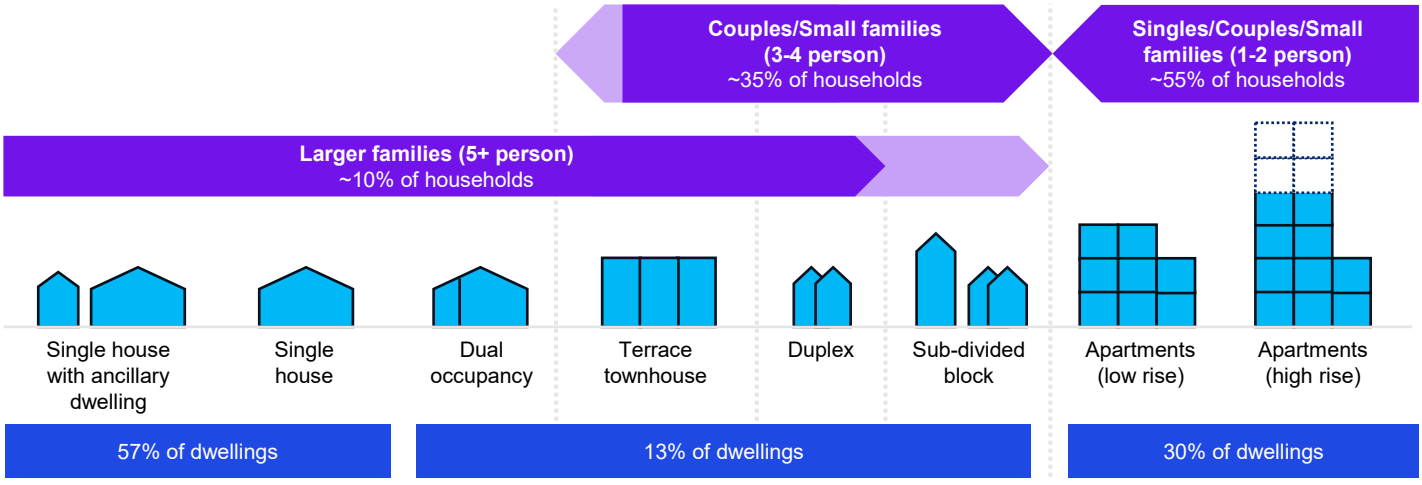


Source: KPMG analysis of ABS Census
* Includes studio apartments and bedsitters.

Around 35% of older Australians (55 and over) prefer homes in the middle to outer suburbs of capital cities, a preference that increases with age. Younger and middle-life Australians tend to favour the CBD or inner suburbs. Older individuals often have more spare bedrooms as they age. For households headed by those aged 25-34, about 30% have two or more spare bedrooms, while this figure rises to 60% for those aged 65-74. This trend suggests that older adults often remain in larger homes with unused space.

Downsizing poses several challenges for older people. Emotional attachment to long-time family homes can complicate the decision to move. The process of sorting through possessions can be overwhelming, and finding suitable, smaller housing with necessary features like single-level living can be difficult. Financial considerations, such as stamp duty and moving costs, also present significant barriers.

Figure 5: Australian household type and housing type – 2021



Source: KPMG analysis of ABS Census

[1] Older Australians and the housing aspirations gap

Understanding the evolving housing needs and preferences across different life stages is crucial for developers and policymakers. Addressing these diverse preferences can help ensure the housing being built meets long-term aspirations, enhances economic efficiency, and optimises the use of residential space. Adequate attention to these factors will promote better alignment between housing supply and the evolving needs of the population, ultimately contributing to a more efficient and satisfying housing market.

1.3 – What problems does lack of housing affordability cause?

Low housing affordability has various economic costs that can negatively impact the overall economy. One significant issue is the reduction in labour market depth. Unaffordable housing forces workers to live further from employment hubs, leading to longer commutes and reducing the pool of workers in high-cost areas. Consequently, skilled workers may migrate to regions with more affordable housing, causing a loss of talent in high-cost areas.

Another consequence is poorer job matching outcomes. High housing costs can restrict mobility, making it difficult for individuals to relocate for better job opportunities, leading to suboptimal job matches and underemployment. Employers also face challenges in attracting and retaining staff due to high housing costs, resulting in higher recruitment expenses and lower productivity due to mismatched skill sets.

Low housing affordability also affects human capital accumulation. Families struggling with high housing costs have less disposable income to invest in education and professional development, hindering human capital accumulation.

This issue is particularly concerning for children, as housing instability can negatively affect their educational outcomes and long-term human capital development, impacting overall economic productivity.

Low tax revenues are an economic cost of low housing affordability. Poor employment levels and job matches lead to lower overall taxable income, reducing government revenues from income taxes. Additionally, reduced consumer spending due to high housing costs can result in lower consumption tax revenues, such as sales taxes. High housing costs might also decrease property turnover, potentially affecting government property tax revenues if market activity slows.

Increased social costs are associated with low housing affordability as well. Higher housing costs can lead to a greater need for public housing and rental assistance programs, straining government budgets.

Furthermore, housing instability and stress can result in poorer health outcomes, increasing public healthcare expenditures and reducing workforce productivity.

Low housing affordability also exacerbates economic inequality, making it harder for lower and middle-income families to build wealth through homeownership, a significant avenue for wealth accumulation.

Economic activity is reduced as a result of low housing affordability. When a larger share of income is devoted to housing, households have less to spend on other goods and services, stifling economic growth and reducing business revenues.

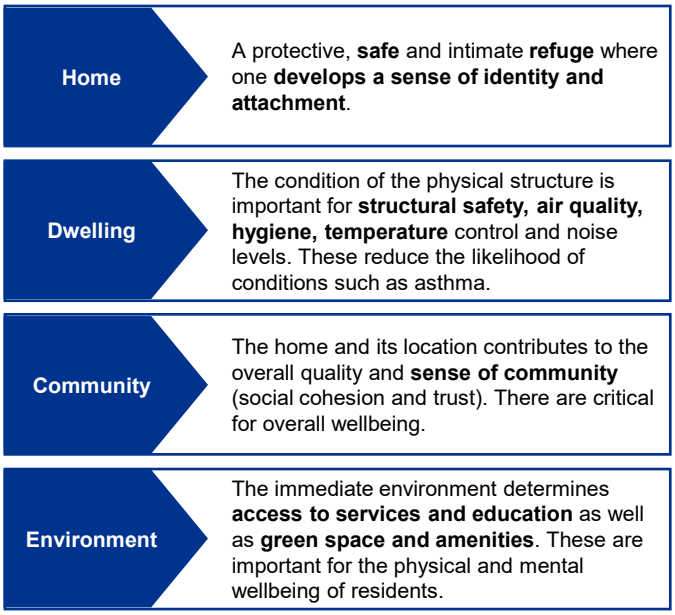
Over the long term, increased housing costs reduce the pool of available workers to fill key jobs, impacting economic activity, especially during skill shortages.

Housing availability and affordability also affect the birth rate. Areas with more expensive housing and smaller dwellings tend to have lower total fertility rates, adding to the long-term demographic challenges facing the nation[2].

All of these problems can be quantified, with varying degree of certainty, in terms of lost economic activity and lower taxation collection.

This quantification will provide a consistent annual benefit for every additional home provided across the country, encouraging the development of new housing units. This would help better understand the impacts of the strategic impacts of housing shortfall. This adaptability ensures that the resources are aligned with the real-time needs and demands of housing delivery, maximising efficiency and effectiveness in addressing the housing shortfall.

Figure 6: The four dimensions of housing



Source: Bonnefoy, X (2007). Inadequate housing and health: An overview.

[2] Baby recession continues as births drop - KPMG Australia

By earmarking these funds, the program can maintain a focused approach towards mitigating the housing crisis, ensuring that every additional home contributes substantively to the overall improvement of housing availability nationwide.

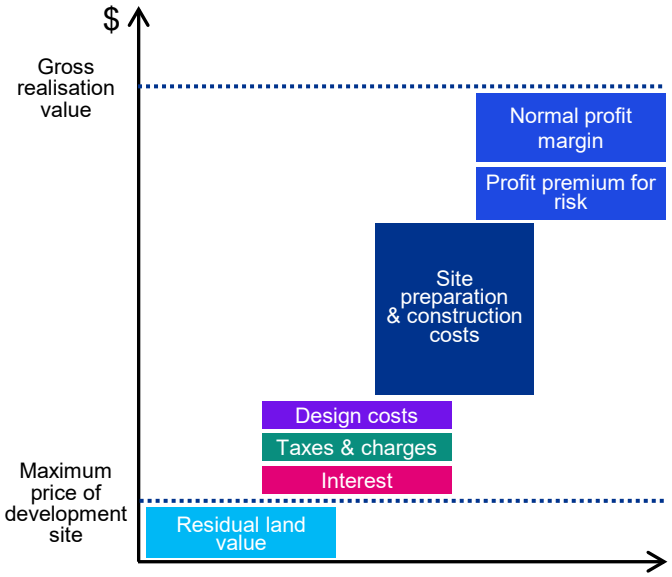
1.4 – Commercial feasibility

To understand the source of the current housing delivery challenges, there needs to be a shift from asking *'How much can households afford to pay for housing?*' to '*At what price can developers afford to build?*'. The developer is generally a price-taking agent, meaning they accept the prevailing market prices (e.g. cost of land, construction costs, taxes and charges, and the sale price) without significant influence over them.

The sale price for housing reflects the users' perceived value of the property. This perceived value is influenced by various factors such as the utility derived from living in that particular location, which might include easy access to jobs, local amenities such as parks and schools, public transport, and overall housing quality.

A critical concept in determining the commercial feasibility of housing development is the residual land value (RLV).

Figure 7: Contributors to commercial feasibility

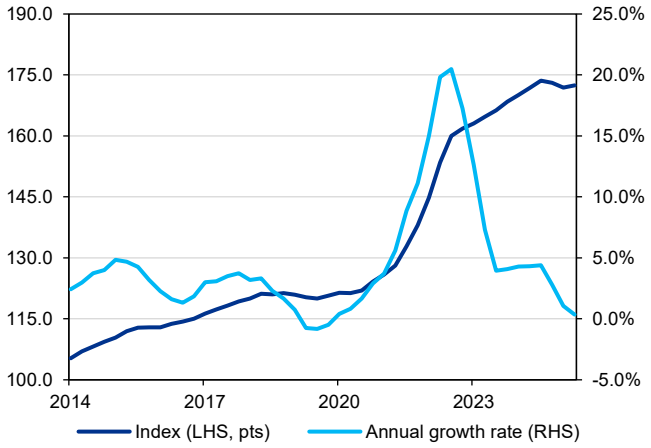


Source: KPMG

RLV represents the maximum price a developer would be willing to pay for a piece of land after accounting for all development costs, including construction, design, approvals, and other associated expenses.

For a housing development to be feasible, the landowner must be willing to accept the RLV determined by the developer. Furthermore, the RLV includes the developer's required margin for profit and risk, ensuring that the project is financially viable.

Figure 8: House construction price index



Source: KPMG analysis of ABS Producer Price Index

If the landowner's price expectations align with or are below the RLV, the development can proceed. However, if the landowner demands a higher price than the RLV, the developer may need to reconsider the project.

Moreover, several additional factors can influence the feasibility of housing developments. These include zoning regulations, which dictate the type and density of developments allowed, market conditions such as interest rates and economic outlook, and the presence of incentives or support from local government bodies.

Ultimately, understanding the delicate balance between market demand, development costs, and land valuation is crucial for developers aiming to undertake successful housing projects.

It is important to acknowledge that developers report that government taxes and charges can represent between 10%-25% of the purchase price of a new dwelling[3,4]. State and Local governments are primarily responsible for collecting the majority of fees, charges, and taxes associated with property development.

These revenues include building permit fees, inspection charges, impact fees, and property taxes, which are crucial for funding infrastructure and community services. Imposing charges on new housing to fund regional infrastructure can lead to several distortions in the property market. These levies may increase the overall cost of development, which can, in turn, be passed on to homebuyers and renters. This can discourage investment in new projects.

The 30-40% increase in construction prices[5] (see Figure 8), combined with 40-50% increases in land values[6], since 2020 have reshaped the commercial feasibility paradigm.

High construction costs have resulted to increased commercial uncertainty and widespread financial collapse of construction companies. In 2021-22, 1,284 Construction companies entered administration. In 2023-24 that more than doubled to 2,977 Construction companies entering administration.

[3] Taxes and Charges on New Housing
[4] Making TODs Work
[5] Producer Price Indexes, Australia
[6] Australian System of National Accounts

Table 1: Number of selected trades workers, 2014 and 2024

Occupational Grouping	Number of Workers		Growth Rate	Number Per 1000 Workers	
	2014	2024		2014	2024
Electricians	142,500	178,700	25.4%	12.5	12.8
Carpenters	123,100	145,800	18.4%	10.8	10.4
Plumbers	80,100	102,600	28.1%	7.0	7.3
Structural Steel & Welding Trades	76,500	78,600	2.7%	6.7	5.6
Painters	47,200	53,200	12.7%	4.1	3.8
Plasterers	33,100	32,000	-3.3%	2.9	2.3

Source: KPMG analysis of ABS Labour Force, ABS Census, ATO tax returns, and JSA data

As a result, developers are becoming more risk-averse, shifting their focus to less risky projects. This shift is expected to reduce the delivery across the housing market, particularly affecting the apartment market.

The recent loss of construction capacity is exacerbating existing challenges in the industry, including a lack of capacity and high prices driven by long-term skill shortages and builder insolvencies.

Many other key occupations have also declined as a share of the workforce (see Table 1), with carpenters decreasing from 10.8 to 10.4 per 1,000 workers, and painters dropping from 4.1 to 3.8 per 1,000 workers.

State governments have made investments in the TAFE sector to address these workforce gaps and are even offering cash incentives to attract tradespeople from overseas[7].

1.5 – Pandemic construction price shock

The widespread financial collapse of construction companies would suggest that the delivery of housing between 2011 and 2021 (see Figure 3) would have only shifted to higher prices points since 2021 to deal with the higher construction inputs.

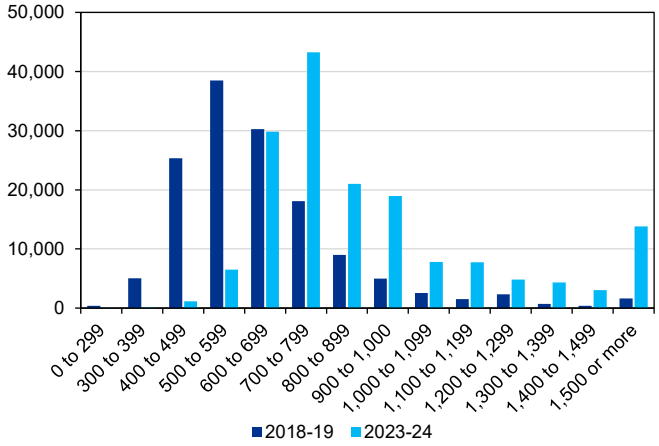
This is confirmed by analysis of ABS SA2 level Building Approval data[8] (see Figure 9). In 2018-19, two thirds of dwellings would have been in the $400,000 – $700,000 range (based on their approved value and estimated land cost component). In 2023-24, that share fall to less than one quarter.

The distribution of new dwellings provides insights into developer activity and the markets (based on income) they are targeting. In 2018-19, there was likely a gap in the developer market for households earning around $50,000-$70,000 per year.

Developers were constructing stock for both rental and owner-occupiers earning between $70,000 and $90,000 per week, but these developments were limited to certain locations (e.g. greenfield locations or inner-city apartments).

These properties would have been in the $400,000 – $500,000 value range.

Figure 9: Average dwelling value in SA2s, by price range ('000 dollars)



Source: KPMG analysis of ABS SA2 Building Approvals, ABS Household Balance Sheet and Residential Land data

Figures 10 and 11 (see page 12) highlight the developer cohorts and the changes between 2018-19 and 2023-24. This is Illustrative analysis to provide sense of the market shifts.

The traffic light system can be broadly described as:

- Green – There is active planning and investment for households at this price point, and stock is being delivered.
- Yellow – There are developments occurring, but the developer cohort has low levels of new stock.
- Red – The developer cohort serving this income segment is not actively adding to housing supply.
- Gap – There are a limited number / small-scale developers operating at this income price point

[7] $10,000 offer for tradies to move west extended to Kiwis

[8] Based on SA2 averages and assumption regarding the relationship between building value and land value based on the National Accounts Household Balance Sheet and associated land data.

For households earning less than $50,000 per week, public housing and CHPs were the key developers. However, there was little investment in public housing (hence it is coded as red) and only limited activity in the CHP sector (hence it is coded as red).

In 2023-24, with a range of direct investments in public housing and funding to community housing providers, these sectors are much more active (hence the green rating). Build to Rent has emerged and is currently active in the market serving households earning $70,000 – $80,000 per year.

Private developers have retreated to providing supply for households earning over $200,000, with less activity in lower ranges (as shown by the yellow rating). As shown in Figure 9, the number of new properties over $1 million has increased from 6% in 2018-19 to 25% in 2023-24.

These figures are illustrative, and developer activity varies by housing type (e.g. one-bedroom homes vs. three-bedroom homes) and by regional market (e.g. inner urban vs. regional locations), but they do highlight the scale of the challenge.

The key conclusion is that there is no significant developer activity (either private, public, or non-profit) focused on providing housing for households earning between $50,000 and $110,000.

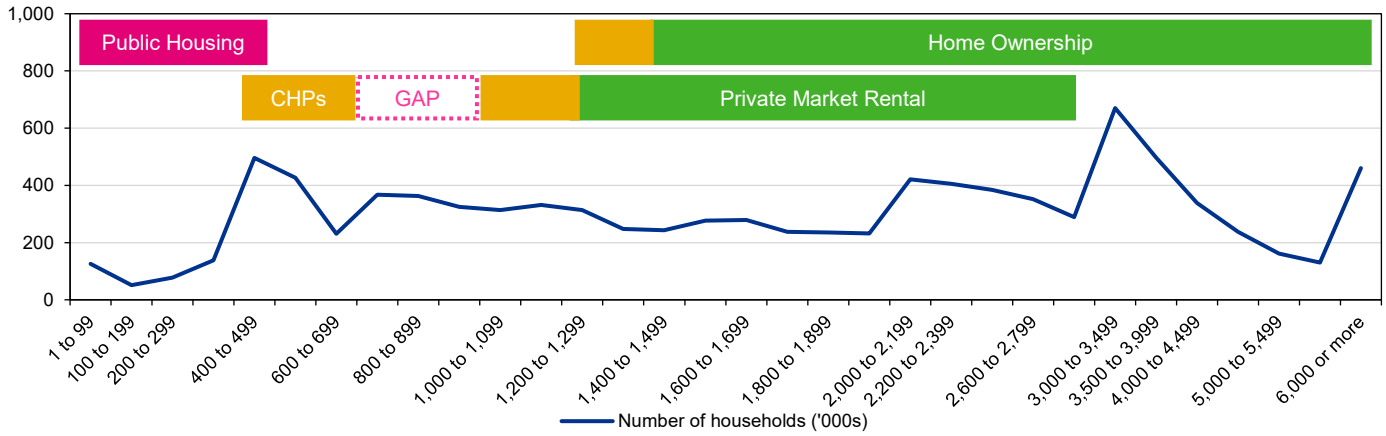
This analysis indicates that the housing market has failed within the current market conditions for households earning between $50,000 and $110,000 annually, which represents around one-third of all households. It should be noted that this band could vary between housing markets. For example, Sydney may have a higher band, while a regional market might have a lower band.

This one-third of all Australian households will continue to face increasing housing stress and an overall lack of housing without action. This will also impact the operation of businesses and the broader economy as jobs go unfilled in our most productive locations, which in turn will impact the taxes collected by the government.

Current policy efforts to boost affordable housing (e.g. public housing investments, HAFFF) is more aimed at this less than $50,000 annual income. And while these policy efforts should be continued, there also need to be a focus on the $50,000 - $110,000 annual household income group.

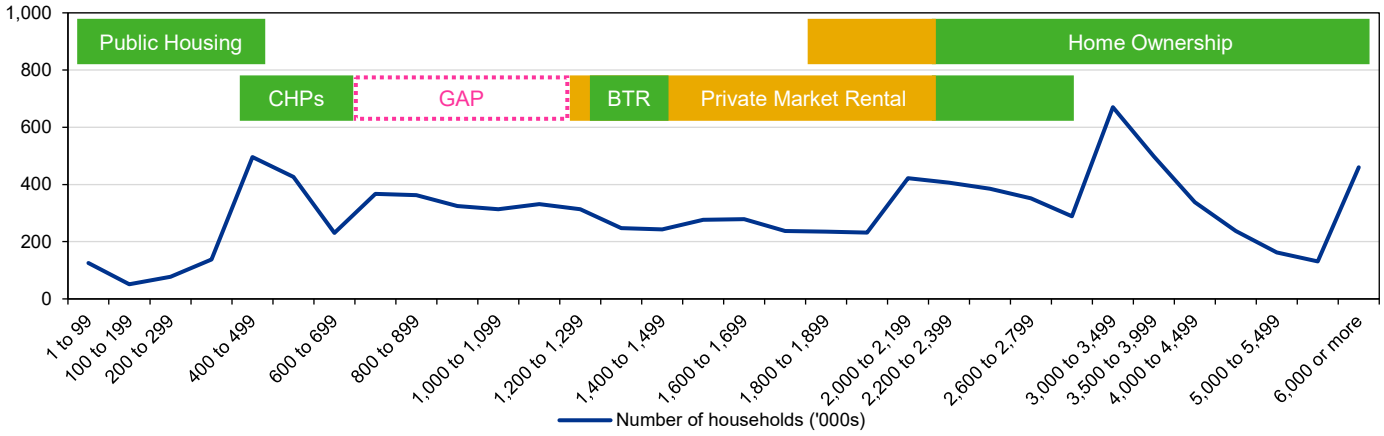
These policy effects are discussed in more detail in the next section.

Figure 10: Illustrative developer price-point focus areas, by household income (‘000 dollars) – 2018-19



Source: KPMG analysis, ABS Household Income and Wealth – 2019-20

Figure 11: Illustrative developer price-point focus areas, by household income (‘000 dollars) – 2023-24



Source: KPMG analysis, ABS Household Income and Wealth – 2019-20

02

The Solution

The Solution

2.1 – A proposed *Housing Delivery Collaboration Program*

The housing challenge have not arisen as a result of any single event or factor. They are the result of decades of broader economic trends and policy settings, which have created a growing gap between the demand for and supply of social and affordable housing options.

The outcomes of the housing market are the product of actions from many players, including Commonwealth, State and Local governments, households, and industry groups.

Three decades of housing prices rising faster than incomes, significant taxes and charges on new housing to fund public infrastructure and services, distortions caused by the land use planning system, and a post-pandemic rise in construction costs have led to market failure in the housing sector in Australia. Those on lower incomes have been the most affected.

A coordinated approach is required, drawing inspiration from the previous National Competition Policy (NCP), where all levels of government worked together to address failing markets.

An NCP framework will provide clear alignment among the key beneficiaries of housing development: the taxpayers who live in these homes, the Commonwealth that collects the majority of the taxation revenue, and those who bear the costs of providing infrastructure and building homes (e.g. State, Local governments and developers of affordable housing).

Other examples of where market failures impact key services (e.g. Indemnity Insurance Fund, Australia – see text box on page 15) can also provide a confidence that structuring a range of complex solutions to overcome these market failures is possible.

The proposed *Housing Delivery Collaboration Program* requires and understand the short fall in housing delivery, and what economic benefit can be derived by making each additional home commercially feasible.

2.2 – Agreeing on feasible and realisable capacity targets

As part of the National Housing Accord, in August 2023, the National Cabinet set an ambitious target of 1.2 million new well-located homes over five years, starting from mid-2024. This target was designed to restore market balance within a short time frame. Additionally, the National Cabinet approved $3.5 billion in payments from the Commonwealth to State, Territory, and Local governments to support the achievement of this goal.

However, recent housing approval, commencement, and completion data have indicated that this target will not be met. The inability to meet this target is due to the challenging commercial feasibility in the more affordable price points. The National Housing Accord can be refreshed with all levels of government need to develop robust housing supply targets based on a thorough assessment of housing availability and the corresponding price points.

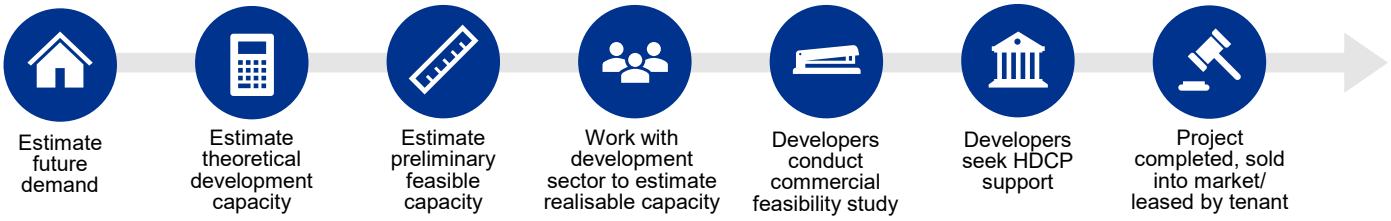
Additionally, it is crucial to estimate the associated local infrastructure costs that will arise from the increased housing in the local area. The economic and social benefits of that additional housing should also be estimated to highlight the advantages of housing more workers. In areas experiencing significant change, input from the future community living within those areas will be essential to ensure that development plans meet their needs and expectations.

This assessment process should go beyond the current long term housing targets developed by various Local and State governments, which tend to focus longer term capacity-based targets.

The **theoretical development capacity** is identified for all residential and mixed-use zones by applying the maximum development capacity of the land based on their underlying zoning and development controls.

To determine the **feasible capacity**, a range of development factors, including location, land costs, building costs, and sales values, were used to inform which development scenarios are profitable (e.g. at a 20% gross profit margin) to indicate the extent to which the theoretical development capacity is feasible to develop at this point in time.

Figure 12: *Housing Delivery Collaboration Program* – steps



Source: KPMG

The assessment also sought to determine the typologies that would be most profitable (and therefore more likely to be feasibly developed) across the city.

In addition to the feasibility assessment, a further overlay of policy and practical considerations was included to consider what is likely to be developed by the market at that point in time.

The **realisable capacity** rates essentially provide for the 'likelihood of development,' taking into consideration dwelling typology, development options, and endeavour to consider the risks associated with the development of certain typologies and the motivations of developers.

It should be noted that the National Housing Supply and Affordability Council publishes high-level estimates of supply shortfalls in the State of Housing System Report[9] (but does not disaggregate by region or dwelling type), so there is some precedent for this type of approach.

Table 2 provides an example figures for the theoretical, feasible and realisable capacities. Should these feasible capacities fall below anticipated demand for housing required for current and future workers an appropriate funding mechanism or policy level depending on the local housing market dynamics, can be agreed upon to increase housing delivery.

Housing targets in terms of geographical location, price point and dwelling type (e.g. two-bedroom, three-bedroom). A range of scenario testing with different planning controls can be understanding to understand which land use planning controls would have the greatest impact on the feasible capacities.

Box 1: National Competition Policy

The National Competition Policy (NCP) in Australia is a comprehensive framework of legislative and administrative reforms aimed at enhancing competition across various economic sectors. Introduced in the 1990s, the policy was developed in response to the growing recognition that competitive markets lead to more efficient resource allocation, dynamic industries, and overall economic growth.

The NCP emerged from the Hilmer Report (1993), which recommended reforms to promote competition in sectors previously dominated by government monopolies. The main objectives were to foster efficient resource allocation, enhance consumer welfare by lowering prices and improving service quality, stimulate innovation and investment, and improve public sector efficiency.

By linking the shortfall with the cohorts who would live in these homes provides an understanding of the economic activity and associated taxation revenue that are at risk due to the inability to house this cohort.

There is a technical challenge in estimating the feasible capacities due to the various inputs that can vary significantly from site to site and developer to developer. These inputs include the cost of land, developer margin, construction costs, local infrastructure requirements, and requirements for site consolidation.

Table 2: Example of theoretical, feasible and realisable housing capacities

Measure	Base Scenario Range	Notes
Theoretical Housing Capacity (Based on available land and maximum building envelopes)	4,000,000 dwellings 4,500,000 dwellings 5,000,000 dwellings	Theoretical housing capacity often presents an overly optimistic view, assuming ideal conditions that overlook economic viability, market demand, and infrastructure readiness. For example, areas might be near a new train station that is still under construction would have a high Theoretical housing capacity. However, until that station opens in ten years time there would be no interest in development in that location.
Feasible Housing Capacity (Based on land costs, building costs, sales values, to determine development profitable)	2,400,000 dwellings 2,700,000 dwellings 3,000,000 dwellings	Feasible housing capacity considers current land costs, building costs, and sales values to determine the profitability of developments. However, many lots are not yet feasible to develop. For example, areas might be zoned for apartments in greenfields, but currently, a two-room apartment would cost more than a four-bedroom home being built within the local area.
Realisable Housing Capacity (Based on dwelling typology, industry capacity and local market conditions, each year over the next 3 years)*	150,000 dwellings per year 170,000 dwellings per year 190,000 dwellings per year	Realisable housing capacity reflects the practical capacity by taking into account dwelling typology, industry capacity, and local market conditions over the next three years. This measure considers the actual likelihood of development occurring based on the intersection of feasible supply and local population growth.

Source: KPMG
* 3 years roughly represents the length of time between when a developer consider proceeding with a development and that dwelling reaching the market.

[9] State of the Housing System (see Table 4.1)

Because of these variations, it is essential to produce a range of scenarios to account for the possible differences and uncertainties. This type of task would be well suited to be assisted by AI platforms to deal with the large datasets required to be examined.

2.3 – Possible options for closing the commercial feasibility gap for new housing

Possible options within the proposed *Housing Delivery Collaboration Program* can be divided into a number of funding mechanism or policy levers groupings:

1. **Financing:** Improve financing cost for developers.
2. **Capacity:** Increase housing realisable capacity on existing land.
3. **Tenure Model:** Shift the tenure model to allow longer terms financial benefits for developers.
4. **Risk:** Risk reduction for projects which will encourage more investment.
5. **Costs:** Reduce construction and associated costs.

There are a range of existing policies operating to aiming to close the commercial feasibility gap in these different areas. A sample of which are presented in Figure 13.

The policies addressing each of these areas are summarised in Table 3 (see page 17). Also included in Table 3 are examples of how these policies can be expanded to close the commercially feasibly gap. The focus should not only be on these programs, but there could also be innovative new solutions to quickly provide financial support to developers of affordable housing quickly and efficiently.

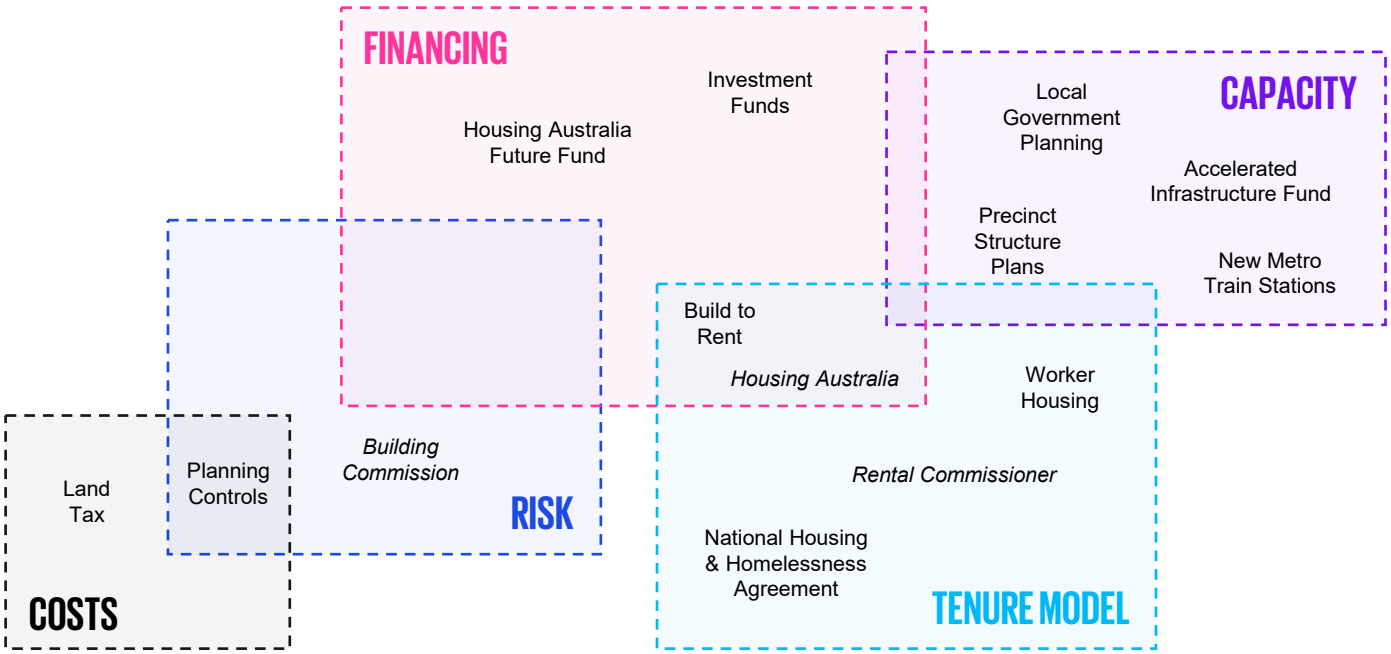
Box 2: Indemnity Insurance Fund

Medical indemnity insurance is required for professional registration of all private medical practitioners, providing financial protection to medical practitioners and patients against injuries caused by negligence or unlawful acts. Following the 2001 collapse of HIH Insurance Limited, UMP/AMIL's provisional liquidation resulted in potential indemnity cover shortages for many doctors in Australia in 2002.

Alongside substantial hikes in insurance premiums, these events resulted in some practitioners to leave the profession or halt high-risk procedures like obstetrics. Between 2002 and 2010, the Australian Government introduced various financial and regulatory measures to avert the immediate collapse of the insurance industry and ensure the continued availability and affordability of medical indemnity insurance.

With aims to streamline funds to support medical and professional indemnity insurance for medical practitioners, the Australian Government initiated the Indemnity Insurance Fund (IIF) which is administered by the Department of Health. Under nine different schemes, the primary objectives of the fund are to maintain the stability of the medical indemnity insurance industry, ensure affordability of insurance for doctors and availability of insurance for eligible medical professionals and midwives. An evaluation of the IIF shows enhanced stability of the indemnity insurance market and improved affordability and availability of indemnity insurance.

Figure 13: Examples of actions to reduce the commercial feasibility gap



Source: KPMG

The scale of the support (per dwelling) to the developer of the affordable housing would be based on the analysis of the commercial feasibility short fallen estimated in the *feasible housing capacity and realisable housing capacity* assessment described in the previous section.

That will focus the funding on unlocking affordable housing, rather market housing aimed at higher income which should not require a subsidy.

For example, a housing project in Sydney targeting households earning more than $250,000 should be commercially viable. A project in the same location targeting households earning $80,000 would attract support to ensure that it is commercially viable.

It should be noted that the value of any support would be significantly less than currently provided by existing programs.

For example, the Victorian Big Housing Build funding was ~$630,000 per dwelling[10] and Housing Australia Future Fund was ~$350,000 per dwelling[11].

Middle-income households would have a much greater capacity to pay than the residents targeted by those programs; hence, the per-dwelling subsidy would be significantly lower.

In the absence of the proposed *Housing Delivery Collaboration Program*, an increasing number of middle-income households will be calling on the more heavily subsidised housing. This can already be seen with the increasing waiting lists for social housing.[12]

One significant advantage of approaching subsidising affordable housing via the *feasible housing capacity and realisable housing capacity* assessment is its dynamic nature – it is not a static amount but a variable one that will adjust in response to the fluctuations and trends within the property market cycle.

For example, as real wages increase faster than construction costs, the need for construction subsidies will fall. Also funding intergenerational local and regional infrastructure will come in waves as new development fronts are opened and hence would vary over time.

Table 3: Examples of current policies and possible extensions

Theme	Examples of Current Policies	Examples of Extensions (as part of the *Housing Delivery Collaboration Program*)
Improve financing cost for developers	Housing Australia Future Fund Facility, National Housing Accord Facility and QLD's Housing Investment Funds are providing funding to the community housing provider sector.	Expand these funding facilities to include other not for profit developers.
Increase housing releasable capacity on existing land	A range of rezoning initiatives across major cities aims to accommodate more housing by increasing theoretical capacity. New train stations, combined with station precinct planning, are intended to provide large-scale redevelopment opportunities. The Commonwealth Housing Support Program also helps fund local infrastructure.	Provide funding for intergenerational local and regional infrastructure (e.g. open spaces, roads, community facilities) rather than relying heavily on infrastructure contributions on new developments. Additionally, funding for supporting intergenerational infrastructure is essential to enhance the capacity of local areas for more housing.
Shift the tenure model	Build to Rent is aimed at increasing the supply of housing in the rental market. Enhancing renters' rights are also working towards the rental market being seen as a long-term housing option for households.	Providing low interest loans for not-for-profit housing cooperatives and other not-for-profit developers which are providing stock into the housing market.
Risk reduction for projects	Attempts to streamline planning process to reduce the length of time can reduce risk for developers, but the area are not any existing programs to assist developers to manage risk	Provide cash backs for fee, charges and taxes levied by State and Local government on affordable housing to increase the commercial feasibility for these types of projects. This cash backs would only be provided after the sale of the property.
Construction cost	Potential reviews of building codes and efforts to improve productivity in the construction sector.	Cash backs for infrastructure charges and grants to assist with construction cost via grants for affordable housing. This would be contingent on sale of the property being in an affordable range.

Source: KPMG

[10] Big Housing Build - Homes Victoria
[11] Housing Australia Future Fund
[12] AIHW Housing Data Dashboard - Housing data

03

Next Steps

Next Steps

3.1 – Further development

The development of the proposed *Housing Delivery Collaboration Program* stands as a significant economic reform initiative, designed to address the pressing need for affordable housing across Australia.

This ambitious program necessitates a concerted and collaborative effort from all levels of government, as well as active participation from the private development sector to focus on increasing realisable housing capacity.

By fostering cooperation among these diverse stakeholders, the program aims to create a synergistic approach that maximises resources and expertise, thereby enhancing the overall effectiveness of housing delivery initiatives.

Rather than starting with a 'blank piece of paper,' the program would draw upon existing frameworks (e.g. Housing Accord, HAIF, State Government Housing Supply Targets) with a focus on providing homes for workers earning between $50,000 and $110,000 per year.

By utilising these pre-existing structures, the program ensures continuity and coherence, making it easier to implement new program, quickly and efficiently.

It is important to clarify that the proposed *Housing Delivery Collaboration Program* would not replace the focus on boosting housing supply for the most vulnerable in the community but would serve as an additional layer to increase housing delivery.

The scale of the facing the proposed *Housing Delivery Collaboration Program* is significant, as the delivery of affordable housing remains below where we need it to be as a nation.

Australia's housing market is at a critical juncture, demanding immediate, decisive action. Collaborative efforts through initiatives like the *Housing Delivery Collaboration Program* can drive sustainable, accessible growth and ensure housing security for all Australians.

Table 4: High level steps for the *Housing Delivery Collaboration Program*

Step	Summary
Estimate future demand	Housing targets can be established based on the current housing shortfalls and anticipated population growth. These targets should account for factors such as geographical location, price point, and dwelling type (e.g. two-bedroom, three-bedroom) over the next 3 to 5 years. Refer to the State of Housing System Report for an example.
Estimate theoretical development capacity	The theoretical development capacity for all residential and mixed-use zones is determined by applying the maximum development potential of the land according to their underlying zoning and development controls.
Estimate preliminary feasible capacity	To assess feasible capacity, various development factors – including land costs, building expenses, and sales values – are considered to identify which development scenarios are profitable for affordable housing providers. This assessment helps indicate the extent to which the theoretical development capacity is practical to develop at present. It also aimed to pinpoint the typologies that would be most profitable (and thus more likely to be feasibly developed) across the country. Restrictive planning controls that may impede development can be identified for potential review.
Work with development sector to estimate realisable capacity Developers conduct commercial feasibility study	The realisable capacity rates ('likelihood of development') for the next 3-5 years consider factors such as dwelling typology and development options. Additionally, it takes into account the risks associated with developing certain typologies and the motivations of affordable housing developers and local council planning controls.
Developers seek HDCP funding	Developers can seek support from the *Housing Delivery Collaboration Program* (e.g. concessional loans, cashbacks for government taxes, fees, and charges, target grants, funding for supporting intergenerational infrastructure) to provide affordable housing, in order to help achieve the housing targets for each region/housing type.
Project completed, sold into market/leased by tenant	As housing supported by flows into the market, future demand will be recalibrated and theoretical, feasible and realisable capacity will be re-estimated.

Source: KPMG

Report Contact

Terry Rawnsley
Urban Economist & Director
T: +61 3 9288 5455
E: trawnsley@kpmg.com.au

Social and Affordable Housing Contact

Nicola Lemon
Partner, Enterprise
Social and Affordable Housing
E: nlemon1@kpmg.com.au

KPMG.com.au