

11 April 2014

Mr Con Tsotsoros  
Chair  
Residential Zones Standing Advisory Committee  
Departments of Transport, Planning and Local Infrastructure  
1 Spring Street  
Melbourne VIC 3000

*Lodged via Electronic Submission*

Dear Mr Tsotsoros

Re: Submission to Residential Zones Standing Advisory Committee

We are a collective group of industry professionals who wish to make a submission regarding the implementation of the new Residential Zones. We are concerned not only with the application of the zones but also the implications for the provision of housing that will meet the needs of Victorians generally. Our concerns are summarised as follows.

#### **EFFECT ON HOUSING DIVERSITY AND AFFORDABILITY**

Melbourne is experiencing extraordinary population growth and this is forecast to continue into the future. The latest ABS forecasts put Melbourne at nearly 6 million persons by 2031 (based on medium assumptions) and this will require new dwellings at a rate of nearly 40,000 each year. Over the past decade, Melbourne has averaged around 35,000 dwelling approvals per year, although this jumped to over 38,000 last year given the cyclical high level of apartment construction. Over the 2004 – 2010 period, evidence of new housing supply from the Housing Development Data series, indicates that 44% of net dwelling additions in established areas of Melbourne was contained within projects of 10 or less dwellings (and the great majority within projects of 5 or less than 5 dwellings). In comparison, apartment projects were estimated to account for only 30% of net dwelling additions.

The likely slowing of apartment delivery from current peak levels combined with the reduction in new housing supply opportunities (due to the inappropriate application of new zones) as well as increasing greenfield production costs is expected to create an ongoing structural shortage of new housing to meet the growing demand from higher projected population growth across Melbourne.

#### **What are the implications of a shortfall in dwelling production?**

The community need for medium density housing is well researched. It is needed to provide more affordable housing in well serviced and accessible areas - and to meet the housing needs of downsizers, family members (old and young) and renters.

Preference surveys carried out by the Grattan Institute show that 26% of people would prefer medium density housing where the actual stock is only 12 %. This is a significant mismatch between supply and demand, which can only get worse as the population ages. Medium density's share of new stock is running at 14%, which has been heading in the right direction, but only a small drop in production will see this trend reversed.

Apartments have their own demand but this form of housing is not a viable substitute for many of those who seek medium density housing. Investors are the primary purchasers of apartments rather than owner-occupiers, hence supply is not currently being driven by demographic fundamentals.

If supply opportunities in large parts of established suburbs are reduced, the only meaningful opportunities for new medium density housing supply for those who eschew such accommodation will be at the urban fringe. But such locations don't suit the lifestyle of many people. The restricted supply of medium density housing in accessible areas will force prices of existing stock to rise as new demand will have fewer choices.

There is a real danger that opportunities for providing affordable housing, special purpose housing and older persons units, including community housing, will be severely curtailed. Housing diversity creates an ability for communities to stay together. Without a diversification of stock it is clearly not possible for this to occur.

## **BROADER ECONOMIC IMPLICATIONS**

The extent to which the new zones will restrict the supply of medium density housing can only be estimated in the hypothetical. It is not known what the final outcome for the zones will be. However, the direction of change is known - it can be said with certainty that production will be severely curtailed. The new residential zones will dramatically constrain the supply of medium density housing.

Various estimates of the potential impact of the zones have been undertaken including by Urbis, Charter Keck Cramer, Spatial Economics, SGS Economics and Planning and Essential Economics. All agree that the impact will be substantial if the NRZ is inappropriately applied to significant areas and the Growth zone is under-provided .

Many studies have confirmed that medium density housing projects of less than 5 dwellings are a marginal proposition financially. Most developers are small operators, often family units, who are registered to build non-vertically separated dwellings. They cannot switch their production capacity to apartments.

Medium density developers must compete for sites with owner occupiers who benefit from non-taxation of capital gains, no land tax and non-taxation of imputed rent. The fact that the supply of medium density housing lags behind demand confirms that the balance between developers and owner occupiers is in favour of the latter. It may be concluded that any measure that reduces development yields will tip the balance further.

A conservative estimate of the impact of the new zones is that there will be at least 2000 - 4,000 fewer medium density dwellings constructed annually across Melbourne. Importantly, the unfulfilled latent demand resulting from reduced supply will not be fully transferred to alternative housing forms or other locations. Whilst some of the unfulfilled demand may divert to new housing in greenfield locations or into apartments, a high proportion would be expected to remain unsatisfied and may limit the expression of new household formation and cause households to remain in situ.

Where will people go? The shortage of new medium density dwellings will see downsizers staying put and inefficiently consuming large houses and young people staying at home longer. There will be fewer sites freed up in higher price suburbs to facilitate redevelopment into less expensive medium density housing. Renters will also stay longer in larger shared households. Across the board average household sizes will increase. The shortage of housing and lack of affordability will put downward pressure on migration to Melbourne – with obvious implications for the economy.

The annual reduction of net housing production by say 2,000 dwellings represents \$400 billion of lost investment, which equates to 14,800 jobs (direct and indirect) lost in the economy (2,000 dwellings X \$200,000 X 37 jobs per \$1,000,000 of construction). The resultant supply shortage will further inflate the already unaffordable housing prices in established areas. The State will lose significant revenue from property taxes and duties.

The State Government and community will incur major costs associated with urban sprawl. At \$100,000 per dwelling for 1,000 dwellings for new infrastructure, this is a hit on the budget of \$100 million per year. Alternatively the infrastructure will be under-provided creating additional social costs for those at the fringe.

The impact of zoning changes, as suggested by many Councils, will not be a change that occurs gradually. If the new zones are adopted in a form that stifles investment in medium density housing there will be a sudden turning off of the land supply tap - creating a shock to Victoria's economy. There will be an immediate contraction in investment and employment at a time when the state economy is under pressure from many directions. With the tailing off of the mining boom, construction is the sector that can pick up some of the slack. Now is not the time to be suppressing construction activity.

The impact on land values will be uneven. For example, extension of the NRZ in higher value inner areas, which already disproportionately enjoy the benefits of significant past infrastructure investment by the State, will support higher values of the existing housing stock and make incumbent residents wealthier. In lower value areas, where the stock is more likely to be obsolete and in need of redevelopment, it will depress land values making incumbent residents less wealthy.

The current rollout of the new residential zones will throw the medium density baby out with the bathwater. Medium density housing is a very positive force in our society as it demonstrably caters for real and pressing housing needs and it provides more affordable housing opportunities. It provides a vehicle for a plethora of small to medium sized builder/developers to mobilise risk capital to produce a socially beneficial outcome, and it affords households an opportunity to realise the wealth they have tied up in their hard won homes to secure suitable accommodation that will take them through their retirement.

Research undertaken over the past few years has identified the importance of 'effective job density' – the number of jobs accessible to a given area. A nexus between effective job density and productivity in the economy has been established. Melbourne's job rich areas align closely with areas where Councils appear to be denying opportunities for greater housing diversity. This will inevitably lead to a less economically productive city.

Medium density housing is a financial and economic bonanza for the State Government. The process of its production generates property taxes and jobs in the economy, which generate further revenues for the Treasury. It facilitates in-migration, which further grows the economy, and it provides major savings on infrastructure provision at the urban fringe.

The Grattan Institute surveys confirm that many occupants of detached houses and members of their families will in the future be looking for other forms of housing, especially medium density housing. The proper role of the Government and Councils should be to educate the community on these issues, rather than responding to uniformed parochial interests.

### **BURDEN OF JUSTIFICATION/ LACK OF RIGOUR**

The proposed new zones represent the single greatest change to the strategic and statutory planning system in Victoria for a generation. In particular the Neighbourhood Residential Zone (NRZ), with its purpose of restricting housing growth, will result in a significant reduction in a diversity of residential infill development in existing suburbs at a time when Melbourne's population is increasing significantly.

In these circumstances is it incumbent on a Council to carefully consider the application of the new zones based on sound strategic planning principles in order that it can demonstrate that it has responded to the direction provided in Practice Note 78.

However, it is clear that there has been a clear lack of rigour by many Councils in the proposed application of the new zones and in particular the extent of the NRZ, which is simply not justified by any reasonable interpretation of the criteria in Practice Note 78.

The burden of justification for such a widespread application of the NRZ lies with a Council which proposes it. It should not lie with the landowners, who are then required to justify why the application of this zone is not appropriate. That is, the manner in which the Council has proposed the application of the NRZ, and the process that landowners have been required to follow in response, has reversed the burden of justification.

Where a Council cannot legitimately demonstrate why the application of the NRZ is justified, then the Advisory Committee should recommend that this area be placed in the General Residential Zone (GRZ).

### **APPLYING THE RESIDENTIAL ZONES PRACTICE NOTE 78**

Practice Note 78 sets out the principles and criteria for each of the residential zones. Whilst it often uses terms such as 'in appropriate locations', 'moderate housing growth', 'mature market demand', 'urban preservation' and even 'neighbourhood character', a reasonable approach to its interpretation, having regard to a established planning policies that promote urban consolidation and diversity of housing choice, would not support the extent of NRZ proposed by some Councils.

#### **The Residential Growth Zone (RGZ)**

The RGZ is the zone enabling '*new housing growth and diversity*'. This is the residential zone that is intended to do most of the heavy lifting in terms of more dense housing. If local councils apply this zone sparingly, then the contribution of this zone to housing future metropolitan population growth will be minimal.

This is a zone that is designed to be applied in areas that have '*good access*' to public transport, activity centres and other infrastructure. Traditionally planners have applied the 400-500m walking distance to such services. The removal of a 'walking distance' measure is a regressive planning outcome in the context of a fundamental planning principle which supports more density close to public transport corridors (tram and bus) and railway stations.

If the RGZ is to be applied in a way that delivers most of the new residential development outside of the MUZ and activity centres, then the zone must be applied more widely. Otherwise the net result is the retention of the status quo, where approvals for 3-4 storey development in immediate proximity to public transport and activity centres are already an expected development outcome. However, some municipalities are reducing the development potential of these areas by seeking to apply NRZ in such locations. It is considered that greater emphasis must be given to the inclusion of land along transport corridors and around activity centres for inclusion in the RGZ.

### **THE GENERAL RESIDENTIAL ZONE (GRZ)**

One of the key purposes of the GRZ is to allow *'moderate housing growth and diversity'*. It is self-evident that this zone should be applicable in extensive areas of residential Victoria, areas where the land has reasonable access to transport options, to employment options, to local shopping and local community facilities. It is this zone that should become the 'default' zone used in Victoria, much like the Residential 1 zone does at present.

Given that the bulk of residential land in Victoria would have the attributes that would make it align with the RGZ, such as excellent access to public transport, or have the recognised constraints for inclusion in the NRZ, it is self-evident that the bulk of residential land should be placed into this zone.

### **THE NEIGHBOURHOOD RESIDENTIAL ZONE**

The NRZ is a zone that is being strongly favoured by many Councils to cover vast tracts of existing residential zoned land. Of course, the effect of such a proposal is to lock away the development potential of much of residential Victoria on a premise that is not consistent with the criteria established under Practice Note 78 or a balanced application of the State Planning Policy Framework.

Some areas will be worthy of protection and the Practice Note provides for this in specifically identifying areas of *'recognised'* neighbourhood character, or environmental or landscape significance<sup>1</sup>. However, even in such areas, there is potential to absorb modest change with the planning system sophisticated enough to deal with these matters.

However, what is lacking is the identification of neighbourhood character via rigorous assessment, as well as independent evaluation. Such an approach is essential to proposing the inclusion of land with the NRZ, given the implications for housing diversity, affordability and supply in established residential areas. There is little if any such justification for the inclusion of such extensive tracts of land into the NRZ.

Whilst the Practice Note does provide for consideration of areas where more than 80% of lots comprise single dwellings, there has been little, if any analysis to support such a position. This factor alone does not make an area worthy of urban preservation, especially given that in many instances, much of this housing stock is approaching its use by date and often too expensive to maintain and repair. Replacing one detached house with another will not deliver additional or more diverse housing but will often have a significant impact on 'neighbourhood character' without benefits of urban consolidation or increasing housing diversity and affordability.

Another principle relates to areas which *'may not have good supporting infrastructure or other infrastructure, facilities and services and are not likely to be improved in the medium to longer term.'*

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<sup>1</sup> Our emphasis

A fundamental and universally accepted planning premise is that more housing density sustains more services and creates more local jobs. Existing urban areas which are currently deficient in services, jobs etc should not remain this way if we are seeking to plan for all of our communities and not just those fortunate enough to live close to jobs and services etc at the moment.

The only areas which should qualify for the NRZ are areas within a designated heritage overlay, landscape or environmental significance overlay or approved neighbourhood character overlay or where the character of the area unquestionably deserves special consideration.

## **EFFECT OF SCHEDULES**

The development of housing in established residential areas is required by State planning policy to achieve a number of objectives. These include diversity, sustainability, affordability and respect for the existing or preferred future neighbourhood character. Urban consolidation is accepted as the means to achieve these objectives, with the exception of the last, and is promoted accordingly.

In any given area, the right balance between contributing to urban consolidation and respecting the existing neighbourhood character must be found. Under the current residential zones, a judgement can be made about the appropriate balance on a site-by-site basis, taking into account its specific circumstances. This allows the contribution of each site to urban consolidation to be optimised.

The schedules to the new zones effectively provide the opportunity for a council to predetermine the appropriate balance between urban consolidation and existing character 'fit' for a whole precinct. In particular, the ability to specify minimum lot sizes (NRZ only) and mandatory maximum building heights, along with variations to ResCode standards such as maximum site coverage, minimum side and rear setbacks, and minimum private open space areas, will largely determine the potential density of the area. Even adding one additional dwelling to a lot in the form of a dual occupancy or duplex can be prohibited in this way.

This places an onus on the proponent of a rezoning that will restrict the potential for urban consolidation (e.g. the application of the NRZ, any mandatory maximum heights and schedules to any zone that are more onerous than ResCode's 'default' standards) to demonstrate through rigorous analysis that:

- variations from these provisions would have unacceptable impacts on neighbourhood character; and
- there will still be sufficient housing growth across the municipality to meet demand and to achieve sustainable and liveable neighbourhoods.

Where an area is currently affected by a heritage or neighbourhood character overlay, it can reasonably be assumed that the first of these analyses has been undertaken. However, many councils are seeking to apply the NRZ across broader parts of their municipality along with restrictive provisions to the other residential zones. The likelihood of there being no property within these areas with greater potential to contribute to urban consolidation, in an otherwise acceptable way, than is provided for by the proposed zones is so remote as to be inconceivable.

Whilst the 'sacrificing' of a very small amount of development potential may be acceptable in the interests of certainty and administrative simplicity, there is no evidence that the character across the vast majority of the areas to which the NRZ is proposed to be applied is sufficiently 'special' to warrant its preservation in aspic.

It is a fundamental tenet of the VPP that flexibility is provided for innovative responses that achieve planning objectives in non-standard ways. This facilitates the evolution of design. The proposed widespread use of minimum lot sizes and mandatory maximum building heights unnecessarily curtails the potential for innovative design responses that contribute to urban consolidation while respecting neighbourhood character.

The overarching goals of the State housing policy at clause 16 of the VPP feature housing diversity, efficient provision of supporting infrastructure, accessibility of services (with an emphasis on walkability) and affordability. There is no evidence these goals have been properly considered in the proposed application of zones and use of schedules. In particular, there is no analysis to demonstrate that the areas proposed to have restrictive zone provisions currently support sustainable lifestyles through the availability of local infrastructure and services. Why should Melbourne's famed liveability be limited to residents of its denser and consequently better serviced inner suburbs? The new residential zones present an invaluable opportunity to enhance the liveability and sustainability of our middle-ring suburbs by facilitating modest increases in density that will support expanded local services. This does not require widespread use of the RGZ, merely its selective use in most neighbourhoods (e.g. along main roads and around stations) along with more judicious use of the NRZ. This opportunity appears to have been wasted.

The latitude taken by Councils in tailoring the zones through schedules risks undermining the reforms of the late 90's when 100's of residential zones were standardised into 3, as well as the spirit of the VPP's. As it stands across Victoria, there are 139 proposed schedules (including 24 in Frankston), meaning that by effective operation, there are 139 residential zones proposed. If this is repeated across Victoria over time this could mean up to 400 zones. The power of the schedules to restrict development fundamentals like number of dwellings per lot and building height, mean that they can't be compared to any current schedules to the existing residential zones, which are restricted. This will only add to the cost, complexity and public confusion surrounding the planning system – more so given the residential zones are the most common element that most Victorians interact with when buying or selling a home.

Contrary to the VPP's, there is little uniformity in the use of schedules amongst Councils. Some GRZ schedules act more like the NRZ, whilst other NRZ's allow development outcomes expected in a GRZ. In many ways, they are common by name only.

## **PROCESS**

It is considered that the manner in which the proposed implementation of the new zones has been approached has severely limited the opportunity for adequate preparation in order to respond to the application of the new zones.

Specifically, the recent release of the maps of the proposed new zones has resulted in a constrained timeframe in which a Council has to consider its position, seek professional advice, prepare and lodge submissions to the Advisory Committee and then be represented at the hearings.

It is apparent that DTPLI will be releasing information on housing capacity at the municipal level approximately one week before the commencement of the Residential Zones Standing Advisory Committee hearings. This is information which should have been available many months ago to assist local government in its task to allocate the zones across its residential areas.

Our request is that you consider this submission in your consideration of all of the Amendments before you.

For the purposes of contacting us, can you please direct all correspondence to the email address colleenp@ratio.com.au, street address 243 Coppin Street, Richmond or mobile number 0412 571 600.

Yours sincerely



Colleen Peterson  
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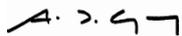
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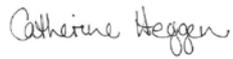
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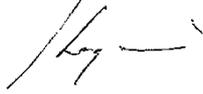
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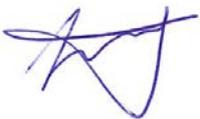
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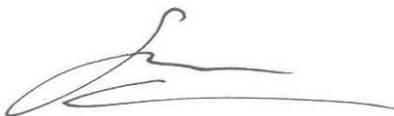
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A handwritten signature in black ink, appearing to read 'David Barnes', with a stylized, sweeping flourish at the end.

David Barnes  
Managing Director  
Hansen Partnership