

## Don't forget the humble granny flat!

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The Australian Government, along with the states and territories through National Cabinet, set a target to build 1.2 million homes in the next five years. This unified supply-driven approach to resolving the housing crisis is a step in the right direction. However, it is ultimately up to the states and local councils to draft up the regulations needed to facilitate these dwellings.

Current forecasts of home building indicate that the Government will fall well short of its target, but there are changes to taxation, land supply and planning that would allow the industry to keep up with Australia's home building needs.

One of the more obvious barriers to increasing the supply of homes across Australia has been overly restrictive planning regimes. For good reasons, rules around building and planning ensure that minimum standards to home construction are followed. However, there are also times when regulation becomes too prescriptive and simply block good outcomes, and it is incumbent upon policymakers to ensure that this is not the case.

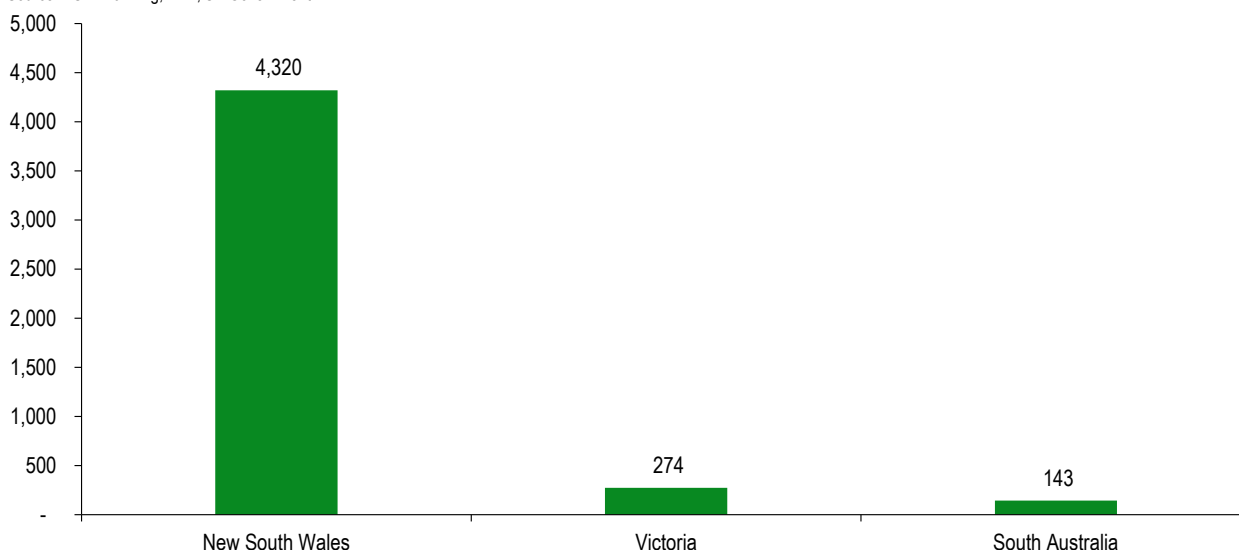
There have recently been a suite of planning reforms and housing announcements from different state governments. These changes target home building segments, such as medium density housing, that should be doing a lot more of the heavy lifting if we want to reach the target. The focus of this article is the amendments to small secondary dwelling construction and leasing regulations in Queensland, Victoria, South Australia and, most recently, Western Australia.

The contribution of small secondary dwellings to the overall housing mix is, like the name itself, small. In Victoria and South Australia, the number of granny flat approvals is just under 1 per cent of these states' total approvals. It has often been an overlooked segment, particularly in jurisdictions that have not had significant constraints on residential land, until recently. New South Wales was the first to make amendments in 2009 to make it easier to build and rent out a granny flat because of the high cost of land, particularly in Sydney.

Although Melbourne has somewhat similar housing and land constraints as Sydney, regulations to granny flat construction and leasing have not been as flexible in Victoria as in New South Wales. As a result, Victoria is estimated to only be building around one-sixteenth the number of granny flats as New South Wales.

### Secondary Dwelling Approvals, Annualised

Source: NSW Planning, VBA, SA Government



When the Victorian Government announced its *VIC Housing Statement* in September 2023, one of the welcome changes to planning rules were exemptions to complying granny flat developments. Small secondary homes that are less than 60 square metres still need a building permit but are no longer required

to have a planning permit. There were no announcements made to the occupancy restriction to just family members of the main housing unit.

A year before Victoria made these changes, Queensland made changes to tenancy rules, permitting homeowners to rent their granny flats outside of their family unit. They did not scrap the need for development approvals, which remain in the hands of individual councils.

Other jurisdictions which have experienced a surge in housing demand are making significant changes to granny flat rules as well, with some taking it a step further. South Australia made announcements in October 2023 to clarify that small secondary dwellings could be leased to non-family members, clearing misconceptions of councils that add this as a condition for getting a planning approval.

Most recently, in January 2024, the Western Australian government announced changes to remove the need to get a planning approval for complying granny flats up to 70 square metres in size. They also removed the previous minimum lot size requirement of 350 square metres, so long as the development meets setback rules.

These changes to granny flat regulations are some of the low hanging fruit that state governments could pick to ease current housing shortages, even if building more small granny flats is not the silver bullet to all Australia's housing woes.

An approach that encourages and facilitates more multi-unit developments will still do more of the heavy lifting, but that does not undermine the case for easing granny flat restrictions. This is especially true, given higher density developments tend to be slower to complete due to lengthy approvals processes, community opposition and a high barrier to entry in building them.

Granny flats avoid many of these obstacles. Small secondary dwellings are less likely to significantly change the neighbourhood character, making them less susceptible to NIMBY resistance. The cost of putting one up is also less of a barrier to a potential landlord compared to building an apartment building. It enables households to add to housing supply, even as land becomes more constrained in Australia's urban centres.