



Addressing Brisbane's Housing Market: Build Out or Build Up?

The Economics of Housing Insight Series

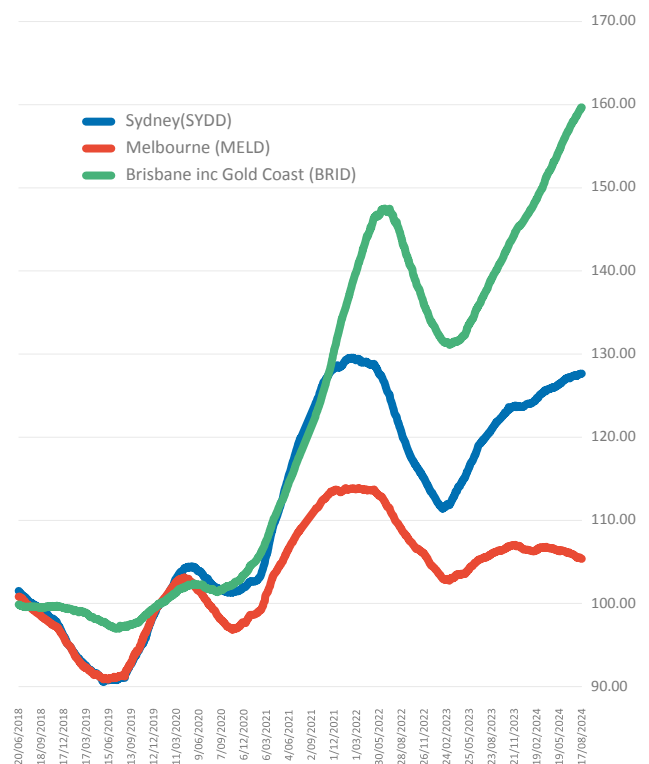
The third instalment in our state-based insights series on the economics of housing in Australia, addresses issues relating to current and future demands on Brisbane's housing stock.

While Brisbane may not yet achieve top-10 rankings in global liveability alongside Sydney and Melbourne, it is not far behind. With a thriving cultural scene, enviable climate and natural beauty, combined with a welcoming community and abundant professional opportunities, the city attracts residents from Queensland, across Australia and internationally.

Since 2020, Greater Brisbane's population has grown by 6.3%, more than double the growth rate of Melbourne and Sydney during the same period.¹ This increase is largely driven by internal migration in response to COVID-19. While other capital cities on the eastern seaboard had an outflow of residents, over a third of Brisbane's new residents have relocated from elsewhere in Australia. Many have left behind the hustle of big city life in Melbourne and Sydney, drawn to Brisbane's more affordable living, better lifestyle, and favourable climate.

But these trends have had dramatic impacts on the Brisbane housing market. Since COVID, rents have increased by more than 50%, compared to around 30% in Melbourne and 40% in Sydney.² Over the same period, house prices have risen by 60%, double the increase in Sydney and 10 times that in Melbourne (see graph).

CoreLogic Dwelling Price Index (Jan 2020 = 100)³



For new arrivals to the city, this presents a moderate challenge. However, for existing low-income residents, the soaring rents can be catastrophic, with some families struggling with cost-of-living pressures resorting to living in tents.⁴ The number of people on Brisbane's social housing wait list has grown rapidly, increasing by 1,500 people, or 20%, in the nine months to March 2024.

The Brisbane City Council and the Queensland Government's responses to these challenges have included:

- The Shaping South East Queensland (SEQ) 2023 plan, which targets the delivery of 860,000 additional homes in SEQ by 2046, with 210,000 in Brisbane city and a further 300,000 in the rest of Greater Brisbane.

- Homes for Queenslanders, which plans for the delivery of an additional 53,500 social homes across the state.
- Economic Development Queensland's declaration of Priority Development Area, to boost housing delivery in location with good transport accessibility.
- Brisbane City Council's Housing Supply Action Plan, which states that *"By growing up, not out, Brisbane can unlock more housing while protecting our suburban lifestyle"*.

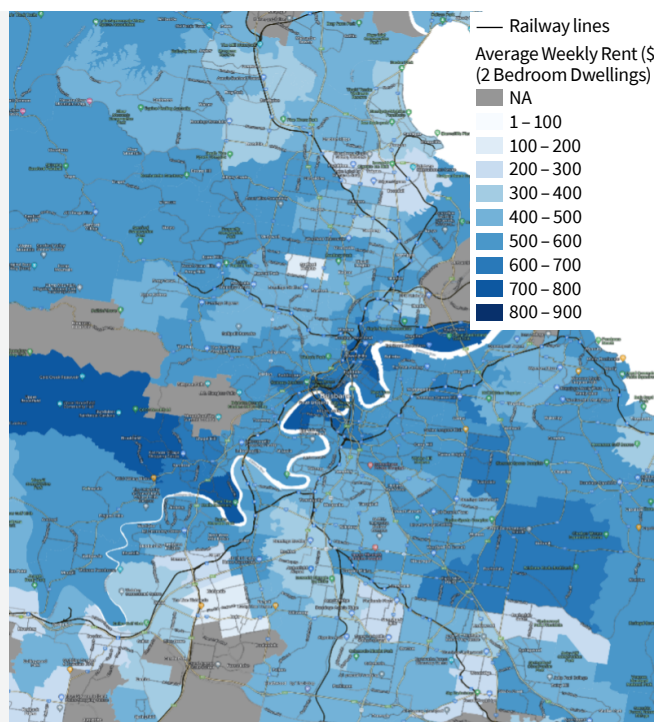
This article examines the economic costs and benefits underpinning the trade-offs between building up versus building out, offering important initial insights into the good and not-so-good locations for delivering additional housing.

Location, Location, Location

As a starting point, let's explore where people want to live. Suburbs with access to good amenities, in close proximity to jobs and quality schools, and that have access to efficient transport systems, and other desirable features, tend to be in high demand. Disparities in rental prices across suburbs reflect the value residents place on living in a more attractive location.

The following map shows estimated median rents for two-bedroom units. Unsurprisingly, the closer to the Brisbane river and the CBD, the higher the rent. The premium for living in inner-city suburbs, compared to city fringe locations, reaches more than \$500 per week, equating to around \$25,000 per year.

But there are, of course, other factors to consider.



The Societal Costs of Additional Housing in Brisbane

Increasing the supply of housing causes societal costs. Some of these burdens fall on governments (i.e. taxpayers), who bear the cost of supporting public infrastructure. Local residents bear other costs, such as increased traffic, disruptions and overshadowing. Furthermore, everyone is affected by broader impacts, such as lost biodiversity and heightened carbon emissions.

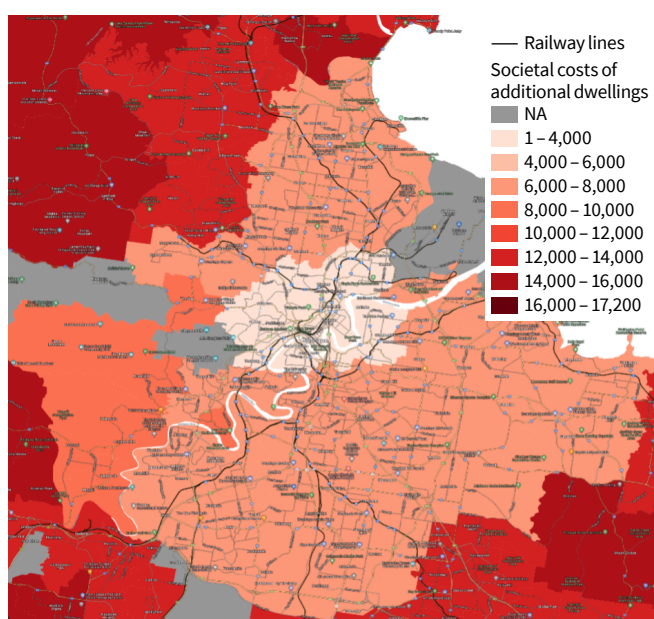
The costs of housing developments differ significantly across a city. They will vary substantially based on whether the housing is built on a site that is greenfield,

brownfield, fringe, infill, transit oriented or in growth areas. Additionally, each development site will present unique challenges, such as overshadowing, flood risk and heritage protection. However, in general, these costs include:

- **Public infrastructure costs** on a per dwelling basis vary significantly based on location, with established areas benefitting from existing infrastructure and lower costs. These costs could exceed \$200,000 per dwelling in some greenfield locations while they could be as low as \$12,000 in established areas.

- Higher **congestion costs** in built up areas due to heavier traffic, offset by improved public transport options that reduce car usage and shorten travel distances per trip.. As a result, commuters living in established areas cause around \$1,500 per year in congestion costs, compared to more than \$4,000 per year in fringe locations. The completion of major transport investments over the coming years, such as Cross River Rail and Brisbane Metro, will further accentuate these differences.
- The **carbon costs** associated with development can be complex. Embodied carbon in construction materials and activities may favour simpler construction of stand-alone dwellings common in growth areas, although this may be offset by the smaller dwelling sizes delivered in inner-city locations. Whereas, unit developments are more energy efficient, with fewer windows and external walls. Overall, there may not be significant differences by location.
- **Loss of biodiversity** is a primary concern in greenfield areas, particularly on the fringe. The cost of greenfield land loss can exceed \$20,000 per dwelling.

These costs can be converted into annual, per dwelling-equivalent societal costs based on location – as shown on the following map. It is important to note that dwellings in fringe areas are typically larger than inner-city infill developments, accommodating more residents. Therefore, a strategy to house a larger portion of the future population in infill locations may require the construction of more dwellings, compared to a housing strategy focused on greenfield growth, assuming all other factors remain constant. This is reflected in the following analysis.



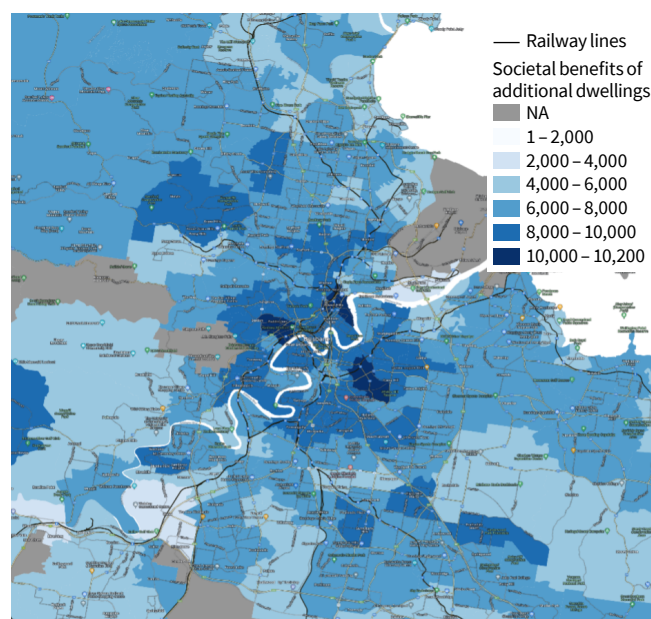
The societal costs associated with building additional dwellings are the lowest near the CBD and along major rail and tram routes but grow progressively higher further away, reaching more than \$15,000 per year per dwelling in growth areas. These factors must be considered when planning for Brisbane’s future growth.

The Returns Additional Housing Delivers

Additional development can lead to societal costs, but it also brings societal benefits. Again, these vary by location.

- The most significant benefit arises from **agglomeration economies**, where denser economic activity leads to increased productivity. These economies are fundamental to the existence of cities, attracting firms to large talent pools, shared resources and infrastructure, and robust knowledge exchange, which further enhances productivity. Proximity between workers and employment centres fosters this cycle of productivity gains, valued at \$8,000 per dwelling annually near the city centre but less than \$4,000 in fringe areas.
- Additionally, encouraging more **active lifestyles** can promote positive societal benefits. Residents of inner-urban areas typically walk and cycle more as part of their daily routine compared to those in outer areas, improving public health outcomes – valued at over \$2,000 per dwelling per year.

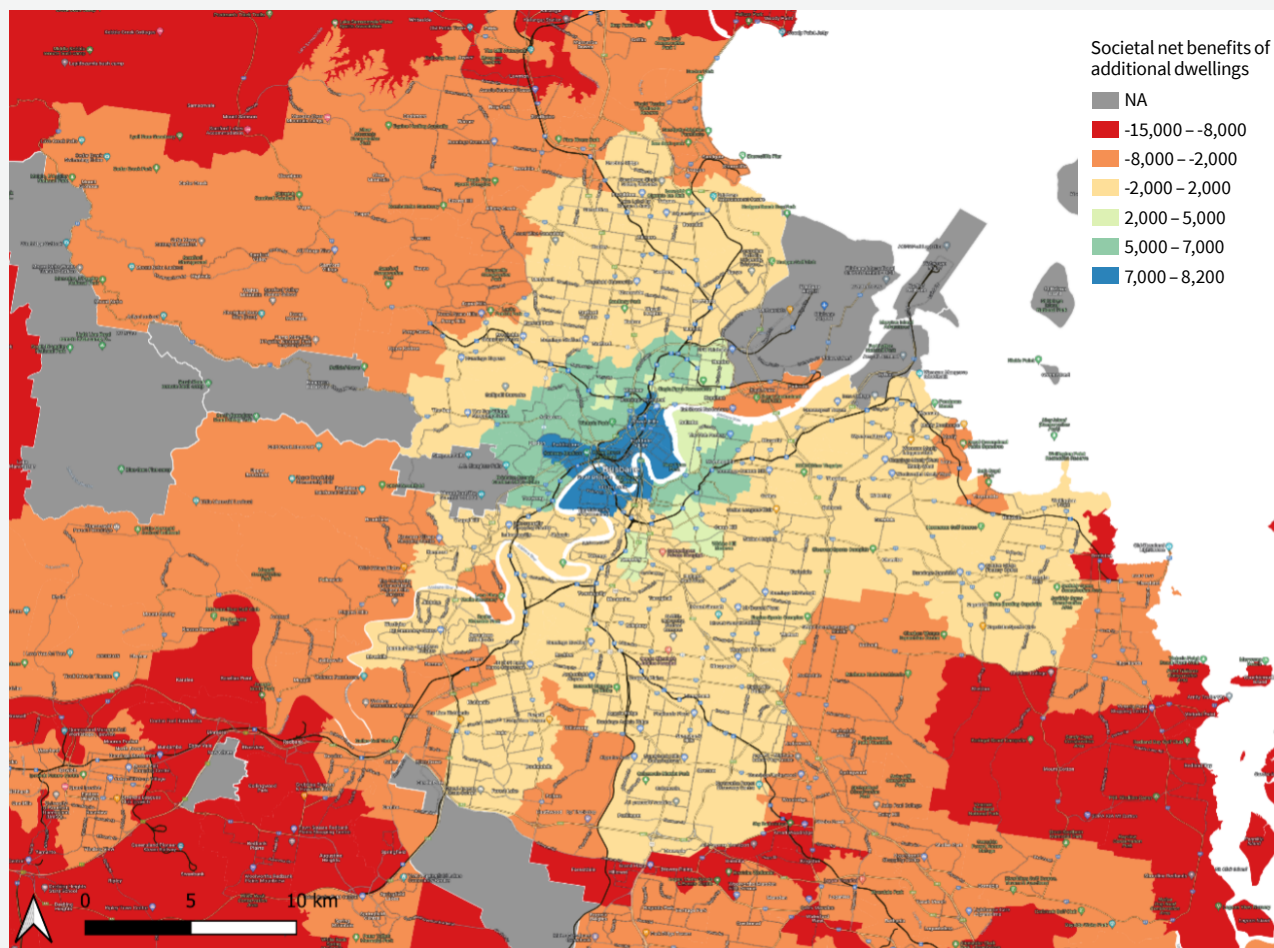
The following map shows these benefits, highlighting interesting geographical patterns.



The economic returns to higher-density development are far greater in and near employment centres and, similar to the societal costs, extend along major rail corridors.

What Does It All Mean?

By integrating the societal costs and benefits shown in the previous two maps, we derive the following net benefits of additional density.



Based on the insights explored in this article, it is clear that the net societal benefits of increased residential density are positive in the city and adjoining suburbs. These benefits continue along rail lines, but become adverse in other areas and on the urban fringe. To effectively address housing shortages, we should restrict further costly urban sprawl and prioritise development in areas where existing infrastructure can be leveraged, supporting a productive economy.

What does this mean for the Shaping SEQ 2023 housing targets for Greater Brisbane? The growth to 2046 is expected to increase the number of dwellings in Brisbane City by nearly 40%, while less established areas such as Ipswich, Logan, and Moreton Bay may see growth of 75% to 100%. This scale of growth could result in a net societal cost of \$2.8bn per year. However, if, the 860,000 dwellings were distributed proportionally to existing houses across the region, the cost would be significantly lower, at around \$1bn per year.

It is important to note that this analysis is a high-level, comparative overview of different locations to explore general spatial patterns. It does not suggest we should stop building in red areas or build in all blue areas. Rather, the maps highlight where planning policy settings should allow more residential density, assuming other factors remain constant.

In summary:

- Various attributes make different parts of Brisbane more attractive to residents, leading to higher rents and house prices. Allowing higher densities in these locations would enable more people to enjoy these amenities.
- Other societal costs and benefits of densification also align with this approach, indicating that additional density should be permitted near employment centres and areas with existing infrastructure that can be leveraged.

How FTI Consulting Can Help

The Queensland Government is developing plans for how Brisbane and the state should respond to the expected strong population growth over the next decades. The Economic & Financial Consulting team at FTI Consulting understands that every location has unique challenges. We can help organisations navigate opportunities to avoid unintended outcomes by:



Communicating the net public value a proposed development delivers to the community –

encompassing both the general and site-specific impacts of a development, such as enabling more productive use of land, improved amenities, better pedestrian access, adaptive heritage reuse and precinct benefits.



Developing priorities for and assessing the value of outcomes – across precincts including health, biomedicine, education, innovation and cultural events.



Conducting comprehensive cost-benefit analysis, evaluation and assessment – of urban renewal

projects, affordable housing, social housing and infrastructure projects, incorporating all aspects of societal costs and benefits at a site-specific level.

For more information on these issues and how we can support your business, please reach out to a member of the team.

¹ "Regional population 2018-19", Australian Bureau of Statistics (25 March 2020), <https://www.abs.gov.au/statistics/people/population/regional-population/2018-19>

² SQMResearch, "Weekly Rents", viewed September 2024, <https://sqmresearch.com.au/weekly-rents.php?region=qld%3A%3ABrisbane&type=c&t=1>

³ "CoreLogic RP Data: Daily Back Series," CoreLogic (viewed September 2024), <https://www.corelogic.com.au/our-data/corelogic-indices/daily-back-series>

⁴ Masters, R. & Todhunter, C., "Tent cities sprawl across Brisbane as thousands sit on social housing waitlist," 9News (24 April, 2024), <https://www.9news.com.au/national/housing-crisis-queensland-tent-cities-sprawling-across-brisbane-as-thousands-sit-on-social-housing-waitlist-news/5a2abb44-c396-403f-b964-9501e8ec6456>



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