



AN ALTERNATIVE SOLUTION TO AUSTRALIA'S REGIONAL HOUSING CHALLENGE

THE RESIDENTIAL PARK MODEL

Sasha Lennon and Rodger Gibbins

Data published by policy think-tanks including the Regional Australia Institute and the Centre for Population, shows that Australia is experiencing an unprecedented net shift in migration from the cities to the regions. While offering obvious opportunities for economic development, this trend is serving to accentuate a particular problem that has long existed, that being regional Australia's housing challenge.

In our experience preparing economic development strategies throughout rural, regional and remote Australia, where we've engaged with diverse communities, all with unique attributes, needs, challenges, aspirations and sensibilities, community consultations invariably highlight the critical issue of the availability and affordability of suitable housing.

It is well documented (AHURI, May 2022 and Rural Councils Victoria, December 2021) that housing shortages are a major factor in the inability of our regions to attract the workers that are needed to run and expand the economy. These workers are required across all sectors at all skill levels – to bring in the harvest as well as to provide professional services to the population.

The current housing situation limits our regions' capacity to attract households, and this suppresses potential investment in business establishment and expansion due to labour and professional services shortages. Taken together, these factors can create a downward spiral in the fortunes of a town or region as the population, which has the potential to grow, instead declines, with services

becoming unviable to the point where they are inevitably withdrawn.

THE OPERATION OF HOUSING MARKETS IN REGIONAL AUSTRALIA

New home building in regional Australia has not kept pace with population growth over the long term and as a result, a regional housing shortage has been accumulating over several years (Regional Australia Institute, December 2021). The crux of the problem is the supply side of the housing market, where the diversity of housing needs is not catered for. Housing supply tends to be restricted to a trickle of large, detached houses on fully serviced blocks. Regulations specify that new subdivisions must have sealed roads, kerb and channel, sewer and all services. Lots are in some instances required to be large and often minimum housing standards are specified.

Given the costs involved in complying with these regulations, landowners tend to hold out until the shortage becomes so acute that prices inflate to a point where subdivision is financially viable. This only serves to accentuate a lack of housing affordability. These dynamics are confirmed in the *Rural Housing Victoria Blueprint* report, which found:

- Rural areas are characterised by smaller developers who have no incentive to innovate.
- Land withholding is a widespread issue, with owners inclined to drip feed local markets to keep profit margins up.
- Relatively few locations in rural areas can support small scale multi-unit development.

The housing situation in regional, rural and remote Australia is a classic case of 'market failure' in that supply does not align with demand. New housing often caters for only one sub-market – the fully employed household with an above-average income. Sub-markets that are not adequately catered for include:

- Households with a below-average income.
- Downsizers including those looking for a 'sea-change' / 'tree-change' or existing residents wanting to age in place.
- Single person households.
- Renters.
- Transitory and seasonal workers.

While housing in regional areas is generally more affordable relative to the capitals in terms of 'price to income ratios' (Regional Australia Institute, December 2021), generally incomes in the regions are lower. Overall, 24.2% of households in Australia's capital cities earn a high income and 16.3% are low-income households, compared with 14.5% and 21.4% respectively for regional Australia (source: profile.id.com.au/Australia). This affects the ability to buy and to rent. Nationally, rental vacancy rates are at all-time lows, below 3%.

TOWARDS A SOLUTION

While there are many reports on the regional housing situation (e.g. Regional Australia Institute, December 2021 and Rural Councils Victoria, December 2021), the solutions offered on the diversity of housing supply issue invariably gravitate towards encouraging medium density units and apartments. This of course is

necessary but not sufficient, in that the cost of producing such housing in the regions is the same if not more than in the capital cities.

One example of an attempt to provide more affordable housing cited by the Regional Australia Institute is the Osprey Village in Port Hedland in Western Australia, which provides 293 affordable rental homes and community facilities for key workers through a partnership between the WA Government and a construction company. However, a government enquiry (Government of Western Australia, 2018, Osprey Village Report) found *'The rushed nature of this project resulted in a number of key decisions being made prior to the setting of any formal governance structure. All up, the project cost the Government \$95 million more than expected'*. It was noted that no proper business case had been prepared. This highlights the potential risks involved in embarking upon 'innovative' solutions without proper planning.

It is well documented (AHURI, May 2022 and Rural Councils Victoria, December 2021) that housing shortages are a major factor in the inability of our regions to attract the workers that are needed to run and expand the economy. These workers are required across all sectors at all skill levels – to bring in the harvest as well as to provide professional services to the population.

A pointer towards a viable solution lies in the Regional Australia Institute report (December 2021) where it advocates *'an additional policy consideration is the role of state and local regulations and zoning to make temporary and relocatable housing more readily available to quickly respond to sudden increases/shocks'*. In considering this approach, the first step is to accept the reality that rural housing standards are a legacy of the past, and the prevailing housing standards in many

towns are 'basic' at best. Many houses are quite small and are constructed of timber or asbestos cement sheet. It is common for services to be commensurately basic with:

- Gravel or single lane bitumen roads with no kerbs and channels or footpaths.
- Swale drains.
- Overhead power supply.
- Septic tanks in lieu of piped sewer.

Housing in these situations remains eminently habitable and provides adequate levels of comfort, health and safety. There is no good reason to deny households access to housing of this type if that's all they can afford. Of course, it can be argued that some rural housing is 'sub-standard' in terms of energy efficiency and related matters, and this should not be replicated.

The solution lies in developing housing outcomes that align with the diversity in housing needs. These needs range from affordable 'backpacker' accommodation, through 'holiday park' style dwellings to 'modular' family homes. There are servicing solutions that offer significant savings when compared to what might arguably be termed 'gold plated' subdivisions.

It is clear that the traditional modes of housing supply are not working to address regional housing shortfalls. Dwellings on individual titles, whether they are separate houses, medium density units or apartments, are over specified in terms of building standards and infrastructure. Addressing the lack of affordability and diversity must consider alternative models and pointers to these may be found in examples of alternative development forms.

There are in fact several alternative housing models that provide affordable housing to suit particular circumstances. These include retirement villages, resorts, caravan/holiday parks, contractor's camps and residential parks. The common theme in these models is that they are based on common property with various tenure arrangements for residents. All are subject to state government legislation and guidelines to protect resident interests.

Of these options, the residential park model applies to a broader client group and appears to offer a viable solution to the problem at hand.

Figure 1. Examples of 'Typical' Regional Housing



Sources: Google Images and Unsplash

THE RESIDENTIAL PARK MODEL

The features of this housing model are:

- **Tenure** – Residents own their moveable dwelling and rent the site from the park operator who either owns the land or has an agreement to operate the residential park on land leased from the local Council. (To ensure long-term security of land tenure, the Council would ideally purchase and lease the land for the purpose of operating a residential park. This would mitigate the risk to park residents having to vacate the park if, for example, their site rental agreement is terminated because the park owner decides to redevelop the park or use the land for another purpose). Dwellings may be purchased from the park operator or externally. Tenure is secured by a 'site agreement' which can cover matters such as use of the park's shared facilities and common areas. Each park has its own rules and regulations, which cover things such as rent/fees, noise, parking, visitors and pets. State governments issue guidelines on agreements and the legislation that applies. A secondary market may exist.
- **Clientele** – Can include tree-changers, sea-changers, locals looking to age in place and low-income households.

Some parks are marketed and operated as retirement villages.

- **Dwellings** – Own moveable dwelling (mobile home).
- **Utility Services** – Often basic with single lane driveways, swale drains, sewer connections, power and water supply. This is a similar standard to caravan parks and communal facilities are often provided.

It is recognised that regional areas vary widely in terms of:

- Their economic base, be it agriculture, mining, tourism, etc.
- Their role as a major service centre or a small town or otherwise.
- Remoteness.
- Whether they are experiencing contraction or expansion.
- Proximity to capital cities.
- Availability of infrastructure and community support services.

However, the housing availability and affordability issues are often similar to those described above and the residential park model, if it is to be applied, will require tailoring to particular circumstances. An illustration of how it might be applied in an hypothetical case study follows.

A CASE STUDY

Consider a regional town where housing availability and affordability issues are well appreciated and all options to induce a supply response have been exhausted. The Council, supported by the community, seeks a solution and a landowner adjacent to the town proffers an idea, to develop a residential park along the following lines:

- The landowner with Council support, or ideally, the Council as the landowner, will prepare a concept plan for a residential park accompanied by a community services plan and an infrastructure plan. Note that the concept plan may be based on medium or low density depending on land suitability. The infrastructure will be the basic standard required for health, safety and amenity.
- The landowner will prepare a business plan dealing with implementation including compliance with legislation, regulations and guidelines. The business plan will:
 - o Develop a cost benchmark for each of the proposed 1BR, 2BR, 3BR and 4BR dwellings that covers the cost of dwelling procurement and infrastructure.
 - o Develop a management plan dealing with dwellings

procurement, site operations and maintenance, rent and fees policy and sale or rent policy.

- o Demonstrate that dwellings will be provided at affordable rents while at the same time achieving a commercial yield to ensure feasibility.
- The landowner will procure a number of dwellings for Stage 1. These may be built on site (providing local labour is available) or they may be modular prefabricated buildings (see Figure 2 below).

The dwelling shown in Figure 2 is supplied with the following inclusions:

- Fully insulated.
- All kitchen appliances.
- Split system air-conditioning and ceiling fans.
- Built-in robes.
- Tiles and floor coverings.

- Fees and insurance.
- Footings.
- Delivery and crane.
- Erection on-site.

The dwelling is provided on a 'move-in' basis with the only additional items being window coverings and connection to services (power, sewer (or septic), water and telecommunications).

An alternative to the above approach is for the landowner to gain approvals and provide the basic infrastructure that is required. Sites would then be rented to residents who would source their own moveable dwellings. There could be a combination of the two approaches.

FINANCIAL CONSIDERATIONS

While the financial equation will vary depending on the location (remoteness, availability of services, etc.), analysis undertaken by the authors suggests an indication of the finances is:



The cost of a 3-bedroom modular dwelling as shown in Figure 2 'ex-gate' is \$200,000.



A conservative allowance for site development and services is \$40,000.



Transport cost for 100km is \$665.



Total dwelling cost is \$257,165.



Onsite labour cost for erection with accommodation for workers is \$16,500.



Rent is assumed to be 8% of capital cost, which is \$20,573 per annum or \$396 per week. This covers 3% for outgoings and 5% for profit.

Source: SC Lennon & Associates

Figure 2. Modular Housing Examples



Modular Housing

3BR 81.1 sqm
3 Bedrooms, 2 Bathrooms, Deck 15.4 sqm
Supplied fully erected on a 'move in' basis.

Source: Direct Portable Buildings



Source: Direct Portable Buildings



Source: Direct Portable Buildings

Rent at \$396 per week for a good quality 3-bedroom home is affordable for many households. Applying the same approach to a 2-bedroom home, the rent is \$275 per week and for a 4-bedroom home it is \$475 per week.

SUMMARY AND CONCLUSION

It is widely recognised that housing availability and affordability issues adversely affect regional Australia by reducing the ability of regions to attract workers and investment, with unfavourable consequences for the regional economy and community. Housing markets fail to produce the dwellings that are required to meet the diversity of demand.

While there is a desire to address these issues at all levels of government, current proposals tend to act at the margin and are unlikely to bring about real change. It is time to think outside the box. The separate title model of housing supply with its 'gold plated' infrastructure requirements is not working. It is time to look at alternative approaches.

A potential solution lies in the 'residential park' model, which is a tried and tested approach that can be expanded and adapted to most regional settings. There is a prima facie case that such a model can produce good quality housing at affordable prices, and rents and can generate good returns for landowners and developers. Importantly, local Councils can be proactive by identifying existing Council-owned land or purchasing land for the purpose of providing residential parks to help address the regional housing crisis.

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It is recommended that governments investigate the application of the residential park model to regional settings and produce an appropriate regulatory response accompanied by initiatives to promote the concept and to facilitate implementation in regional communities. The future of regional Australia relies on the pursuit of innovative approaches like this in order to help solve our national housing challenge.

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