T R A N S C R I P T

LEGISLATIVE COUNCIL LEGAL AND SOCIAL ISSUES COMMITTEE

Inquiry into the Rental and Housing Affordability Crisis in Victoria

Melbourne – Tuesday 19 September 2023

MEMBERS

Trung Luu – Chair	Joe McCracken
Ryan Batchelor – Deputy Chair	Rachel Payne
Matthew Bach	Aiv Puglielli
Michael Galea	Lee Tarlamis

PARTICIPATING MEMBERS

Melina Bath	Renee Heath
John Berger	Wendy Lovell
Moira Deeming	Sarah Mansfield
David Ettershank	

WITNESSES

Ben Kingsley, Chair, Property Investors Council of Australia; and

Cath Evans, Executive Director, and

Andrew Lowcock, Deputy Executive Director, Property Council of Australia.

The CHAIR: Thank you very much. Welcome back to the fourth session of today's hearing. Joining us today also are Andrew Lowcock, Ms Cath Evans and Mr Ben Kingsley.

But before continuing I will just quickly introduce our committee. To my right is the Deputy Chair Mr Ryan Batchelor; Mr Aiv Puglielli; Dr Renee Heath; Dr Sarah Mansfield; Dr Matthew Bach – there are a lot of doctors here; Mr Joe McCracken; Mr Michael Galea; Mr Lee Tarlamis; and Ms Rachel Payne.

Just before I continue, I will read this to the witnesses, if I may please. 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 thing, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered in contempt of Parliament.

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

For the Hansard record, can you please state your full name and the organisation you are appearing on behalf of, and then we will go straight to the questions. I just remind the committee again to keep questions to 4 minutes, if they have any input. Andrew, would you like to start?

Andrew LOWCOCK: Thank you, Chair. Andrew Lowcock, Victorian Deputy Executive Director for the Property Council of Australia.

Cath EVANS: Cath Evans, Executive Director, Property Council of Australia.

Ben KINGSLEY: Ben Kingsley, national Chair of the Property Investors Council of Australia.

The CHAIR: Thank you, sir. Ryan, would you like to start?

Ryan BATCHELOR: Sure. Great. I will kick right off. Thanks so much for coming, guys. There is a lot in your submissions. One of the things that we have gone over a lot today is the impact that the minimum rental standards have had on particularly landlords or rental providers, depending on your nomenclature preference. One of the questions I asked earlier was: who should decide if a house is livable for the purposes of renting it out? Do you guys have a view on that?

Ben KINGSLEY: I am happy to start. Firstly, thanks for the opportunity. Representing the stakeholders of property investors and not the trade or the industry or all of the onsellers is a really great opportunity for us, so thank you for that opportunity. In answering your question, our approach is safe and quiet enjoyment. If we are thinking about when we are looking at providing safe and quiet enjoyment of a property, that should be what the minimum standards are. A lockable door, by way of example, running water, electricity, basic heating and cooling – they are safe and quiet enjoyment opportunities there. When you get into more complex interpretations and details, you then start to create challenges, and those challenges –

Ryan BATCHELOR: Like what? What is more complicated?

Ben KINGSLEY: Well, examples of old properties and new properties and those types of things and then what is available for rental stock.

Ryan BATCHELOR: So should old properties be less safe than new properties?

Ben KINGSLEY: No, that is not what I said. I said quiet enjoyment and safe enjoyment does not mean that they are less safe, but if a door does not close perfectly or the floors creak or there is an opportunity for a bug to get under a door, does that mean that it is not safe and quiet enjoyment?

Ryan BATCHELOR: Creaking floors have come up a couple of times here. I would appreciate, probably on notice, if someone could tell me where in the minimum rental standards creaking floors are not permitted in a rental property, because it just strikes me as being a bit of a furphy in the debate to say, 'For all these things which are designed to stop people being poisoned by gas, for example, because of leaks out of gas ovens or pipes, the straw person that gets held up is the creaky floorboard.' To me it just smacks of not taking the debate seriously enough.

One of the things that your submission also goes to – and again it has come up a couple of times – is this question of loss of control. You get to decide whether the property is put on the rental market, you get to decide who the tenants are and you get to decide how much they get charged in rent and for how long, really, they can stay in the property under the terms of the lease – how long the lease will be.

Ben KINGSLEY: In the first stage of the term of the lease.

Ryan BATCHELOR: What other things would you like to be able to control about the property that you cannot right now?

Ben KINGSLEY: Well, let us give some context. In terms of an investor or a small business owner, because that is ultimately what they are – these are small business owners who are investing their dollars – they are choosing to invest their dollars into residential property as opposed to investing into shares or any other type of scheme. The reason why they do that in a lot of cases is the ability to control the property. The ownership piece is a really strong attributor –

Ryan BATCHELOR: Not to make money.

Ben KINGSLEY: Well, that is part of it. I mean, they are a small business, right? So of course they want to make money over time. One of the key drivers is long-term returns and basically providing for their retirement. That is one of the number one drivers that we see in all the research as well.

Ryan BATCHELOR: What more do you want to be able to control?

Ben KINGSLEY: Well, we want to be able to be in charge of the property. In other words, if we provide that accommodation we want –

Ryan BATCHELOR: What does that mean? What do you want to be able to control?

Matthew BACH: He was about to say before you interrupted him for the 10th time.

Ben KINGSLEY: That is right. What we are talking about here is that the reforms that were introduced – the 133 reforms that were introduced – have significantly reduced the control that the owner has of their property, and we just think it is an overreach in terms of how far those controls have gone. We absolutely welcome safe and quiet enjoyment of properties, but we also are having experiences where it is very difficult. You heard from the property managers beforehand in terms of not being able to get rent paid and having to wait three to four months to evict a tenant and to have a warning – first, second, third – and then a reissuing of the right to pay. They are gamifying, some tenants.

We have always got to be respectful here. There are about 670,000 rental properties in Victoria, right, and 95 per cent of those contracts go well. It is probably the last 5 per cent that we are talking about here, and the same sort of thing – we are talking about a challenged group of people in regard to higher rents and so forth, but the vast majority of rental contracts prior to these reforms also ran pretty well because you knew what you were getting. It is a physical asset. You can go and touch it, feel it, inspect it and put an application in in terms of that particular asset. So what we are advocating for is that there has been significant loss of control, and it is coming up in the data. It is saying it is one of the biggest reasons why investors are selling out of their properties.

Ryan BATCHELOR: I think it would help the committee if you could articulate with a little more clarity exactly what 'more control over' is in the context of rental properties.

The CHAIR: Thank you. You can continue to answer the questions as we go along. Dr Bach, would you like to continue?

Matthew BACH: Fine. Thanks. Perhaps I could ask you a question first, Ms Evans. I am sure you are aware that the Premier is considering a short-stay tax, a so-called Airbnb tax. Is that a good idea?

Cath EVANS: If there was evidence to suggest that it would increase the amount of rental stock available in Victoria, then that may be a good idea, but there is no evidence to suggest that increased taxing events free up rental stock. Those pieces of the puzzle are not linked together. So the issue for Victoria and Australia is the availability of housing supply generally across every single typology. Whether it be purpose-built student accommodation, retirement living, apartments, housing or single dwellings, every single aspect of housing needs to lift in terms of supply. So the connection to a taxing event on short-stay accommodation has not been proven in any other jurisdictions that I am aware of.

Matthew BACH: All right. Okay, thank you. I might –

Cath EVANS: Andrew, I do not know if you have got something to add to that.

Matthew BACH: Oh, I am so sorry.

Andrew LOWCOCK: No, it is just that the only thing to add is that we believe there are certainly a number of ways to address short-stay accommodation. A taxation framework is one. I think we would be more in favour of an incentive-based approach to rental housing that effectively incentivises property owners to make a decision that would actually support them to effectively have a better experience back on the long-term rental housing market. So that could be a land tax incentive or something along those lines that can be modelled, and we think that can be just as effective, if not more effective, and certainly would support better cost-of-living outcomes than a taxation framework.

Matthew BACH: All right, thank you. We might hook back to seek to get some more information from you in addition to what you have already provided us regarding supply in particular, as you said, Ms Evans. Mr Kingsley, it is great to have you here. I confess I am not as across your work as I am across the work of the property council. Would you mind just providing us a little bit of basic detail about exactly who it is you represent and how many members you have?

Ben KINGSLEY: Sure. The property investors council was established in 2017 to give a voice for property investors. There is obviously a tenants association which is government funded. We are a not-for-profit association, so we are basically organising a voice for the 2.2 million property investors that are around the country. So that is who we represent.

Matthew BACH: All right, fantastic. About how many members do you have?

Ben KINGSLEY: At the moment we have around 2700 paying members that provide a small nominal fee for administrative purposes. We are all volunteers, though, I should point out.

Matthew BACH: Okay, thank you. That might short-circuit some later questioning. You have obviously provided us with some basic information in regard to this broad question in any case. I am thinking about barriers and impediments to new housing stock. Would you mind speaking to us a little bit more – perhaps if I start with the property council and then come to you also, Mr Kingsley – about what you see there? Which barriers and impediments do you think we could potentially recommend removing in order to allow greater rental stock in particular?

Cath EVANS: There are significant challenges in the construction market, which I am sure everyone in this room is very familiar with. We have had successive interest rate rises, a massive escalation in construction costs and supply chain difficulties in accessing materials, which have all had a pretty significant impact on the supply of housing stock. This can be evidenced with data recently released by Charter Keck Cramer. In 2022 there were 4400 apartments launched for sale in Melbourne, which is down from 16,500 apartments in 2017, so that is a very substantial drop in the availability of apartments on the Victorian market. That of course has an impact in terms of rental stock which is available when that supply is just not being delivered to the market. In addition to that, we had changes with concessions for off-the-plan stamp duty, which also coincided with a deterioration in the availability of apartment stock coming onto the market. So certainly in terms of incentives to bring more apartment stock to the market, further relief around that off-the-plan stamp duty would be a welcome change to our taxing model at the moment.

Matthew BACH: All right, thank you very much. Thank you.

The CHAIR: Thank you. We might just move to the next questions. Dr Mansfield.

Sarah MANSFIELD: Thank you. Thank you for your detailed submissions. I am interested in some assertions in the submissions that there is political and regulatory interference in the marketplace and that is having an impact on supply. I guess there would be some who would argue that there are certain policies and regulations that also create an incentive for investors. We have got negative gearing, capital gains tax concessions – I mean, should we be getting rid of those as well?

Ben KINGSLEY: I think again, looking at these small businesses, these are the same concessions that are available for any small business that is operating. So you would be singling out a group of people and you would be disincentivising them to make those investments over the longer period of time. You have got to remember that negative gearing is only a moment in time; it is not something that will continue on over a long period of time. It usually occurs because the cost of borrowings is high, which means the property runs at a loss. Once that cost of borrowing goes down, the rent comes up, the passive income comes into play, and then we start paying our way in that as those business owners we start contributing to the tax pool as part of that. The same way as if we divested the property, we also continue to add value to the capital gains allocation of tax that comes through.

Sarah MANSFIELD: I guess it is just that this is an area where there is a lot of regulation, and some of those things are advantageous and some of them maybe create some restrictions, but it is not a pure free market operating with no government input.

Ben KINGSLEY: Yes. Look, let us acknowledge that some of the reforms that came through as part of the 133 reforms were actually timely and required in terms of setting safe and quiet enjoyment. What we are seeing now is an overreach in terms of taxes and costs, and the reforms were – especially the no-grounds evictions reform – a big control loss when you also add them to the fact that after the first term of lease they can stay forever, unless you sell the property or you move back in. So that is losing control of the asset as far as investors are concerned. If you look at the table in one of the graphs here, you can see the time that that was introduced, which was in March of 2021, and you can see the vacancy rates just dive-bomb as part of that particular story. You are looking at Melbourne, Victoria and then the national average. We are now falling off a cliff here in Victoria when it comes to the appetite for these small investors to spend their tens of billions of dollars – because that is what they will be investing – and they are looking at interstate investments and interstate locations. So Victoria is quietly walking into a very dangerous position when it comes to rental stock in this state.

Sarah MANSFIELD: And you attribute most of that to the *Residential Tenancies Act* changes?

Ben KINGSLEY: I think what you will find in the research – Property Investment Professionals of Australia just surveyed 1700 different responses – is it was clearly the number one reason why property investors are looking to get out and are looking at other alternatives. I think it was 43 per cent in terms of the reason why they sold. If I can just get the number up here, government increasing or threatening to increase taxes, duties or levies, making property a less attractive asset – 47 per cent of respondents. Changes to tenancy legislation that impacted control of the property by compliance and holding costs – 43 per cent of respondents gave that as the reason why they sold their properties. Now, that is why they sold. Of the ones who are also now looking to sell, 45 per cent are saying that government has increased or is threatening to increase taxes, levies, charges et cetera; and then 43 per cent, tenancy legislation impacting control of the property; and 43 per cent, the introduction of rental freezes or rental caps. So it is material. When you are talking about 2.2 million investors, it is material.

Sarah MANSFIELD: We have heard from a lot of tenants who are living in pretty substandard housing – pretty terrible housing – and having a lot of trouble getting just the basic standards that exist enforced. Is that acceptable? Should we be accepting that?

Cath EVANS: There is an opportunity to strengthen the environment for people to have their complaints heard and for those minimum standards to be complied with, and it is already in existence in the Act. Rental providers are not our main membership. However, clearly, to keep current rental providers in the market is pretty critical given such a huge percentage of the rental market is provided by mum-and-dad investors. Pleasingly, we have seen some work at a federal level in recent times to encourage build-to-rent properties onto the market, which will obviously deliver rental properties at scale but also professionally operated and managed by owners of those businesses, who have a very clear focus on quality and maintenance of those properties because they are investing in them over a 20-, 30-, 40-year period. Melbourne, of course, as you have probably heard from other commentators, has really led the market in bringing build-to-rent offerings to our tenants here. We are really encouraged to see that, and hopefully that will continue to strengthen and grow over the coming years.

Ryan BATCHELOR: The Treasurer certainly likes talking about how strong the build-to-rent market is.

Andrew LOWCOCK: The Victorian government made a very good decision in 2020 on land tax concessions, and we advocated for that and supported that and that has played itself out in the market. To go back to the question around, I guess, taxing concessions and interventions in the market, there are clearly, from our perspective, good and bad interventions in the market. I think that what has happened to support the build-to-rent market in Victoria and nationwide following the MIT changes earlier this year are examples of very good interventions that support housing supply.

Cath EVANS: And really high quality housing stock available for people at different income levels. We want to see that continue to grow, because that will rebalance the reliance which the market has had on single investors being rental providers, which is what our current story is.

The CHAIR: Thank you. Dr Heath.

Renee HEATH: Thank you. Thank you so much for coming in and for your presentations. I just want to pick up on a couple of things you spoke about. The first one was no-grounds eviction. What is your view on no-grounds eviction in Victoria?

Ben KINGSLEY: It is obviously a hotly contested area. We were the first, in Victoria, to legislate that. We did see that the Western Australian government recently decided not to legislate the no-grounds components, because they looked at their bonds data and they saw 21,000 less rental properties in that particular market. So they did not want to disincentive the small investors to come into those marketplaces. They have held off on that, and what we are now seeing is the hottest markets in Australia for investing are actually Western Australia and South Australia. In fact Victoria ranks eight out of eight in terms of the worse state in Australia to invest for property.

Renee HEATH: Right. Some good news: we have got plenty to work on.

Ryan BATCHELOR: It can only go up.

Renee HEATH: Yes, that is right. Moving on from that, you also spoke about how in 2021 there were 133 additional pieces of compliance. What is your view on that, and what is its impact on the market?

Ben KINGSLEY: I think what you will also find with increased compliance is increased costs. So what we have seen is that property managers have increased the fees that they charge to property owners. You have also seen compliance costs, making sure the property is in a minimum standard order, so that has also increased the cost of operating a small business. So we are seeing the pressures, in addition to the obviously higher interest rates, also coming through.

What was also interesting in this latest report that has been tabled was the actual costs that have been passed on to renters. We are obviously seeing in the media these horror stories of $100, $80, $120 increases, but what we did see in terms of the actual costs that were passed on was 83 per cent of the costs were less than 25 per cent. So of all of those additional costs, less than 83 per cent of our investors have passed those costs on. They have only passed on a maximum of 25 per cent of their holding costs. I think that is really nicely also illustrated in some research from CoreLogic that I have got also available for your perusal. If you actually have a look at this table here, you will see the cost of the rent that has gone up, average cost for greater Melbourne, versus the increased cost in interest payments – and then also in the rest of Victoria. So you can also see in that graph there that these small business owners are technically subsidising rent for their tenants at the moment. They have not been able to pass on all of their costs associated with running their small businesses.

Renee HEATH: Is that a trend that can continue?

Ben KINGSLEY: Well, it is a bit of an anomaly in the sense of the amount of interest rate increases that we have seen. We have seen them rocketing up. I mean, we have got examples in the original submission that I gave you about a $400,000 property. If you saw that $400,000 property – a 400 basis point increase: that is a $16,000 increase over a 12-month period. If that landlord increases that rent by $100 per week, they will be recovering $5200, so only recovering 32.5 per cent in that example. That is, to take a moment, if I can, the nuance of the property market.

I listened in on a couple of your landlords earlier today. Some of those landlords inherited their properties with zero debt, and they can be very flexible around how they look after that. And we encourage all of all of our members to be reasonable. In my particular case, my costs in Victoria have gone up $32,000, and I have increased my rent by $725 over a 12-month period, so I am taking the heat in regard to that. So we want them to be respectful and acknowledge that there are people doing it tough out there and, if they are in a position to, to look after those people, but in a lot of cases when we hear those stories, we do not hear the other story of the owner, who has basically had thousands or tens of thousands of dollars in increases in holding that property, and they are only passing on, as I just told you, less than around 25 per cent of those costs.

Renee HEATH: Yes. And my last question is: why do you think that the government, or the state, has traditionally stayed away from public housing?

Ben KINGSLEY: Well, they have not. I do not think that is a fair assessment. I think if we look back through the decades, there was a lot of public and social housing as part of that. But what I do think is the trend and that there is no doubt about is that the cost of running those types of volume properties is less efficient than a private investor running them. If we can meet the minimum standards, we do not have the administrative costs, the management costs. We are not running wait lists, we are not running interviews. We can do it a lot more efficiently than the government can, and I think they saw that in regard to the way in which they have been operating.

Renee HEATH: Yes. That is great. Thank you so much.

Ben KINGSLEY: Thank you.

The CHAIR: Aiv.

Aiv PUGLIELLI: Thank you. Thank you all for coming in today. I might stay with you, Mr Kingsley, at the moment. You were saying you were listening into some of the landlords that we had in at the beginning of the day, and I did raise this question with them. Do you think, as a property investor, that your investors have a right to a positive return on that investment when that would not necessarily be extended as an ideal to all other asset classes?

Ben KINGSLEY: Well, I am not sure about the way in which the question has been answered, but we operate in an open market. There are competitive market forces, with supply and demand. As a small business owner, and potentially as a passive investment as part of that, we cannot be guaranteed of any return if the market will determine the prices paid based on supply and demand over the short term. So I think the better way of looking at that is: do investors go into investing in property thinking that they have got a guaranteed return here? If they do, I think they are misled. There are plenty of reports out there on win–losses, you know, in terms of CoreLogic's report that comes out in terms of profits and losses made. So I do not think anyone who has invested in property – or everyone who has invested in property – has always made money out of it.

Aiv PUGLIELLI: Thank you, and I appreciate that contribution. Would you say to property investors or would-be property investors that they need to be prepared to make a loss on their investment?

Ben KINGSLEY: If it is through government intervention and through reforms that they were not planning for and that government intervention is impacting the ability for the market to operate correctly, I think they have got a right to be disappointed by that. I think they have got a right to sort of say, 'If I'm investing now, I want to see the long-term approach in terms of what's been looked at.' The more you change it and the more you impact the market, the greater the risk you have of causing not only direct impact to those who have invested – and remember, it is very expensive to enter into the property market in this country. The third-biggest revenue source of the state government here is stamp duty. If you think about that, you know, the impact of lower property prices means lower stamp duty revenues, which ultimately means a higher cost base and tax base for all other constituents of Victoria. So I would be careful about how much I manipulated the market.

Aiv PUGLIELLI: Thank you, and I appreciate your perspective on this. Nonetheless, you would be prepared to advise would-be property investors that they should be prepared that they may make a loss on their investment.

Ben KINGSLEY: Well, they need to look at all the conditions in play, and they also need to say, 'Well, are those same conditions in a competitive market in New South Wales and Western Australia and South Australia?' If they are looking in those particular markets and they do not see the reform agenda or the conditions that are occurring in this state, they will just go and spend their billions of dollars over in those states and territories.

Aiv PUGLIELLI: We have heard similar contributions to that effect, so thank you. With the situation we are now in, you are referring to landlords as small business owners. Do you think it is morally defensible that someone's right to housing has been commodified in that way?

Ben KINGSLEY: Civilisations have formed through inns and lodges to create communities and societies for which they can build. I think it is really important that we understand that there are lots of different types of renters in the market. If I have the time, I can quickly – there are those by no choice: obviously those in current financial stress, those people who have got relationship breakdowns and the most vulnerable in our community. We understand they need a safety net, and they need to have that housing. But by choice, there are people who are making lifestyle moves, they are moving for job opportunities, they have recently arrived in Australia, they are rentvesting or they want better school zones or a more convenient work–lifestyle balance. Some people want to live in a share house to meet new people. They want the freedom and flexibility associated with that. Renovating – I recently rented because I renovated my home, so I needed to be able to have that opportunity to be able rent for six months whilst my second storey was being built. And then there is the transient one, which is the seasonal worker – the interstate migrant who is checking out a new lifestyle opportunity, but they will rent before they buy; or relocated workers and the backpackers and that working population that move around. I think if we understand all of the rental market and we understand all the different players in the market, we can obviously focus in on those most vulnerable, and I think that is fair and reasonable. But we also need to lift our eyes up and see what is available in the marketplace as well.

Aiv PUGLIELLI: Thank you. I just think of people in my generation who are unable to afford a home, and I would say that they are the bulk of the rental market. But I appreciate there is variety out there.

The CHAIR: Thank you. Mr Galea.

Michael GALEA: Thank you. I am not quite sure that is the case across all parts of Melbourne, but I will save that debate for another day. Can I start by asking Mr Kingsley: would you say that by far the biggest impact on property investors right now has been interest rate rises over the past 12 months?

Ben KINGSLEY: In terms of cost of holding?

Michael GALEA: Yes.

Ben KINGSLEY: I think that is a fair assessment.

Michael GALEA: And that far outweighs any other regulatory changes or compliance requirements?

Ben KINGSLEY: When you onboard it with those minimum standards, those higher operating costs and the reform agenda that is also in there, I think you will find that the evidence is saying that those property investors – like, interestingly enough, that was the third-ranked of the survey. Higher interest rates came in at

40 per cent in terms of why they sold. The number 1 reason, as I mentioned before, was government taxes and charges; number 2 was the tenancy legislation; and coming in at number 3 was higher interest rates.

Michael GALEA: Yes, okay. But it still was the largest cost.

Ben KINGSLEY: Yes, that is right, and I think that has put the most pressure on those small business owners passing on some of those costs. I think that is a fair assessment.

Michael GALEA: Sure. Thank you. We touched on this a little bit previously, but I would like to pick up on it, Ms Evans and Mr Lowcock – the discussion about build to rent. It is obviously encouraging to hear that Victoria is already ahead of the pack in this sector. How do we encourage further and better build-to-rent development both at a state level and a nationwide level?

Andrew LOWCOCK: There is clearly an undersupply, first and foremost. I think with the challenges that mum-and-dad landlords are experiencing, which Mr Kingsley was talking to so eloquently, there is a need for institutional investment to come in and provide a significant option in terms of the volumes of new housing, and that comes with very professionalised, for want of a better word, hotel-style or retirement village style management and responsiveness and services. And it does meet some of these key market needs.

What we are experiencing the sector right now is there are only a few build-to-rent developments up and operational. Many more are to come over the next few years, so I think what we will see is some greater diversity in offering. We will see more affordable and mid-market housing. We will see key worker housing offerings. We have seen some of those announced, and they will come through in the next two or three years. I think we need to recognise the build-to-rent sector is still in its infancy compared to sectors that are operational and mature in the US and the UK and parts of Europe. So that will present itself over time. We are very wary of some commentary that would indicate that the build-to-rent market is a higher end offering. I think it is fair to make that assessment in a few years when we start to see that diversity and volume in the sector, and we have to of course recognise some of those challenges that you touched on, such as interest rate rises, which are making the cost of development and building so much more challenging.

In terms of what governments can do, as I said, this government has made some positive steps in terms of land tax concessions. There are further things that can be worked upon – for instance, foreign investor surcharges. There is a framework in place that supports exemptions during the development phase but not during the operational phase, so that is something we would potentially like to see widened. The application of apartment design standards in build to rent – we are not seeking whole-scale rewrites, but we think there is some adaptability or some flexibility, given that in a build-to-rent setting there is far more common amenity than perhaps there is in build-to-sell or strata apartment developments. So can that be reflected better through apartment design standards? There have been some reviews of those in recent times, but again it might be timely to revisit that just with the significant increase in build-to-rent development that is coming through. There are also things just about the servicing by authorities. Common metering, for instance, works differently. These are very granular things.

Michael GALEA: All very important.

Andrew LOWCOCK: But they can, if all combined and tackled with a coordinated approach by government and local councils, make a significant difference to supporting further build-to-rent development coming through.

Michael GALEA: Interesting.

Cath EVANS: And planning reform is part of that picture as well, because you obviously need larger –

Michael GALEA: I was just about to ask that. If I can very quickly sneak in a question in terms of planning and appropriate densification, what is your view on the best way to do that?

Cath EVANS: It certainly is part of the focus for growing the build-to-rent sector in that you need larger blocks of land available and higher density to actually make those projects stack up financially. Certainly what we would encourage government to focus on is appropriate level of densification – clearly around transport hubs is a primary area of focus – and to look at how that height can be managed in that environment when you are considering transport, heritage overlays et cetera. It is all part of the mix of getting to the right planning solutions to encourage further investment in Victoria.

Michael GALEA: Thank you all.

Cath EVANS: Speed to market is really critical too – how long it takes for something to go through a development pipeline and be shovel-ready to start the work. Having capital sitting there for two, three or four years whilst you are awaiting a planning outcome is clearly not viable to keep that capital in Victoria.

Michael GALEA: I would love to also talk to you about development plans being approved and not acted upon, but I know I am well over time anyway.

The CHAIR: Mr McCracken, would you like to continue, please?

Joe McCRACKEN: Yes, thank you. My first question is to Mr Kingsley. There is this myth being perpetrated about rent controls being the answer and that it is going to help people. What impact is it actually going to have?

Ben KINGSLEY: I think most of the research done internationally will tell you that they have an unintended consequence around the economic impact more broadly, and all they do is effectively kick the can down the road for a short period of time and then the market adjusts itself for that particular thing. Clearly, from the research we have done, it would be a catastrophic decision for any type of rental freeze or rental cap to be introduced in this state, because you will see we refer to it as borderless investing and it has very much been a trend for the last decade or so.

Joe McCRACKEN: Why would it be catastrophic?

Ben KINGSLEY: Well, it is ultimately catastrophic because you will just lose your investor demand. We can sit here and talk about how to solve your supply problem, but if you have got no buyers because they are spending their money in other states and territories –

Joe McCRACKEN: Talking about other states and territories, I know the ACT have got a form of rent control. What is the impact there?

Ben KINGSLEY: The ACT, I think as you heard earlier, has the highest rental of any state in Australia and it has the least amount of supply because of their caps and their conditions around that. They have a shocking land tax and they also obviously have this rental cap that has also been introduced. So yes, most investors will steer clear of the ACT.

Joe McCRACKEN: So in terms of reputation then for Victoria – I think you mentioned before, was it WA and South Australia where most of the movement is heading to, and Victoria is not where it is going to?

Ben KINGSLEY: Just so you know this – worst in Australia: Victoria; coming in at number seven was the Northern Territory; number six was the ACT; then you have got number five, Queensland; number four, New South Wales; number three, Tasmania; number two, Western Australia; and number one, South Australia. They obviously have not introduced any reform agenda around the tenancy reforms, and so investors are feeling confident about moving into those markets because they feel in control of their asset.

Joe McCRACKEN: I was interested in that graph too. I know it is talking about increases in CPI on rents. Is that over the last – what is that actually telling us?

Ben KINGSLEY: So this is a 10-year average annual CPI reading on rents. Obviously, what you can see here is that prior to the pandemic rents were not growing or keeping up pace with the market and the capital growth that was occurring, so rental yields were dropping. So we did some analysis from around 2012 to 2022, and rents were not keeping up with CPI. A part of that is also a pandemic, and in Victoria especially when you had a moratorium on rental controls – so obviously the landlords and small business owners here were accommodative in terms of not kicking anyone out and not increasing rents – as we also heard from one of the property managers, rents actually went down in Melbourne because of obviously the severe lockdowns that we had here as well. That is supply and demand working the market. So if we can increase supply, even if a small business owner wants to put their prices up – if you actually have a look at the last graph here, you can see I have got Victoria circled. This is telling you how dire it is getting here in Victoria. These are rental listings as at 10 September, so this is extremely recent, and you can see here over the last 12 months, listings for rental properties are down a quarter – 25 per cent. The number of new listings coming to market over the last week and a half is down 15 per cent. Now, if you look at Hobart on the other hand, they have got a wonderful supply of rental property at the moment, and guess what? Rents are falling in Hobart at the moment, and that is the market doing its thing.

Joe McCRACKEN: So really it is a supply and cost issue. Would that be fair to say?

Cath EVANS: Correct. Yes.

Ben KINGSLEY: 100 per cent.

Cath EVANS: If there is further reform to put pressure on investors now who are rental providers, in an environment where we have really low supply, as evidenced by that apartment data I referenced earlier, that is the catastrophic situation for renters: less on the market for them. That does not cure the problem, further regulation of the rental market, right now.

Joe McCRACKEN: That includes rent caps and rent freezes as well – just to make it clear.

Cath EVANS: Absolutely. It just causes enormous pressure on those investors who are looking at: ‘Well, I can put money in the bank and get a 5 per cent return on investment or deal with all of this.’ That is the challenge.

Joe McCRACKEN: No, that is excellent evidence. Thank you.

The CHAIR: Thank you. I will quickly pose a question then, and we will wrap this up. Obviously we mentioned supply and demand, and supply is a key issue. The thing is we want incentives to keep people in the market and keep increasing supply. So from your experience and your point of view, I just wonder if each one of you could give me three points. We have not got magic wands, but from a legislative point of view if we are going to legislate for certain things, what are the three things that you think are crucial that might help incentivise people to invest and continue to invest in the property market?

Cath EVANS: There is certainly policy to activate supply, which I have already spoken about, which primarily sits in planning reform. So we can get the stock that is currently in a process out, completed and into the market – that will increase supply; address systemic long-term planning issues so that we do not have projects sitting there for two to four years and even longer periods of time; and unlock precincts, which Victoria has got. As everyone in the room knows, the Victorian Planning Authority delivers precincts, and housing supply falls off the back of precinct planning being completed, so ensuring we have got sufficient resources and funding available for those precinct plans to be delivered quickly is critically important. In terms of other initiatives, certainly activating that apartment market with tax incentives around stamp duty concessions to enable those projects to get to pre-sales at a much faster rate than they currently do would help incentivise that apartment market a lot more aggressively than it has been in the past few years. Andrew, have you got some more?

Andrew LOWCOCK: Only to add that there is a whole range in terms of the planning reforms, which need to encompass and also require a focus on post planning-permit delays, such as with water authorities, which have been, certainly in greenfield and land development settings, a constant pain point. And there have been significant delays and blowouts in terms of the timeliness and responsiveness to works offers and installation of infrastructure that is required to connect new housing to things like sewerage, which is pretty important obviously to getting that housing up and running. So there are some key issues in that realm as well which need some significant attention.

The CHAIR: Ben.

Ben KINGSLEY: We love to come to the table with solutions and not just problems.

The CHAIR: That is right.

Ben KINGSLEY: You have heard a lot about the problems that we were talking about.

The CHAIR: This is an opportunity hear from you.

Ben KINGSLEY: We do like the idea of what the state government can be in control of, which is a future housing fund. We love the shared equity scheme that has been introduced, especially for single mums with lower incomes. We think that is a brilliant winner. We would like to see the money that will be the ultimate capital gains that will occur in that property being reinvested back into a fund. We would like to see a percentage of stamp duty captured to continue this future housing fund to provide the social and public housing. In terms of stamp duty itself, we think you should be looking at a transition to an annual tax model, because that increases mobility, and barriers of entry for deposit holders in terms of getting into the market. In terms of rent-to-own public housing models it is being able, for those people in public housing, to eventually take some of that equity ownership and again, in the eventual sale of that, the government recouping whatever equity ownership they have to be reinvested back into the housing future fund.

You must win back investors into this state. I am making it very clear to you that at the moment you are not doing a good job there. To be able to do that, you have got to look at your land tax, the levy – those things that were also introduced. The no-grounds evictions are the biggest control hurdle that you have around increasing the buyers who are going to buy the particular properties that we are talking about introducing supply on – and reducing the compliance and holding costs about that.

Here is an interesting one: a 1 per cent rule. Your biggest problem with your nimbyism is the fact that you will have blockages at the approvals stages by people who do not want radical transformation of the environments that they are built in. So introduce a 1 per cent rule. The 1 per cent rule is the next productive use of land for every street in Victoria, and that basically means that if you have got a single-lot home and you have got a street of single-lot homes, the 1 per cent rule says that one person can apply to have a duplex built. So you do not have the arguments that they have around congestion and parking and all those types of thing. It is quite palatable – politically it is palatable – and it also means that you will be able to get some of those transactions around more volume. So if you have got a townhouse site, you can potentially look to make that small density, and so every layer of productive use goes up by 1 and then you can potentially ratchet it up to 2 per cent and 3 per cent. But then you get a migration of density over decades and you get that blend and balance rather than a whole suburb being transformed by medium and high density – food for thought.

This one may be out of your jurisdiction, but we have lots of vacant rooms to rent in Victoria. At the moment that impacts your principal place of residence capital gains exemption, so that is why people do not touch it. But we know it works; it is called Airbnb. So ultimately if you were able to have an exemption for a period of time when we can house those most vulnerable – and I am sure there are people who are lonely and pensioners who want someone also joining them in their home. If you made that principal place of residence exemption available, that would be for a period of time – say, three to five years would be something that you would consider.

Affordable rent subsidies – we are talking about state levies. If you do offer rental assistance for your tenant, then ultimately you can also subsidise that in terms of your land tax that is also being levied on you. The government could control that in terms of areas of need, such as Mildura, which we heard about recently as well. At the federal level, for new stock only, we would also be sort of thinking about a tax offset of 30 per cent, similar to the way the NDIS works, but again putting a selection up there.

The CHAIR: Thank you, Mr Kingsley. I think that is pretty much the three. I think the time has caught up with us. I do thank you so much for coming in today. I think some of the last few points we definitely will take into deep consideration for our submission down the track.

Again I would like to say thank you all again for generously giving your time today and coming in. Witnesses, you will receive a copy of the transcript in a couple of weeks time before it is published on the website. We will take a break now until 3:30.

Witnesses withdrew.