

31 August 2021

Mr Garry Fielding
Chair
Regional Housing Taskforce
Department of Planning, Industry and Environment
52 Martin Place
SYDNEY NSW 2000

Via: regions.coordination@planning.nsw.gov.au

RE: Regional Housing Taskforce - Submission

Dear Mr Fielding,

Regional Cities New South Wales (RCNSW) is please to present the attached submission for consideration by the NSW Regional Housing Taskforce.

We welcome the opportunity to participate in this review and have the views of our members considered as part of your investigation.

Should you require any further information please do not hesitate to contact our Secretariat, Rachael Sweeney on 0422 067 858 or rsweeney@collectiveposition.com. (*New South Wales Lobby Register No: 18169904232*).

About Regional Cities New South Wales

RCNSW is a newly formed alliance comprised of 15 member councils dedicated to growing regional cities in New South Wales.

Our members are:

- Tamworth Regional Council
- Albury City Council
- Queanbeyan-Palerang Council
- Port Macquarie-Hastings Council
- Coffs Harbour City Council
- Griffith City Council
- Goulburn Mulwaree Council
- Maitland City Council
- Bathurst Regional Council
- Wagga Wagga City Council
- Orange City Council
- Armidale Regional Council
- Dubbo Regional Council
- Lismore City Council, and
- Tweed Shire Council.

Regional cities are fundamental to the success of New South Wales, in light of the bushfires and COVID-19, there has never been a more important time to plan for the future success of our regions.

Yours sincerely,



Cr Tim Overall
Chair, Regional Cities New South Wales
Mayor, Queanbeyan-Palerang Regional Council



REGIONAL CITIES NSW

Regional Cities New South Wales

Regional Housing Taskforce

Submission

Table of Contents

<u>Regional Cities New South Wales</u>	3
<u>Population Growth Policy and Regional Housing</u>	4
<u>Regional Housing</u>	4
<u>Regional Housing - Key Challenges</u>	6
<u>Land Banking</u>	6
<u>Granny Flat Regulations</u>	7
<u>Short Term Rental Accommodation (STRA)</u>	7
<u>Reduced Market Conditions for Investment</u>	8
<u>Crown Land</u>	8
<u>Construction Industry Constraints</u>	9
<u>Council Issues</u>	10
<u>RCNSW Recommendations and Proposal</u>	11
<u>RCNSW Recommendations for Government Action</u>	12
<u>RCNSW Proposal</u>	12
<u>For More Information:</u>	14

Regional Cities New South Wales

Regional Cities New South Wales (RCNSW) welcomes the opportunity to make this submission to the New South Wales Government's Regional Housing Taskforce.

RCNSW is an alliance of 15 regional cities from across the state. The alliance aims to grow regional cities in New South Wales (NSW) through increased investment that will build productive, liveable and connected regions.

Our cities are not only strong regional hubs, providing services and infrastructure to local residents and those in surrounding towns and rural areas; they are increasingly an affordable alternative for people and businesses seeking to escape Sydney's congestion.

However a range of factors, not least being regional migration driven by the COVID-19 pandemic, have transformed the anticipated pace and nature of demographic and economic change in regional cities.

This has had a significant impact on the local accommodation market in our cities, where the mismatch between housing supply and demand has reached crisis point in some locations.

RCNSW therefore supports the establishment of the Regional Housing Taskforce to examine:

- The planning system and other government levers to stimulate housing supply and address housing needs;
- Removing impediments within the planning system to the delivery of affordable housing types and housing generally; and
- Identifying mechanisms within the planning system to facilitate and drive the delivery of housing matched to community needs.

RCNSW believes the factors behind the current regional housing shortage are complex. We recommend the Government consider a range of policy issues and actions, not limited to the planning system, in order to meet the housing challenges facing regional New South Wales. These recommendations are discussed in this submission.

Population Growth Policy and Regional Housing

RCNSW supports the creation of a New South Wales population plan aimed at ensuring there is a greater share of population growth occurring in regional cities.

RCNSW cities want to attract increased population and economic activity and we recommend an aspirational target of 60/40 share of growth (population growth) between the Metropolitan basin (Sydney, Wollongong and Newcastle) and regional NSW.

RCNSW has long advocated for a strategic approach that delivers a sustainable, productive and liveable NSW, where the benefits of growth are shared more equally across the state.

Central to this is RCNSW's position that regional population growth must be underpinned by continued investment in enabling infrastructure and services in order to maintain the local character and amenity that makes our cities growth destinations. This includes utilities, transport, communications and housing infrastructure and health, education and community services.

While RCNSW members envisaged a strategic approach to managing growth, the last two years has transformed expectations about the pace and nature of regional population growth.

As reported in the *Sydney Morning Herald* on 3 August 2021, "Sydneyiders are abandoning the city in favour of cheaper housing and lockdown-free life in the state's regions as the coronavirus pandemic up-ends migration around the country". According to the report, since the start of the pandemic, a net 24,500 people have left Sydney for other parts of NSW.

RCNSW acknowledges this dramatic shift in regional population growth and recognises the challenges of managing it, particularly in term of the immediate impact on regional housing markets.

Regional Housing

Regional cities are currently experiencing surging house and rental prices; supply is not keeping up with demand; there is a shortage of affordable and diverse housing; and the affordability which makes regional cities attractive is being undermined.

Figures from CoreLogic reveal property values in rural and regional areas rose by almost 10 per cent last year, which was five times the growth rate in Sydney. The data also showed 48 per cent of regional NSW reported record median property prices in January 2021.

The Australian Housing and Urban Research Institute, Managing Director, Dr Michael Fotheringham, says the migration to the regions has resulted in housing vacancy rates in regional Australia of below 1 percent in many regions, meaning that the availability of rental housing is at an historic low point and consequently, that rental prices are going up. (*Newcastle Herald*, 16 August 2021)

ABC News North Coast reported that residential vacancy rates are below 1 percent in many areas. For example, the vacancy rate in Coffs Harbour fell from 3.1 percent in March 2020 to just 0.5 percent in February 2021.

Regional housing demand is also being impacted by major infrastructure projects and natural disasters. For example, projects such as Snowy2.0, have created a large transient, regional workforce, which requires accommodation. Similarly, recent bushfires have destroyed thousands of houses in some areas, resulting in demand for not only temporary accommodation for bushfire victims, but also the workforce involved in the recovery and rebuild.

The current New South Wales regional housing shortage is complex and its causes and impact are diverse. It is affecting local residents and businesses, students, seasonal workers and major project workforces, as well as regional migrants.

As the NSW Housing Minister stated in the NSW Housing Strategy, Housing 2041:

I am aware of early evidence that the increased ability to work from home has had a dramatic and unexpected knockon effect to some regional NSW housing markets as people from metropolitan areas swap the city for the many benefits of regional life. This demand has created supply and affordability problems, making it difficult for local residents to find suitably priced housing. I know that in some communities, locals are having to move away from the communities they love as they search for better value.

Two other key problems highlighted by the current housing situation are the increasing lack of affordable housing in regional areas and the lack of diversity in regional housing.

Affordable housing is housing that is appropriate for the needs of a range of very low to moderate income households and priced so that these households are also able to meet other basic living costs. Affordable rental housing may be owned by private developers or investors, local governments, charitable organisations or community housing providers. It is usually managed by not for profit community housing providers, and sometimes by private organisations.

RCNSW members report that the need for affordable housing in some areas has reached a crisis level, as low rental vacancy rates and rising rents drive more people out of the general housing rental market.

The housing diversity problem relates to the changing housing needs of regional residents. While regional housing has generally been more traditional in nature, with standalone family homes the norm, the demand for different types of accommodation is increasing.

For example, regional seasonal workers, major project workforces and students have housing needs that are different from the traditional profile of the family home. Similarly, as regional residents age, they are seeking to downsize from traditional family homes or seeking assisted models of living and care. Regional housing markets are struggling to meet this change in demand.

Regional Housing - Key Challenges

Across Australia, state and national governments have recognised the current and potential population growth in regional areas and plan to encourage this trend.

Australia's Regionalisation Minister, Senator McKenzie sees COVID-19 as driving "once-in-a-century" structural change" and has indicated there are plans to develop a population policy to encourage businesses and families to move to the regions.

These plans will focus on creating private-sector employment and diversifying the economies of regions, rather than the traditional approach of transferring public sector jobs to the regions.

RCNSW supports plans by the Australian and New South Wales Governments to further encourage regional population growth, but reiterates the need for a strategic approach underpinned by investment in supporting infrastructure and services.

Immediate key challenges in regard to the regional housing market are outlined below.

Land Banking

RCNSW members are concerned about the issue of land banking, whereby developers with land approved for residential development, are not moving forward with housing developments on zoned land, despite demand.

This is of particular concern on the New South Wales north coast, where thousands of residential lots may be being kept off the market, contributing to the local housing supply and affordability crisis. According to the Tweed Council, up to 13,000 residential lots were rezoned thirty years ago, and have sat in the hands of developers for decades.

RCNSW recommends the Government consider the introduction of timeframes (potentially five years), or a sunset clause for developers to bring zoned and approved residential subdivisions to the market, to prevent banking of land supplies and assist in the provision of more affordable housing. If the land is not used within the timeframe, it would revert to its original zoning or lose development consent, regardless of "substantial commencement".

Such a system already applies in Western Australia, where, approval, if given, will generally be for a limited time, often two years, to ensure that development is commenced in a timely manner and if not, that any changes to the planning framework in the interim can be considered when a new application is lodged. [Introduction to the Western Australian Planning System \(dplh.wa.gov.au\)](https://dplh.wa.gov.au)

RCNSW believes this type of intervention is necessary in the current environment, where traditional economic levers are failing in the face of unprecedented demand.

RCNSW acknowledges that a balanced approach is required for the introduction of such a development timeframe, recognising the role of councils in the timely provision of utilities and service infrastructure to development sites, as well as the labour, skills and financial pressures on developers.

Granny Flat Regulations

RCNSW recognises that “Granny Flats” offer a diverse and affordable housing option that meets the changing housing needs of many older Australians. A granny flat, or secondary dwelling, is self-contained accommodation within, attached or separate to an individual home.

A council or accredited certifier can certify granny flats as complying development without the need for a development application, provided they meet specific standards.

While appreciating the benefits of granny flats within the broader housing mix, RCNSW has some concerns about their impact. Granny flats increase population density on individually rated properties, which puts pressure on existing infrastructure and leads to increased demand for Council services, without contributing any additional rate revenue to meet those demands.

While this issue is being considered by IPART to adjust rates to population growth, it is something that needs to be considered in the context of housing supply.

Short Term Rental Accommodation (STRA)

As more and more property owners embrace the opportunity for greater returns through short term property rentals on platforms such as Air BnB, this is impacting the availability of traditional longer-term rental accommodation in regional areas.

The impact is particularly severe in some areas. For example, Maitland has seen a 30.7 percent increase in short-term rentals in the period from 5 January 2019 to 5 January 2021. (*Newcastle Herald*, 21 August 2021).

RCNSW members are very concerned that the existing problems of STRA on regional housing will be exacerbated in some regions by the upcoming introduction of the new short-term letting regulations in November. The regulations will allow every house approved as a dwelling to be used as a holiday rental.

While acknowledging that the introduction of these new regulations has already been delayed for three months by the State Government, RCNSW strongly believes that the regulations will result in the further loss of rental stock from the regional housing market. This can only worsen the existing housing shortage, particularly in areas like Tweed Heads, where there is already less than 1 percent availability for rental homes.

Given the current housing supply situation, RCNSW recommends that the new regulations be further deferred while the housing shortage issue is resolved, and the demand backlog managed.

Reduced Market Conditions for Investment

Despite growing housing demand and record low interest rates, RCNSW is aware of investor concerns in regard to investment in residential rental properties.

There have been significant changes to New South Wales's tenancy laws in the last two years. These reforms recognise the increasingly important role of long-term rental in the state's housing market mix and are aimed at clarifying the obligations of landlords and tenants.

However, there are concerns that the changes too heavily favour renters and may be discouraging investment in rental properties and consequently exacerbating existing housing shortages and driving up rents.

There is a view that a better balance is needed between tenant and landlord rights to give confidence for residential investment.

Another issue noted by RCNSW members, is reluctance by property investors to invest in the affordable housing market. Many investors see affordable housing rental properties as too risky, fraught with too many bureaucratic barriers to negotiate and potentially returning a lower yield on investment.

A further factor affecting the regional residential property investment market is the impact of the flammable cladding issue on building insurance premiums.

The detection and management of flammable cladding in high rise buildings in Melbourne and Sydney has led to an increase in insurance premiums nationally, including in regional areas. However, the cladding is not used in regional cities, meaning building insurance costs have been inflated for a risk that does not exist.

Crown Land

RCNSW recognises that access to Crown land and unused or underutilised State-owned buildings is a key part of the regional housing solution, particularly in regard to affordable and social housing.

Anecdotally, everyone "knows" that there are large areas of irregularly utilised Crown Land close to town centres in many regional cities. What is lacking is a database setting out what Crown land exists, its location, its suitability to be used to help resolve residential housing issues and the timeframe in which it might be activated. An audit of Crown Lands should be undertaken as a priority.

As a start, the Crown Land Manager Reserves Portal, [Crown Land Manager Reserves Portal \(arcgis.com\)](https://arcgis.com), could be the foundation for a wider database. While this portal allows data on Crown reserves that are managed or controlled by councils to be viewed, crown lands managed by the state are not included.

Consideration should also be given to repurposing vacant buildings and the interim use of vacant Crown and council lands such as road reserves and rail corridors, for alternate uses such as short term or transitional residential accommodation.

There is also significant indigenous land holding that may be considered for housing development, including a portion set aside for indigenous and affordable housing.

RCNSW recommends that relevant Crown Land be transferred to Councils for housing, or be made available on a long-term lease basis.

To be effective, some issues and barriers must be overcome. Access to Crown land should be fast tracked and matters of native title and compensation should be resolved.

Finally, RCNSW is concerned that Treasury is seeking market value for Crown Land, which makes it less attractive for private investment and Councils seeking to use the land to address the affordable housing shortage.

Collaboration among the three levels of government might provide one solution.

One member Council has suggested a pilot project whereby:

- Local Government: Supply and fund civil works (drains, roads, sewerage);
- State Government: Release Crown land (at zero cost or peppercorn lease/sell arrangement); and
- Federal Government: Provide subsidies to fill the cost gap of building/ furnishing accommodation.

Similarly, works have begun on a collaborative effort by local, state and national governments with the community sector in Griffith. The \$12 million Griffin Green Project is delivering 20 affordable rental dwellings and 42 Build Ready lots for affordable housing.

The Australian Government is contributing \$6 million for the project through the Building Better Regions Fund, the land has been acquired from the NSW Government, and the Griffith Council and Argyle Housing are supplying \$3 million each. Civil works on for the project began in early 2021, and an EOI to build the 20 townhouses closed on 23 July 2021.

Construction Industry Constraints

Another factor which is driving the regional housing issue is the shortage of tradies, skills and materials in the construction industry. This is a nationwide problem.

In an attempt to help stimulate the economy during the pandemic, the Australian Government instituted a Home Builder scheme which has contributed to a housing boom. With Australians foregoing overseas and domestic holidays, many have turned to building or renovating their homes.

As a result, construction industry sources are reporting workforce and material shortages, rising costs, delays in project completion as well as a dearth of workers with the requisite skills.

According to the Master Builders Association, almost four in five builders are reporting “significant delays” in being able to secure concreters, joiners and bricklayers and an increase of up to 10 percent in the cost of materials and specialist trades or labour.

Residential property construction times have doubled across 2021, with a single-storey dwelling (which required six to eight months to build in 2019-20), now requiring between 12 to 16 months. A double-storey home (which had previously taken 10 to 12 months), is now taking 14 to 20 months.

The latest Cordell Housing Index Price (CHIP) results show wide spread demand across the residential construction sector and a shortage of materials such as timber, PVC piping and fittings have contributed to cost increases, with an annual growth rate of 3.9 percent - the largest quarterly change since the third quarter of 2014, with no sign of easing in the short-term.

Regional NSW is not immune from the national trend. *The Riverine Herald* on August 12 reported that, “The nationwide shortage of skilled trades people as well as construction materials is putting pressure on the local building industry with fears the demand will lead to increased delays.”

Council Issues

There are a number of operational issues impacting the ability of regional cities to manage population growth and regional housing supply.

The rate cap and the non-indexation of Council fees and charges have eroded Councils’ capacity to support population growth and new housing, whether by providing timely assessment of Development Applications (DAs), the necessary supporting infrastructure for developments to proceed, or the on-going services and infrastructure expected by new residents.

RCNSW appreciates that quick turnaround of Development Assessment applications will assist the provision of more residential housing. While State Governments have put in place various measures to improve development assessment times by councils, there are barriers which prevent these time reductions from being achieved. These barriers include decades of rate caps which constrain Council capacity to increase the number of Council employees needed to provide assessment services.

RCNSW estimate that for each 1000 increase in population, it requires an additional 7.5 FTE to provide services that range from libraries and childcare, to swimming pools and the completion of

the growing number of DAs. The current rating structure often means that these staff cannot be hired because neither the funding, nor the mechanisms to generate the funding are available.

It should be noted that for more than two decades, the non-indexation to the fees for DAs has meant that, as the cost of assessment has increased over the period, the provision of these services no longer pays for itself but adds to the Council's deficit. Tweed Council estimates that the assessment of 1000 DAs this year will result in a net deficit of nearly \$4 million.

The rate cap and the erosion of the rate base also limits Councils' capacity to provide the necessary infrastructure needed to support residential development or to maintain the infrastructure into the future. It drives Councils to borrow in order to forward fund the supply of civil infrastructure such as electricity, water and waste water to the newly zoned land.

Land banking and the inability for Government to influence the release of that land also means that communities can be paying the costs of loans for civil infrastructure that lays unused. This has led to decisions that have the potential to delay the delivery of needed residential housing, whereby authorities delay the supply of major civil upgrades such as electricity substations, waste water augmentation or water treatments plants, and new water supply.

In addition, Councils are having to consider whether developers will be able to deliver additional housing in a timely fashion in light of the current workforce, skills and materials shortages.

To assist in eliminating the backlog of DAs in regional councils and enable them to respond to the increasing numbers of DAs in a timely fashion, RCNSW recommends that the NSW State Government:

- I. urgently provide staff to local councils free of charge, to help manage the backlog of assessments and support growth of Regional Cities; and
- I. review and revise development application fees to enable full cost recovery by councils so they may engage appropriate skilled resources to assess, notify and check compliance. An indexation mechanism should also be provided to prevent bracket creep.

RCNSW Recommendations and Proposal

Our Commitment to Housing

RCNSW members are already working to manage population growth and address the current housing shortage through measures including:

Aligning local strategies with Housing Strategy 2041

Many Councils have already commenced consideration of the issues and strategies canvassed in Housing Strategy 2041. As rents have risen, properties have disappeared from the long-term rental markets and demand for accommodation for transient workforces completing infrastructure projects and seasonal workers has increased, councils have been looking for ways to provide more affordable and social housing, through their own policies and actions and in partnership with both the State and Federal Governments. These are:

1. Zoning and policies

- Councils are working to remove unnecessary planning policy impediments which create a barrier to lower-cost and more-affordable housing types, such as one and two bedroom strata dwellings or the development of small lot housing and multi-dwelling housing in greenfield areas.
- Councils can use and have been using their zoning and planning powers to provide additional land for housing. The rezoning of commercial zones to residential, the relaxing of density controls in areas, reconsideration of carparking requirements for strata units and the reduction of private open space requirements for ground floor units might facilitate the provision of more housing accommodation.

2. Development Assessments

- One of the areas identified as a factor in the development of more residential housing is the time taken to complete a development assessment. RCNSW members are using the new E-Planning Portal and are contributing feedback to improve the system and help shorten timeframes for the development assessment process.

RCNSW also endorses the NSW Government's recent Build to Rent measure, providing a 50 percent land tax discount for new build to rent housing projects.

Build-to-rent is a purpose-built housing product developed by investors who intend to retain ownership and rent out the dwellings for an extended period. Although build-to-rent housing is only emerging in NSW, an established build-to-rent sector has the potential to create a more stable housing pipeline that is less affected by market cycles.

RCNSW Recommendations for Government Action

RCNSW recommends the following immediate actions:

- 1) Defer introduction of the new STRA Regulations until the current regional housing shortage is managed;
- 2) Consider the introduction of rezoning approval timeframes to stop land banking by developers and stimulate the release of residential zoned land; and

- 3) Audit regional crown land and buildings for suitability for affordable housing projects, with relevant Crown Land be transferred to Councils for housing, or be made available on a long-term lease basis.

3. To assist in eliminating the backlog of DAs in regional councils and enable them to respond to the increasing numbers of DAs in a timely fashion, RCNSW recommends that the NSW State Government:
 - II. urgently provide staff to local councils free of charge, to help manage the backlog of assessments and support growth of Regional Cities; and

 - III. review and revise development application fees to enable full cost recovery by councils so they may engage appropriate skilled resources to assess, notify and check compliance. An indexation mechanism should also be provided to prevent bracket creep.

RCNSW Proposals

RCNSW's proposal sets out a model whereby the three levels of government collaborate to fund the construction of short-term and adaptable affordable housing, concurrently building a sustainable skill base in the regions, in line with the current NSW Housing Strategy.

The Strategy envisages four housing system pillars, and features initiatives to support better housing outcomes through:

- better use of government owned land to develop new housing types, tenures and delivery models;
- strengthening relationships with local government and the community housing sector to trial new innovative housing solutions; and
- locations should be the right level of density to sustain the community of renters and should be accessible to jobs, schools, amenities, and services.

The model involves site identification-planning-design-approvals-construction-certification across three phases:

- Temporary Supportive Accommodation (TSA) - (factory construction of relocatable);
- Build to Rent (BTR) - (construction of subdivision and dwellings); and
- Constructed development/s licenced to community housing provider.

Relationship:

- NSW Government is broker, skills trainer and landholder
- Commonwealth Government is funder (wages, materials)

- Local Government is landholder and skills nursery

Responsibilities:

NSW Government:

- Provides suitable crown lands for construction of short term-affordable accommodation
- Enables planning acceleration (SEPP)
- Funds site/s establishment
- Rescopes micro credential certificates for development and construction skills, convertible to diploma or degree (e.g. engineering). This will provide targeted skills training to meet immediate demand and assist displaced workers, while enabling further progression to a certificate, diploma or degree in the future.
- Provides and funds RTO/TAFE training (insitu) for trainees, apprentices to enable workforce development in priority areas
- Gifts/leases constructed housing to community tenancy schemes (CTS)

Commonwealth Government:

- Funds employment of trainees, apprentices (bonded with group training provider or councils)
- Supplements JobKeeper, JobSeeker with skill \$ allowances for working with local government
- Funds the materials and services for construction of housing, and supplementary JobSeeker works to be managed by councils
- Augments NSW funding through investment via the National Water Initiative to supplement regional water security and quality to support new sites

Local Government:

- Identifies suitable NSW Crown or council lands within or on the periphery of towns, which can be rezoned, and serviced, and facilitated through rapid-run planning proposals, such as PDU, and e-planning;
- Prepares sites / constructs subdivisions for designated TSA and BTR, funded by Government;
- Supports/mentors the onsite training skills with RTO/TAFE
 - Site planning (surveyor, planner, inspector, engineer)
 - Site preparation (engineer, truck/plant operator) Supplement underemployed or displaced workers with skills
- Managers the design, civil works, landscape, biosecurity and catchment management, providing work and skill development to supplement, workers under jobkeeper / job seeker; and

- Engages cadets, trainee operators (2:1 vacant roles), engaged for the purpose of the crown land housing development and potentially administered through Joint Organisation or Group Training provider.

For More Information:

Rachael Sweeney – RCNSW Secretariat

E: rsweeney@collectiveposition.com

P: 0422 067 858