

DRIVERS OF HOUSING DEMAND AND LAND VALUES IN REGIONAL NEW SOUTH WALES: INSIGHTS FROM SUBMISSIONS TO THE NEW SOUTH WALES REGIONAL HOUSING TASKFORCE 2022

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ABSTRACT: Residential land values and housing prices across regional Australia have outpaced those of capital cities over the past five years, primarily driven by forces of market demand. This paper commences with a review of the movement in land values and examines the key factors that have driven demand for residential land and housing in regional New South Wales (NSW). By reviewing submissions to the NSW Regional Housing Taskforce 2022, the paper explores the feedback and factors that have impacted, and will continue to impact,

land values and housing demand in the medium term. Through thematic analysis, this paper finds a shift towards lifestyle living and second dwelling ownership and a change in workforce demand have increased the demand for regional housing. This is compounded by the demand for short-term worker accommodation and the conversion of long-term rentals into short-term stays. These factors have profoundly increased demand for housing and residential land values across regional NSW.

KEYWORDS: regional housing; regional housing market; land values; housing demand; regional NSW

1. INTRODUCTION

Regional New South Wales (NSW) encompasses several land uses, including rural, residential, retail, and business land use. Heffernan (2012, p. 153) stated that rural land values largely rely on the ‘productive capacity of the land’ of which there is not usually a constant or regular cash flow or return. In contrast, residential housing coexists in regional locations in which rural land is located. Residential land uses provide housing to communities associated with rural land uses; however, the nexus between these two uses has narrowed over the past decade (Gyourko and Molloy, 2015).

Traditionally, land value has been a function of location relative to the market and the uses it serves; however, while these factors remain relevant, additional elements contributing to demand have evolved. Despite Australia experiencing professional and labour shortages, Crommelin *et al.* (2022) highlighted the trend towards lifestyle living as a key factor in accelerating demand for regional housing across NSW. A move to regional locations, where service-oriented professionals can work remotely, removing the financial and time costs of travel has further added to demand. While this may have been triggered by the pandemic, Knight Frank (2022) anticipates this trend to continue in the short to medium term.

Relative to housing costs in Sydney, regional NSW has increasingly become a location of living choice. This trend commenced prior to the pandemic and has accelerated in 2022, as illustrated in Figure 1, which tracks the year-on-year growth in residential land values in both Sydney and regional NSW. Land values reflect the transaction of both existing housing stock as well as land zoned and approved or available to be approved for housing, which includes residential development sites. Land transactions also include residential land that has been transacted but is yet

to be developed, a factor discussed later in this paper, which is categorised as land banking.

This raises the question: what key factors are driving demand and influencing the supply of regional housing, and how are these elements reflected in land values across regional NSW? The paper examines specific gaps in understanding these dynamics compared to Sydney, based on insights from submissions to the NSW Regional Housing Taskforce 2022. Among the identified drivers of change, regional tax and housing policy reforms are necessary to address the influences highlighted in the review of submissions.

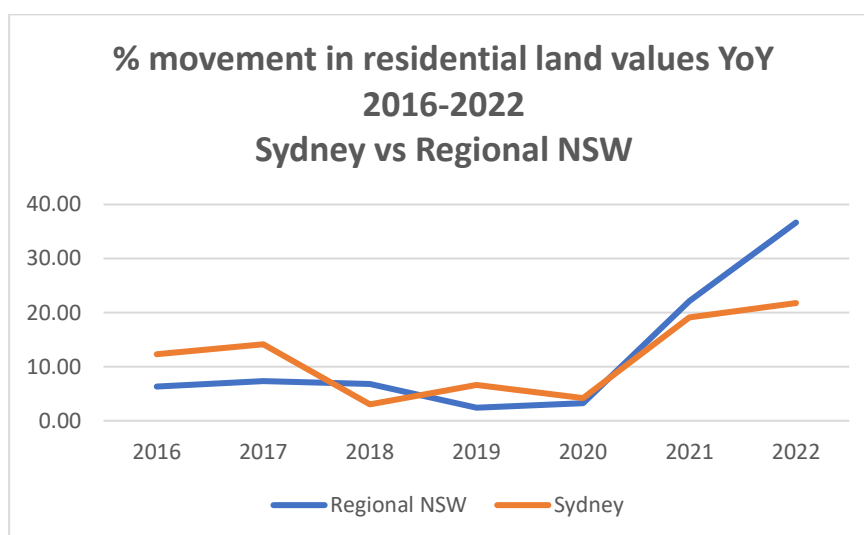


Figure 1. Movement in Residential Land Values—Sydney v. Regional NSW, 2016 to 2022. Source: NSW Valuer-Generals annual land value reports 2016–2022.

Land Value

Land value¹ is influenced by several key factors, including the land's permitted use, which is largely determined by its location, demand, and

¹ Land value is a value that primarily defines the location of property, of which the added value of improvements are excluded. Land economists determine land value to be the most neutral and efficient basis of value. The added value of improvements are excluded, as improvements may not be highest and best use of land, or may be economically or functionally obsolete. The exclusion of improvements removes any distortion and provides an equitable and consistent basis of value used to determine the

approved uses under planning law (Rost and Collins 1984). Among these, location is a primary determinant of land value. The physical attributes of land—such as topography, size, shape, access, and environmental factors—also play a significant role in establishing its value. Improvements made to land for rural uses, as well as for business and residential development, bring the land into production, which Mangioni and Warren (2014) refer to as the highest and best use.

For residential uses, land value is often assessed through comparable sales. In instances where land sales data is unavailable, a residual valuation approach is applied using house prices, minus depreciated building costs, to estimate underlying land values. This close relationship between land values and house prices reflects how both are shaped by a largely similar set of value determinants within the housing market.

Despite the established factors influencing land value, there is a noticeable gap in understanding the specific elements that drive changes in residential land values in regional Australia and in particular NSW. While these factors are often broadly discussed economically, a more granular examination of the sub-factors affecting demand and supply can reveal critical roadblocks and inform strategies to address the inhibitors of housing supply and the varied typologies of housing needs in regional NSW.

Figure 2 shows the change in land values across different regions in NSW from 2017 to 2022, highlighting that the growth of land values in regional NSW has outpaced that of Sydney. These shifts in regional land values relative to Sydney, along with the emerging factors reshaping housing demand, provide a foundation for examining the necessary reforms aimed at addressing future housing supply and facilitating the productive use of land.

value and demand for land. Land value is further defined under Valuation of Land Act 1916 and reflects land that is zoned for housing that is yet to be developed, hence capturing its full gambit of land.

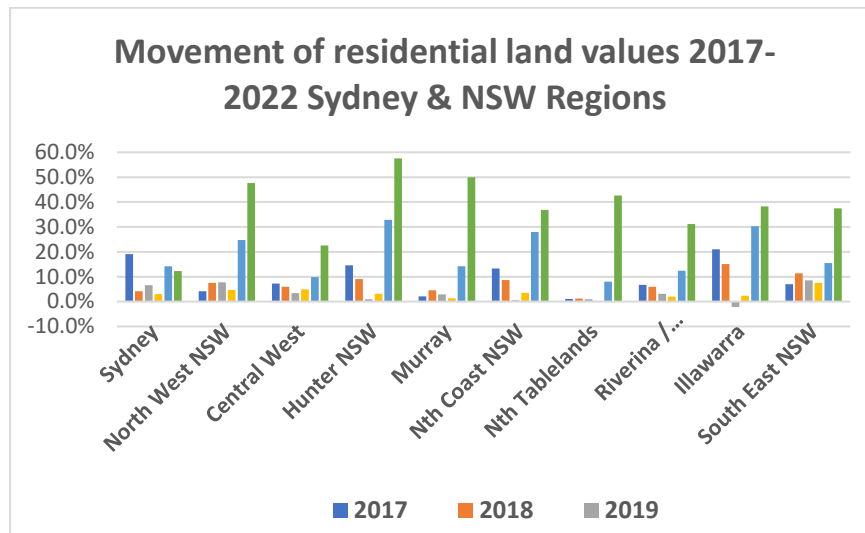


Figure 2. Movement in Residential Land Values in Sydney vs NSW Regions. Source: NSW Annual Land Value Reports 2017–2022.

Factors Affecting Regional Housing Supply and Demand

In identifying the factors impacting the supply of residential housing in regional locations, Crommelin, *et al.* (2022, p. 3) highlighted ‘labour shortages, increased costs and general market uncertainty making development in the regions higher risk for the private sector’ as key contributing factors. Meanwhile, factors driving supply in cities are also found in regions. As noted by Rowley *et al.* (2023, p. 2), ‘uneven supply was exacerbated by increasing construction costs leading to many multi-residential projects becoming financially unviable. Supply growth remains uneven across capital cities, partly due to the availability of sites and partly due to consumer demand.’ It was further identified that NSW has the lowest regional housing surplus at just 0.6 percent of its occupied housing stock, and of the top 10 regional locations with housing shortfalls across Australia, four of these locations are within NSW (Phillips and Joseph, 2017).

Interest rates are a key factor affecting both supply and demand for housing. Mangioni and MacDonald (2021) identified the factors that

influence the recent decline in residential property values as relating to the monetary reforms following the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The tightening of the monetary supply and recent increases in interest rates have only temporarily impacted house prices (RBA, 2023), in which low interest rates over the past decade have aided in driving housing prices across Australia.

A lack of medium- to high-density housing development may also exacerbate supply shortages in regional areas. Residential housing comprises two broad categories, single dwelling houses and unit housing, of which the latter sits within the subclass of strata lots that comprise villas, townhouses, and low-density and high-rise residential unit housing. Since the global financial crisis (GFC), demand for housing, in particular unit development, has accelerated. In cities, between 2008 and 2009, and 2013 and 2014, the annual number of units per capita tripled from around 1.2 to 3.5 units. However, a notable geographical disparity remains, with unit supply in regional areas lagging significantly behind that of metropolitan locations, according to Ong *et al.* (2017).

Furthermore, the occupancy of residential housing is often overlooked and receives limited attention. According to the OECD (2021), Australia ranks 29th out of 38 nations, with the lowest number of dwellings per thousand inhabitants. It is further shown that Australia is ranked eighth for the highest percentage of vacant dwellings relative to its total dwelling stock and ranked fifth highest for vacancies in rural areas. Although the percentage of residential vacancies has decreased in regional Australia, average residential rents have increased from AU\$550 to AU\$650 per week from March 2020 to March 2022 (Reserve Bank of Australia, 2023). Over the past decade, rental growth in regional NSW has consistently outpaced that in Sydney, over both short- and long-term intervals of two, five, and 10 years, as shown in Figure 3.

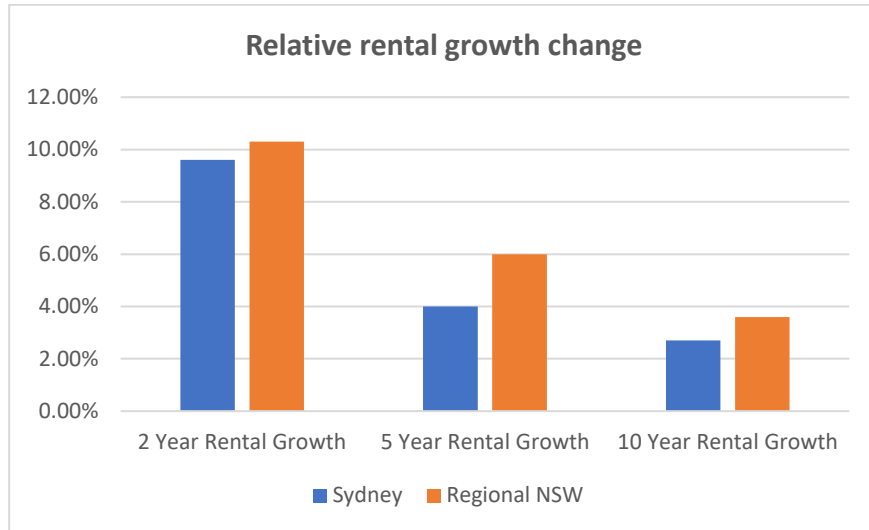


Figure 3. Sydney vs Regional NSW Rental Growth. Source: Reserve Bank Australia 2023.

Internal Migration, Work from Home, and the Attractiveness of Living in Regional Locations

A notable trend in regional NSW compared to capital cities has been the closing gap in residential house prices over the past decade, with Erol and Unal (2022, p. 1209) identifying ‘internal migration as the primary reason for demand-driven increases in prices.’ Verdouw *et al.* (2021) noted that while demographic data is significantly lagging, anecdotal evidence shows demand has increased in the lead-up to the pandemic, supported by high migration rates to regions. Lawless (2022, p. 1) explained that ‘many employers across the relevant industries have implemented permanent hybrid working arrangements for staff which is likely to be supporting the stronger demand trend across regional Australia.’

However, this growth in regional NSW relative to Sydney is not evenly distributed in regional locations. The literature has yet to fully explore why price growth in regional NSW has outpaced that in Sydney and why some regional areas have experienced significantly higher price growth than others. A recent study suggests that the primary driver of housing demand in regional Australia is the attractiveness of living and working in these areas, emphasising that ‘policymaking needs to be approached from a

regional perspective, with the goal of making regional Australia an attractive place to live and work, rather than approached as a solution to metropolitan population pressures' (Crommelin *et al.*, 2022, p. 4).

A survey of homeowners across Sydney showed that 33 percent of those surveyed were likely to purchase a second home, compared with 17 percent who were less likely (Frank Knight, 2022). This observation has been emerging since 2016, of which Phillips and Joseph (2017) noted increases in ownership of vacant second dwellings across regional Australia. The desire for more indoor and outdoor space, proximity to green space, good quality of air, and views of nature are high on the attributes of the move to regional living and are highlighted as the primary rationale for second dwelling purchases. With the progressive reduction in housing and lot sizes in Sydney over the past decade, the option for more expansive living is far more attainable in regional locations. These factors have resulted in increased demand for regional housing as set out in Table 1, with reductions in the time-on-market halving in regional locations between 2017 and 2022, being close to the same as the time-on-market in Sydney by 2022.

Table 1. Changes in Housing Sales Data 2017 to 2022. Source: Knight Frank & REIA 2022.

	March 2017	March 2022
No of days on market – Greater Sydney	55 days	43 days
No of days on market – Regional NSW	118 days	50 days
No houses sold above \$3m in regional NSW	145	730
Annual capital growth in Greater Sydney	14.5%	22%
Annual capital growth in Regional NSW	10.5%	28%

Another factor identified in the demand for regional housing is telehealth services, which have origins pre-pandemic and were established in regional locations where shortages of medical practitioners have been prevalent for several years. Working remotely has also been a growing trend in regional locations, however has accelerated over the past two years. In summary, Verdouw *et al.* (2021, p. 11) describes these factors collectively as the 'lived experience' in regional locations. Education has been delivered via a number of remote learning approaches, with access to

broadband facilitating remote study and working. From state-determined border closures during the pandemic, the transition away from interstate homeownership of a second home to regional NSW is an evolving factor. Vij *et al.* (2022) cited the Commonwealth Grant Guarantee that commenced in the 2022–23 financial year to build 50,000 new home buyers as attracting additional demand to regional locations, including NSW. To be further defined in the literature are the most recent factors underpinning progressive migration to regional NSW, which is impacting demand, while on the supply side, the factors impacting the development of housing and bringing land into production remain opaque.

2. METHODS

The information used in determining the factors influencing movement in residential land values across regional NSW between 2017 to 2022 was sourced from the NSW Valuer General's Office and the NSW Department of Planning and Environment. Additionally, the factors that influenced land values and key drivers of demand and supply of housing were determined by distilling submissions made to the NSW Regional Housing Taskforce 2022. A thematic analysis was conducted on all 61 submissions to the Regional Housing Taskforce, consisting of 46 submissions from regional local governments and 15 submissions from developers and community housing providers across NSW (see Table 2 for submissions reviewed). This process involved keyword searching and grouping the main discussion points within the submissions.

The method used for this thematic grouping is based on Boyatzis (1998), which involves coding qualitative data into recurring themes to reveal patterns and insights. The themes identified helped develop a framework that aligns regional demand and supply factors, with residential land value changes across NSW from 2017 to 2022 as shown in Table 3.

Table 2. Submissions Reviewed. Source: NSW Regional Housing Taskforce 2021 submissions.

Regional Councils	Regional Councils
Glen Innes Severn Council	Singleton Council
Narrandera Shire Council	Parkes Council
Eurobodalla Shire Council	Narrabri Council
Port Macquarie Hastings Council	Wagga Wagga Council
Mid-Nth Coats Councils	North Star Council
Albury Council	Moore Council
Temora Shire Council	Blaney Council
Riverina Council	North Coast
Hawkesbury Council	Illawarra Council
Wollongong Council	Tamworth Regional Council
Lismore Council	Port Stephens City Council
Bathurst City Council	Shoalhaven City Council
Cowra Council	Lachlan Shire Council
Forbes Shire Council	Weddin Shire Council
Snowy Monaro Regional Council	Orange City Council
Ballina Shire Council	Developers/Community Housing
Coffs Harbour Council	Leda Holdings
City of Newcastle	Regional Development Australia
Queanbeyan Council	Regional Housing Taskforce
Kempsey Shire Council	Land Dynamics Australia
Dubbo Regional Council	Southern Youth and Family Services
Gunnedah Shire Council	Mid-North Joint Organisation
Richmond Valley Council	Homelessness NSW
Tweed Shire Council	Northern Rivers Joint Organisation
Byron Shire Council	Landcom NSW
Clarence Valley Council	Urban Perspectives
Mid-North Coast Council	Hunter and Central Coast Development Corporation
Blue Mountains Council	Southern Youth & Family Services
Central Coast Councils	Southern Cross Housing
Cabonne Shire Council	Local Govt NSW
Oberon Council	Community Housing Association NSW

Table 3. Key Factors and Average Residential Land Price Movements in Regional NSW Pre, During and After the Pandemic.

Region	Key factors impacting value	Ave LV 2017-2019	Ave LV 2020- 2022	LVs 2017- 2022
Sydney	Supply of land	10%	9.8%	9.9%
Hunter	Planning/infill development			
	Infrastructure alignment and sequencing			
	Shortage of rental properties			
	Affordable housing incentives	8.2%	31.2%	19.7%
	Housing diversity			
	Migration changes			
Central West	Housing diversity			
	Shortage of rental properties			
	Infrastructure alignment and sequencing	5.5%	12.4%	9%
	Affordable housing incentives			
	Cost of development			
New England / Nth Tablelands	Housing diversity			
	Affordable housing incentives			
	Infill development & supporting infrastructure	1.1%	17%	9%
	Shortage of rental properties			
	Community housing sector			
North Coast	Affordable housing incentives & requirements			
	Temporary housing			
	Shortage of rental properties	7.5%	22.7%	15.1%
	Tax and financial settings			
	Short term accommodation			
Riverina / Murray	Shortage of rental properties			
	Infrastructure alignment and sequencing			
	Skilled worker shortages	5.2%	15.2%	10.2%
	Housing diversity			
	Planning proposal process			
Illawarra	Infrastructure alignment			
	Affordable housing			
	housing diversity	11.3%	23.6%	17.5%
	Community housing			
	Migration increases			
South Coast	Shortage of rental properties			
	Short term accommodation			
	Temporary housing	8.9%	20.2%	14.6%
	Land banking			
	Housing diversity			

Table 4 presents a summary of the key points distilled from the submissions, ranking them according to their influence on housing supply and demand. These factors are discussed in detail, with an emphasis on those expected to continue shaping residential land values over the next three to five years.

Table 4. Factors impacting demand and supply. Source: NSW Dept Planning 2021.

Demand	Rank	Supply	Rank
Migration & population change	1	Short & long-term rental accommodation.	1
Workforce demand & employment	2	Housing diversity & land banking.	2
Short-term / emergency housing	3	Infrastructure alignment & cost of development.	3
House pricing and tax / financial settings	4	Planning proposal process & council resourcing.	4
Tax incentives & financial settings	5		

3. RESULTS AND DISCUSSION

This section draws a comparison between the factors that have influenced residential land values in regional locations and identifies distinguishing points by location that have impacted values over the study period. The discussion proceeds with an analysis of feedback on demand and supply, which are referred to as economic factors. Within each of these groupings, sub-factors underlying the economics have been identified and reviewed by region across NSW.

Factors Impacting the Demand for Housing in Regional NSW

The demand for housing across regional NSW from 2020 has primarily been driven by demographic change, with a net increase in flow noted to be in coastal regional and local government areas within a five hour's drive from Sydney. This trend commenced in 2019 and accelerated during the pandemic years of 2020–2021. It is highlighted by several regional local

governments that second homes have been purchased across respective local government areas, with owners commuting back and forth from Sydney.ⁱ A similar experience is noted among local government areas in northern NSW as alternative locations to living in the Queensland border towns of Coolangatta and Gold Coast.ⁱⁱ This has correspondingly impacted rents and the availability of rental property, resulting in low vacancy rates and high rentals, with many rental properties being absorbed as owner-occupied second dwellings. In these locations, the primary rationale for demand is largely stated to be driven by lifestyle decisions, also known as sea-change choices.ⁱⁱⁱ

Closely following the demand drivers mentioned earlier, the surge in regional civil infrastructure projects, such as Inland Rail, Snowy Hydro 2.0, and major road developments, has significantly influenced housing demand in NSW. These projects, distinct from housing infrastructure projects discussed later, are major contributors to workforce relocation and expansion in regional areas. The workforce that has been generated along the Inland Rail in NSW will exceed 10,000 by 2026, with business hubs and stops in Parkes, Narrabri, Wagga Wagga, North Star, Moree, and Narromine.^{iv} Snowy 2.0 will generate 4,000 jobs, while major road projects along the Pacific, Newell, and New England Highways have generated over 10,000 jobs. While the civil construction side of these projects is funded by the state and commonwealth governments, the demand for housing has impacted rental supply for both short-term employment and longer-term structural employment across several regional locations of NSW.^v The specific changes required in the type and availability of housing across regional NSW to accommodate these housing needs will be discussed in the subsequent section on supply factors.

Infrastructure projects generate demand for housing in two broad categories. The first is comprised of short-term housing requirements for rental purposes for workers involved in the construction phase of projects. The second category is housing for professional and para-professional workers who are employed in the operational running and the industries that support the infrastructure. Short-term housing to accommodate seasonal workers is most prevalent in local government areas that operate between three to five months per year in skiing and harvesting locations.^{vi} Located across the breadth of NSW is the ongoing need for short-term emergency housing to primarily address the phenomenon of natural disaster. There are locations that experience repetition of disasters, while others experience 1-in-10-years and 1-in-20-years climatic events. A number of these events are geographically contained, of which the

Northern Rivers region of NSW is susceptible to flooding, impacting several local government areas.^{vii} Bushfires are a natural disaster phenomenon, with less predictability of where these may occur across the state each year. The events of the past three years have resulted in higher demand for emergency housing across NSW.^{viii} Emergency housing requires terms of tenure exceeding two years, due to recovery and restoration of habitat needed in rebuilding communities and related infrastructure.

Taxation and financial factors are commonly referred to as impacting and more specifically fuelling the demand for housing for several reasons. The first addresses the impact of increased demand for housing resulting from benefits including capital gains tax concessions and negative gearing for investors, a factor highlighted by several stakeholders.^{ix} With differing levels of demand and rationales for investment, options for more tailored or localised taxation may be applied within and across different local governments. The progressive transition of traditional owner-occupied housing and rental accommodation has moved to short-term accommodation tailored for holiday lettings in northern NSW. Demand-driven land-banking tax reforms are defined by a number of local government areas, due to poor tax implementation and lack of political will for taxes that are administered at the state level.^x In assisting with tax measures for demand and rental stock shortfalls, a number of councils highlighted the benefits of tax incentivisation of rental deductions for low-income and emergency housing occupants.^{xi} Taxpayer subsidy is an alternate reform that may assist in the commonwealth government entry and contribution to housing while further measures are developed for incentivising build-to-rent options.

Factors Impacting the Supply of Housing in Regional NSW

Demographic change over the past five years has resulted in demand that has significantly outstripped the supply of housing across regional NSW. The progressive demographic change in the age of longer-term residents has impacted the need for independent-aged housing^{xii}. A major contributing factor impacting the supply of housing across the state is the increase and conversion of traditional longer-term rental housing to shorter-term Airbnb. This factor has absorbed housing occupied by single and aged couples at the lower end of regional housing markets, being a smaller type of accommodation.^{xiii} At the other end of the market, the impact of housing supply in Sydney has resulted in many Sydney residents

moving to larger regional locations across NSW, where rent is lower than in Sydney.^{xiv}

Several councils highlighted the competition between short-term visitor occupants and short-term workers and how the transition has evolved over the past five years. The rents for shorter-term residents are significantly higher than the rents that are paid by workers in service industries. This sheds light on the supply side of the stock being developed across many regional locations in NSW. It is further noted that many of the houses within regional locations are left unoccupied during periods the owners are living in other locations in NSW.^{xv} Before the pandemic between the years of 2016 to 2019, northern NSW councils noted an increase of between 200 percent and 360 percent in the conversion of long-term rental stock and owner-occupied housing to short-term rental accommodation.^{xvi}

Housing diversity (i.e., the type and availability of housing) is identified as one of the key factors impacting targeted housing supply and elicited the strongest feedback across the submissions examined. Housing diversity is impacted by a range of factors and its remedies are complex due to planning, cost, and development risk factors. While there is locational and demographic specificity of the type of housing required, the themes impacting supply are common across local governments, housing organisations, and developers. The concentration of single-dwelling houses as the primary form of new development on 600m² to 800m² blocks is dominant across regional NSW, with many regions lacking any form of zoning that permits density housing.^{xvii} Higher density housing forms, such as townhouses, which are frequently used for rental housing in metropolitan areas, are relatively uncommon across the regions. Novel approaches to a phase-in around health and medical hubs are seen as a transitional step to achieving progressive medium-density housing. It is also noted that in many local government areas with two to three bedroom houses, of these, one to two bedrooms remain unoccupied.^{xviii} A review of Home Warranty Insurance arrangements for new housing is needed to ensure that they support housing diversity, of which dual occupancy development is very attractive in rural areas; however, developers advise that from a Home Warranty Insurance perspective, they are treated as a multi-unit development, attracting prohibitive insurance premiums.^{xix} It is highlighted that in regions, developers require a higher margin or returns to compensate for added risk. These risks include:^{xx}

- Planning uncertainty—time/cost/uncertainty involved in getting planning approvals

- Planning constraints—limiting yield (e.g., impose yield limits, minimum areas etc.)
- Sales rates—often slow, which means that it is difficult to pay down peak debt
- Generally much lower housing prices than in Sydney despite many costs being the same.

The privatisation of land release and the lack of government influence to promote release of land has adversely impacted the commencement of infrastructure across regional NSW.^{xxi} In contrast, some developers note a lack of local government planning as being the cause of infrastructure shortfalls. The most common cause identified with infrastructure delivery is the timing and alignment of infrastructure with new housing development.^{xxii} Housing diversity with affordability is being driven more by land costs than building costs, and it is important to ensure that there are mechanisms in place that ensure a diverse range of higher-density dwellings are built in locations that are well-served by infrastructure and close to places of employment.^{xxiii} In contrast, it is stated that infrastructure provision by the Council is not currently a capacity constraint on housing supply in Ballina Shire; the bigger issue is the construction worker shortage that impedes the development of housing after land has been approved and subdivided.^{xxiv}

The planning approval process remains one of the key reforms needed in driving the supply and type of housing needed across regional NSW. It is noted that the planning approval process represents a significant cost for community housing developments. Despite proposals being fully compliant with planning requirements, community housing providers have experienced unnecessary delays and protracted approval processes.^{xxv} In addition to the approval process, it is noted that long and protracted consultation periods dealing with a minority of objections can continue into the development phase itself, adding additional risk and delays that translate into additional costs.^{xxvi} In responding to this, it is suggested that responding to objections to development be handled separately from the authority charged with the task of assessing and approving development.

Despite much of the focus being on the planning process, the supply of housing is also defined as being at the discretion of developers who engage in land banking and drip-feed release of housing stock. Planning approvals have routinely exceeded dwelling construction, and developers regularly reduce the rate at which they supply housing even when they hold surplus

approvals.^{xxvii} This brings into play tax incentives and financial settings which sit across demand and supply factors. In considering this matter, which extends to cover housing prices and rental supply and costs, it is highlighted that the Commonwealth has an important role to play in the provision of these incentives that fuel investment in housing over other investment forms.^{xxviii} It is further suggested that land held, zoned, and approved for housing development should be subject to different taxation measures compared to the taxes imposed on housing owners and investors, potentially easing the housing supply shortage. In order to bring land that is ripe for development into production, tax settings need to be adjusted to promote the development of land in lieu of land banking.^{xxix} The advent of tax incentives to promote build-to-rent provides additional factors to be considered next in options for reform.

Factoring Demand and Supply into Land Values

The demand and supply factors that impact land values, as set out in Table 3, are apparent prior to the 2020–2021 pandemic. During the three-year period prior to the pandemic, the Illawarra region was the only region where residential land values grew marginally faster than Sydney, with the Hunter and South Coast about 10 to 20 percent lower. In contrast, during the pandemic and the year following (2020–2022), residential land values in all regions of NSW grew faster than those in Sydney. During this period, four regions of NSW surpassed Sydney by more than double. Further, Figure 2 exemplifies the increasing demand for housing, following the pandemic in 2022, in which the increase in land values in all regions exceeded Sydney by three times, except for the Central West region.

Recurring themes of the key factors contributing to increases in land values in Table 4 were identified in the previous section. The shortage of rental property, the conversion of housing to short-term accommodation, lack of housing diversity, and lack of commitment in planning to facilitate new housing impact supply. With demand driven by an increasing shortage of emergency housing, migration to regions with lifestyle changes and increased short-term workers on infrastructure projects are the key contributing factors to increases in demand for housing. Factors on both the demand and supply side of housing are structural, with no foreseeable short-term strategy for addressing the supply of housing in the short- to medium-term.

4. CONCLUSION AND OPTIONS FOR REFORM

It has been well documented in the submissions reviewed that the demand for housing outstrips the supply as well as the diversity of housing required to address demand in servicing the communities and industries in regional NSW. This brings into play options for reform that set the parameters that would promote the supply of housing across regions of NSW. A raft of reforms is set out in the submissions reviewed as well as across housing tax policy reform discourse in NSW and Australia. These reforms will shape the supply and influence growth and the value of land over the medium term. In recapping, the points driving demand are the structural change noted post-pandemic, with an increased number of people working from home and the demand for second dwellings within five hours drive of Sydney. This factor is also noted in the demand for housing in Northern NSW, with residents living within a three-hour drive covering demand for housing in the Gold Coast/southern Queensland regions seeking cheaper housing alternatives and second homes. Further adding to demand is the transformation of long-term rental housing into short-term rental stays, coupled with an aging profile of residents across regional NSW, impacting the diversity of housing needs that are not materialising in the proposed housing supply pipeline.

In addressing the factors identified, several constructive and structural reforms have been made and are covered in the submissions reviewed:

- i. The NSW Government could provide the upfront capital to deliver the infrastructure with the return on their investment being the provision of affordable housing. The Housing Working Group (HWG) suggests (subject to viability) the application of 20 percent of development yield to be allocated to affordable housing in such circumstances.
- ii. Where land banking is not caused by infrastructure funding or planning delays, the Government should enable councils to apply higher council rate charges on vacant residential land. This would discourage land banking, and the additional funds raised could be directed to helping fund affordable housing projects. Alternatively, the NSW Government could implement a sunset clause on vacant land development requiring development to proceed in a timely manner. Where the land development does not meet the set timeframes, the land would revert to rural zoning. This would encourage

- developers to bring residential lots into production and onto the market.
- iii. Typically, strategic urban development in the Northern Rivers region, as noted in the Northern Rivers Joint Organisation (NRJO) submission to the NSW Regional Housing Taskforce, is constrained by environmental and infrastructure limitations. To address instances where the private sector delays the timely development of land, the Government could strengthen compulsory acquisition powers to enable local government or Landcom to purchase such sites and proceed with development. As the main risks associated with greenfield development are regulatory and finance-related, these could be readily managed by the Government. Potential conflict of interest issues could be adequately addressed by the establishment of appropriate governance arrangements.^{xxx}

While the overall picture is for growth, a number of risks to housing supply that impact land values include the increasing cost of money, labour, and commodities required in the rural sector. In contrast, the opportunity and strong demand and buoyancy of the rural sector should outweigh these factors in the foreseeable short to medium term. Further, the demand for residential property and the limited supply of housing in regional NSW will continue to place pressure on prices and land values across NSW compared to Sydney. This is supported by sustained structural change driven by remote working, coupled with the desire for an improved lifestyle and more living space. This position is supported by the relative differential in price and affordability of housing in cities, particularly Sydney, versus the price of housing in regional NSW.

Residential land values within defined locations, with the advent of Special Activation Precincts initiated by the NSW Government in 2018, introduced a regional development plan that has begun positively impacting rural, business, and residential property values around six new business hubs. These precincts are located across NSW in Parkes, Moree, Narrabri, Williamtown, Wagga Wagga, and Snowy Mountains. These initiatives commenced prior to the pandemic, with the advent of Metro Satellite towns underway within business hubs in Coffs Harbour, Bathurst, Orange, and Parkes. These hubs further contribute to increases in residential land values and surrounding rural land values, with several growth industries in health, aged care, and telecommunications.

While the immediate challenge focuses on housing demand and supply and its impact on land values and housing, the objective of economic stimulation across regional NSW is being achieved. This has created opportunities and reforms that both state and commonwealth governments play an integral role in supporting. This extends to crafting housing supply opportunities through planning and property tax reforms at the state level. At the Commonwealth level, the manner in which income tax, which encompasses capital gains tax concessions and tax expenditures, including deductions for negative gearing, are among the key policy reforms to be addressed. Incentivising benefits for workers, long-term rental accommodation, and tax benefits crafted specifically for regional locations are reforms to be addressed in the next phase of housing and regional development.

Looking ahead, the supply and demand for regional housing will continue to grow. The unique lifestyle and characteristics offered by regional areas have attracted considerable attention from urban dwellers, particularly during the pandemic. However, as many employers now require employees to return to the office, this shift could lead to reduced demand for regional housing and slow land value growth. Nevertheless, the long-term impact of this return to office may not be as significant as expected, as flexible and hybrid working models continue to be embraced by many industries, allowing individuals to maintain their preference for regional living without fully returning to urban centres. This sustained demand, even if somewhat reduced, could prevent a dramatic retreat in regional housing values.

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Endnotes

- ⁱ Regional Housing Taskforce (LGA's Port Macquarie, Newcastle, Lake Macquarie, Central Coast, Cessnock Goulburn, Shoalhaven, Upper Lachlan Shire, Eurobodalla, Yass Valley, Wollongong).
- ⁱⁱ Regional Housing Taskforce (LGA's Tweed, Byron, Ballina, Clarence Valley, Coffs Harbour, Bellingen Nambucca).
- ⁱⁱⁱ Tweed, Byron, Ballina, Clarence Valley, Central Coast Councils
- ^{iv} Parkes, Narrabri, Wagga Wagga, North Star, Moree.
- ^v Parkes, Snowy Monaro, Coffs Harbour, Narrabri Councils.
- ^{vi} Snowy Monaro, Riverina, Blaney, Coffs Harbour.
- ^{vii} Tweed, Byron, Ballina, Clarence Valley.
- ^{viii} North Coast, Mid North Coast, the Hunter Region, Hawkesbury, Blue Mountains, Illawarra and the South Coast, Riverina and Snowy Mountains.
- ^{ix} Wollongong Council and Local Government NSW.
- ^x Tweed Shire and Byron Local Government Area.
- ^{xi} Eurobodalla and Riverina Local Governments.
- ^{xii} Tweed Shire Council, Glenn Innes Severn Council.
- ^{xiii} Southern Youth and Family Services, Regional Development Australia, Port Macquarie Hastings Council.
- ^{xiv} Homelessness NSW, Northern Rivers Joint Organisation.
- ^{xv} Ballina Shire Council, Snowy Monaro Regional Council.
- ^{xvi} Ballina Shire, Byron Shire, Tweed Shire Councils, Coffs Harbour.
- ^{xvii} Tamworth Regional Council, Singleton Council, Northern Rivers Joint Organisation, Byron Shire Council, Shoalhaven City Council, Port Stephens City Council.
- ^{xviii} Lismore Council, Central Coast Council.
- ^{xix} Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Oberon, Orange, Parkes, and Weddin Councils.
- ^{xx} Landcom NSW.
- ^{xxi} Tweed Shire Council & Glenn Innes Severn Council.
- ^{xxii} Port Macquarie Hastings Council
- ^{xxiii} Port Macquarie Hastings Council
- ^{xxiv} Ballina Shire Council
- ^{xxv} Community Housing Association NSW,
- ^{xxvi} Southern Cross Housing, Tweed Shire Council, Landcom NSW.
- ^{xxvii} Local Government NSW, Landcom NSW.
- ^{xxviii} Byron Shire Council, Regional Development Orana NSW.
- ^{xxix} Local Government NSW, Landcom NSW, Lismore City Council.
- ^{xxx} Northern Rivers Joint Organisation