

Lake Macquarie City Council Draft Housing Strategy

UDIA Response

February 2020

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ABOUT THE UDIA

Established in 1963, the Urban Development Institute of Australia is the leading industry group representing the property development sector. Our 550 member companies in NSW include developers, engineers, consultants, local government including Lake Macquarie City Council, and utilities. Our advocacy is focussed on developing liveable, connected, and affordable cities.

INTRODUCTION

The Urban Development Institute of Australia – NSW Division (UDIA) welcomes the opportunity to provide a submission into the exhibition of the Draft Lake Macquarie City Housing Strategy (draft Strategy).

UDIA congratulates Lake Macquarie City Council (Council) on the release on its draft Housing Strategy and commends Council for commissioning and utilising substantial background studies to inform its findings, objectives and actions. UDIA believes that strategies and plans should always be based on strong evidence, and Council has clearly endeavoured to understand the local government area's (LGA) housing supply, demand and preference circumstances. We are particularly supportive of Council's intention to enhance and utilise its local urban development program (UDP) as it considers choices for policy changes impacting housing delivery.

While UDIA generally supports the Objectives and Actions of the draft Strategy, we appreciate this opportunity to offer our recommendations for improvement and clarification. This submission highlights the key issues that we have identified on behalf of our members which include a range of major developers operating within Lake Macquarie.

UDIA makes the following recommendations to Council with regard to its draft Housing Strategy:

- 1. Deliver a local Urban Development Program that is updated at least annually and publicly available to deliver and monitor growth of housing and employment land, with clear accountabilities, working in partnership with industry.**
- 2. Be cautious not to undermine delivery of appropriate supply of detached low density housing while encouraging infill.**
- 3. The Housing Strategy and LSPS should be reviewed on the same timeframe to ensure clear and consistent objectives.**
- 4. Council should balance social, economic and ecology factors in applying biodiversity conservation policies, to ensure housing supply is not undermined by elevated biodiversity requirements.**
- 5. Review Council's local infrastructure contributions plans in consultation with the development industry to ensure the appropriate balance is achieved to support coordination of infrastructure delivery and housing supply.**
- 6. In R3 zones, reduce minimum lot sizes and allow Torrens title, small-lot subdivision.**
- 7. Support a merit-based approach to planning proposals and set out a clear approach for additional sites to be rezoned.**
- 8. Continue to engage closely with industry to create flexible planning controls that enable vibrant mixed-use precincts that reflect future opportunities and emerging housing types, and utilise existing open space within future development opportunities.**
- 9. Adopt an incentive-based approach for Affordable Housing in collaboration with industry.**

GENERAL COMMENTS

Lake Macquarie City is a beautiful and vibrant place to live and work, and the development industry welcomes the chance to work with Council to support the delivery of housing in the LGA that meets the needs of its growing population.

The Lake Macquarie LGA is critical to achieving the objectives of the Hunter Regional Plan 2036 (HRP) and the Greater Newcastle Metropolitan Plan 2036 (Metro Plan), and UDIA shares Council's enthusiasm for the City's potential.

UDIA commends Council's efforts to facilitate growth and investment resulting in high quality development and local amenity, and the stated intention to engage with industry in those endeavours.

Housing Growth and Infrastructure

UDIA strongly supports Council's efforts to coordinate housing supply and infrastructure. We support clear nexus between housing growth and infrastructure. We recognise that new infrastructure provision requires coordination between local government, state government, and other infrastructure providers.

UDIA encourages Council to advocate as appropriate to NSW Government planning authorities and agencies for necessary infrastructure funding to support delivery of its housing priorities.

UDIA strongly supports the Hunter Urban Development Program (UDP) as a key tool in the coordinated regional delivery of land for housing and employment. UDIA has long advocated for a robust UDP at both local and regional level, and is a keen contributor to the Hunter UDP Committee along with Lake Macquarie City Council, the other Greater Newcastle councils, DPIE, HCCDC, state agencies and utilities.

UDIA is encouraged that Council has undertaken work to re-establish its local UDP, and we strongly endorse the draft Strategy's commitment to publishing annual UDP data. We welcome opportunities to assist Council in developing a reliable and continually-updated local UDP.

UDIA supports more frequent reporting (i.e., monthly or quarterly) and underscores that the UDP data should be publicly available and easy to access.

The Lake Macquarie local UDP should:

- Coordinate and monitor detailed housing and employment land supply and targets in urban renewal areas, infill and new communities in land release areas;
- Coordinate and prioritise the delivery of the necessary supporting infrastructure;
- Signal early identification of blockages;
- Integrate social and affordable housing targets and ensure their programming;
- Involve a transparent annual program including robust industry liaison/engagement enabling monitoring and input back into policy development and housing and employment land supply programs; and

- Work with and show consistency with the Hunter UDP.

The UDP has an important role to play in the prioritisation and coordination of infrastructure funding and delivery. It will identify infrastructure requirements and ensure delivery is funded. It can also troubleshoot infrastructure bottlenecks, which would support the orderly delivery of housing supply.

UDIA strongly believes that a robust UDP requires close development sector liaison in order to validate and update annual housing and employment land supply timings and yields and accordingly there is a clear facilitation role which UDIA would be pleased to perform to assist this process.

Recommendation: Support an Urban Development Program that is updated at least annually and publicly available to deliver and monitor growth of housing and employment land, with clear accountabilities, working in partnership with industry.

Prioritising Infill

UDIA commends Council for undertaking a housing preference survey to inform its assumptions and priorities for the draft Housing Strategy.

We recognise the current mismatch in housing-type preference and supply, with a current oversupply of detached low density housing (90% supply, compared to 73% preference). The logical policy solution identified by Council is to prioritise future infill and higher density housing. We agree with supporting higher density, but do caution Council against tipping the balance too far. Lake Macquarie City plays an important role in the Greater Newcastle Metropolitan Area as a desirable location for homes that include private open space. Demand for new stock of detached dwellings continues to be strong and steady, and the City should not turn its back on this important typology which is highly valued in the regional market.

Recommendation: Be cautious not to undermine delivery of appropriate supply of detached low density housing in new greenfield communities while encouraging infill.

Monitoring and Review

UDIA supports Council's intention to monitor delivery of its Housing Strategy on an annual basis, supported by updates to its local UDP. We appreciate the commitment to review the Strategy on a 5-yearly basis. However, we believe that the Housing Strategy and the Local Strategic Planning Statement (LSPS) should be aligned. As the LSPS will be reviewed every four years, we believe the Housing Strategy should also be reviewed on the same schedule. In our submission to the draft LSPS, we recommended that the two should be delivered together, and the LSPS should contain dwelling targets. Thus, the final LSPS should reflect the final Housing Strategy including its housing targets

through 2036, and the two planning documents should be reviewed and updated together in order to maintain clarity and avoid potential conflicting messages for residents and industry.

Recommendation: The Housing Strategy and LSPS should be reviewed on the same timeframe to ensure clear and consistent objectives.

Biodiversity

While not explicitly addressed in the draft Housing Strategy, UDIA feels compelled to raise issues around biodiversity conservation in the LGA as they relate to housing supply. It is critical that Council ensures the right balance in its approach to conservation.

UDIA recognises that Lake Macquarie's natural assets are a defining feature and we share Council's goal to protect its valued natural environment. We agree that ecology and biodiversity protection are important; however, social and economic factors are equally important considerations under the principle of ecologically sustainable development (ESD).

The implementation of the Biodiversity Conservation Act (BCA) has increased costs of development and added confusion and complexity to the development assessment process. UDIA urges Council to proceed with caution as it considers how best to balance its goals for economic growth, housing supply and biodiversity conservation.

Biodiversity conservation is an area that must be carefully considered within the existing and evolving complex layers of legislation and regulation. The Federal Environment Protection and Biodiversity Conservation (EPBC) Act is currently under its 10 year review, and changes are likely; credit pricing under the NSW Biodiversity Conservation Act has not yet stabilised; and the NSW Government is actively working on strategic conservation planning (bio-certification) for the Hunter including Lake Macquarie urban release areas which will have far-reaching impacts, including on available local credits.

UDIA recommends the following approach on biodiversity within the Lake Macquarie LGA:

1. The local biodiversity offset policy should be deferred until the EPBC Act is reviewed in order to avoid contradiction and confusion.
2. Any local biodiversity offset policy scheme should take into account conservation measures applied during the rezoning process and should be limited to development requiring offset under the Biodiversity Conservation Act 2016.
3. The LGA should not be utilised as an impact boundary; instead, Council should utilise the Interim Biogeographic Regionalisation for Australia (IBRA) Subregion, and offset requirements should be equally applied notwithstanding their geographic source.
4. Council should provide indicative mapping to help inform investment decisions, but as ecology maps often prove to be unreliable, maps should not be used to exclude specific sites from development.

The LSPS calls for the development of a local biodiversity offset scheme. UDIA believes that any local scheme should:

1. take into account conservation measures applied during the rezoning process; and
2. be limited to development requiring offset under the Biodiversity Conservation Act 2016.

The LSPS mentions “encouraging biodiversity offsets locally and within the City.” UDIA believes that the LGA should not be utilised as an impact boundary; instead, the Interim Biogeographic Regionalisation for Australia (IBRA) Subregion should be utilised, which represents the functional ecological region. Using the LGA would be an artificial boundary which could distort the desired outcomes of the Regional Plan. UDIA also believes that offset requirements should be equally applied notwithstanding the geographic source.

UDIA believes that the state-wide offset market should ultimately reflect appropriate values. Because of the currently immature offset credit market, the reality in many cases is that offsets are not available on the open market, let alone within the LGA. Local market manipulations such as increased offset ratio requirements by one council would be contrary to the state-wide goals of the Biodiversity Conservation Act.

Introducing the LGA boundary as an impact boundary would be arbitrary, impractical and unnecessary, and would increase costs on housing and employment land. UDIA strongly opposes such an approach.

UDIA notes that Lake Macquarie City’s Draft Environmental Sustainability Strategy is currently on exhibition, and we look forward to engaging with Council on that draft Strategy.

Recommendation: Council should balance social, economic and ecology factors in applying biodiversity conservation policies, to ensure housing supply is not undermined by elevated biodiversity requirements.

PRIORITY 1: FACILITATING HOUSING SUPPLY & INFRASTRUCTURE CO-ORDINATION

UDIA agrees on the importance of coordinating infrastructure delivery with new housing to facilitate supply. Such coordination is critical to ensure not only that new housing supply can be met, but also that the new housing is affordable and has access to appropriate services.

UDIA generally supports the Objectives and Actions of this Priority, with the following comments:

Importance of Local and Regional UDPs

As stated above, UDIA strongly supports the robust development of both a local (Lake Macquarie City) and regional (Greater Newcastle) UDP and commends Council for its intention to rely upon updated UDP data to inform future policy decisions. The UDPs should be designed to reveal any infrastructure constraints to meeting housing supply, so that Council, NSW Government and infrastructure agencies can respond with appropriate resources to support housing delivery.

Density of 15 Dwellings/ha

UDIA members question how realistic this target is in the LGA given current planning controls, and we submit that unnecessary barriers for infill development should be removed from the LEP and DCP.

We note that R3 Medium Density Residential zones (which are predominantly in areas highlighted for infill intensification) should provide for a variety of housing types, community needs and growth close to strategic economic centres and public transport. UDIA supports the review of minimum lot sizes to promote greater flexibility of residential uses and facilitation of infill development.

We encourage Council to consider the following changes:

- Reduce the minimum subdivision lot size for R3 zones to align with minimum lot sizes for strata plan and community title scheme. This would promote densification in these high-demand priority infill areas as small-lot subdivisions would be available to homeowners and small developers, providing a housing type that is currently rarely available.
- Allow Torrens title, small-lot property close to existing infrastructure to allow lot purchasers to build their own townhouse, terrace or villa. Although these zones do currently allow multi dwelling housing, this is currently only feasible for small- to medium-size infill areas by way of strata plan or community title scheme, which presents a barrier to homeowners and small developers. Allowing a Torrens title option would promote further diversity.

***Recommendations:** In R3 zones, reduce minimum lot sizes and allow Torrens title, small-lot subdivision.*

Contributions Plans

The draft Strategy recommends these Actions:

- “Review DCP to ensure commensurate contributions are charged for greenfield development” and
- “Ensure Council can provide the community infrastructure support needed for planned growth.”

UDIA agrees that it is critical to strike the right balance for infrastructure delivery, including within the local infrastructure contributions planning regime. UDIA supports proactive, regular and transparent review of local infrastructure contributions regimes. This helps keep the contributions regime up to date and focused on the infrastructure that is required by the development that is likely to take place in the local government area. We therefore encourage Council to holistically review its infrastructure contributions regime with an eye to ensuring housing supply targets are met across all typologies and supported by the correct level of infrastructure as determined through transparent and evidence-based analyses.

The development industry is not opposed to paying its fair share of infrastructure costs. However, any contributions must be justified through evidence that the infrastructure is both necessary and has nexus to the new development. The cumulative impact of new taxes, charges and levies can result in development becoming unfeasible and not going ahead.

The levying of local infrastructure contributions on development typically results in one of the following possible outcomes:

1. Developers pass on the increased costs to maintain margins, which increases the price of a new home, or
2. Where costs are unable to be passed on, new homes cannot be built as the margin is eroded to the point that it is uneconomic to develop, meaning housing supply is not delivered as forecast. This would place upward pressure on prices.

Under either of the above scenarios, contributions undermine Council's efforts to address housing affordability, and instead lead to higher home prices.

UDIA is encouraged that Council has committed to review its development contributions plans and to consider barriers to investment within the LGA. However, industry and the community continue to be frustrated by the slow release of funds and ineffective delivery of infrastructure identified in the plans. As we have discussed in our ongoing engagement with Council, Lake Macquarie's S 7.11 contributions plans can be a constraint on development in the LGA compared to its neighbours.

UDIA maintains that there is a key need to reform infrastructure contributions under the principles of a beneficiary pays model. Such reform would enable greater investment to the benefit of residents without inhibiting development. We would be pleased to work with Council as it reviews its contributions plans.

Recommendation: Review Council's local infrastructure contributions plans in consultation with the development industry to ensure the appropriate balance is achieved to support coordination of infrastructure delivery and housing supply.

Planning Proposals

While UDIA generally agrees that planning proposals should be consistent with the Housing Strategy and the Greater Newcastle Metropolitan Plan, we nonetheless urge Council to consider all planning proposals based on merit.

As we noted in our submission to the draft LSPS, there are currently broad economic pressures that may result in housing supply targets not being met, particularly as pre-sales have been a challenge over the past twelve to eighteen months, with growing uncertainty in the marketplace. UDIA believes that there may need to be some encouragement/stimulus of supply, as the market slows relative to the previous decade.

Across NSW, dwelling approvals have been declining over the last 5 quarters led by declining approvals in the multi-unit/apartment sector. Given the mixed-picture for forward-market performance, UDIA recommends caution in relation to assuming forward supply will continue to be delivered at the same high-watermark level experienced over the last few years, and encourages a supportive approach to housing delivery.

UDIA encourages the development of principles to guide site specific proposals. We believe a contextual assessment of a proposal that also considers the economic context and ability to meet targets is required as part of the assessment of site-specific proposals.

We encourage Council to maintain flexibility and re-state that UDIA supports a merit-based approach to planning proposals. We endorse Council's stated strategic direction in its LSPS, calling on decisions to keep future options open and to allow for future opportunities.

***Recommendation:** UDIA supports a merit-based approach to planning proposals and recommends Council sets out a clear approach for additional sites to be rezoned.*

PRIORITY 2: INCREASING DIVERSITY & CHOICE IN HOUSING

UDIA commends Council for undertaking a housing preference survey to inform its assumptions and priorities for the draft Housing Strategy.

UDIA has long advocated for better planning controls to enable the so-called “missing middle” housing typologies. The City has identified a need for this type of low-rise medium-density housing stock. UDIA worked with the Department of Planning (DPIE) in the development of its Medium Density Housing Code, and we continue to engage with DPIE in this space. We would be pleased to work with Council as it develops additional incentives for medium density development.

UDIA generally supports the Objectives and Actions of this Priority. Underscoring our recommendation from above, to consider changes to the planning controls to allow smaller lots under Torrens Title, we offer the following additional comments:

Support New and Emerging Housing Types

UDIA supports the priority for increasing housing diversity into the future. We recognise that there is a strong focus on supporting a range of housing types.

We particularly encourage Council to consider the changing nature of living, especially the shift toward higher density and long-term renting. There should be greater flexibility in the planning controls to enable build-to-rent, co-living and other alternative housing models to emerge, with the flexibility to provide quality liveability outcomes that are separate to that in an ADG compliant build-to-sell apartment. These emerging typologies could make significant contributions to Council's efforts to provide affordable rental stock, and UDIA stands ready to assist Council in supporting such innovations.

Recommendation: Council provide flexibility in planning controls to encourage housing diversity and enable emergence of new and emerging housing types.

Timing of Greenfield vs Infill

An Action states: "Ensure the review of the UDP includes consideration of the timing of greenfield estates compared to infill development, with the aim of supporting a variety of housing types and urban environments, and ensuring the release of greenfield land does not compromise infill development."

While we don't disagree, we reiterate our caution against prioritising infill too dramatically versus greenfield. We urge Council to continue to support the importance of the greenfield sector in the LGA.

PRIORITY 3: FACILITATING INFILL OPPORTUNITIES FOR HOUSING NEAR JOBS AND SERVICES

UDIA generally supports the Objectives and Actions of this Priority with the following specific comments:

- We underscore our comments above related to:
 - Strong support for the UDP
 - Support for flexibility of residential uses in R2 and R3 zones
 - Support for review of small lot housing controls to promote greater uptake
 - Support for review of Development Contributions Plans

We look forward to working with Council toward these objectives.

PRIORITY 4: INCREASING AFFORDABLE RENTAL HOUSING AND HOME OWNERSHIP

As recognised in the draft Strategy, Lake Macquarie City has a distinct gap in the availability and supply of suitable social and affordable housing. UDIA supports efforts to address barriers to affordable rental housing and home ownership, and we commend Council for its attention to this important housing sector.

UDIA acknowledges Priority 4 which aims to incentivise affordable rental housing delivery and provide for permanent affordable housing. Fundamentally, the delivery of social and affordable housing cannot be subsidised by market housing, without severe consequences.

UDIA supports the policy direction to support emerging housing types, noting that build-to-rent, new-age boarding houses, co-housing, communal student housing and dual-key apartments in appropriate locations can address affordable housing needs.

Use an incentive-based approach to deliver affordable housing

Council could also consider the following in order to increase the supply of social and affordable housing when working with a Community Housing Provider (CHP):

- Suspend statutory contributions on development applications specific to or operated by CHP, which would relieve development cost pressures, while not reallocating this charge to market housing.
- Redistribute Council Rates to a ‘Development Trust’ to fund additional community housing stock on existing CHP-owned assets.
- Development of LMCC-owned land with joint venture between CHP or other party and managed by CHP
- Support diverse housing types such as new-age boarding houses, co-housing and dual-key apartments in appropriate locations.

We are concerned about the proposal for to apply SEPP70 prior to any rezoning. UDIA recommends that any affordable housing contribution is provided as an incentive not a penalty, so as not to negatively impact the viability of the development in the area. An affordable housing policy which makes housing affordability harder to obtain is a sad irony which must be avoided if we are to provide housing for the next generation.

UDIA established a Taskforce of 20 industry leaders in 2018 (including developers, CHPs, legal, and planning experts) to investigate social and affordable housing challenges and innovative solutions.

UDIA understands SEPP70 is the mechanism to implement affordable housing targets; however, the penalty imposed by inclusionary zoning has been empirically shown to increase house prices:

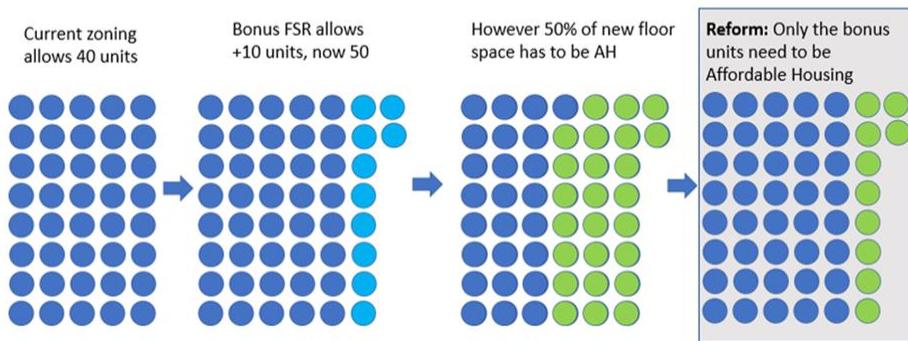
The analysis found that inclusionary zoning policies had measurable effects on housing markets in jurisdictions that adopt them; specifically, the price of single-family houses increase and the size of single-family houses decrease.

Bento et al (2009), ‘Housing Market Effects of Inclusionary Zoning’ *Cityscape: A Journal of Policy and Research* 11(2), US Department of Housing and Urban Development.

Bento et al. (2009) found that where inclusionary zoning was adopted, housing prices increased approximately 2 to 3 percent faster than in cities that did not adopt such policies.

We note there is strong reliance on the Affordable Rental Housing SEPP. Unfortunately, while the Affordable Rental Housing SEPP attempts to provide affordable housing, it does not act as a genuine incentive. The SEPP provides a 0.5 FSR bonus if 50% of dwellings are affordable. The SEPP provides a 'stick' bigger than the 'carrot', resulting in a net reduction of market housing on the site, when utilising the ARHSEPP.

Example: FSR Bonus – how it works



UDIA modelling suggests that the current approach results in the internal rate of return (IRR) being reduced by about 5% through the incentives provided by the SEPP. If only the bonus was affordable housing, then the IRR would be reduced by 1.5%, which would still mean projects remain unviable. However, if half the bonus was affordable then the IRR would be equivalent, and the market housing would not subsidise affordable housing. UDIA believes a different approach might need to be applied for housing to that contemplated in the ARHSEPP. We note this approach only works with apartment development; there is yet to be an example of inclusionary zoning successfully applied to greenfield growth areas, because any incentive takes away from the very limited land that is available.

UDIA would welcome the opportunity to engage with Council on its policies and rules in this area.

Recommendation: Council should adopt an incentive-based approach for Affordable Housing in collaboration with industry.

PRIORITY 5: FACILITATE & GUIDE HOUSING DESIGN AND INNOVATION

UDIA commends Council's initiative in commissioning a housing study to investigate using a place-based and design led approach to identifying infill opportunities beyond those limited by current planning requirements. Consistent with our comments in the above sections, we congratulate Lake Macquarie City for its leadership in support of innovation in housing types and delivery.

UDIA welcomes the opportunity to work with Council as it progresses these objectives. We look forward to assisting Council toward positive outcomes in this space.

CONCLUSION

UDIA applauds Council on its aspirational vision for the future of Lake Macquarie City and we look forward to working collaboratively with Lake Macquarie City Council to finalise its Housing Strategy, implement appropriate LEP and DCP controls, and keep its UDP current and relevant. Please contact Elizabeth York, Hunter Regional Manager at eyork@udiansw.com.au or 0434 914 901 to arrange additional consultation.

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