

Submission to the Regional Housing Taskforce

August 2021

Table of contents

Opening.....	3
Background.....	3
LGNSW Comments.....	4
Introduction.....	4
Need for a broader scope and targeted responses.....	5
Planning system improvements.....	7
<i>Short-term rental accommodation.....</i>	<i>7</i>
<i>Housing diversity and land supply</i>	<i>9</i>
<i>Infrastructure provision.....</i>	<i>10</i>
<i>Facilitating plan making and affordable housing.....</i>	<i>10</i>
Summary of Recommendations.....	12

Opening

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

LGNSW welcomes the opportunity to make a submission to the Regional Housing Taskforce. LGNSW consulted with councils to help inform the content of this submission.

This submission was endorsed by the LGNSW Board in October 2021.

LGNSW welcomes the establishment of the Regional Housing Taskforce. Concerns about the increasing number of individuals and households unable to secure housing that is affordable, or any housing at all, have escalated during the COVID-19 pandemic across regional areas and this is having a dire effect on local economies and businesses.

Housing supply has become a critical issue in regional communities, central to individual well-being and essential infrastructure supporting local economies. A regional focus is important and will allow for consideration of the unique factors at play in regional NSW.

A key tenet of this submission is that the scope of the review, with its focus on planning system responses is too narrow. Our firm view remains that increasing supply of housing in itself does not address affordability problems. Housing markets are complex and driven by a wide range of factors. LGNSW is calling for a commitment from the NSW Government to increase supply of affordable and social housing and utilise policy levers outside the planning system to develop more nuanced policy responses which are targeted to specific needs.

To the extent that the planning system facilitates delivery of housing and can contribute to delivery of affordable housing, LGNSW does see opportunities for planning system improvements. Key areas outlined in this submission include:

- Locally-developed responses to short-term rental accommodation
- Supporting policies and incentives for industry to deliver more diverse housing
- Streamlining and facilitating plan making and affordable housing initiatives.

Background

The Regional Housing Taskforce has been established to investigate planning barriers and develop recommendations to address regional housing issues with a focus on:

- 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
- Identifying mechanisms within the planning system to facilitate and drive the delivery of housing matched to community needs.

LGNSW Comments

Introduction

The recently established Centre for Population expects that the impact of COVID-19 will have a magnitude not seen for several generations¹. The impact is expected to be long lasting, with the overall population in Australia estimated to be around 4 per cent smaller (1.1 million fewer people) by 30 June 2031 than it would have been in the absence of COVID-19. This is largely due to closing the international borders and the resulting impact on net overseas migration.

The centre's research on the impact of COVID-19 between cities and regions notes that expert opinions are mixed, but its central scenario is that the level of migration within states will remain broadly stable with net flows shifting away from capital cities in favour of regional areas². In the year to September 2020, data shows that (across Australia) regional areas outside the capital cities had a net gain of 36,200 people, the highest net gain on record, although it noted that this was driven by an increase in the number of people choosing to stay in regional areas rather than a spike in the numbers of people leaving capital cities.

Regional areas make a significant contribution to our state and national economy and are home to around 3.1 million people, 38.3% of the NSW population. The magnitude of housing issues, particularly access to affordable housing for low- and moderate-income households - a concern for some time in many regional areas - has become acute during the COVID-19 pandemic.

A report commissioned by ACOSS-UNSW Poverty and Inequality Partnership³ on the rental housing and homelessness impact of the pandemic found "markedly divergent trends experienced between inner cities and regional areas..." with renters hit much harder than homeowners. New data from *The Domain Rent Report* shows that weekly rents in more than 20 regional markets have jumped by 10 per cent or more in the space of a year, with asking rents in five regions outstripping those in Greater Sydney⁴. Across NSW, in the north, south and west, many have declared a housing crisis⁵.

The impacts of the COVID-19 pandemic have intersected with pre-existing factors. These include impacts from recent natural disasters - drought, bushfires and floods – resulting in a loss of existing housing, a severe existing shortfall of social and affordable housing and pressures arising from the expanded number of properties being used for short-term letting. Compounding the shortages in the private rental market, almost 50,000 people are waiting for

¹ Centre for Population Annual Population Statement 2020

https://population.gov.au/docs/population_statement_2020.pdf

² Migration Between Cities and Regions: A quick guide to COVID-19 impacts.

<https://population.gov.au/docs/the-impacts-of-covid-on-migration-between-cities-and-regions.pdf>

³ COVID-19: Rental Housing and Homelessness Impacts – An Initial Analysis 2021.

https://sheltersnsw.org.au/wp-content/uploads/2021/02/COVID19_Rental-housing-and-homelessness-impacts_report-1.pdf

⁴ <https://www.domain.com.au/news/soaring-rental-prices-creating-housing-crisis-in-regional-nsw-1070834/>

⁵ <https://aboutregional.com.au/housing-crisis-requires-all-tiers-of-government-to-step-up-bega-mayor/>
<https://www.abc.net.au/news/2021-06-28/locals-taking-in-strangers-amid-escalating-housing-crisis/100236724>

social housing, with wait times of up to 10 years in NSW.⁶ Before COVID-19 the shortfall in social and affordable housing in NSW was estimated at over 200,000 dwellings, with around 80,400 of these in regional areas.⁷

Need for a broader scope and targeted responses

Given demographic changes, the very high levels of housing need and increased pressures on housing markets in regional areas, LGNSW is concerned that the terms of reference for this review are too narrowly focussed to address the complexity of housing issues. The planning system and local government are often targeted as the barrier to housing supply, with claims that increasing market supply by relaxing or fast-tracking planning processes will address housing affordability (and other housing and economic) issues. LGNSW has consistently rejected the premise that increased housing supply will in itself deliver housing affordability and that faster development approval processes will increase housing.

There is overwhelming evidence that simply increasing housing supply does not reduce the price of housing or increase the amount of affordable housing. While LGNSW agrees that ensuring an adequate supply of housing is important to meeting housing needs, an over-reliance on this policy response is concerning. Experience shows that increasing supply alone will not address the housing affordability problem.

“Affordability and supply are not the same thing. In big, mature metropolitan areas...affordability has to be produced through active housing market policy. That means directly targeting affordability and access for every group and every mix of housing.”⁸

Michael Storper London School of Economics

Simply releasing more land for housing to put downward pressure on housing markets (and meet the needs of low- and moderate-income households across tenures) has not been a sufficient or effective strategy. High levels of supply have not translated into more affordable housing. Planning approvals have routinely exceeded dwelling construction, and developers regularly reduce the rate at which they supply housing even when they hold surplus approvals.⁹

Housing issues are complex with the supply of land and planning controls just one factor among many drivers. Others include:

- migration settings and recent high population growth (in cities and some regional areas)
- the commodification of housing stock as a financial investment
- historically low interest rates and high credit availability
- tax incentives such as negative gearing and disincentives such as stamp duty
- the rise in number of dwellings used for short-term letting.

⁶ NCOSS, NSW Budget 2021-22 Analysis: Housing and Homelessness, June 2021.
<https://www.ncoss.org.au/nsw-budget-2021-22-analysis-housing-and-homelessness/>

⁷ City Futures Research Centre, Estimating need and costs of social and affordable housing delivery, March 2019. <https://cityfutures.be.unsw.edu.au/research/projects/filling-the-gap/>

⁸ Blanket Upzoning – A Blunt Instrument – Won’t Solve the Affordable Housing Crisis 2019
<https://www.planningreport.com/2019/03/15/blanket-upzoning-blunt-instrument-wont-solve-affordable-housing-crisis>

⁹ The Australian housing supply myth, Cameron Murray
<https://econpapers.repec.org/paper/osfosfxxx/r925z.htm>

Most policy-settings relating to these drivers are outside the realm of local government and rest with State and Commonwealth Governments and arguably have greater impact on housing prices and affordability¹⁰. Further, decisions of landowners, developers and investors also impact on the availability and affordability of housing. Land-use planning, and provision of other services play an important role, as identified in the NSW Housing Strategy, but as the Planning Institute of Australia has noted, the limits of these levers must be acknowledged: “the State Government should ... clearly acknowledge the role of financial investment incentives (especially tax settings) in driving demand with flow on effects to price. The role of planning processes in affecting the rate of flow of new housing starts should be seen in this context.”¹¹

LGNSW commends the NSW Government for establishing this review and for the engagement with stakeholders and local government across regional areas. However, it is the strong view of the sector that its narrow focus will not deliver much-needed targeted responses. Solutions need to go beyond the planning system if we are to develop effective responses to the housing crisis in regional areas. Consideration must also be given to capacity to deliver responses. Capacity to fund additional council staff and skills shortages both within councils, the building and other industry sectors, have been raised as an issue in stakeholder consultations held for this review.

Recommendation 1

The NSW Government should expand the scope of the review to acknowledge and consider the full range of policy levers at Commonwealth, State and local government levels that shape housing markets in regional areas.

Policy responses will require deeper, more nuanced understanding of housing needs and the diverse economic and social contexts that shape them. There is considerable data already available about the depth and dimensions of housing need (such as for young people, key and seasonal workers and people with disability) and incidence of homelessness in regional areas.

Regional communities are also impacted by major infrastructure projects. Large scale projects such as Snowy 2.0, upgrades to the Pacific Motorway on the north coast, and the Inland Rail Project¹², while bringing important economic benefits, are major disrupters of regional housing markets. The influx of workers for the projects creates significant temporary demand for private rental accommodation, pushing up rents and displacing existing residents.

Further efforts are needed to identify policy changes that respond to challenges in different regional settings, and which target specific needs groups. An increase in the supply of social and affordable housing to address ongoing housing market failure is critical. As set out in LGNSW’s Policy Platform¹³, councils have resolved to support minimum targets of 5-10 per cent social and affordable housing across NSW and 25 per cent for government-owned land. Councils have also called for action by the NSW Government towards achieving affordable housing targets.

¹⁰ For example, negative gearing and the First Home Owners Scheme are two key financial incentives that influence housing demand.

¹¹ [PIA Response to the NSW Housing Strategy Discussion Paper](#), July 2020, p 4

¹² <https://www.abc.net.au/news/2021-06-24/nsw-towns-housing-crisis-cowra-parkes-government-infrastructure/100201526>

¹³ LGNSW Policy Platform, Housing and homelessness position statement, April 2021.

https://www.lgnsw.org.au/common/Uploaded%20files/Policy/2021_LGNSW_Policy_Platform.pdf

This year, LGNSW called for the NSW Government to invest at least \$2 billion in providing 5,000 additional units of social housing right across NSW to address the homelessness and housing affordability crisis.¹⁴ A NSW Government commitment to set minimum targets and fund more social housing would stimulate the NSW economy, result in jobs growth and deliver enormous social and economic dividends, while contributing to the Premier's Priority to reduce street homelessness across NSW by 50% by 2025. Unfortunately, the NSW Budget allocated no new funding to boost the supply of social housing, instead continuing the funding under the \$812 million COVID-19 social housing stimulus package announced in the 2020-21 budget, which compares poorly to much larger social housing investments in the Queensland and Victorian state budgets.

Recommendation 2

The NSW Government should develop targeted affordable housing strategies in partnership with local government targeted to the shortfalls of need and circumstances of each region, in line with the broader scope of the NSW Housing Strategy.

Recommendation 3

The NSW Government should invest at least \$2 billion in providing 5,000 additional units of social housing right across NSW to address the homelessness and housing affordability crisis.

Planning system improvements

LGNSW understands that there are opportunities to improve the planning system to ensure there is an adequate supply of housing and to facilitate more diverse forms of housing. Some of the key issues and opportunities are set out below.

Short-Term Rental Accommodation (STRA)

LGNSW highlighted in its STRA submission¹⁵ the need for the State Government to clarify and rationalise its objectives in different state housing policies, so that important affordable housing objectives are prioritised and are not undermined by unintended effects of the STRA policy.

The growth in the amount of housing that is being effectively taken out of the long-term housing market for the purpose of short-term letting is causing significant apprehension in many regional areas. Councils in coastal areas are particularly concerned about impacts on the availability of housing¹⁶.

LGNSW has consistently argued that councils are best placed to manage the impacts of short-term rental in their communities. Councils should be able to determine the locations where

¹⁴ LGNSW, 2021-2022 State Budget Submission – NSW Local Government Priorities, April 2021.
https://www.lgnsw.org.au/common/Uploaded%20files/Submissions/2021/Draft%20Submission_%202021-2022_State_Budget_03-05-2021.pdf

¹⁵ [LGNSW submission on Short Term Rental Accommodation – Regulatory Framework](#), September 2019, p 8

¹⁶ <https://www.abc.net.au/news/2021-08-05/nsw-accommodation-policy-change-short-term-holiday-rent/100348966>

properties can be let as short-term rental and the number of days they are available. Many are concerned the adoption of blanket rules across NSW under the new STRA framework provides insufficient flexibility for State or local government to manage the impacts of STRA and will set back efforts to provide affordable housing in their areas.

LGNSW has consistently maintained that provisions for STRA in the new Housing SEPP must allow councils to tailor the thresholds to suit certain local conditions without blanket caps. The provision that un-hosted bookings of STRA for 21 or more consecutive days would not count towards applicable day thresholds is also seen as problematic and this provision should be removed.

While the numbers and impacts may be more readily quantified once the registration system is established housing market impacts of STRA in general are already clear. Recent analysis of the short-stay rental markets in Sydney and Hobart between February to June 2020 by AHURI suggests that approximately 70 per cent of Hobart properties removed from Airbnb listings during COVID-19 moved into the private rental market.¹⁷ They also found a relatively strong relationship between Airbnb properties moving into the private rental market and decreases in median rents. While this reversal is a welcome, though likely temporary trend in cities, for people in the private rental market, it highlights the significant impact STRA can have on housing markets and the need for far greater research and consideration of the impact of new policy settings.

Local government reiterates our previous calls for the STRA policy to be supported with ongoing research to monitor local impacts on housing affordability. The STRA registration system must be operational from day one of the policy's commencement and it will be critical that data on numbers and impacts are being collected, monitored, analysed and reported on.

It is also critical that consideration of the impacts of STRA is factored when the next round of regional plans and housing supply targets are established. Allowing existing housing stock to be unavailable for long-term private rental or owner-occupied housing for long periods of time will add pressure on demand to supplement supply.

Recommendation 4

The Department of Planning, Industry and Environment should amend STRA provisions in the new Housing SEPP to:

- allow councils to tailor the threshold caps to suit local conditions; and
- remove the exemption relating to bookings of 21 consecutive days or more as this is considered to be a loophole.

Recommendation 5

The NSW Government should commit to ongoing research to measure the long-term impacts of STRA on local housing markets by:

- Ensuring that the STRA register is operational from day one of implementation; and
- Immediately establishing and funding a sustained program to collect, monitor, analyse data and publicly report on impacts, with a review of the framework after 12 months operation.

¹⁷ AHURI - FINAL REPORT NO. 354 Pathways to regional housing recovery from COVID-19
https://www.ahuri.edu.au/data/assets/pdf_file/0023/67145/AHURI-Final-Report-354-Pathways-to-regional-housing-recovery-from-COVID-19.pdf

Housing diversity and land supply

LGNSW also understands that a lack of housing diversity is a significant issue in many regional areas. Many regional areas such as Coffs Harbour, have identified the need for more compact urban areas which will require a shift to denser development and more medium density (and in some areas high density) development.

Rather than a problem with planning controls, some regional councils have noted that their planning controls allow for higher density development and diverse forms of housing but that developers are not willing or do not have the requisite skills or capacity to deliver them.

Feasibility, lower land values and a lack of sophistication by 'mum and dad' investors have also been identified as constraints in some areas. Many councils also report that land is zoned and available but is being held by landowners and not released to the market or is being landbanked by developers to maximise future financial gains.¹⁸

Further, local government and other sectors have observed some state planning policies are 'metro-centric' and do not work effectively in regional areas. In stakeholder consultations held by the Taskforce, Shelter NSW, some developers and councils observed that the Low Rise Housing Diversity Code disincentivised the provision of diverse housing forms it seeks to promote in regional NSW. Many provisions don't respond to the characteristics of main streets and town centres across regional NSW with standards such as building height, maximum gross floor area, setback and landscaping requirements meaning some of the housing models in the Code could not be built in a regional setting.

All these factors place pressure on councils to release more land for low density development which may be inconsistent with strategic planning and growth principles in regional and local plans, puts additional demand on local government to provide infrastructure at the expense of better utilising existing infrastructure investment.

There is opportunity for the NSW Government to support councils by:

- Ensuring that state codes and policies are flexible enough to enable tailoring to different regional contexts
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- Considering incentives or penalties for landowners to develop land that has been rezoned (such as higher rates commensurate with zoning, annual land tax to increase holding costs and/or time-limits on development)
- Engaging with property owners and the development industry to respond to demand for more diverse housing and expand skills base and models in the industry.
- Developing tools to support councils to educate local communities about the need for more diverse forms of housing to encourage both greater uptake and acceptance of these forms of housing.

¹⁸ <https://www.macrobusiness.com.au/2020/06/the-curse-of-landbanking/>

Recommendation 6

The NSW Government should develop a package of initiatives to incentivise and deliver more diverse and dense forms of housing, where councils have planned for them, appropriate to each regional context.

Infrastructure provision

As noted by the NSW Productivity Commissioner, infrastructure contributions made by developers are critical to help deliver the infrastructure needed as communities grow. They are a means of financing public infrastructure that is required as a direct or indirect result of new development and are provided in the form of monetary contributions, the dedication of land and/or the provision of capital works.

This is based on a long-standing and widely accepted impactor/beneficiary pays principle of the existing planning system i.e. new development makes a contribution towards the cost of infrastructure that will meet the additional demand it generates and benefits from. Despite continued development industry claims that infrastructure charges push up the price of housing, the Centre for International Economics, in its evaluation of infrastructure contributions reforms, concluded that, over-time, infrastructure costs are factored into lower land values, rather than higher housing prices.¹⁹

LGNSW has advocated for a review of the infrastructure contributions system for some years with the aim of reducing complexity, improving transparency and equity and releasing the financial burden placed on councils providing local infrastructure to support population growth and/or the changing needs of communities.

However, LGNSW and councils are opposed to the reforms as currently proposed in the Infrastructure Contributions Bill 2021 as they will leave councils financially worse-off and unable to fund critical infrastructure needed to increase housing supply.

LGNSW has called on the NSW Government to withdraw the Bill from the Parliament, and the Parliamentary Committee tasked with inquiring into the Bill has agreed with our views and has recommended in their [report](#) "*That the Environmental Planning and Assessment Amendment (Infrastructure Contributions) Bill 2021 not proceed..*"

Recommendation 7

The NSW Government should withdraw its proposed legislative reforms for infrastructure provision and address the concerns raised by local government.

Facilitating plan making and affordable housing initiatives

Councils are often unfairly criticised for "holding up" development. The planning process has been established to enable complex issues to be considered when making planning decisions and to provide for community input.

¹⁹ The Centre for International Economics, (2020) Evaluation of infrastructure contributions reform in New South Wales - Final Report, prepared for the NSW Productivity Commission.

There are however many circumstances where state processes or requirements hinder development. The timely development and release of land, including in rural and regional areas, can be affected by delays in the LEP process. This can often be a result of conflicting and changing policy advice during the plan-making process and requests for additional studies and evidence which have cost impacts for councils. Many councils have called for a more efficient process.

Councils also cite delays associated with concurrence and referrals of rezoning and development applications to state agencies. LGNSW acknowledges that the Department of Planning Industry and Environment is working closely with other state agencies and councils to address issues in the plan-making process, and this should continue.

Many councils are committed to helping address affordable housing issues where they can but note difficulties in gaining Department of Planning Industry and Environment approval. While SEPP 70 (to be incorporated in the Housing SEPP) was expanded to allow all councils to develop affordable housing contributions schemes, councils report that the guidelines and requirements are onerous and should be streamlined. The extent to which these provisions can be applied in regional areas should also be considered. Other models or planning incentives may be more applicable in lower value housing markets.

A further area identified is the need to facilitate innovative responses to housing need. For example, Shoalhaven Council has been through a protracted approach to develop an affordable housing project in partnership with a community housing provider due to provisions in the *Local Government Act 1993* relating to Public Private Partnerships. While having the right checks and balances is important, prompt consideration of regulatory (and other) barriers raised by councils and implementation of solutions to address these barriers is needed to support them to implement innovative solutions to housing issues.

Recommendation 8

The NSW Government should prioritise streamlining the framework for developing affordable housing contributions schemes in consultation with local government and consider whether these are applicable in regional areas.

Recommendation 9

The NSW Government should review and reduce regulatory barriers to council use of land and partnerships for the provision of affordable housing.

Summary of Recommendations

In summary, LGNSW makes the following recommendations:

Recommendation 1

The NSW Government should expand the scope of the review to acknowledge and consider the full range of policy levers at Commonwealth, State and local government levels that shape housing markets in regional areas.

Recommendation 2

The NSW Government should develop targeted affordable housing strategies in partnership with local government targeted to the shortfalls of need and circumstances of each region, in line with the broader scope of the NSW Housing Strategy.

Recommendation 3

The NSW Government should invest at least \$2 billion in providing 5,000 additional units of social housing right across NSW to address the homelessness and housing affordability crisis.

Recommendation 4

The Department of Planning, Industry and Environment should amend STRA provisions in the new Housing SEPP to:

- allow councils to tailor the threshold caps to suit local conditions; and
- remove the exemption relating to bookings of 21 consecutive days or more as this is considered to be a loophole.

Recommendation 5

The NSW Government should commit to ongoing research to measure the long-term impacts of STRA on local housing markets by:

- Ensuring that the STRA register is operational from day one of implementation; and
- Immediately establishing and funding a sustained program to collect, monitor, analyse data and publicly report on impacts, with a review of the framework after 12 months operation.

Recommendation 6

The NSW Government should develop a package of initiatives to incentivise and deliver more diverse and dense forms of housing, where councils have planned for them, appropriate to each regional context.

Recommendation 7

The NSW Government should withdraw its proposed legislative reforms for infrastructure provision and address the concerns raised by local government.

Recommendation 8

The NSW Government should prioritise streamlining the framework for developing affordable housing contributions schemes in consultation with local government and consider whether these are applicable in regional areas.

Recommendation 9

The NSW Government should review and reduce regulatory barriers to council use of land and partnerships for the provision of affordable housing.

LGNSW would welcome the opportunity to assist with further information during this review to ensure the views of local government are considered.

To discuss this submission further, please contact LGNSW Strategy Manager, Planning at jane.partridge@lgnsw.org.au or on 02 9242 4093.

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