

Inquiry into housing affordability and supply in Australia

**House of Representatives
Standing Committee on Tax
and Revenue**

LGASA Submission

September 2021

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Executive Summary

This submission is separated into two sections:

1. The first section provides analysis of the major factors affecting housing supply and affordability in the Greater Adelaide Planning Region and describes some of the initiatives being undertaken by metropolitan councils to alleviate housing affordability challenges.
2. The second section provides insights into the severe housing supply shortages being experienced in regional South Australia and describes the actions some councils and the South Australian Regional Organisation of Councils (SAROC) Committee of the Local Government Association of South Australia (LGASA) are taking to alleviate these supply shortages.

Experience of Metropolitan Councils

The South Australian Government's Land Supply Report for Greater Adelaide establishes that even under a high-growth population scenario, in the period to 2030 and under existing planning and zoning policies, the Greater Adelaide Planning Region has more than sufficient supply of greenfield and urban infill land available to facilitate development of the estimated housing demand.

However, many metropolitan councils report that housing affordability remains a significant challenge for many of their residents. Councils receive few development applications featuring smaller, more affordable 1 and 2-bedroom dwellings and apartment buildings, or granny flat buildings on existing allotments, despite planning policies supporting this type of development.

Solutions being explored or implemented by metropolitan councils include public-private partnerships with community housing providers and 15 per cent minimum affordable housing requirements for residential developments on surplus council-owned land.

Experience of Regional Councils

In recent years regional South Australia has experienced severe housing shortages. These shortages have been exacerbated by several factors associated with the COVID-19 pandemic and are now so severe that in some areas they are threatening to stifle employment growth and the significant investment pipelines calculated for each of South Australia's geographical regions.

Many factors have contributed to these severe shortages, including lack of investment in housing in regional areas over many decades, properties in tourism destinations converting to Airbnb, investment in regional housing not supporting a commercial return for private developers, bank Loan-to-Value Ratios considerably higher than those applied in metropolitan areas, and a decline in the number of suitably skilled builders and tradespeople due to an ageing workforce.

Intrastate migration to regional areas coinciding with the COVID-19 pandemic, in conjunction with the stimulatory infrastructure response to the COVID-19 recession (including the Commonwealth Government's HomeBuilder program) has placed further pressure on regional real estate markets and contributed to many trades and material shortages, adversely affecting the supply of resources available for regional residential construction.

In response, some councils have partnered with community housing providers, South Australian Government agencies and the National Housing Finance and Investment Corporation (NHFIC) to facilitate residential housing development directly, while the SAROC Committee of the LGASA has commissioned the development of a Regional Housing Policy Toolkit, designed to consolidate advice on innovative policy options currently available to regional councils seeking to facilitate residential development, and provide an advocacy agenda for the SAROC Committee to take to other levels of government.

Introduction

About the Local Government Association of South Australia

The LGASA is the voice of local government in South Australia, representing all 68 councils across the state and the Anangu Pitjantjatjara Yankunytjatjara.

The South Australian *Local Government Act 1999* recognises the LGASA as a public authority for the purpose of promoting and advancing the interests of local government. The LGASA is also recognised in and has prescribed functions in 29 other South Australian Acts of Parliament. The LGASA provides leadership, support, representation, and advocacy relevant to the needs of our member councils.

The LGASA is a strong advocate for policies that achieve better outcomes for councils and the communities they represent. The LGASA welcomes the opportunity to provide a submission to the House of Representatives Standing Committee on Tax and Revenue's Inquiry into housing affordability and supply in Australia.

Inquiry Terms of Reference

The House of Representatives Standing Committee on Tax and Revenue has established the Inquiry into housing affordability and supply in Australia to investigate and report on the contribution of tax and regulation on housing affordability and supply, including the following considerations:

- Examine the impact of current taxes, charges and regulatory settings at a Federal, State and Local Government level on housing supply;
- Identify and assess the factors that promote or impede responsive housing supply at the Federal, State and Local Government level; and
- Examine the effectiveness of initiatives to improve housing supply in other jurisdictions and their appropriateness in an Australian context.¹

In developing this submission, the LGASA has sought and received input from member councils and has included references to ongoing work being conducted through the SAROC Committee of the LGASA.

This submission includes insights and assessments of many of the major barriers to housing affordability and housing supply in South Australia – including regulatory and taxation considerations explicitly raised in the Inquiry's terms of reference – and provides references to solutions being pursued by individual councils and through the SAROC Committee.

This submission is separated into two sections:

1. The first section provides analysis of the major factors affecting housing supply and affordability in the Greater Adelaide Planning Region and describes some of the initiatives being undertaken by metropolitan councils to alleviate housing affordability challenges.
2. The second section provides insights into the severe housing supply shortages being experienced in regional South Australia and describes the actions some councils and the South Australian Regional Organisation of Councils (SAROC) Committee of the Local Government Association of South Australia (LGASA) are taking to alleviate these supply shortages.

¹ https://www.aph.gov.au/Parliamentary_Business/Committees/House/Tax_and_Revenue/Housingaffordability/Terms_of_Reference

LGASA Commentary

1. Experience of Metropolitan Councils

The experience in metropolitan Adelaide can be neatly separated into housing supply and housing affordability considerations. Each is dealt with below.

Housing Supply in Greater Adelaide

The South Australian Government's Planning and Land Use Services (PLUS) periodically conduct a Land Supply Report for Greater Adelaide. This report: "provides a point in time analysis of residential and employment land development trends, projected demand and land supply in Greater Adelaide. This information ... [is] used as an evidence base to determine the capacity of the land use planning system to provide an adequate supply of appropriate land to meet market demand."²

The current Land Supply Report was published in June 2021 and is applied to the period 2020-2030. For its purposes the Greater Adelaide Planning Region includes the Adelaide Hills, Fleurieu Peninsula, Murray Bridge, Northern Plains and Barossa areas.

Based upon analysis of previous urban residential development trends over the period 2010-2020, the Land Supply Report estimates the likely future demand for residential dwellings in the Greater Adelaide Planning Region – based upon likely population growth scenarios – and divides these demand figures into the estimated demand for greenfield and urban infill dwellings. The Land Supply Report then compares these figures to the available land supply for each dwelling type.

When calculating the available land supply, greenfield land is separated into broadhectare land in existing residential zones, and broadhectare land identified for future urban growth in *The 30-Year Plan for Greater Adelaide - 2017 Update*.³ For urban infill developments the supply of available land is calculated by taking into consideration current zoning and planning policies, as well as the economic incentive to demolish existing dwellings and subdivide blocks for infill development.⁴

The Land Supply Report estimates that according to a medium-growth population scenario, the Greater Adelaide Planning Region will require 63,600 additional residential dwellings by 2030, rising to 88,800 under a high-growth scenario.⁵ This converts to an estimated demand for 20,400 greenfield dwellings under a medium-growth scenario and 28,400 under a high-growth scenario,⁶ and 41,550 urban infill dwellings under a medium-growth scenario and 58,500 under a high-growth scenario.⁷

In meeting this demand, the Land Supply Report documents that there are 82,000 lots available for greenfield developments on residential zoned land (126,000 lots if future urban growth areas are included), more than enough to meet the high-growth demand for 28,400 greenfield dwellings by 2030.⁸ Similarly, the 68,200 dwellings which the Land Supply Report estimates are available to be developed through urban infill (supported by current planning and zoning policies) are more than adequate to meet the high-growth demand of 58,500 for urban infill dwellings by 2030.⁹

² PlanSA, *Growth Management Program – Land Supply Report for Greater Adelaide: Background and Context*, Attorney General's Department, Government of South Australia, June 2021, p. 1, https://plan.sa.gov.au/_data/assets/pdf_file/0003/830982/Land_Supply_Report_for_Greater_Adelaide_-_Background_and_Context.pdf

³ PlanSA, *Growth Management Program – Land Supply Report for Greater Adelaide: Part 1 Greenfield*, Attorney General's Department, Government of South Australia, June 2021, p. 1, https://plan.sa.gov.au/_data/assets/pdf_file/0005/830984/Land_Supply_Report_for_Greater_Adelaide_-_Greenfield.pdf

⁴ PlanSA, *Growth Management Program – Land Supply Report for Greater Adelaide: Part 2 Urban Infill*, Attorney General's Department, Government of South Australia, June 2021, p. 21, https://plan.sa.gov.au/_data/assets/pdf_file/0006/830985/Land_Supply_Report_for_Greater_Adelaide_-_Urban_Infill.pdf

⁵ PlanSA, *Growth Management Program – Land Supply Report for Greater Adelaide: Background and Context*, p. 22.

⁶ PlanSA, *Growth Management Program – Land Supply Report for Greater Adelaide: Part 1 Greenfield*, p. 5.

⁷ PlanSA, *Growth Management Program – Land Supply Report for Greater Adelaide: Part 2 Urban Infill*, p. 20.

⁸ PlanSA, *Growth Management Program – Land Supply Report for Greater Adelaide: Part 1 Greenfield*, p. 2.

⁹ PlanSA, *Growth Management Program – Land Supply Report for Greater Adelaide: Part 2 Urban Infill*, p. 21.

This analysis firmly suggests that the planning policies affecting land use for residential development in the Greater Adelaide Planning Region are not likely to have an adverse effect on housing supply in the period to 2030.

Housing Affordability in Greater Adelaide

Despite estimates from the Land Supply Report that planning policies will more than adequately facilitate the demand for residential dwellings in the Greater Adelaide Planning Region in the period to 2030, many metropolitan councils report that housing affordability remains a significant challenge for many of their residents.

Some metropolitan councils have reported that few affordable housing options¹⁰ are contained in the development applications they receive. Councils note that under the Affordable Housing Overlay – contained in the South Australian planning system’s Planning and Design Code – developers are only required to include a 15 per cent proportion of affordable housing options if the development involves at least 20 dwellings or allotments.¹¹ Councils report that many development applications include fewer than 20 allotments and therefore avoid affordable housing requirements.

Some metropolitan councils report that although planning policies support the development of smaller 1 and 2-bedroom dwellings and apartment buildings, as well as granny flat buildings on existing allotments, councils are not receiving many development applications for this type of dwelling. Councils are uncertain whether the absence of interest in these types of dwellings is driven by developers or buyers.

Solutions put forward by metropolitan councils to increase the supply of affordable housing options include public-private partnerships with community housing providers, in which councils collaborate with the South Australian Government to provide land and essential service infrastructure, and community housing providers develop and manage the rental residential properties on behalf of councils.

Case Study – City of Salisbury

The City of Salisbury’s *Affordable Housing Implementation Plan 2020* notes that Council’s “population experiences higher rates of socioeconomic disadvantage when compared to many other areas.” This has meant:

- 48 per cent (23,900) of households across the city obtain a weekly income of less than \$1,250 and cannot afford a typical 3-bedroom house with a single garage in a new land division project.
- Housing stress is disproportionately experienced by those members of the community who are renting, with 34.3 per cent (4,974) of the City of Salisbury’s renting households experiencing rental stress compared to 31.9 per cent in Greater Adelaide.¹²

A critical part of Council’s solution to this problem has been the 2012 implementation of its Affordable and Community Housing Policy – Development of Surplus Council Owned Land.

This policy effectively matches the South Australian Government’s affordable housing policy and commits to a minimum of 15 per cent affordable housing options when surplus Council-owned land is developed for residential purposes and where the site is considered appropriate (i.e., those sites considered to have good access to public transport, activity centres and community services). Where a

¹⁰ Housing is conventionally considered ‘affordable’ if the rent or repayment costs of the tenant/owner are less than 30% of the gross household income for low and moderate income earners. See explanation under ‘What is affordable housing’ at: <https://www.sa.gov.au/topics/planning-and-property/land-and-property-development/planning-professionals/developer-responsibilities-for-affordable-housing>

¹¹ See explanation of the Affordable Housing Overlay at: https://code.plan.sa.gov.au/home/browse_the_planning_and_design_code?code=browse

¹² City of Salisbury, *Affordable Housing Implementation Plan 2020*, p. 17, <https://www.salisbury.sa.gov.au/council/council-plans-and-documents/city-management-plans/affordable-housing-implementation-plan>. See also: ECM 4712013 v1 Affordable and Community Housing Policy - Surplus Council Owned Land ([salisbury.sa.gov.au](https://www.salisbury.sa.gov.au))

site is not considered appropriate for the provision of affordable housing, any shortfall may be provided in subsequent developments.¹³

The *Affordable Housing Implementation Plan 2020* documents that under this and other Council policies, every strategic development project seeks to deliver a broad set of objectives:

- Realise development profit returning a commercial return to pay down debt and increase Council financial capacity to fund major capital projects.
- Delivery of a range of living options, including affordable housing that provides housing choice for the Salisbury community of all ages, backgrounds and budgets.
- Demonstrate best practice design with a high attention to detail setting an improved standard for infill development in Salisbury.
- Integration of projects with the existing community and provision of improved connection and open space areas for new and existing residents.
- Use of Council land holdings to build a pipe-line of projects that support the region's economic growth and local construction industry, creating local jobs for local people.
- Partnering with appropriate agencies to deliver social outcomes in terms of access to services and affordable housing for target groups.¹⁴

The Development of Surplus Council Owned Land policy and other initiatives undertaken by the City of Salisbury have delivered a range of low cost and affordable housing solutions including:

- 15 shared equity model affordable homes delivered including 11 homes at Brahma Green, Brahma Lodge where eligibility criteria were set to prospective purchasers and four homes at Greentree Walk, Paralowie.
- \$3.02 million secured from the Commonwealth Government's Housing Affordability Grant Funding program to assist people attain home ownership through \$10,000 - \$12,000 grants.
- Three Habitat for Humanity Homes constructed at Greentree Walk, Paralowie and The Reserve, Salisbury North through the Sweat Equity Model, where Council received full market value for land but provided flexible settlement terms to support the delivery of housing, with construction commencing under license to occupy arrangements.
- Development of affordable housing products through partnership with building companies e.g., low-cost apartments at The Reserve, Salisbury North where Council sold a community title development site.
- A development partnership and associated development agreement between City of Salisbury and building companies to deliver custom-designed integrated small lot housing products. "Jewel Living" at Boardwalk at Greentree, Paralowie featured a starting house and land price of \$229,000 and was awarded the Urban Development Institute of Australia National Affordable Development Award 2019 for affordable housing product development through partnership.
- Delivery of a range of affordable housing packages and land advertised to eligible buyers through the South Australian Government's Affordable Housing Program and via Homestart Finance.¹⁵

2. Experience of Regional Councils

In recent years regional South Australia has experienced severe housing shortages. These shortages have been exacerbated by several factors associated with the COVID-19 pandemic and are now so

¹³ City of Salisbury, *Affordable Housing Implementation Plan 2020*, p. 12.

¹⁴ *Ibid.*, p. 20.

¹⁵ *Ibid.*, pp. 20-1.

severe that in some areas they are threatening to stifle employment growth and the significant investment pipelines calculated for each of South Australia's geographical regions.

Regional Population and Workforce Challenges

In recent years, South Australia has been described as experiencing a “demographic deficit” – a combination of factors including slow population growth, net inter-state migration, and an ageing population.

Regional South Australia has been disproportionately affected by this demographic deficit phenomenon because of its less diversified industrial base, fewer employment, educational and training opportunities, and an associated lower overseas migration rate.¹⁶

The South Australian Centre for Economic Studies (SACES) has identified that overseas migrants are less likely to settle in regional areas and many rural and remote communities have a significantly older age structure compared to the state population.¹⁷

Importantly, however, population and demographic challenges in regional South Australia – and the subset issue of regional workforce attraction – has not been solely caused by regional economic decline. The analysis below reveals that many regions have (or will shortly) experience significant investment pipelines. Yet, investment attraction has not proved sufficient to attract workers and migrants to regional areas.

Many studies have identified several social and economic factors as crucial to supporting population growth and these include access to health and education services, transport options, community amenities, childcare services, and the sufficient supply of affordable and available housing options.

More pointedly, a June 2021 Regional Development South Australia (RDSA) publication, ‘Growing Our Regional Workforce’, has identified increased housing supply as a key enabling factor in attracting and retaining workers in regional South Australia, but also lamented that the current severe lack of available, affordable and quality accommodation across regional South Australia “is seriously inhibiting economic sustainability and workforce attraction.”¹⁸

Regional Housing Supply Shortages

The RDSA has documented several factors which have contributed to the long-term deficiency of available residential accommodation in many South Australian regions:

- Lack of investment in housing in regional areas over many decades, with very few houses in many towns having been built in the past 50 years.
- Age of existing dwellings impacting on the attractiveness of housing and the appeal of regional migration.
- Properties in tourism destinations converting to Airbnb.
- Absence of 1- and 2-bedroom dwellings to facilitate older resident downsizing, or independent retirement living and aged care capacity, the occurrence of which would vacate larger dwellings and potentially facilitate the regional migration of families.
- Lack of affordable housing for rent or purchase.
- Investment in regional housing not supporting a commercial return for private developers.

¹⁶ South Australian Centre for Economic Studies (SACES), ‘Evidence to Inform Local Government Advocacy for a Strategic Population Policy’, Report commissioned by the LGA (SA), December 2018, p. i.

¹⁷ *Ibid.*, pp. ii-iii.

¹⁸ RDSA, ‘Growing Our Regional Workforce’, Review Summary, June 2021, pp. 7, 19, <https://www.rdaadelaide.com.au/wp-content/uploads/2021/06/Regional-Workforce-Policy-Paper-Summary-June2021.pdf>

- Bank Loan-to-Value Ratios considerably higher than those applied in metropolitan areas (in some instances requiring a borrower deposit in excess of 50 per cent).
- A decline in the number of suitably skilled builders and tradespeople, due to an ageing workforce.¹⁹

In addition to these longer-term factors, the COVID-19 pandemic has exacerbated supply shortages of available regional residential dwellings. Australian Bureau of Statistics (ABS) figures have revealed that in the March 2021 quarter, the Greater Adelaide area experienced a net loss of 324 people to the rest of the state through internal migration, and an annual loss of 756 people.²⁰

This “tree change” demand for regional residential properties has contributed to increased regional residential prices. CoreLogic has reported that in the year to 31 August 2021, South Australian regional dwelling prices increased by a significant 14.3 per cent.²¹ Another consequence is that in January 2021, there was a 26.3 per cent reduction in available rental properties relative to 2 years prior, and in some regional towns there are no rental properties available.²²

In addition, the stimulatory infrastructure response to the COVID-19 recession – from both the Commonwealth and South Australian governments – in combination with the Commonwealth Government’s HomeBuilder program,²³ has also contributed to many trades and material shortages, adversely affecting the supply of resources available for regional residential construction.²⁴

Opportunity Cost

The June 2021 RDSA publication, ‘Growing Our Regional Workforce’, has revealed a state-wide regional investment pipeline of \$31.2 billion (projected over 5 years) with estimates that the delivery of just 20 per cent of this pipeline would create 24,960 regional construction jobs over this period.

In addition, however, the document highlights that 1,941 job vacancies were estimated in regional South Australia in March 2021, a figure which had grown by 73 per cent over the previous 12 months.²⁵

The evident risk is that if regional housing shortages are not alleviated, this significant investment pipeline may not eventuate, with adverse consequences for regional economies, including reduced economic diversity, reduced regional employment, reduced revenues for all three levels of government, and by implication a reduction in regional vibrancy and community wellbeing.

The RDSA is already reporting: “There are numerous examples of businesses of all sizes that cannot grow or in some cases operate at full capacity as there is no accommodation available to house the staff they need to attract.”²⁶

Case Study – Tatiara District Council

The Limestone Coast region has for many years dealt with the challenges associated with population growth failing to keep pace with investment and employment opportunities, primarily caused by the shortage of affordable and available housing for prospective workers in the food processing sector and other industries.

¹⁹ *Ibid.*, p. 19.

²⁰ ABS, ‘Regional internal migration estimates, provisional’, Reference period: March 2021, <https://www.abs.gov.au/statistics/people/population/regional-internal-migration-estimates-provisional/latest-release>

²¹ CoreLogic, Hedonic Home Value Index, ‘Australian housing boom continues to lose steam as national home values rise another 1.5% in August’, Media Release, 1 September 2021, p. 4, https://www.corelogic.com.au/sites/default/files/2021-08/210901_CoreLogic_HomeValueIndex_Sep21_FINAL.pdf

²² RDSA, ‘Growing Our Regional Workforce’, Review Summary, June 2021, pp. 6, 19.

²³ Applications for HomeBuilder closed at midnight, Wednesday 14 April 2021. See: Australian Government, Treasury, ‘Economic Response to the Coronavirus: HomeBuilder’, <https://treasury.gov.au/coronavirus/homebuilder>. HomeBuilder grant funding amounts and eligibility criteria can be found at: https://treasury.gov.au/sites/default/files/2021-04/HomeBuilderFS_20210417.pdf

²⁴ RDSA, ‘Growing Our Regional Workforce’, Review Summary, June 2021, p. 19.

²⁵ *Ibid.*, pp. 4-5.

²⁶ *Ibid.*, p. 19.

The COVID-19 pandemic has exacerbated the insufficient supply of housing options, with Tatiara District Council CEO, Anne Champness,²⁷ reporting almost no rental vacancies in the district and almost no vacancies in caravan parks (which have been used to accommodate new council staff). Accommodation is needed across family (2,3,4-bedroom) dwellings, as well as lower cost 1-bedroom worker accommodation and downsizing/retirement living options.

The situation has been so severe that Ms Champness reported that insufficient accommodation options scuppered a local food manufacturing expansion opportunity, which could have provided more than 40 additional direct jobs, \$25.16 million in annual output through the multiplier effect on the wider economy, and an estimated 103 indirect jobs created.

Ms Champness' description of the causes of the dearth of housing supply are similar to those listed above: the absence of attractive capital gains to entice investors, the higher financial risks for lenders (leading to requirements for higher deposits from investors), and the risks associated with the regional real estate market's reliance on a few major employers.

In response to this situation, the Tatiara District Council has been proactive in sourcing funding and partnering with other government and non-government stakeholders to increase the regional supply of residential accommodation. To date, their initiatives include:

- Sourcing funding through the Commonwealth Government's Building Better Regions Fund to build 8 new cabins (at a cost of \$1.4 million) and 2 x 4 accommodation units (at a cost of \$675,000) at the Bordertown Caravan Park.
- Partnering with Unity Housing to build 2 x 4-bedroom affordable rental properties in Bordertown (on a matched funding basis).
- Developing a business case with Renewal SA and the NHFIC for a subdivision development cooperative on Bennett Street, Keith.

In addition, the Tatiara District Council is also actively considering:

- Establishing a temporary housing register (listing spare rooms for lodging etc.)
- A deferred payment policy for development infrastructure.
- Residential rezoning options in the region.

Development of a Regional Housing Policy Toolkit

In light of the evident severe housing supply shortages in regional South Australia, the SAROC Committee of the LGASA has in recent months been actively developing a workplan designed to assist regional councils play a constructive role in alleviating this market failure.

The SAROC Committee's workplan has culminated in the development of a Regional Housing Policy Toolkit Consultancy Brief, which informs the production of a policy toolkit designed to consolidate advice on innovative policy options currently available to regional councils seeking to facilitate residential development, and provide an advocacy agenda for the SAROC Committee to take to other levels of government.

The Policy Toolkit Consultancy Brief refers to several potential solutions, in need of further investigation. These include:

²⁷ See: Anne Champness (CEO, Tatiara District Council), slideshow presentation made to the RDSA 2021 Annual Summit, <https://prezi.com/view/12E3R5YhTE1EPf3QUnA/>

- Devising the most effective model for the local government sector to access and make best use of Commonwealth Government (or State Government) funding for housing development initiatives, including through the NHFIC.
- Councils partnering with community housing providers – which benefit from access to large quantities of finance capital (due to their extensive asset bases), and their exemptions from GST and land tax.
- Local government provision of unused land for residential development, with a minimum requirement that 15 per cent of dwellings be quarantined for affordable housing.
- State Government funded housing supply and demand audits by local government area.
- State Government funded regional staff, tasked with identifying investment partners and delivery models for new residential development.
- State Government financed Regional Infrastructure Fund to administer infrastructure grants and bonds (used to spread the costs of providing essential services infrastructure over a longer period).
- Tax exemptions, rebates, and reductions for developers (including private sector employers) who invest in regional residential development projects (e.g., payroll tax exemptions, land tax exemptions).
- Accelerated tax deductible depreciation rates for rental investment properties, located a minimum distance from the Adelaide CBD.
- Zoning changes in the planning system, which allow for a mixture of allotment sizes to facilitate more diverse housing choices for workers and down-sizers looking for smaller (more affordable) accommodation options.
- State Government provision (through HomeStart Finance) of shared equity home loans for low-wage earners in more high risk regional real estate markets.



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