

Residential Zones State of Play

In response to the series of *Residential Zones State of Play* reports¹ prepared by the Department of Environment, Land, Water and Planning, Master Builders Association of Victoria (Master Builders) welcomes the opportunity to comment on the process and application of the residential zones that were introduced in 2013.

This submission provides an overview of the three new zones and then establishes the context within which the impact of these zones should be analysed: Melbourne's (and Victoria's) forecast population growth; and the housing affordability crisis.

To be consistent with the terms of the reference of the Managing Residential Development Advisory Committee (MRDAC), the submission is divided into three sections:

1. the process by which the new residential zones were implemented;
2. the current application of zones that allow for residential development;
3. the level of evidence and justification needed when preparing relevant planning scheme amendments; and
4. improvements to the residential zones: minimum building heights and as of right permitted uses.

This submission also codified 'as-of-right' processes as a broader improvement to the zoning system which we believe could ease pressure from the system, streamline the planning application process and ultimately reduce costs associated with the planning and building process.

The submission focuses mostly on Melbourne's residential growth, because from Master Builders members' perspective that is where the zones are considered to be having the most concerning impact.

The challenge: the balance between sustainable housing growth and housing affordability

Planning so that Melbourne's (and Victoria's) residential growth can be managed in a sustainable manner- that does not make the cost of housing worse- is a substantial challenge. To address this, our planning system and as part of that, our zoning arrangement, has to be critically analysed.

Master Builders welcomed the appointment of the Managing Residential Development Advisory Committee (MRDAC) to report on the application of zones that provide for residential development in metropolitan Melbourne and the four regional cities of Bendigo, Ballarat, Geelong and La Trobe. The taskforce's Residential Zones State of Play reports for each Plan Melbourne Subregion are a clearly written and useful tool for understanding how the zones have been applied since their introduction in July 2013.

¹ Managing Residential Development Taskforce Reports, including *Overarching Report: Residential Zones State of Play: Northern Subregion; Eastern Subregion; Western Subregion; Central Subregion; Regional Cities* 29 January 2015



In preparing our response, Master Builders has commented on:

- the process by which the new zones were implemented;
- the application of the zones; and
- improvements to residential zones.

In this submission Master Builders also considers an improved codified 'as-of-right' processes as a broader improvement to the zoning system.

KEY RECOMMENDATIONS:

- 1. The process of implementing the zones allowed Councils too much control to apply restrictive zoning** resulting in inconsistent application of the zones, which will hinder the ability for increasing density in established areas to cope with population growth. In our submission to Plan Melbourne Refresh, we called for the State Government to design a housing strategy that identified where housing should be located to accommodate the future growth. We believe this should happen strategically at a state level, allowing Councils to then determine how they will provide the specified amount of housing in their own municipalities.
- 2. The current application of zones that allow for residential development is far too restrictive** and many of the Councils with established transport, infrastructure, amenities and services that are capable of accommodating growth have very restrictive zoning application (such as Boroondara, Glen Eira, Whitehorse and Manningham Councils). A review and a realignment of zoning is needed as a matter of urgency.
- 3. The planning scheme amendment process should be reviewed so that it becomes more rigorous and objective.** Master Builders has specific concern with the ability for Councils to create their own documents to use as strategic justification for zoning amendment decisions.
- 4. Specific changes to new zones should include minimum building heights** to allow for greater growth and diversity in housing development, and to make further inroads into addressing housing affordability over the long-term period. Consideration should also be given the as-of-right codified process for planning decisions in zones, such as reviewing some **permitted uses** in the residential zones.

SUMMARY OF RECOMMENDATIONS

1. The process of implementing the new zones	
Recommendation 1.1	Master Builders urges the State Government to consider a reformed process for implementing new zones that requires more coordinated strategic oversight.
Recommendation 1.2	Master Builders calls on the State Government to determine a housing strategy that provides specific targets and locations for housing. It would then be the responsibility of each council to determine where and how they achieve the designated housing targets in their own municipality.
Recommendation 1.3	Master Builders calls on the Planning Minister to set up/allocate responsibility for monitoring the implementation of a strategic plan, and for planning development assessment, to a specific agency or planning assessment hubs.
2. Current application of the zones	
Residential Growth Zone	
Recommendation 2.1	Master Builders recommends that a review is conducted into the limited application of the RGZ (and in particular those suburbs that were earmarked for growth and have very restrictive zoning application).
Recommendation 2.2	Master Builders recommends that based on the review, additional appropriate locations be rezoned RGZ.
Recommendation 2.3	Master Builders recommends that the MRDAC undertakes a yield study to identify the impact of the three residential zones on a specific site, in terms of building and construction jobs, how many people/households could be housed and how much revenue would be generated in each scenario.
Neighbourhood Residential Zone	
Recommendation 2.4	Master Builders recommends that the State Government examine the application of the NRZ, especially in areas with high application such as Boroondara, to examine whether it is the most suitable zone and to change the zones where it is not suitable.
Recommendation 2.5	Master Builders recommends that the State Government review and update the principles in Practice note 78 to be more specific and less able to be subjectively applied by councils.
General Residential Zone	
Recommendation 2.6	Master Builders recommends that the housing strategies that guides amendments should be developed by government (see recommendation 1.2) rather than allowing Councils to do this themselves.

3. Planning scheme amendments	
Recommendation 3.1	Master Builders recommends that the process for making planning scheme amendments be reviewed so that it becomes more rigorous and objective. Master Builders has specific concern with the ability for Councils to create their own documents to use as strategic justification for zoning change decisions.
Recommendation 3.2	Master Builders recommends that the State Government consider restricting the use of schedules and/or designing a template for schedules, so that they are consistently applied throughout planning schemes and development is not unfairly restricted as a result of stringent development standards with regards to setback, site coverage, private open space provision etc.
4. Specific recommendations to zones	
Minimum building heights	
Recommendation 4.1	Master Builder calls for a minimum height limit of 12.5 metres in the General Residential Zone.
Recommendation 4.2	Master Builder calls for a minimum height limit of 16.5 metres in the Residential Growth Zone.
Recommendation 4.3	Master Builder calls for efforts to mandate minimum height limits across municipal boundaries so that the planning system encompasses greater consistency.
Options for 'as of right' code assessment	
Recommendation 4.4	Master Builders seeks action to remove limited restrictions on land uses in the RGZ.
Recommendation 4.5	Master Builders seeks action to remove restrictions such as medical centres in the NRZ.
Recommendation 4.6	Master Builders seeks action to remove restrictions such as medical centres, places of worship and convenience shops in the GRZ.
Recommendation 4.7	Master Builders strongly recommends the creation of responsible 'as-of-right' codified processes and relevant amendments to zone restrictions. This might occur in development zones around principal activity centres and major public transport networks and, more generally, in Neighbourhood Residential & General Residential Zones, it could include secondary dwellings, dual occupancy, low-rise townhouses, apartments and other forms of medium - high density housing.

New Residential Zones Victoria

In July 2013 new residential zones were introduced into the Victorian planning system. The Residential Growth Zone (RGZ) was intended to enable new housing growth and diversity, the General Residential Zone (GRZ) was intended to respect and preserve urban character while enabling moderate housing growth and diversity, and the Neighbourhood Residential Zone (NRZ) was intended to restrict housing growth in areas identified for urban preservation².

Councils were given 12 months from July 2013 to amend their planning schemes to implement the new zones. The degree of readiness for new zoning varied between Councils, and, as outlined in the Overarching Report, the way in which Councils implemented the new residential zones can be broadly grouped into:

- councils with existing housing policies;
- councils with draft housing policies;
- councils with no relevant policy work – opted for a translation of the former zones to the GRZ; and
- councils that opted-in to the Residential Zones Standing Advisory Committee (RZSAC) process, which included notice and a public hearing process, as per the RZSAC Terms of Reference.

Now, more than two and a half years since the zones' introduction, in the context of rapid population growth and a housing affordability crisis, we are in a good position to consider the impact of the new zoning process, the way in which the zones were applied and what needs to be changed.

Victoria is growing

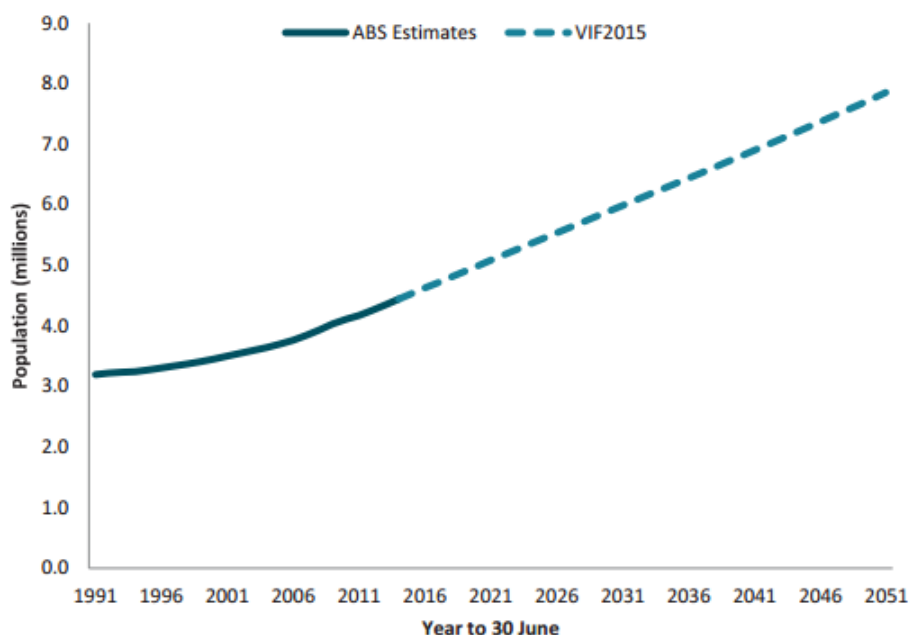
Victoria's population, particularly Melbourne, is growing at a rapid rate. New figures from the Bureau show Victoria gained an extra 101,500 residents in the year to December 2015, and Melbourne an extra 95,600³. Melbourne is now Australia's fastest growing city and is expected to grow from its current 4.5 million to 7.8 million by 2051, which will make the country's biggest city, according to Australian Bureau of Statistics projections. This will require the construction of up to 1.6 million new homes, including 480,000 apartments⁴.

² Planning Practice Note 78

³ Australian Bureau of Statistics <http://www.smh.com.au/federal-politics/political-news/australians-flock-to-melbourne-as-victoria-becomes-australias-fastest-growing-state-20150625-ghxj27.html#ixzz3nrENNird>

⁴ <http://www.mpa.vic.gov.au/>

Past and projected population of metropolitan Melbourne, 1991 to 2051



Source: Residential Zones State of Play Report Overarching Report

Beyond Melbourne, the population of Victoria's regional centres are also growing. As a whole, regional Victoria's population is projected to grow by nearly 60 per cent over the next 35 years to 2051⁵.

Housing needs are changing

It is important to consider what the future households will look like so that we can better understand why type of dwellings will be needed and where they should be located.

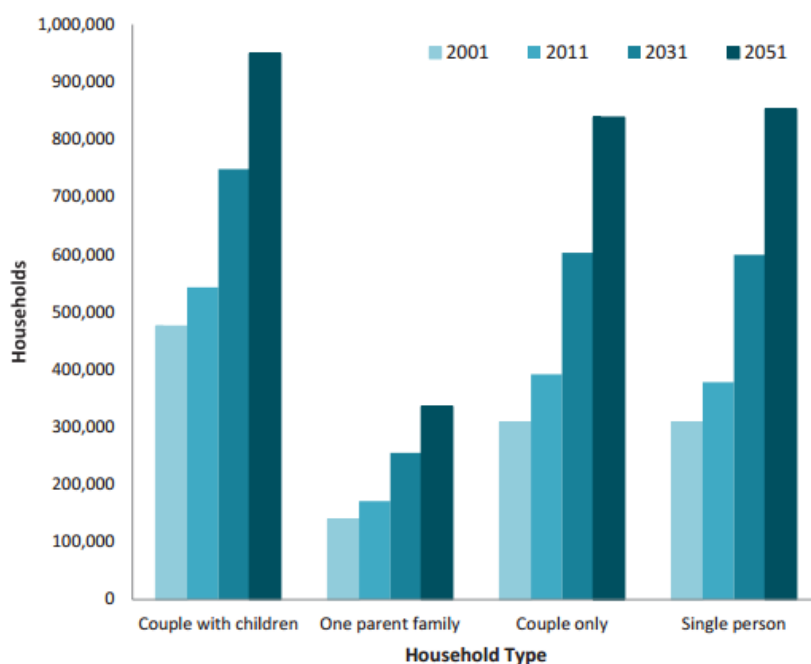
As the population grows the demand for housing increases. Since 2009 Victoria has averaged over 54,000 dwelling approvals per annum, reaching a peak of 66,000 approvals in 2014-15 year. The size and type of households will also change with the population growth: the average household size is expected to decline as growth in new households increases faster than the rate of population growth.

Victoria is forecast to become older, with the proportion of people aged 65+ years increasing from 14 per cent in 2011 to 22 per cent in 2051⁶. As demonstrated in the graph below, older people tend to form smaller households, which means that 'single person' and 'couple only' households are expected to become a much larger proportion of the population by 2051. These types of households are extremely well suited to smaller, more manageable dwellings like apartments that are located near public transport, community and medical services and retail precincts.

⁵ Residential Zones State of Play overarching Report, page 5

⁶ Ibid, page 6

Past and projected households by type in metropolitan Melbourne, 2001 to 2051



Apartments are taking up a greater share of the Melbourne residential housing stock. In 2004-05 there were 4,200 apartment approvals, which grew by more than fivefold ten years later, to 23,000 approvals. The recent boom in apartment approvals, especially strong in Victoria, peaked in the March quarter of 2015 and has since fallen by 30 per cent, and it is forecast that starts and construction activity will follow. For a range of reasons – not excluding the current zoning arrangements which restricts apartment approvals to certain areas - the market for apartments is likely to peak soon, slowing increases in prices and rents.

Interestingly, while the proportion of ‘couple with children’ households will decrease, the overall number is expected to increase significantly (from 540,000 to 950,000), and will remain the largest household type. This suggests that medium density housing will continue to be in strong demand.

The main forms of housing supply in Melbourne that will support this growth are:

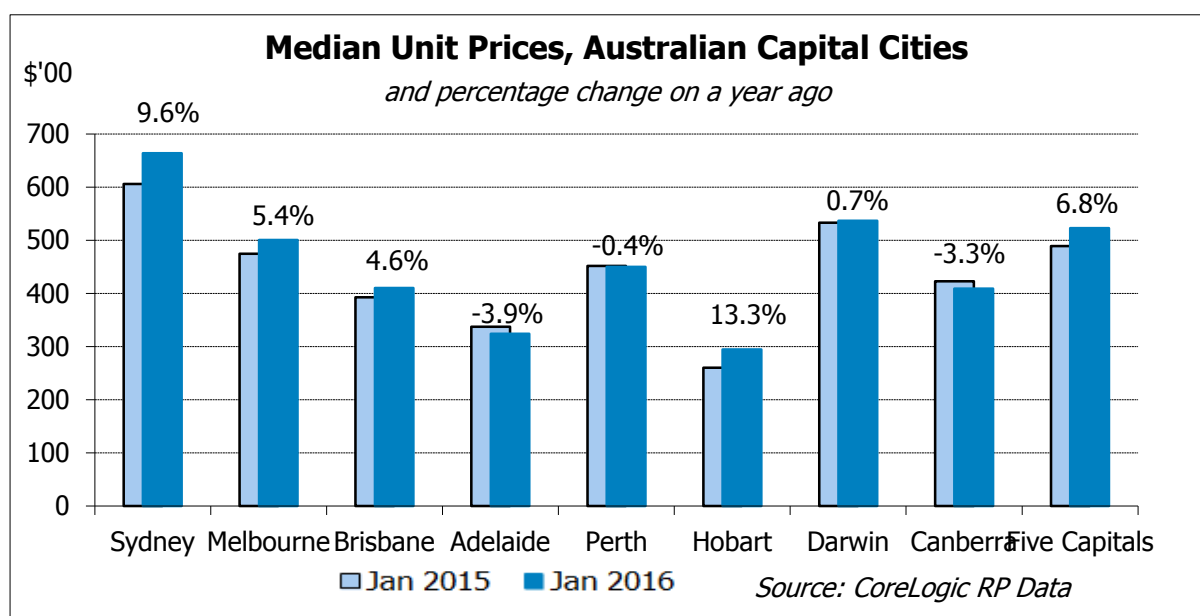
- **Urban renewal** - currently accounts for approximately 42 per cent of Melbourne’s housing supply, it involves the redevelopment and renewal of existing commercial, mixed use and former industrial land for housing.
- **Broad hectare development** - currently accounts for approximately 31 per cent of Melbourne’s housing supply, it involves broad hectare housing development on former rural land.
- **Residential infill** - currently accounts for approximately 25 per cent of Melbourne’s housing supply, it involves the demolition and replacement of existing residential land for units and townhouses in established residential streets.

This means that Melbourne and greater Victoria have to be zoned appropriately to enable the growth of the right type of housing to occur in the right areas.

Victoria's housing affordability crisis

In November 2015 Moody's Investor Service announced that housing affordability in Australia has deteriorated significantly over the 12 months to October 2015, which has increased the risk of defaults on mortgage loans in residential mortgage back securities. Nationally, Australian households with two income earners spent an average of 29.3 per cent of their monthly income on monthly mortgage repayments as of 30 October 2015, up from 28.3 per cent one year earlier.⁷

For Melbourne it is even more severe, with 32.1 per cent of income being spent on monthly repayments. This is coupled with an increase of 15.4 per cent in housing prices over the 12 months to 30 October 2015. Master Builders' figures show that in January 2016 the median dwelling price for Melbourne was \$563,000; 11% higher than it was a year earlier. Similarly in Sydney, the median dwelling price in Jan was \$727,500; 10.5% higher than a year earlier.



The contributing factors to house price growth

In a recent paper on Housing Affordability, Master Builders argues that there are a range of factors contributing to the price of housing in Australia. They include:

- supply-side restrictions (zoning, the availability of land);
- proposed housing developments experiencing long planning delays and multiple fees, levies and charges adding cost to the process;
- tax arrangements that are encouraging investment in housing, such as negative gearing and the capital gains tax discount;
- strong population growth (fuelled by natural increases and immigration);
- record low interest rates and share market downturn encouraging housing as an investment proposition; and
- record domestic and foreign investment in the market.

These issues are not exhaustive and, indeed, are interrelated. However, as a primary driver of housing availability for development, zoning is an important lever in addressing housing affordability.

⁷ Moody's investor services, Global Credit Research 23 November 2015

1. The process of implementing the new zones

The implementation process lacked strategic oversight

The process of implementing the new zones was heavily weighted in favour of the individual Councils, rather than as part of an overarching strategic plan for Melbourne and Victoria. Councils were given 12 months from July 2013 to amend their planning schemes to implement the new residential zones. This meant that as long as a Council could justify their proposed application of zones- be it through existing housing strategies or a combination of character, heritage and activity centre policy- they ultimately were able to decide their own zoning. As stated in the Overarching Report:

“the mandatory nature of the new residential zones also addresses longstanding concerns by local government about the need for local policy to have more influence over planning decisions. The new residential zones fundamentally increase the statutory weight of local policy and strategies.” (emphasis added) Page 32

This process lent itself to ad hoc application of zoning across Councils. For example, consider the Eastern Region. In Monash nearly all (96 per cent) of residential land is zoned GRZ and is spread widely across the municipality. This contrasts to Manningham, a neighbouring municipality, which just under 50 per cent is GRZ. Considering the most restrictive zone, the NRZ, some Councils such as Knox do not apply it at all, where Boroondara applies it to 75.7 per cent of residential land. This signifies that housing growth will be occurring much more in places like Monash than Boroondara, despite the fact that Boroondara is:

“served by the Alamein, Belgrave and Lilydale railway line, numerous tram and bus routes as well as access to CityLink and the Monash Freeway...key trail strips and parklands...as a centre for education, with many public and private schools located in the municipality. Swinburne and the University of Melbourne also have campuses in Hawthorn.”

Given the evident benefits of an established area such as Boroondara, strategically it would be a good place to accommodate substantial growth.

Victorian governments have recognised and tried to implement long term strategic visions for the state, be it through *Melbourne @ 5 Million*, *Melbourne 2030*, *Plan Melbourne*, *Plan Melbourne Refresh* and through the recent creation of Infrastructure Victoria.

It seems remiss that an opportunity such as the implementation of new residential zones be excluded from a similarly strategic process.

This lack of a coordinated approach is particularly concerning given the *Plan Melbourne Refresh* review which considers locking down the Urban Growth Boundary (UGB) and accommodating population growth through a policy of a 70/30 split, requiring 70 per cent of new housing to be built in existing suburbs. The application of such restrictive zones broadly means that it is unlikely that these overarching policies for Melbourne’s growth can be achieved.

The continuing impact on housing affordability of restricted supply is a significant concern for the liveability and future of Melbourne, and indeed Victoria. Therefore, just as Master Builders recommended in our submission to Plan Melbourne Refresh, decisions for overarching plans and visions for our State should fall to planning hubs or a regulatory body.

Master Builders also supports the State Government determining a housing strategy that provides specific targets and locations for housing. Following on from this strategy, it would then be the responsibility of each council to determine where and how they achieve the designated housing targets, and this would potentially lessen the discretion Councils have to allocate restrictive zoning throughout their area.

More detail on this can be found in our *Planning for Growth* submission to the Plan Melbourne Refresh.

Recommendations

- 1.1** Master Builders urges the State Government to consider a reformed process for implementing new zones that requires more coordinated strategic oversight.
- 1.2** Master Builders calls on the State Government to determine a housing strategy that provides specific targets and locations for housing. It would then be the responsibility of each council to determine where and how they achieve the designated housing targets in their own municipality.
- 1.3** Master Builders calls on the Planning Minister to set up/allocate responsibility for monitoring the implementation of a strategic plan, and for planning development assessment, to a specific agency or planning assessment hubs.

2. Current application of the zones

Residential Growth Zone (RGZ)

The RGZ was intended to enable high density dwelling development in and around activity centres, shopping strips, stand-alone shopping centres, railway stations, major transport corridors and within major redevelopment and urban renewal sites. This makes it an important tool in facilitating growth in areas that are well serviced and able to accommodate growth.

Given it has been widely established that Melbourne will be experiencing significant population growth for at least the next thirty years and will need housing to match this, it is concerning that less than one per cent (0.9 per cent) of Melbourne's residential land is zoned RGZ.

The height provisions and development objectives of the RGZ provide developers with the ability to build multiple dwellings on single lots, which makes it an important tool for accommodating growth, taking pressure off the demand for housing, and consequently, improving housing affordability.

Absence of RGZ in and around areas with Activity Centres

Some municipalities chose to not have any land zoned RGZ, despite being in locations that match the description of the zone's intended use. Hume, for example, is served by the Craigieburn, Sunbury and Upfield metropolitan train lines and has numerous bus routes, as well as the Western Ring Road, Calder Freeway, Hume Freeway, Tullamarine Freeways and access to the Melbourne airport. There are well established residential areas, and also have a number of identified important areas for growth such as Broadmeadows, Craigieburn and Sunbury- all of which are also identified activity centres. Despite this – none of the residential land in Hume is zoned RGZ. Master Builders is of the view that this is a missed opportunity for strategic placement of affordable housing.

Economic benefits of RGZ

Land zoned RGZ presents substantial benefits for the Victorian economy. The zone's provisions give developers significant certainty that applications will achieve high yields. This has made land in RGZ now highly attractive and this has been widely reported – with media outlets such as the Australian Financial Review and the Herald Sun reporting that groups of owners in RGZ areas joining together to sell their sites to developers for major redevelopment⁸.

In terms of having an even better understanding of what land zoned RGZ means for our economy, it would be very useful for MRDAC to undertake an analysis of the yield potential for a specific site in three different scenarios: zoned as RGZ, as GRZ and as NRZ. A useful analysis would consider how many building and construction jobs would be created as part of the development, how many people/households could be housed and how much revenue

⁸ Overarching report, page 28

would be generated in each scenario. This work would give the industry and decision makers a good understanding of the different impact the zones have.

Current application of the RGZ: the status quo

It is concerning that the small percentage of land that has been rezoned for this growth “were previously either identified for substantial change within local planning policies or earmarked as major redevelopment sites”⁹. As identified in the Overarching Report, the Whitehorse Planning Scheme, Greater Dandenong and Manningham all zoned land in the RGZ that was previously identified for substantial change in local policy. This suggests that the application of the RGZ is essentially status quo: that the introduction of the new zones has not encouraged Councils to consider increasing housing development and growth in their areas.

Recommendations

- 2.1** Master Builders recommends that a review is conducted into the limited application of the RGZ (and in particular those suburbs that were earmarked for growth and/or have transport, infrastructure, services and amenities that would allow for growth but have very restrictive zoning application).
- 2.2** Master Builders recommends that based on the review as outlined in Recommendation 2.1, that additional appropriate locations be rezoned RGZ.
- 2.3** Master Builders recommends that the MRDAC undertakes a yield study to identify the impact of the three residential zones on a specific site in terms of building and construction jobs, how many people/households could be housed and how much revenue would be generated in each scenario.

Neighbourhood Residential Zone

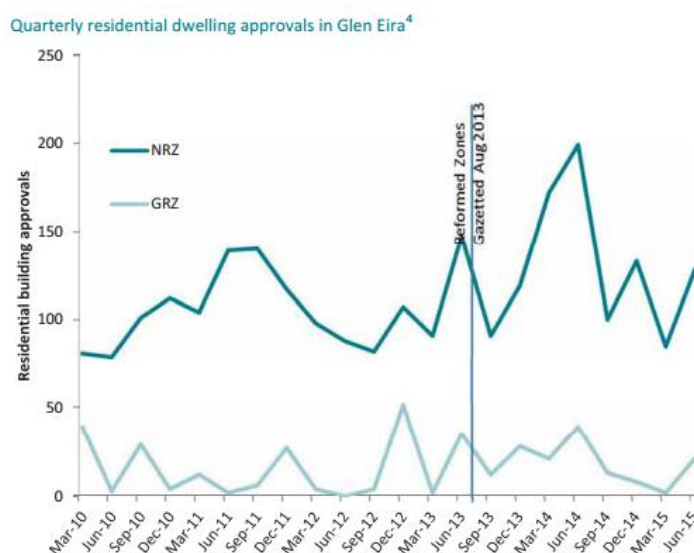
The NRZ is intended to restrict housing growth, and has been mainly applied to residential areas that are argued to have high environmental, heritage and/or built form value. This has been applied to varying degrees across municipalities, with 29.2 per cent of residential land in the Eastern Subregion zoned NRZ, compared to 11 per cent in the Northern Subregion and 10 per cent in the Southern Subregion.

An example of a municipality that has very broad application of this restrictive zone is Glen Eira, where 80.8 per cent of the residential land has been zoned NRZ.

This municipality is close to the Melbourne CBD – 7 to 17 km away – and is well serviced by buses, trams and trains lines, including the Cranbourne, Frankston, Glen Waverly, Pakenham and Sandringham lines, as well as the Princess Highways and Nepean Highway. It also hosts a number of good retail precincts, Monash University and Caulfield Racecourse. Despite it seeming to be an excellent area for GRZ, or even RGZ, more than three quarters of residential land is zoned the most restrictive zone.

⁹ Overarching report, page 28

In reality, the NRZ locks down areas from development. In considering the impact of the zones, the Overarching Report uses the number of building approvals in an area before and after the introduction of the NRZ as an impact indicator. The report concludes that NRZ areas have not experienced a shortage in dwellings or a decline in approvals (as demonstrated by the graph of approvals in Glen Eira below)¹⁰. However, this conclusion is qualified by the acknowledgement that the spike in approvals early in 2014 has been influenced by planning permits granted under the former zones and/ or the ongoing influence of Glen Eira’s minimal change policy (CI.22.08) which has sought to limit change in areas now within the NRZ since the early 2000s. In more recent times this graph may indicate a lagged effect of a decline in approvals, which we consider could be particularly concerning and would need to be monitored over time.



Melbourne’s population is set to nearly double in the next thirty years to 7.8 million people. If these areas continue to approve dwellings at the same pace, they may not be able to accommodate the additional households and placing pressure on areas in the outskirts of Melbourne, which may not have the established infrastructure or land supply to accommodate the growth. This is particularly problematic in light of the potential locking down of the UGB and 70/30 split being considered under Plan Melbourne Refresh. Therefore, Master Builders is of the view that the broad application of NRZ in certain areas, such as Boroondara and Glen Eira, should be examined and determined whether parts of the areas are more suitable to less restrictive zoning.

Impact on housing affordability

The application of the NRZ also impacts on housing affordability. Relative house price increases are a matter of basic economics: the price of a good or service is likely to increase where supply is limited. In housing, the problem is restrictions on land supply which reduces

¹⁰ Overarching report, page 30

the land available for development, destroying the competitive market for land. This drives up house prices¹¹.

Housing diversity, choice and price are likely to impact by the NRZ, especially in local housing markets where there is extensive land in the NRZ such as Boroondara, Glen Eira and Bayside. As identified in the Overarching Report, 'it is possible that the supply of new medium density dwellings in these areas will decline in response to the NRZ and, while this is unlikely to generate supply impacts of metro significance, at a local level, this might add to issues of housing diversity, choice and price'¹².

If development in these areas continues to be restricted, it may worsen the housing affordability crisis.

Practice Note 78

The Planning Practice Note 78 plays a significant role in enabling councils to zone areas as NRZ without rigorous justification. In applying the NRZ, the Practice Note provides a list of principles, which include but are not limited to:

- areas with a neighbourhood character that is sought to be retained;
- areas with Neighbourhood Character Overlay; and
- residential areas with Heritage Overlays.

These principles can be applied subjectively. Firstly, Councils are able to create and determine their own Heritage and Character overlays. Secondly, Councils are subjectively able to identify that an area has character that is 'sought to be retained'.

One of the most reasonable principles listed in Practice Note 78 about applying the NRZ is:

An area which may not have good supporting transport infrastructure and other facilities and services and are not likely to be improved in the medium to longer term.

The impact of this principle is questionable, when considering that well serviced areas such as Glen Eira apply the NRZ to the majority of the municipality.

More specific principles would capture areas that reasonably should be protected from development and make available land that could be appropriate for development made available.

Recommendations

- 2.4** Master Builders recommends that the State Government examine the application of the NRZ, especially in areas with high application such as Boroondara, to examine whether it is the most suitable zone and to change the zones where it is not suitable.

¹¹ 11th Annual Demographia International Housing Affordability Survey: 2015

¹² Overarching Report page 38

- 2.5** Master Builders recommends that the State Government review and update the principles in Practice note 78 to be more specific and less able to be subjectively applied by councils.

General Residential Zone

The GRZ is intended to allow moderate housing growth and diversity, while protecting and preserving neighbourhood character. The GRZ has been applied the most broadly across metropolitan Melbourne, making up approximately 44 per cent of residential land, spread mostly throughout Melbourne's middle and outer ring suburbs. As this was the 'default' zone for councils that were unable/ unprepared to establish a residential framework/ housing strategy to translate the new zones, 54 councils defaulted to GRZ. This represents 68% of Victoria's Councils- it should also be noted that this is the most common zone in regional areas.

As discussed in the 'Planning Scheme Amendments' section 3 of this paper, a concern with the GRZ is that excessive schedules are being applied, so that it becomes restrictive to the point of delivering the same outcomes as the NRZ. The application of schedules to GRZ should be reviewed in line with the planning scheme amendment process to ensure it is a robust and objective process.

Recommendation

- 2.6** Master Builders recommends that the housing strategies that guide amendments should be developed by government (see recommendation 1.2) rather than allowing Councils to do this themselves.

3. Planning scheme amendments

The level of evidence and justification for making planning scheme amendments is of concern to Master Builders.

Subjective strategic policies forming basis of planning scheme amendments

Master Builders considers the planning scheme amendment process problematic, whereby Councils design their own strategic policies to justify amendments to their own planning schemes. For example, a council may use its detailed housing plan to justify applying restrictive changes via schedules to the GRZ. However, there is an inherent problem in allowing this in-house strategic document form the basis of a change to a zone, as it will be designed to produce their internally preferred outcome.

Master Builders is of the view that the process for making planning scheme amendments should be far more rigorous and objective.

Excessive use of schedules dilutes the purpose of the zones

Master Builders is also concerned that the ability for Councils to make planning scheme amendments can dilute the purpose of the zones. For example, while there is a maximum height of 9 metres outlined for the GRZ in Practice Note 78, it also specifies that ‘a higher or lower building height can be set by a Council’. Further, it states that a permit can be granted to exceed the maximum height limit – *except* when a higher or lower maximum building height has been set which cannot be exceeded.

These concessions make the GRZ confusing and potentially contradictory - GRZ allocation does not guarantee planning outcomes. In this case, it can't be known for sure that permits can be granted higher than the maximum limit, or that 9 metres is the height limit. Developers may purchase land for particular use and then find that amendments restrict their investment returns and impact their business viability.

These schedule changes can impose unfair restrictions on development, by placing stringent development standards on setbacks, site coverage, permeability, private open space provision, walls on boundaries etc.

This does not create certainty for developers or potential investors in GRZ areas. In order to manage the demand for housing that will come with the growth Melbourne is forecast to experience, developers need certainty of what can be done with certain tracts of land. That is why Master Builders recommends MRDAC examine the application of schedules, and restrict their use or consider designing a template for schedules so that they are applied more consistently and with more rigorous justification across Councils.

Recommendations

- 3.1** Master Builders recommends that the process for making planning scheme amendments be reviewed so that it becomes more rigorous and objective. Master

Builders has specific concern with the ability for Councils to create their own documents to use as strategic justification for decisions.

- 3.2** Master Builders recommends that the State Government consider restricting the use of schedules and/or designing a template for schedules, so that they are consistently applied throughout planning schemes and development is not unfairly restricted as a result of stringent development standards with regards to setback, site coverage, private open space provision etc.

4. Specific recommendations to zones

Minimum Building Heights

The current zones have maximum heights, but no minimum heights. Master Builders is concerned that this works against the overall framework of zone reforms to encourage greater consistency across the planning system. We also believe the proposed height limits do not go far enough to encourage the development of a more diverse housing stock and make further inroads into addressing housing affordability over a long-term period. The proposed reforms highlight the following building heights for each residential zone:

- Residential Growth Zone - 12.5 metres;
- General Residential Zone – 9 metres;
- Neighbourhood Residential Zone – 9 metres.

Recommendations

- 4.1** Master Builder calls for a minimum height limit of 12.5 metres in the General Residential Zone.
- 4.2** Master Builder calls for a minimum height limit of 16.5 metres in the Residential Growth Zone.
- 4.3** Master Builder calls for efforts to mandate minimum height limits across municipal boundaries so that the planning system encompasses greater consistency.

As-of-right code assessment

Code-assessment

Master Builders also believes one of the most efficient ways to ensure the delivery of Victoria's housing needs is to remove red tape in the planning system and reduce permit waiting times and third party objections by creating responsible 'as-of-right' codified processes. As outlined in the preceding recommendations, this might occur more generally in Neighbourhood Residential & General Residential Zones as well as in development zones around principal activity centres and major public transport networks. Depending on the zone, it could include secondary dwellings, dual occupancy, low-rise townhouses, apartments and other forms of medium - high density housing.

Master Builders strongly supports reform outlined in *Plan Melbourne Refresh* to introduce planning reforms and new tools to support the ongoing renewal of established areas. This could include codified planning processes.¹³ Under this proposal, if developments meet the standards of the planning codes guidelines, local governments cannot refuse the developments; and people will be notified for their information, rather than for allowing submissions or objections.

¹³ Victoria State Government, *Plan Melbourne Refresh: Discussion Paper*, October 2015, page 48

Third party appeal rights can have a disincentive effect towards higher-density development. As demonstrated by the Grattan Institute:

“Third party appeal rights also disproportionately affect multi-unit developments. Recent research shows that in 2007-8, 42% of all applications for multi-dwelling developments in Melbourne are referred to VCAT, compared to 23% of single dwelling applications.....constituting a significant disincentive to the development of semi-detached housing, and apartments up to 3 storeys.”¹⁴

Introduce code-assessed ‘as-of-right’ approval for smaller secondary dwellings

One example of a codified as-of-right process that could be introduced is for the construction of smaller secondary dwellings to be built behind or beside existing dwellings. This would include the removal of the requirement to apply for a planning permit and the removal of restrictions on who can reside in the secondary dwelling.

Currently, to construct a second dwelling on a property one must comply with the requirements of Rescode 55 *Two or more dwellings on a lot*. This would require a full planning application, advertising/notification with the potential for objections to go to VCAT. Importantly, required standards are designed to reflect that these applications are submitted on the basis that separate lots will be formed. This means that there is no option for owners to simply build a secondary dwelling without subdividing the land.

There are a number of scenarios when an owner may wish to build a small secondary dwelling (40m²-80m²) mainly for a single person household, but may not wish to subdivide the land. For example, a young person who cannot afford to buy a house with land could construct a house in their parents’ backyard. Older retired home owners living alone in the family home who do not want to leave their community or garden could build a smaller unit on site to live in. Alternatively, established middle aged home owners could construct a unit on their land to rent to an aging parent or friend.

Secondary dwellings are an affordable option for single person households. Because the cost of land is removed, it is likely that smaller secondary dwellings could be built for around \$80,000-\$150,000 and given the structures will be built on a slab on ground, it is expected they will have good thermal performance.

In addition to facilitating a sensible solution to problems faced by young people, empty nesters and elderly people changing the rules so that it is faster, cheaper and easier to construct secondary dwellings will help the government achieve the *Plan Melbourne Refresh* 70/30 target. Changing rules to support smaller secondary dwellings in residential zones, particularly NRZ, would allow a gentle approach that would appeal to many existing residents. This solution supports small, low impact dwellings that are in keeping with the local development, and because it does not require the subdivision of land, titles are preserved with lot boundaries and services unchanged.

¹⁴ Jane-Frances Kelly, ‘The housing we’d choose’, Grattan Institute, June 2011, page 32

It should be noted that affordable rental accommodation is overtly encouraged in NSW, ACT, WA and QLD. A secondary dwelling is facilitated as ‘as of right’ with quick approval in each of these jurisdictions, which is designed so that the private market can respond to affordability and changing demographic issues.

The extension of VicSmart to deliver CodeAssess

The VicSmart website is a step towards reducing the complexity and time associated with planning applications. Given this has already been developed; consideration could be had towards extending this to cater for more streamlined applications and greater building activity under the ‘code-assessed’ processes outlined above.

Potential commercial and other uses

Another example of codified ‘as-of-right’ process that could be considered is for non-residential land uses such as medical, offices, shops, and food / drink premises. For example, the RGZ places limited restrictions on non-residential uses, however if these became ‘as of right’ it would facilitate growth of certain non controversial uses.

Recommendations

- 4.4** Master Builders seeks action to remove limited restrictions on land uses in the RGZ.
- 4.5** Master Builders seeks action to remove restrictions such as medical centres in the NRZ.
- 4.6** Master Builders seeks action to remove restrictions such as medical centres, places of worship and convenience shops in the GRZ.
- 4.7** Master Builders strongly recommends the creation of responsible ‘as-of-right’ codified processes and relevant amendments to zone restrictions. This might occur in development zones around principal activity centres and major public transport networks and, more generally, in Neighbourhood Residential & General Residential Zones, it could include secondary dwellings, dual occupancy, low-rise townhouses, apartments and other forms of medium - high density housing.