

TRANSCRIPT

LEGISLATIVE COUNCIL LEGAL AND SOCIAL ISSUES COMMITTEE

Inquiry into the Rental and Housing Affordability Crisis in Victoria

Melbourne – Tuesday 10 October 2023

MEMBERS

Trung Luu – Chair

Ryan Batchelor – Deputy Chair

Matthew Bach

Michael Galea

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WITNESSES

Matthew Lloyd-Cape, Director, Per Capita, Centre for Equitable Housing;

Rebecca Thistleton, Executive Director, McKell Institute; and

Professor Terry Burke, Swinburne University.

The CHAIR: Welcome back to this session of today's hearing. Joining us are Matthew Lloyd-Cape, Director of Per Capita's Centre for Equitable Housing; Rebecca Thistleton, Executive Director of McKell Institute; and Professor Terry Burke from Swinburne University.

I just want to read this information to the panel. All evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council standing orders. Therefore the information you provide during this hearing is protected by law. You are protected against any action for what you say during this hearing, but if you go elsewhere and repeat the same things, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided with a proof of a version of the transcript following the hearing. The transcript will ultimately be made public and posted on the committee website.

For the Hansard record, I ask you to state your full name and the organisation you are appearing on behalf of. Due to time constraints, there will be no opening statements. We will move straight to questions from the committee members.

For your information, my name is Trung Luu, and I am the Chair of the committee. Next to me is my Deputy Chair, Mr Ryan Batchelor; Mr Michael Galea; Dr Matthew Bach; Dr Sarah Mansfield; Dr Renee Heath; and Mr Aiv Puglielli; and joining us shortly will be Mr Joe McCracken. I just remind members again that we will be restrained to 5 minutes each for questions. If you would like to start, Mr Batchelor.

Ryan BATCHELOR: Thanks, Chair. Thanks, everyone, for coming. Ms Thistleton, I might start with you. Your submission opens by saying we need a game-changing policy direction on housing, and the first part of your submission goes into quite a bit of depth about renting and the challenges facing the rental market at the moment. What do you think are the most significant things we can do to fix the rental market by way of policy reform?

Rebecca THISTLETON: I think that there is a lot of debate, and rightly so, about the need for more supply and for streamlined planning rules and having a look at the different ways that the government can be getting land into market sooner and more development underway, which is great. It is also really good to see that the one good thing that has come out of this housing crisis, particularly how it is affecting renters, is the fact that it has brought so much political and media attention to it. So hopefully that is building appetite for there to be an absolute overhaul of how the market itself is functioning, because even if we have a look at the planning regime and the rental rules, until we start having a look at the fundamental way that the market itself operates and the fact that we have got a system that is based on people needing housing and people wanting to build wealth and ignoring that natural tussle between the two, then we are really not going to see that much change. For now, so long as we keep on focusing on things like looking at land supply and looking at more construction and rental laws without looking at the fact that the actual profile of people that own investment properties is quite a shallow pool, it is like looking at a terrible game of football and focusing on the players and the teams without having a look at the pitch.

The CHAIR: Sorry. Could you just state your name, please, and also the organisation you are with.

Rebecca THISTLETON: Sorry, Chair. My name is Rebecca Thistleton, from the McKell Institute, Victoria.

Ryan BATCHELOR: So what do we have to do to fix the pitch? A lot of evidence has been given to the inquiry. What do you think are one or two of the most fundamental things we could recommend to fix the pitch?

Rebecca THISTLETON: When we have a look at the people that own investment properties, even if you have people that are described as the mum-and-dad investors or rentvestors or people who have a really substantial property portfolio, they are still private owners, so if you do something like raise interest rates or change rental rules, that is still a blanket change to almost 90 per cent of the people who are owning rental properties at the moment. So as long as there is that lack of diversity in who actually owns rental properties, then we are going to keep on having the same outcomes, particularly with things like negative gearing, which was set up a number of years ago to encourage the ownership of more rental properties. That really has not evolved over time either. So we do not really have a system right now that is encouraging more rental property ownership that is geared towards actually making things fairer for renters.

Ryan BATCHELOR: Do you think we need to change negative gearing rules?

Rebecca THISTLETON: I think that negative gearing is one of a number of things that needs to be shifted so that we have got the market geared towards renters for a change – things like encouraging build-to-rent properties that remain in government hands or remain in the hands of operators that are going to be targeting them towards workers, for example, rather than the higher end market, and making sure that there is greater construction and development of investment properties for the people that need it most rather than just boosting supply because supply is great.

Ryan BATCHELOR: Sure. Professor Burke, you touched in your submission on the transition in the rental market from it being one where it was largely transitional to one where it is now an increasingly permanent feature of people's housing tenure over the course of their lives, and the consequence of that is that we need to look at something like the registration of landlords so that bad operators can get weeded out of the market. I wonder if you could expand a little bit on that.

Terry BURKE: Rebecca has given me a segue into a broader topic, which is that I actually do not think this state can do much about the rental crisis. Most of the drivers of the rental problem – the rental crisis, as we are now calling it – have accumulated over 40 years, and those drivers are basically all coming from the Commonwealth. International students, the tax system, the growth of migration generally – all are key drivers of the system. We have gone from a system back in the 1950s through to the 1980s when home ownership was seen to be the ideology of Australia and the dominant housing form and private rental was a residual sector where people just transitioned for a while through that sector into home ownership. That is broken. The challenge for the states, I think, is really to push the Commonwealth to reflect on their policy positions in a way which does give the states some ability to deal with the rental crisis. But my view is it is going to take 10, 20, 30 years to unwind a process which we set in place 30, 40 years ago and we are now seeing the outcome of a whole set of processes which were unintentional in their outcomes but have had a crisis effect. That probably does not answer your question, but it broadens the topic, which was partly the agenda of my paper – to try and broaden the topic.

Ryan BATCHELOR: That is great. Thanks very much.

The CHAIR: Thank you, Mr Batchelor. Before we proceed, just for the record and also for those at home, joining us on the committee as well is Mrs Moira Deeming, Member for Western Metropolitan, welcome. Aiv, would you like to proceed with questions, please.

Aiv PUGLIELLI: Sure. Hi, Aiv here, thank you all for coming in – and good to meet you in person, Rebecca; I think we did a Zoom when you were the Labor candidate for Melbourne. Thank you for joining us. I might start with Matthew. I understand in your submission you talk about rent stabilisation measures. We have had a range of submissions to this inquiry, for example, from Tenants Victoria, speaking about the idea of a fairness formula for the setting of rents. You were talking about rent stabilisation measures – what do you mean by that, and can you maybe point to some other jurisdictions where they have implemented these measures?

Matthew LLOYD-CAPE: Sure, yes. So just for the record, my name is Matthew Lloyd-Cape, and I am the Director of the Centre for Equitable Housing at Per Capita. I think part of the reason that we put a decent chunk of our submission into discussing rent stabilisation is that the discussion of rent freezes has come up in the media so much and has been very controversial, and we wanted to unpack the box a little bit, because rent freeze is a fairly old-fashioned tool. It was used by Western nations after the postwar period and obviously briefly in Victoria during the COVID crisis. As a tool, it is very blunt and it does not necessarily produce the

desired outcomes of increasing supply and incentivising landlords to do the right thing. For example, right now if we had a rent freeze, you might see a whole bunch of landlords decide to put their house on Airbnb instead because it is relatively lightly taxed now and it is fairly unregulated and there are some good returns to be made. So that is rent freezes.

Rent stabilisation can encompass a range of policies, but the idea would be that you have some sort of formula for determining what is a fair and equitable rent increase. In the ACT you have got the 110 per cent of CPI rent increases, so if CPI rents go up by 5 per cent, then you can increase by 5.5 per cent. The broad model is that you have some sort of mechanism for saying that – as we treat other parts of the economy, for example, landlord land tax, if there is a sudden jump in land tax for a landlord, that will be smoothed out over a period of years. We are saying, effectively, we do not want to affect the underlying market principle that governs rent prices, but we do not want to see these enormous rent increases that we have seen in the past 12 or 18 months or so. That has a really negative effect on the economy because people cannot plan, people cannot determine whether they are going to be able to afford to live here to take that job over there or to move to the childcare centre. So rent stabilisation is more about producing some sort of formula for equitable increases.

Aiv PUGLIELLI: For sure. And look, the pressures from rent increases are absolutely something we have resoundingly heard out of this inquiry process. You have mentioned the ACT model: is that a model for rent stabilisation that you would support?

Matthew LLOYD-CAPE: It is fairly mild in that renters have to still challenge rent increases. So it is relatively easy for a landlord to say, 'I'm going above the 110 per cent formula for X, Y, and Z reasons.' It is not checked, not challenged by the state and so on. So I think there should be more of an onus on the management of that to –

Aiv PUGLIELLI: A reverse onus – is that what you are going to?

Matthew LLOYD-CAPE: Exactly.

Aiv PUGLIELLI: So you would like to see a reverse onus in that scenario?

Matthew LLOYD-CAPE: I think so, yes. In Canada, several provinces utilise that sort of approach, and it seems to have a better effect overall without reducing the supply of new rentals.

Aiv PUGLIELLI: For sure, thank you. I might now move to Terry. I understand in your submission you mentioned the idea of a soft rent control. What do you mean by that?

Terry BURKE: Well, exactly as Matthew has been talking about, a freeze is a hard rent control; a soft one is much more nuanced. As context at the moment, through AHURI, the Australian Housing and Urban Research Institute, we are looking at a study on the impacts of rent controls on housing markets and how best to introduce those into Australia. The preliminary reading – and we have been looking at other countries, particularly Germany, Spain, the Netherlands, Sweden – is that nuanced or soft rent controls can be quite effective in terms of reducing rents but without having the side effects of impacting investment or supply.

Aiv PUGLIELLI: For sure. Can you point to a particular example of it?

Terry BURKE: But the nuance could mean that it is linked to some metrics, such as a consumer price index, but with exemptions for certain types of households or certain types of investors – say, for example, in different locations. Perhaps you might exempt parts of regional Victoria if you introduced it but have it for inner Melbourne, for example – or you exempt properties that are newly constructed or properties where there have been recent capital improvements, such as solar panels on the roof. That would be soft rent controls, where you actually look at the market, how it is performing and tailor it to the specific attributes of the market so you could have different sorts of regulation for different submarkets and different properties. That is the nature of soft controls.

Aiv PUGLIELLI: Thank you. It is good to have that clarity. Is there a particular jurisdiction that you would attribute as a good example of a soft rent control?

Terry BURKE: Probably where it has been written up the most is the Irish one.

Aiv PUGLIELLI: Is that a model that you would support?

Terry BURKE: Close to it, yes.

Aiv PUGLIELLI: Thank you. That is my time.

The CHAIR: Thank you. Dr Bach.

Matthew BACH: Thank you all for coming in. Rebecca, I was really interested in, well, numerous elements of McKell's submission. One in particular: so you wrote that nimby attitudes have stymied growth in urban areas that are ripe for infill development, and you went on to say that government needs to shift perceptions of density and build more support for more development. Now, I agree with all of that, but how on earth do you think we can do that when in certain areas we are dealing with tealy people who drink chardonnay for morning tea but think that Hard Solo is the worst thing to happen to Australia in the last 10 years and who desperately do not want poorer people moving into their neighbourhoods? How do you even start that conversation, which I agree is so necessary for us to have?

Rebecca THISTLETON: It is incredibly difficult, especially when some of those people that hold those views would actually like their children to be able to afford to live close by rather than either having to stay as renters or move 20 kilometres away. I do hope that one good thing that comes out of the fact that we have reached this really dreadful housing crisis is that the nimby argument no longer carries weight anymore, and I hope that that really emboldens people politically, at all levels of government, to really turn their backs on those sorts of views.

I think that Vancouver is a really good example of where a lot of work has been done to build public support and to really work with people to not only get them engaged in a conversation but also to start to build some faith and some confidence in what future development could mean as well. Affordability is a big element of it, but having a look at things like telling people the way that the build quality is going to be improved, so that they feel like a higher density apartment that is going up in their neighbourhood is going to be something that only enhances their surrounds rather than detracts from them. So being able to talk to people about things like maintaining setbacks; making sure that the apartments themselves have got a lot of shared public use of space; making sure that when you are building apartments that do not have parking that they are close to areas that have got good public transport; being mindful of the fact that sometimes people have genuine concerns about amenity, sometimes people have got concerns about change, and there is a really big difference between the two; and being able to highlight the opportunities to enhance amenity and to listen to people and to be working with councils to also get their support as well. Because it is one thing to be able to change the rules to get more density and get more housing underway sooner, but without that broader public support, we will continue to keep on having this tussle. So that is one where Vancouver really offers some great lessons to state and local governments.

Matthew BACH: All right, thank you. I am not aware of that specific example, so I will go away and have a look at it. Thank you very much. Chair, I am aware lots of other people have many questions, so I might cede my time.

The CHAIR: Michael, would you like to proceed, please.

Michael GALEA: Thank you. That was actually my question as well, about how we get a social licence for density, for you, Ms Thistleton. Thank you for that. That certainly looks like an interesting model for us to look at.

Professor Burke, I note that you have said that deregulation and upzoning has not done much to alleviate the affordability problem and that you believe that doing more upzoning will not actually make much of a difference. What sort of data do you have on that, especially in terms of things like land banking?

Terry BURKE: On land banking, I do not have a lot at all. Partly the argument is a reflective one on history. We started deregulating in the late 1980s and 1990s, and 30 years on have the housing system and the outcomes improved as a function of that? I would argue no – all the problems that we have got now are much more severe than they were then. You could actually say perhaps deregulation is part of the problem.

Coming back to the question of infill and densification of the inner city, part of the problem there, and this is the unintended side effect of all this, is it puts a premium on inner-city, middle-suburb land values. If you are going to build 50 units to a particular allotment where back in the 1980s you could only build three, what is the impact on the land value? There is going to be a huge increase in the land value. Flowing from that, you are going to have a major reduction in affordability. I actually think that is what is going to occur if we accelerate the densification of Melbourne now. But I am not certain that we have any alternative except, and it comes back to Matthew's question, in terms of dealing with nimbyism, consultation and education is an important part of it, but a much easier way is just to have inclusionary zoning where you mandate that a percentage of the properties to be built in any location has to be affordable or social housing. You then do not have to have the pushback by the residents. It is then faced by the developer. The developers have to work through that, and they have to say, 'Well, we haven't any choice. We have to build this proportion of property.' That process would actually scatter development right through urban Melbourne where any private sector development took place. I do not preclude the education and consultation process, but I think it could get major support through a planning system that accommodated inclusionary zoning.

Michael GALEA: Thank you. In discussion on rent controls as well, and I think you actually mentioned Ireland just before, as well as I think, Mr Lloyd-Cape, in your submission too – that Ireland was the model to follow. I understand that following Ireland's implementation of that scheme though, rental inflation actually shot up and the supply of rental houses on the market went down. Is that fair?

Terry BURKE: That is not my reading of the literature around it, but we are dependent on the literature on rent controls or rent regulation coming out all the time. It is actually relatively new, the adoption of the soft rent controls as distinct from the hard rent controls. We are still only getting data and reports coming out now. You might have a more recent report than I have.

Michael GALEA: And I guess for you, Mr Lloyd-Cape.

Matthew LLOYD-CAPE: I think with the Irish model, it is quite a complicated system to administer. They have localised CPI matches, right, so each jurisdiction in each area that they want to determine as a rent pressure zone has to have its own CPI measure of rent. We have that for Melbourne and the rest of Victoria. We would need something much more targeted to designate a rent pressure zone. I do not think Ireland would necessarily fit to what we have in terms of our data and existing ways of understanding what is happening with the rental market, and the complexity of administering it is quite complex.

In terms of the effect on rents, my read of the data is that rent prices in rent pressure zones have grown slower than outside of rent pressure zones, so there is that to be said. It might be better just to say that you just get rid of that whole rent pressure zone system and say rents cannot go up above X in this jurisdiction per year.

Michael GALEA: But that is small comfort to people that cannot rent at all if the supply is going down though as well.

Matthew LLOYD-CAPE: Sorry?

Michael GALEA: That is small comfort to those who cannot rent at all if there is no supply.

Matthew LLOYD-CAPE: Yes. Supply is an issue that we have to deal with at many levels. For example, prior to the introduction of negative gearing and CGT discounting, 30 per cent of housing investment went to the construction of new dwellings. Now we are down to 15 per cent because people choose to trade houses like assets. If we had, for example, on CGT discounting instead of a one-year time delay before you could claim that discount, a 10-year time delay, that would mean people would have to be in the market for the long term not just jumping in and out buying and selling as though they were any other widget in the store.

Michael GALEA: As a few have you said, there are some good ideas for our federal colleagues as well. Ms Thistleton, you talked in the submission about short-term accommodation and the need for better regulation and taxation around that. Obviously since that time we have seen a landmark new housing statement delivered, including a statewide, even tax on these sorts of properties. Do you have any comments around what has been put into place?

Rebecca THISTLETON: Yes. I think that addressing what is happening with short stays is something that needs to be looked at from all levels of government, particularly because even the head of Airbnb said himself that it was designed so that people rented out a spare room to make some extra money. This entire industry has been set up to support people that own investment properties that purely cater to that short-term market, to the point where if you have people that live in Melbourne but they own a property down on the Surf Coast somewhere, they are allowed to use that in their own free time, put it on Airbnb the rest of the time and not only tax deduct capital works to improve the value of the property, they can actually tax deduct the fact that they buy some cheese and bickies for the people that are staying there on weekends.

The broader impact of that is not only do we not have those properties in the long-term leasing market, it means that people that are living in those holiday destination areas, especially people that are working in the service industries, cannot get affordable housing. I think that is the reason why all levels of government need to be tackling this head on. For the state, while it is good to be finding different revenue streams that stem from the fact that people are making quite a lot of profit off taking their money out of the private rental market, there could be more things done, such as having a look at putting a cap on the amount of nights per month or per year that a property is allowed to be leased and starting to look at different ways that people are then incentivised to get their property into the private rental market. Until there are reasons for property owners to put their properties in the private rental market, why wouldn't you just put it on Airbnb?

Michael GALEA: Thank you. Thank you, all. Thank you, Chair.

The CHAIR: Thank you. Dr Mansfield.

Sarah MANSFIELD: Thank you. Thank you all for your submissions. There is quite a lot in each of them, so I will try and ask each of you a question if I have got time. Professor Burke, I might start with you. I am just wanting to go back to the comments you made about the fact that increasing deregulation has not actually delivered greater affordability. One of the ideas you offer is that we need to increase the supply of public housing. Can you explain that a bit more and why that would be more effective?

Terry BURKE: Going back to the point about why deregulation cannot increase supply, it goes to the distinctive attributes of the Australian housing system compared to many other countries. We tend to neglect this institutional attribute, and that is that we broadly have a contract building system. We will only build as many properties as households contract a builder to build. One of the unique attributes of that is the demonstration estate or the display village on the fringes of Melbourne, or if it is a medium or high rise, the office which shows examples of what you could buy off the plan. The problem with the contract building system is it does not matter whether you have got a regulated system or a deregulated system, you will only build as many as households or investors contract to build. In terms of, say, the state government's objective of 800,000, I actually think that is pie in the sky unless you have a proactive policy to ensure that 800,000 properties are contracted to be built.

With deregulation of the labour market, with more and more young households unable to afford home ownership, you will have fewer of those contracting builders to build them. Migrants have got to come into the country and build up their capacity, so that takes time. I actually think the only way we can actually contract the private sector to build sufficient stock is through social housing, because that is not dependent on individual households or investors to contract the builder – that is the government saying we are going to build 6000 or 4000 units per annum and we will pay for them. That way, you will get your increase in stock. But just saying you are going to have a target of X number of houses in a contract system is not going to work unless you have some mechanism to allow those contracts to be fleshed out and become real for the private sector. I think that is the real dilemma in the Australian housing system. We have a contract building system where most other countries have a speculative building system. That is my answer to that one.

Sarah MANSFIELD: Thank you. Ms Thistleton, the McKell Institute said in their statement that government-owned land would stay in government hands. Can you explain why that is important? Because we have heard different views about that this morning.

Rebecca THISTLETON: Yes, sure. That is predominantly in the context of some funding that was put aside in the most recent state budget to be able to identify government-owned land within DPC and being able to optimise that. It was quite a short paragraph in there, and it is something that is really interesting to us that we

are very keen to get some more information about, because what we want to see from that is government using land, particularly in cases where it tends to be close to transport infrastructure – that can be the reason why it has come into government hands in the first place. It is then ideally developed in a way that is delivering new housing and social housing close to transport and close to transport infrastructure. The reason too why we talk about the need to hold onto government land is because if it is sold, there is no way that it is ever able to be brought back into public ownership ever again.

The example that I like using is one close to where I live in Kensington between two railway stations. You have got Flemington Bridge and Macaulay railway stations, and there is a lot of land there that was left over from the construction of CityLink – a lot of housing along there and commercial properties about two storeys high – that is still owned by the Department of Transport, which is really inefficient use of that land. There is some great development that is going on around that Arden–Macaulay precinct in the build-to-rent and the build-to-rent-to-buy sector. It is great quality, and it is getting more people into the market. I think that that is a really great example of where government-owned land could be used to develop stock that is then provided to people who can be working in the hospital and afford to live close to the city while still remaining in government ownership.

Sarah MANSFIELD: Yes, great. Thank you. Mr Lloyd-Cape, I would like to ask you just to elaborate a bit more on the part of your submission which talked about how the government may be recommitting to a levy to help build more social housing stock. You have indicated that we would need at least 48,000 dwellings over the next 13 or so years. We have heard similar figures from other groups about the scale of the social housing stock required. Can you explain a bit more about why that levy would be helpful and also why we need that volume of public and social housing?

Matthew LLOYD-CAPE: Sure, yes. The number was 60,000 before 2036, which came from a Victorian government-commissioned report in 2019. As far as I understand it, 30,000 would keep us up to current supply and 60,000 would match demand. That is the government's established figure, as far as I understand, for the need, and there were 30,000 units mentioned in that 1.75 per cent levy documentation. Why is it important? Well, we have kind of shifted the dial a little bit since the latest round of announcements. Now the government is talking about a 3 per cent levy if developments over 50 units do not include 10 per cent affordable housing. I think that there is a problem with that system. Why is it important? At the moment we have got a pincer movement going on with renters – from the bottom end we have got declining social housing rental stock, from the top end you have got fewer exits into ownership because of the cost of mortgages at the moment and because they are competing with investors, so getting out of the rental market is an issue. But focusing on that bottom end is specifically important because those are the people that are least able to deal with rental stresses, rate hikes, price hikes and so on.

I think we just have to figure out a way that is socially fair and equitable between development profits and the needs of society. Every home is individually owned, but no-one owns the community; we all own that as a shared asset. I do not think governments of all stripes in all levels have really been appreciating the need for community-building as having a very high value. I think the 1.75 per cent levy is a great idea, and it is real shame that the development community spiked it last year. I would like to see a big push for that to return.

Sarah MANSFIELD: You said that things have shifted and there has been an announcement about some form of a levy or almost like a penalty if you do not supply something. You said that was problematic. Can you explain why?

Matthew LLOYD-CAPE: We are still waiting for details, but affordable housing can mean absolutely anything. It could mean that the apartments are sold at a percentage below market rate as a one-off hit, so that one buyer gets the benefit and then future generations do not see any of that benefit. When we rezone land we are providing new wealth to land owners – free wealth that is gifted from the government of Victoria to specific individuals and developers and landholders – so it is only fair that we find a way to make sure that in perpetuity that wealth is retained for our least able to afford it.

Sarah MANSFIELD: Thank you.

The CHAIR: Thank you, Dr Mansfield. Mr McCracken.

Joe McCracken: Thank you, everyone, for your contributions so far. It has been wideranging and quite interesting. The topic of densification is obviously one that has been spoken about quite a bit. The McKell Institute, I know you guys are, broadly speaking, supportive of densification as a way of increasing the amount of supply in the market. Would that be a fair thing to say?

Rebecca Thistleton: Yes.

Joe McCracken: I guess it depends where it is, but are there any particular ideas you have got about changes to the planning scheme that might help facilitate that?

Rebecca Thistleton: Yes, sure. I think that this is a real opportunity to be looking well beyond the 10-k radius of the CBD where the debate around density really tends to be focused. I think that there are also opportunities in regional areas to be having a look at density and really starting to have proactive conversations with communities there before we reach the point where we start having really big nimby debates. There is already evidence of that happening in the regions, but if we start to be considering this in the context of how we build support for density, then proactively working with communities would be one way of doing that. One thing that we mentioned too in the report was finding opportunities to be working in partnership to be building density at the same time that you are delivering new projects. For example, when it comes time to be building the Suburban Rail Loop, it would be really great to see the government to something similar to when Parliament station was constructed, where you had development happening around there at the same time so it is not just a station that is being built, it is a whole station precinct. You have new housing coming online at the same time that you have more dense development but also community services too.

Joe McCracken: So basically infrastructure keeps up with the increased densification.

Rebecca Thistleton: That is right. By doing it in partnership as well you have a lot of different ways to have new revenue streams and you are also effectively derisking that land for developers as well and having services come online at the same time as people are moving in.

Joe McCracken: I think it would probably be fair to say that a lot of the outer suburban areas have probably faced that challenge with either a lag or just simply a lack of infrastructure that follows the population there. I do not disagree with what you say there. I know, Terry, you probably have a different view on densification, because I know in your one you said multi-unit developments in urban areas increase land prices and add little to stock. There is a bit of a difference –

Terry Burke: Yes. This is probably one of the few areas where we disagree today.

Joe McCracken: Yes. Why do you disagree?

Terry Burke: Densification will mean more properties being built, because somebody will contract to build them, but it will just mean a displacement of construction from somewhere else, which is partly the objective – to remove the construction from the outer ring and the fringe development, which requires lots of infrastructure, to the inner city. But we will still only build the same number of dwellings, except they will be in different locations. Densification, my argument is, will not build one more additional dwelling. It will increase the diversity of stock, it will change the urban form of our cities and it might reduce infrastructure cost – I am actually uncertain of that – but I do not think it is a solution to the shortage of housing. It has got other objectives.

Joe McCracken: Would you agree that it is a more efficient use of limited land? We had someone in before talking about the fact that if you do a more dense development that might be closer to the city than somewhere else, there is already existing infrastructure – trains, schools, all those sorts of things. That dense development could take advantage of pre-existing infrastructure, and therefore it is more efficient. What are your thoughts on that argument?

Terry Burke: I think there is some evidence to that effect, but we then have to trade off the savings in infrastructure to the other costs associated with that densification. I actually do believe in an element of densification, and I think a lot of it should be actually on the urban fringe, where we should not be building these single detached houses on the scale that we are still building. I do not think high-rise, multi-unit is appropriate out there, but two- or three-storey townhouses and apartments on the urban fringe is as much a

useful densification policy as densification in the inner and middle rings, without some of the other unanticipated costs in terms of reduction of affordability and quality of life, which I think actually goes with some of the medium-density development or high-density development that we have been building in Melbourne for the last 30 years. A lot of the stock is very poor quality, both visually and in terms of construction. That is my concern. We have not had a good history of building multi-unit development.

Joe McCracken: Sort of on a different issue, but it is sort of related as well. I know you said before that the 800,000 target that the government has set in the housing statement is pie in the sky.

Terry Burke: Perhaps I should not have said that.

Joe McCracken: Sorry. I just remember it because it hit me and I was like ‘Why do you say that?’ Do you think it is achievable – that 80,000 a year for 10 years? A lot of media have been saying it is going to be the most ambitious target, but is it actually achievable?

Terry Burke: I actually do not think it is achievable.

Joe McCracken: You do not?

Terry Burke: No, without accompanying policy at the Commonwealth level, and that is where I started from today. I think state governments are enormously constrained in what they can achieve by way of housing and urban outcomes because so much of the policy context is set, developed and driven at the Commonwealth level. I think the real pushback from this committee in terms of findings is onto the Commonwealth. Say, ‘Look, we have a crisis but you’re a large part of the crisis. It’s not us. You can’t expect us to solve it. You’ve got to put the policy settings in place to enable us to do the things that we want to do.’

Joe McCracken: I guess in terms of what we can control at the state level, what would be some ideas or suggestions, I guess, at least in the jurisdiction of Victoria, that we might be able to at least consider to have some positive impact? I probably agree with you – I do not think that 80,000 target per year is going to be met either, and most of the pundits out there do not, but at least trying to make some headway onto that.

Terry Burke: Rebecca has hinted at some of them. They are incremental ones – they are not going to be substantive ones. But I think STRA reforms – short-term rental accommodation – and I have to put that in the context that four months ago I was commissioned by the New South Wales government on how to regulate STRAs there. I was the one that came up with the recommendation that it should be a three-month cap – 60 days.

Joe McCracken: Ninety days.

Terry Burke: No, 90 days, sorry – it was that it be 90 days, and we said it should come down to 60 days in certain locations. It is like rent regulation – generic, across-the-board policies are no good; you have got it just tailor it to some markets. I think we need to actually reflect on how we could better regulate the STRA market to bring more properties back into long-term rental.

Joe McCracken: So the settings in, say, Torquay would vary to, say, Point Cook.

Terry Burke: Yes, or particularly to inner Melbourne. There are 19,000 STRA properties in inner Melbourne. That is a lot. Most of those are not holiday houses, as they often are on the Bellarine Peninsula or the Mornington Peninsula et cetera. They are the properties that are just as likely to resort back to being holiday houses if you have punitive policies. But in Melbourne a lot of them would come back to being long-term rental accommodation.

Joe McCracken: Thank you. I think my time is up.

Terry Burke: The other one is inclusionary zoning, which we have already alluded to. If I had to do two things: short-term rental accommodation regulation and inclusionary zoning.

Joe McCracken: Thank you anyway.

The CHAIR: Thank you, Mr McCracken. I have just a few questions. I might start with you, Terry. In your submission you mentioned that in the era between 1950 and 1990 the younger generation had an aspiration to home ownership. I was wondering, in your opinion, what has happened from 1990 until now? Where has it gone to, and how do we bring it back?

Terry BURKE: That raises a wider point. I think we have to be very careful in how we promote the private rental sector and landlordism in Australia, because by default what we are really saying is that we are giving up on home ownership. I think that is a real problem for a country where still the bulk of young Australians aspire to home ownership to have policy decisions which are saying, 'No, basically it's gone. We've got to accommodate landlordism in a whole range of policies, including things like build to rent and more nuanced taxation policies, for example.' What we are doing is basically saying that is the end of home ownership as we have known it. I think we have got to be very cautious about how we think about facilitating the growth of the private rental sector, because it can only come at the expense of home ownership, given the social housing sector is so small in Australia. Australia has, in a sense, almost a philosophical challenge ahead of it: what sort of housing system do we want to be in 30 to 40 years time? Do we still want to be a home ownership society or do we want to be a landlord society?

To come back to your question, Chair, very quickly: all the things that we set in place in the 80s, 90s and 2000s – tax policies, planning policies, labour market deregulation and growth of international students – all have had the unintentional side effect of facilitating a growth of rental but at the same time facilitating a decline of home ownership, and I think we have got to ask ourselves some serious questions about whether that is what we want.

The CHAIR: Thank you. Part of this committee is getting some recommendations through to government. Just in your opinion, what kind of policy should we be looking at as a recommendation to bring back the ownership of housing?

Terry BURKE: That is a very tricky one. I do not want to get the state of the hook all the time, but I would be going back to say that that is where the initiatives have got to come from the Commonwealth. Just an example of a really wildcard – we talk about negative gearing and the better targeting of negative gearing. But an alternative might be saying, 'Let's phase out negative gearing for landlords and bring in mortgage deductibility for home owners as an alternative.' Why does the taxpayer subsidise investors but we will not subsidise people into home ownership? Let us rethink how we are using our subsidy systems in Australia in a more effective, targeted way. But again, the states cannot do that; it is the Commonwealth.

The CHAIR: Thank you. I guess that is something I was looking for. If I could refer over to Matthew, in your submission you mentioned, very similar to what the Professor mentioned, that 70 per cent of Victorians wish to buy their own home but the barrier is the deposit. You also go further and you mentioned that grants are not the solution. What is the solution? What do you suggest?

Matthew LLOYD-CAPE: When we talk about affordability of buying a home, mostly people focus on the house price. But the house price is always relative to wages. We have had a decade of, at the median level, stagnant wages, right? So that has to be factored in – that we have had policies in place that have reduced people's purchasing capacity from their wage packet – and the growth in insecure jobs as well means that it is harder to get any points for the mortgage application, for a secondary spouse or whatever. So we have this issue whereby we have rising house prices and subsidised investment pushing prices further and further out of the reach of younger Australians. It is very much a generational story, and we have got to be very careful about how this plays out over the next 20 years. This is something that has been playing out in different parts of the world; it is part of the demographic bubble of boomers moving through their life course.

But part of the issue in Australia is that we have a terrible mortgage market. You know, we have really shockingly bad mortgage products on offer compared to other countries. So if you look at what happens to home owners when the RBA lifts the base rate, they are immediately whammed with that rate rise on their mortgage every month. In other countries you can get a decent five-year, 10-year, 30-year mortgage. A 30-year mortgage is the standard product in the US, and that is backed by government intervention in the mortgage market, trying to guide the mortgage market towards socially favourable outcomes. So we have got to look at the very broadest array of all of the tools that we have for pushing mortgage affordability back towards where it was in the past.

In terms of quashing this gulf between wages and house prices, removing the incentives that allow people to pile into the secondary home ownership market in the good years, we do not need to keep on accelerating the number of people that own secondary properties in Australia, but we have; I think we have nearly tripled it in 30 or 40 years. I think a lot of the debate turns around supply. I would say actually we do not need to look at supply quite so much, we have to look at distribution of housing. This is exactly the issue where we have distributed to older, wealthier people, and it is excluding young people from the ownership market.

The CHAIR: Thank you. We have got a few minutes left before the next session open to the committee if there are any further questions you would like to ask the panel.

Aiv PUGLIELLI: I am happy to jump in, just because I ran out of time to do a question to everyone. Rebecca, from your perspective with the McKell Institute, we have heard from a lot of renters who are in a lot of pain facing rent increases. Do you think the scenario that we are now in, where landlords are able to increase rents by unlimited amounts, is fair and sustainable?

Rebecca THISTLETON: The fundamental point that I really wanted our submission to make was that when we are in a situation where people are using housing to generate wealth at the same time as people are needing homes, we are always going to end up with a whole pool of people that are far worse off. It is what Matt was saying then about when young people try and get into the property market as well. We end up in a situation where people looking to buy a home up to a certain amount were able to avoid paying stamp duty on those properties, which meant that they were all of a sudden in a position to be able to buy. They would go to auctions at the same time as interest rates had come off significantly and were up against people that were buying investment properties for their self-managed super funds. So it is a really inequitable system in its entirety that we are facing at the moment.

In terms of where renters are at right now, they are almost powerless within a broader system where they do not have a lot of options. If you do decide to leave one property because your rent is being increased and you go somewhere else, there is nothing stopping you from facing another rental increase there, because you are essentially still renting a property from the same type of investor. So that is why I think that we need to be having a look at how we can make our market far more sophisticated for buyers as well as for renters, because right now it is far too simple and geared towards building wealth through property rather than actually housing people.

Aiv PUGLIELLI: That is definitely something we hear about. To boil that down, would you say it is not fair and sustainable, what we have right now?

Rebecca THISTLETON: Mmm.

The CHAIR: Thank you. Deputy Chair, last question.

Ryan BATCHELOR: Should self-managed super funds be allowed to be investing in residential properties?

Rebecca THISTLETON: No. I should probably qualify that by saying that I think that we need to have a look at how we can reflect on superannuation in terms of what it was actually designed for, and that was not to build wealth through the property market, it was so that people had a safety net into their retirement. I think that having a look at the attitudes from some of the superannuation funds themselves and their approach to wanting to get into institutional investment into property really offers some great avenues on how we can make our rental market more sophisticated and deepen the investor pool, which is quite separate to self-managed super funds being able to harbour properties, particularly because it is not really regulated in a way that stops people from doing things like renting out at a peppercorn rate to immediate family members.

The CHAIR: Thank you so much. This brings our panel session to a close. I again would like to thank the panellists for generously giving us their time today. Witnesses will receive a copy of the transcript for review in about a week, before it is published on the website. We now move to the next session for today.

Witnesses withdrew.