

How to tackle Victoria's housing crisis: Submission to the Victorian Legislative Council

July 2023



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We welcome the opportunity to make a submission to the Victorian Legislative Council's inquiry into the rental and housing affordability crisis in Victoria.

Victoria's housing crisis has been building for a long time. Within living memory, Victoria was a place where housing costs were manageable, and people of all ages and incomes had a reasonable chance to own a home with good access to jobs. But housing in Victoria has become increasingly expensive, and public anxiety about housing affordability is rising. Home ownership is falling, renter poverty is rising, and more people are becoming homeless.

The pandemic has made the crisis worse. Rental vacancy rates are at record lows, and asking rents have risen fast. Low-income renters are suffering the most, finding it harder to secure stable tenure and make ends meet.

The pandemic and the ensuing work-from-home revolution spurred a 'race for space'. People wanted more space to themselves, either by taking an extra bedroom as a home office or by moving out of the family home or a share house. The result is that fewer people are living in each home, meaning we need more homes just to house the same number of people. The Reserve Bank estimated that the number of Australians living in each home fell from an average of 2.55 people in late-2020 to 2.48 people by mid-2022.¹

That change alone implies we need an extra 275,000 homes just to house the existing population nationwide, or an additional 75,000 homes across Victoria.² Some of this change will reverse now as

people consolidate in larger households due to higher rents, but many Victorians will keep working from home permanently.

And now migrants are returning to Victoria in record numbers as Australia's borders have reopened after the pandemic. The federal Treasury estimates that the number of migrants resident in Australia will rise by 1.1 million over the next four years. That's on top of an estimated 400,000 extra migrants who settled in Australia in 2022-23. A significant portion will settle in Victoria.

More people means we need more houses again – yet we are adding people a lot faster than we are adding houses. Historically, we have not built enough housing to meet the needs of Victoria's growing population. The imperative for this to change has never been stronger.

Australia has among the least housing stock per adult in the developed world, and is one of only a handful of developed countries in which housing stock per capita has been stagnant over the past 20 years. Land-use planning rules that constrain development in Melbourne have led to less medium- and high-density housing than Victorians actually want, while imposing additional costs on new purchasers and renters.³ Housing will only become more affordable for Victorians if more homes are built.

Boosting housing supply would especially help low-income earners. Irrespective of its cost, each additional dwelling adds to total supply, which ultimately affects affordability for all home buyers. Initially expensive homes gradually become cheaper as they age, and are sold or rented to people with more modest incomes. Grattan Institute research suggests that a 10 per cent fall in private market rents would

1. Agarwal et al (2023).

2. Coates (2023).

3. Daley et al (2018, Table 3.2).

reduce by 8 per cent the number of low-income households nationwide who are suffering housing stress.⁴

Of course, land-use planning rules may preserve the views of existing residents or prevent increased congestion. But the local benefits of restricting building in established suburbs need to be weighed against the costs of urban sprawl. For example, even excluding transport, providing infrastructure to an extra dwelling in a greenfield areas is between two-and-four times more expensive than servicing an extra dwelling in established suburbs.⁵

The Victorian Government has a key role here. The state government sets the overall framework for land and housing supply, governs the local councils that assess most development applications, and sets building regulations that affect building costs. This inquiry should acknowledge that Victoria's current planning framework puts too many restrictions on development, and that restrictions need to be eased to boost housing supply.

The Victorian Government should allow more medium-density housing in established suburbs that are close to jobs and transport. The 2016 'up-zoning' of about three-quarters of the residential land in Auckland, New Zealand, shows the way. Researchers have found it led to an increase in housing supply of up to 4 per cent of the housing stock in just five years,⁶ and a decline in rents of 14-to-35 per cent for two- and three-bedroom dwellings.⁷

The Victorian Government should also push ahead with the *Future Homes* initiative, with the goal of having nominated high-quality designs

for medium-density dwellings that are permitted automatically in all middle-ring suburbs.⁸

The Government should ensure heritage protections are applied more discerningly. Broad heritage overlays are often put forward with little acknowledgement of the costs of restricting the supply of housing in areas where people most want to live.

In particular, the Government should give priority to constructing new social housing for people at serious risk of homelessness. Social housing is expensive, so it should be reserved for people most in need, and at significant risk of becoming homeless for the long term.

However, building more housing – whether for market rental or social housing – will improve affordability only slowly. There are at least three things the Victorian Government should do now to ease the impact of the rental crisis on the vulnerable.

First, the Victorian Government should lobby the Federal Government for a further boost to Rent Assistance. The recent 15 per cent increase is a solid down payment, but more is needed. Rent Assistance is a fair and cost-effective way to help poorer people who are struggling with housing costs.

Second, the Victorian Government should expand the use of 'head-leasing' – leasing private rentals and sub-letting them to vulnerable people. Or alternatively, they should simply buy homes and turn them into social housing.

And third, the Victorian Government should explore ways to encourage owners of short-stay rentals advertised on platforms such as Airbnb to return those properties to the long-term rental market, for example by lifting the rate of land tax that applies to short-stay accommodation.

4. Coates et al (2020, p. 15).

5. Infrastructure Victoria (2019).

6. Greenaway-McGrevy and Phillips (2023).

7. Greenaway-McGrevy (2023).

8. Coates (2022).

The Victorian Government should not impose a rent freeze, because that could do more harm than good. People who already have a home will stay put and benefit. But people who need to get a new rental will find there's little available. A rental freeze therefore could increase homelessness.

The Grattan Institute has produced a large volume of work on housing affordability that is relevant to this inquiry:

- Our 2023 [submission](#) to the Legislative Council inquiry into land transfer duty fees;
- The 2022 [address](#) by our Economic Policy Program Director Brendan Coates for the 131st Annual Henry George Commemorative Lecture;
- Our 2022 [submission](#) to the Productivity Commission's review of the National Affordable Housing Agreement;
- Our 2021 [proposal](#) for a Social Housing Future Fund;
- Our 2020 [submission](#) to the Legislative Council inquiry into homelessness in Victoria;
- Our 2018 [report](#) *Housing affordability: Re-imagining the Australian dream*;
- Our 2018 [paper](#) *Most new housing is not high-end housing*.

We would also welcome an opportunity to appear before the committee. For further information please contact Joey Moloney, Senior Associate, Economic Policy, Grattan Institute:

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