# SUBMISSION TO THE INQUIRY INTO THE RENTAL AND HOUSING AFFORDABILITY CRISIS IN VICTORIA

Centre for Equitable Housing
A Per Capita initiative

# Contents

# Introduction

The Centre for Equitable Housing (CEH) at Per Capita welcomes the opportunity to make a submission to the Legal and Social Issues Committee Inquiry into Rental and Housing Affordability Crisis in Victoria, on the challenges facing Victorian renters and factors causing the rental and housing affordability crisis in Victoria.

The CEH is a centre focussed primarily on housing policy research and reform within the think tank Per Capita. Housing affordability and housing policy reform is increasingly important, and yet increasingly divisive, both in the media and politically. We believe that providing evidence-based and mission-driven policy options that are appropriate to the different tiers of responsible government can help neutralise politically driven arguments in the housing space.

Many of the causes of the rapid increase in rental prices and mortgage costs are national in origin. However, there are many areas in which the Victorian government can work with federal counterparts to address these national level policy issues or work on mitigating some of the effects at the state level.

What is most vital is ensuring that housing policy at the national and state level is not left to languish without a clear set of long-tern objectives and a pathway to those objectives. The Victorian Government has already proved itself a leader in several areas of housing policy reform, and we hope that our analysis and recommendations prove useful in taking this reform trajectory further.

Our submission discusses various aspects of the terms of reference. Specifically, we make recommendations in relation to the TORs in bold below:

1. **The factors leading to low availability and high costs of rental properties;**
2. **Options to address insecurity, availability and affordability issues facing Victorian renters;**
3. The adequacy of regulation with regards to standards and conditions of rental housing;
4. **The adequacy of the rental system and its enforcement;**
5. **The impact of short-stay accommodation;**
6. **Barriers to first home ownership and the impact this has on rental stock;**
7. The experience of, and impacts of all of the above on, renters and property owners;
8. Any other related matters.

# Recommendations

***Recommendation 1:*** *That the Victorian Government work with the Federal Government, and other state/territory governments, to pursue a national housing policy framework bound by ambitious targets and objectives, as well as associated funding structures.*

*This should be founded on a national mission-based approach, including strategies for social housing, establishing a set of national of rental standards, a review of housing-related tax arrangements, and diversifying the rental housing sector.*
***Recommendation 2:*** *That the Victorian Government recommit to the 1.75% levy on new multi-unit developments, and commit to building a further 48,000 social housing dwellings between now and 2036.*

***Recommendation 3:*** *That the Victorian Government cooperate with future Federal Government efforts to alter the tax incentives that encourage speculative property investment in order to improve affordability of homes for owner-occupiers.*

***Recommendation 4:*** *That the Victorian Government continue to work with the Build-To-Rent (BTR) sector, and expand the ground lease model to diversify the rental property market, establishing Victoria as the most favourable location for investment in private and community/cooperative BTR development.*

***Recommendation 5:*** *Notwithstanding the findings of the Inclusionary Housing Pilot, the Government should establish a target of at least 15% of land release to be allocated to social rental homes, which should to remain social rental homes in perpetuity or with minimum terms of at least 25 years before units can be sold.*

***Recommendation 6:*** *That the Victorian Government remove the option for a no-cause eviction at the end of the first fixed term lease from the Residential Tenancies Act.*

***Recommendation 7:*** *That the Government implement appropriate rent stabilisation policies to prevent unreasonable increases in rental costs, learning from the experiences of the ACT and international examples such as Ireland, Canadian Provinces and Scotland, as territories with the most similar legal and regulatory frameworks.*

# Current trends in housing costs and affordability

## Rents and rental affordability

### Asking rents

Much of the media debate at present is taken up by very rapid rent price increases for new or renewed leases, rather than the average rent paid across the whole market. These "asking rents" have increased significantly as a percentage, particularly in Melbourne which saw a very large drop in rent prices during the 2020-22 lockdown period. This has led to a high rebound in prices over the past year.

As Table 1 below shows, CoreLogic's rental change figures for Melbourne (which are based on asking rents) increased by 3.7% in the quarter to March 2023, the fastest growth of any capital and significantly worse than the national average of 2.5%. Over the year, these reached 10.8% compared to 10.1% nationally.

*Table 1.*
*Changes in Rents, Rental Yields and Vacancy Rates*

| | | | (all dwellings) | | (all dwellings) | | (all dwellings) | |
|---|---|---|---|---|---|---|---|---|
| **Region** | **Median rent** | **Month** | **Quarter** | **12 months** | **Current** | **12 months ago** | **Current** | **12 months ago** |
| **Melbourne** | **$526** | **1.50%** | **3.70%** | **10.80%** | **3.40%** | **2.81%** | **0.70%** | **2.00%** |
| **Perth** | $573 | 1.30% | 3.60% | 12.80% | 4.85% | 4.34% | 0.60% | 1.10% |
| **Sydney** | $699 | 1.60% | 3.40% | 12.60% | 3.22% | 2.48% | 1.20% | 2.10% |
| **Brisbane** | $599 | 0.80% | 1.80% | 12.30% | 4.34% | 3.51% | 1.10% | 1.20% |
| **Hobart** | $563 | 0.40% | 1.80% | 4.70% | 4.39% | 3.65% | 1.70% | 1.10% |
| **Adelaide** | $531 | 0.70% | 1.70% | 11.50% | 4.09% | 3.77% | 0.30% | 0.40% |
| **Canberra** | $674 | -0.10% | -0.70% | 0.30% | 4.19% | 3.82% | 2.00% | 0.70% |
| **Darwin** | $588 | -0.40% | -1.00% | 4.60% | 6.39% | 6.04% | 1.80% | 1.70% |
| **Combined capitals** | $594 | 1.30% | 3.00% | 11.50% | 3.70% | 3.00% | 0.90% | 1.70% |
| **Combined regionals** | $507 | 0.40% | 1.20% | 6.60% | 4.60% | 4.10% | 1.40% | 1.30% |
| **National** | **$570** | **1.00%** | **2.50%** | **10.10%** | **3.90%** | **3.20%** | **1.10%** | **1.60%** |

Source: (CoreLogic 2023)

For a household with a median income, a new or renewed lease at today's prices will take 30.8% of their income, but for lower incomes households, servicing a new or renewed would require 51.6% of their income.[1] This is clearly unmanageable, and means that our housing system is failing low-income households. Simply put, the private rental market is not appropriate for many low-income households.

### Actual rents paid

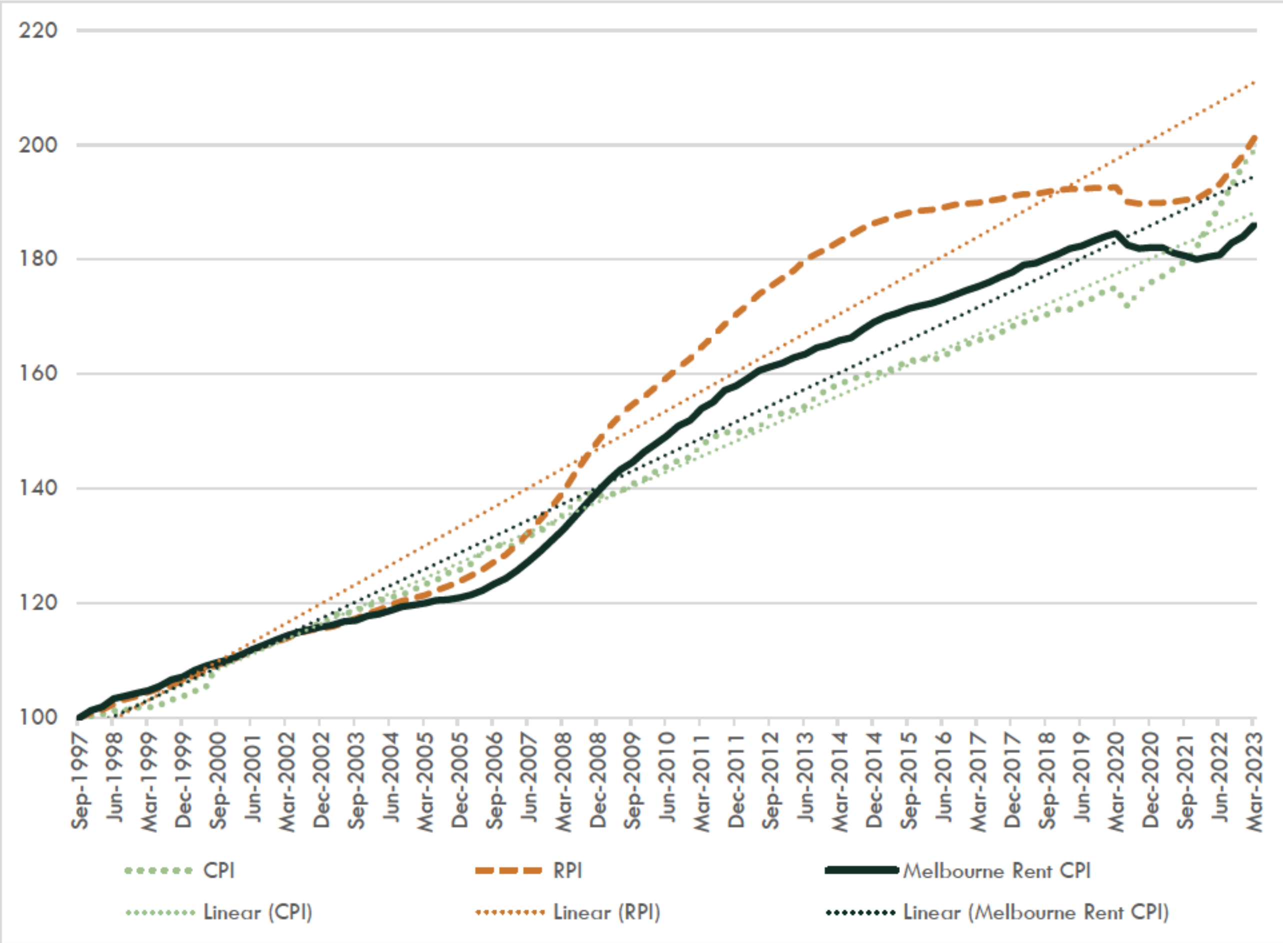
While asking rents are increasing rapidly, most people do not pay current new rent prices. Some current asking rents will filter into the stock of all rents paid, but not all, and not all at once. The Consumer Price Index (CPI) of rents is useful for exploring this difference, because instead of being based on the very small proportion of rental stock represented in asking rents, it is based on actual rents paid by a representative sample of the whole rental population.

[1] CoreLogic 2023

Figure 1 below shows that as of March 2023, rent price for the whole market was still lower than the pre-COVID19 trend. This may be surprising, but less so when the 12% rent decline in Melbourne during COVID19 is considered.[2]

Figure 1

Melbourne rent prices compared to national rent prices, Inflation and Wages




*Source: Authors calculations, ABS releases (multiple)*

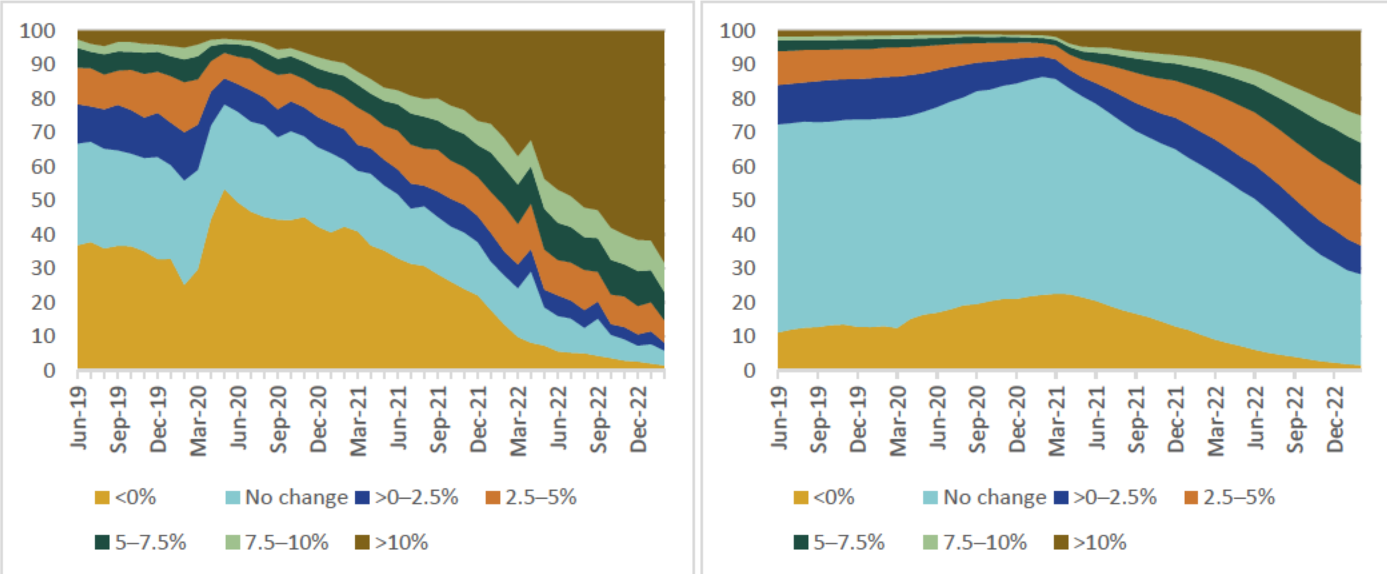
However, the averages in the CPI do not tell the complete story.

A very large proportion of renters, particularly renters seeking a new home, are experiencing very sharp rental increases. Figure 2 below shows on the left the very large and rapid increase in rent prices for tenants seeking a new place to live. In May 2020, only 2.5% of new tenants saw a rent increase of more than ten per cent. However, by February 2023, 68% of new tenants were seeing rent increases of more than ten per cent.

For sitting tenants, the increase in rents has been more muted, although far higher than two years ago. In early 2021 nearly a quarter of existing tenants saw their rent shrink, and 64% saw no rent increase. However, by February 2023, around a quarter were seeing their rent go up by more than ten per cent. However, many sitting tenants are seeing significantly lower rent increases, and 25% of recent lease renewals involved no price increase.

[2] See Tim Helm, 2023

Figure 2
Size of rent increases for new tenants (L) and existing tenants (R)



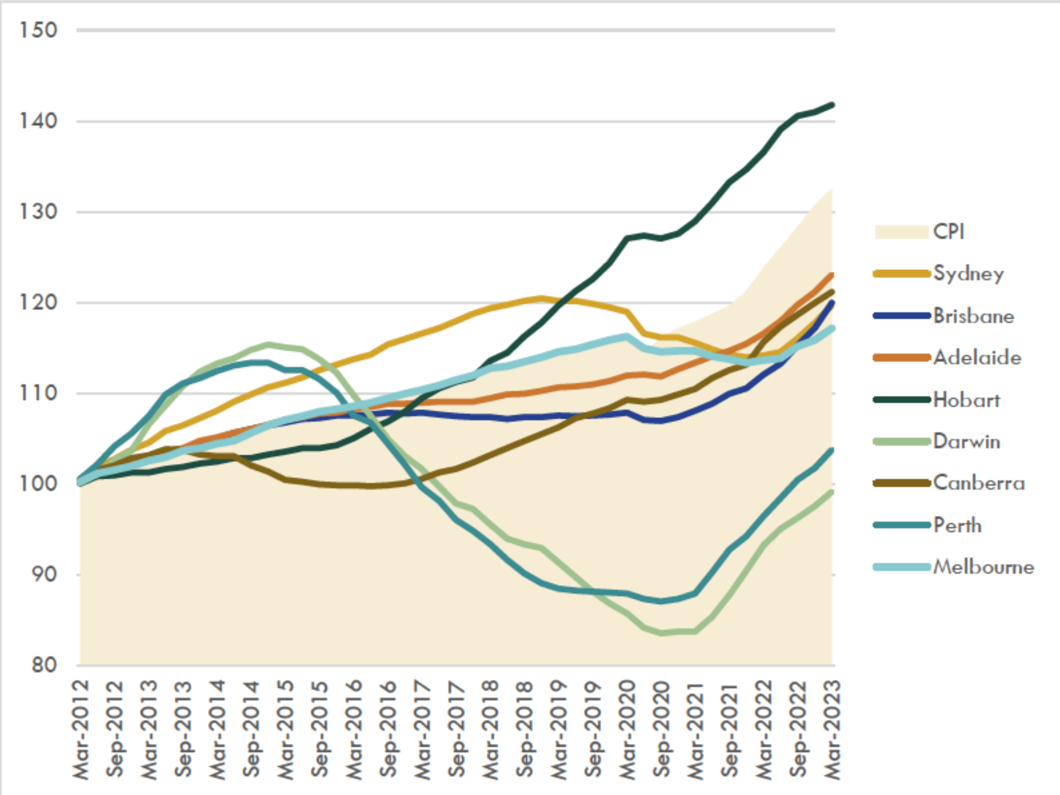

*Source: (Hanmer and Marquardt 2023)*

While there is no denying that many people are suffering huge increases, particularly new renters, these rent changes are coming off a relatively low base. Prior to mid-2021, median rent prices in Melbourne were at their cheapest since before the GFC.

Melbourne rent prices are also significantly cheaper than in many other capital cities. Figure 2 shows that Melbourne rents have grown more slowly than average national rents, represented by the rent price Index (RPI) since the GFC.

Compared to the other capital cities, Melbourne rent prices in the CPI in March 2023 were lower than every city other than Perth and Darwin (Figure 3). It should be noted that given the lag in the data, recent price increases from July 2022 onward are not included in this data set.

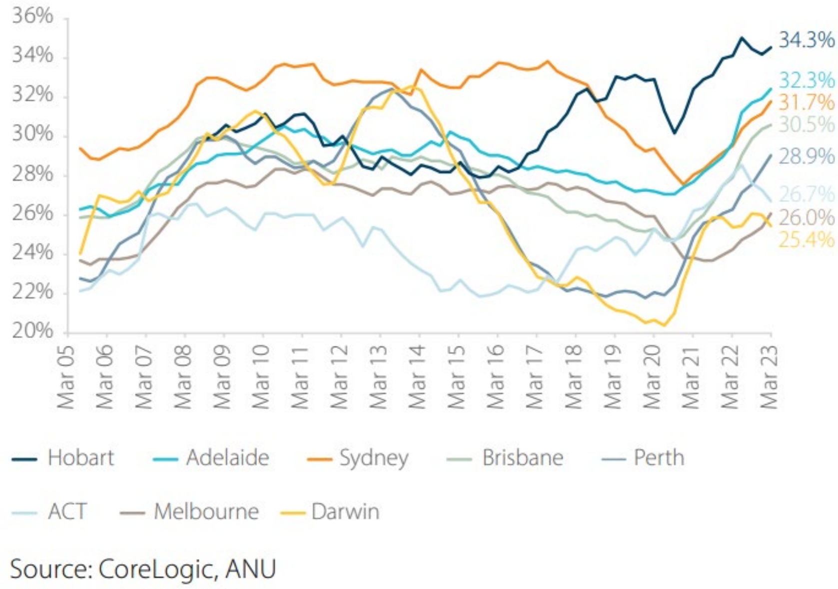
*Figure 3.*
*Capital City Rent Price Index*




## Affordability of rents

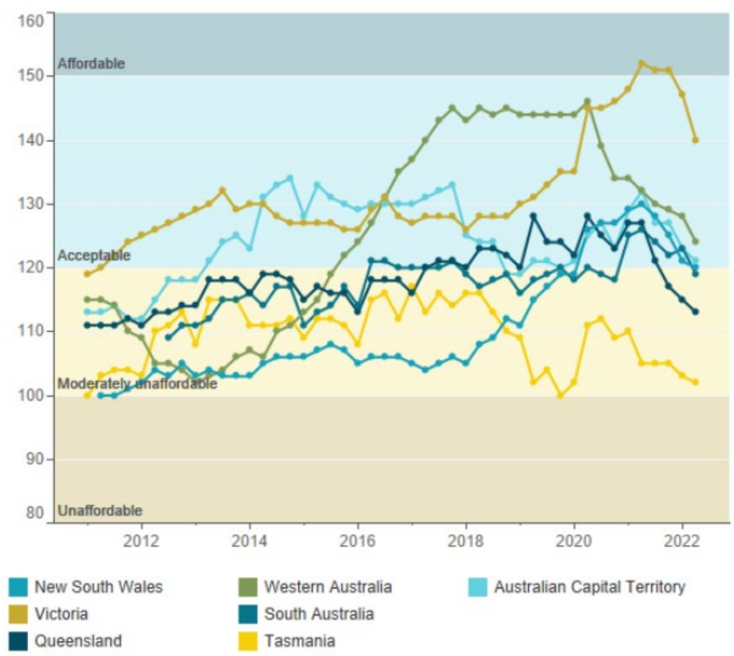
When it comes to affordability of rents, Victoria does comparatively well at the median level. Despite a relatively rapid decline in affordability following the reopening of the city in 2022, Melbourne's rent prices as a share of income are the second lowest of any capital city, at 26% of median income, again the lowest since prior to the GFC (Figure 4).

Figure 4
Portion of income to service rent, capital cities (median)




Using a different metric, SGS Economics considers median rents in Melbourne to be "Acceptable" (see figure 5).[3]

Figure 5
Rental Affordability Index, by greater capital city, 2011 Q1 to 2022 Q2
Australia only (excl. NT)

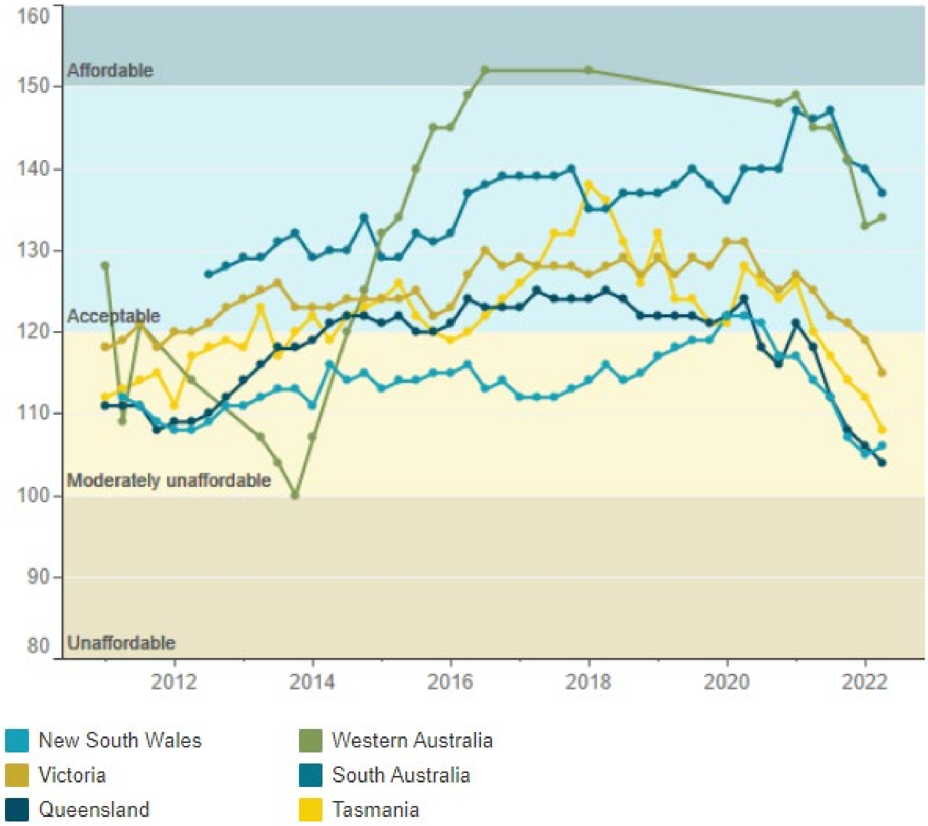



*Source: [Rental Affordability Index, SGS Economics and Planning](#)*

For regional Victorians, rental affordability is in a worse state than in the capital. While rent prices were equally low until mid-2020, they began to rise earlier and more sharply than in the capital, partly in response to Melbournians' desire to leave the capital during COVID19 lockdowns. Rental affordability in regional Victoria declined from "Acceptable" throughout the 2012-2022 decade, to "Moderately Unaffordable" from the beginning of 2022 (Figure 6).

[3] The methodology used by SGS Economics, more data and details available at https://sgsep.com.au/projects/rental-affordability-index

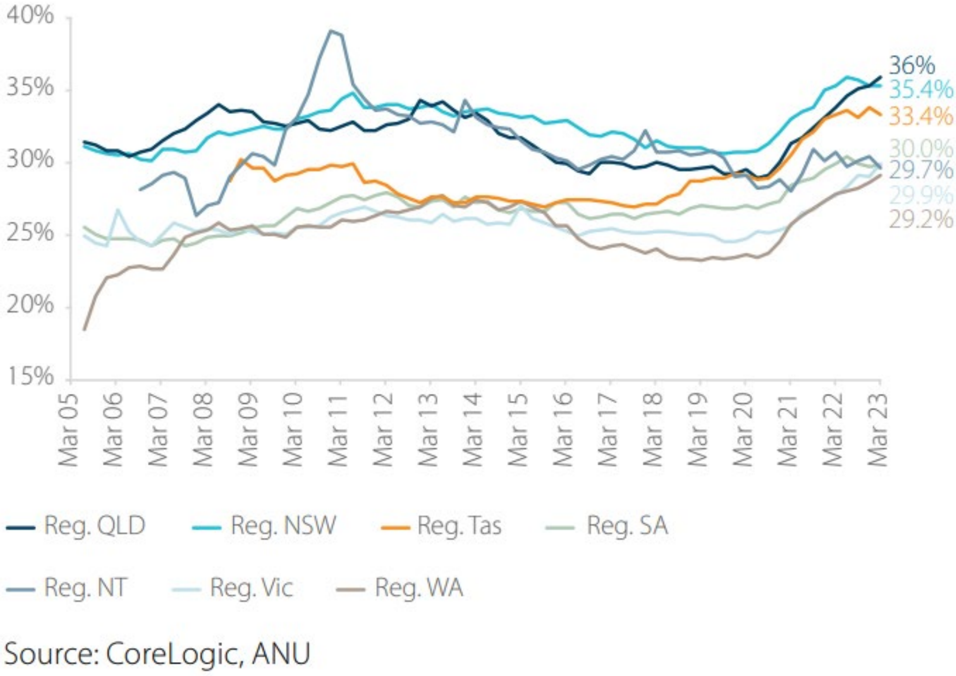
Figure 6
Rental Affordability Index, in rest of states




*Source:* [Rental Affordability Index, SGS Economics and Planning]

As well as increasing demand in regional Victoria, the income disparities between new migrants and existing residents has helped push up median regional rents, and the median rental cost is now significantly higher as a share of income, at just under 30%, compared to 26% in the capital (Figure 7).

Figure 7
Portion of income to service rent, regional (median)




## Affordability for Low Income Households

While the median figures suggest that rents are relatively affordable even among rapidly rising rates, for lower income households it is a different matter. Rental costs have been increasing for low-income households at an unsustainable rate for decades.

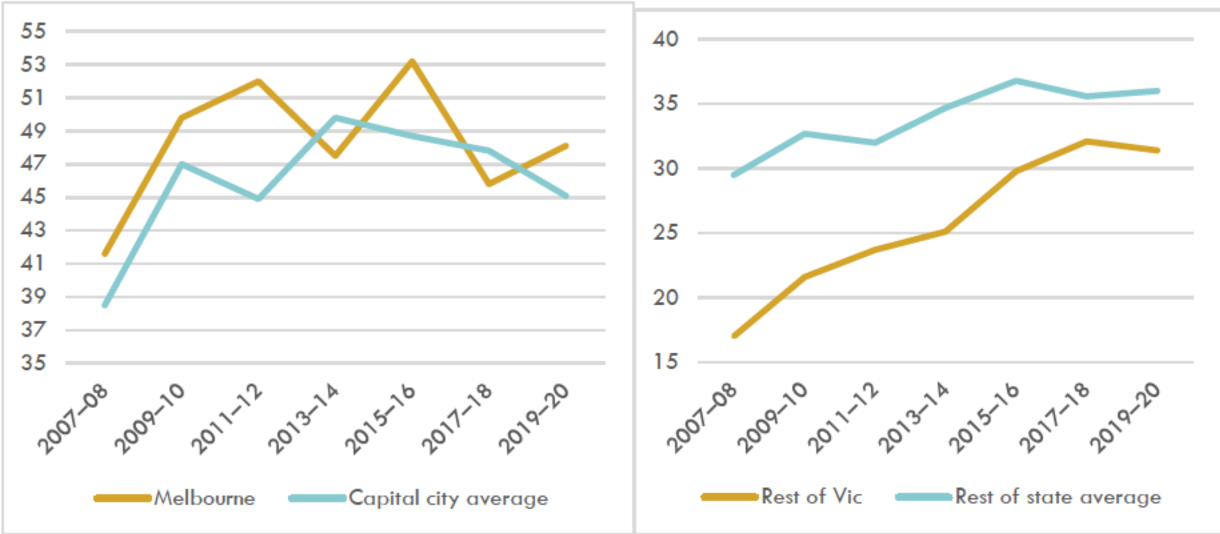
In 2020, 47.6% of low-income renter households and 36% of low income mortgage holders in Victoria were in "housing stress" – spending more than 30% of income on housing. This has remained very high since a large jump at around the time of the GFC. Over a third of low-income mortgage holders were also in housing stress, representing 86,150 households.[4]

In regional Victoria, the proportion of low-income renters experiencing housing stress has roughly doubled since the GFC, rising very fast in comparison to other regional areas outside the state. While the share of low-income renters in housing stress was still lower in regional Victoria than in other states as of 2019-20, changes following the COVID19 housing market changes will likely have increased low-income housing stress.

Between 2008 and 2020, an additional 8,000 Victorian households have entered housing stress every year.

Figure 8
Lower income renter households in housing stress (paying more than 30% of income on housing costs) (%)

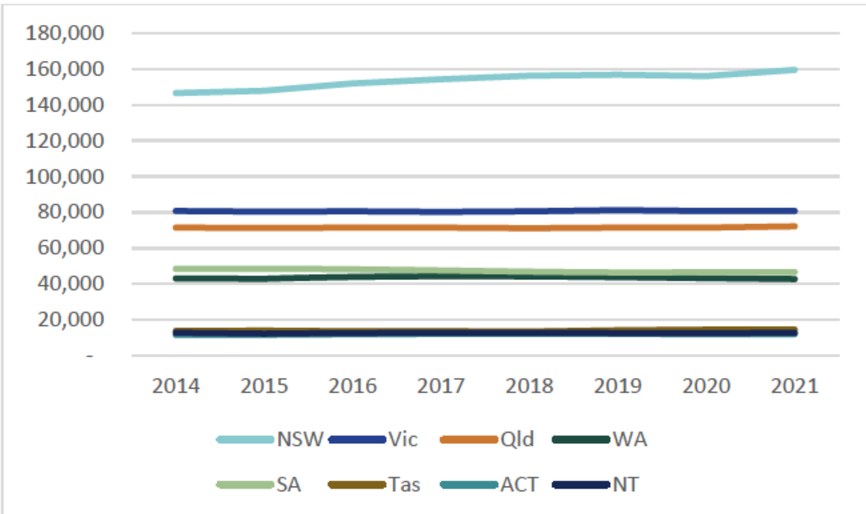
[4] Housing Occupancy and Costs, Australia, 2019-20




*Source: ABS, Housing Occupancy and Costs, Australia, 2019–20, Table 13.1*

One of the key reasons for this large growth in low-income renters experiencing housing stress is that there are insufficient social housing options for Victorians. The decline in per capita social housing numbers is not unique to Victoria: all states other than NSW have seen a stagnation in housing stock since 2014 (see Figure 9). The three years to 2021 saw overall social housing waiting list numbers rising by 16%, Australia-wide, to 164,000 households. Nationally, the annual number of 'new greatest need applications' grew by 48% during this timeframe (Pawson and Lilley 2022).

Figure 9
*Social housing stock by state*




*Source: AIHW, Housing Assistance in Australia, Social Housing Dwellings*[5]

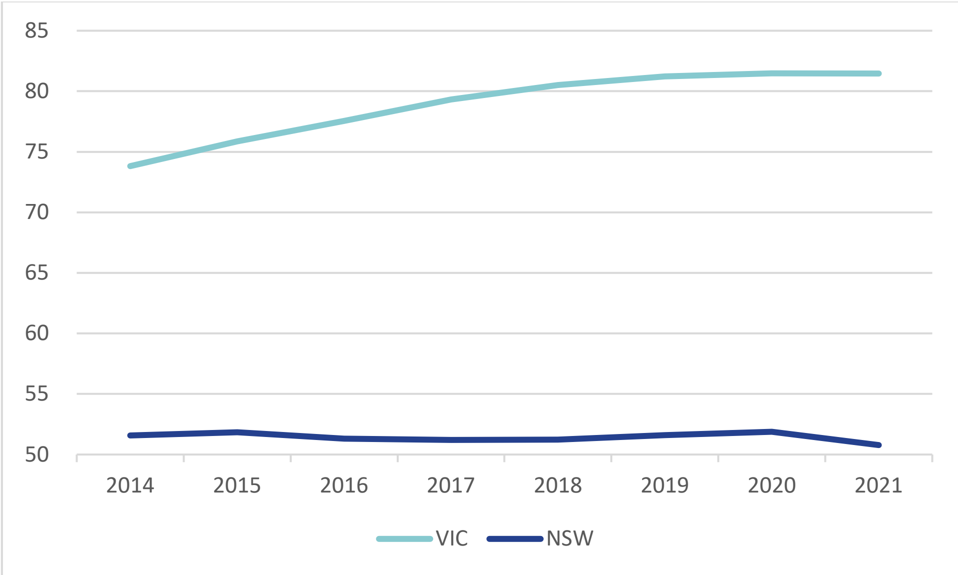
However, Victoria's high population growth rate, combined with a stagnation in social housing construction has led to a significant decline in per capita housing stock. In 2014 Victoria's 80,706 social housing dwellings serviced the needs of 5,957,512 Victorians. However, by 2021 social housing dwellings had declined slightly to 80,611 but the population had increased to 6,566,560.

This meant that the ratio of residents to social housing dwellings had increased from 73.8 to 81.5 (see Figure 10), meaning far more strain on an already low social housing stock. In comparison, NSW started the period with a far

[5] Housing assistance in Australia, Social housing dwellings - Australian Institute of Health and Welfare (aihw.gov.au)

higher stock (51.6 New South Welshmen per social dwelling) and maintained social housing stock in proportion to population growth.

Figure 10
Residents per social housing dwelling




*Source: Authors calculations, AIHW, Housing Assistance in Australia, Social Housing Dwellings, ABS 3101 National State and Territory population*

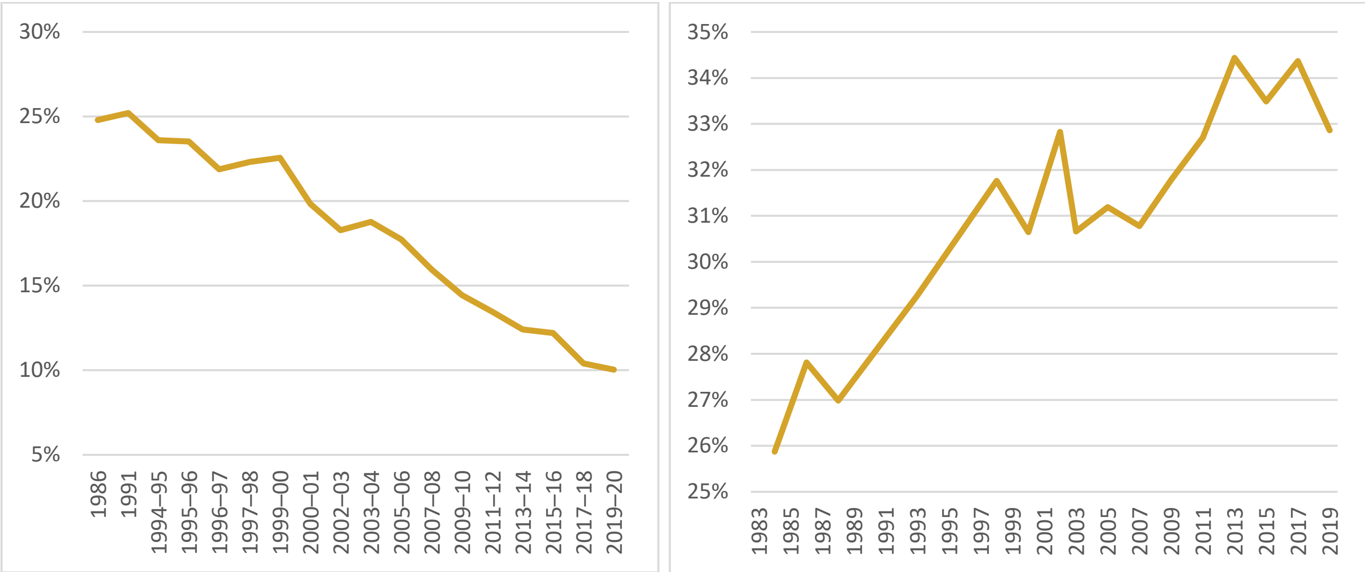
This has led to a huge proportion of people who would once have been eligible for social housing having to enter the private rental market. The cost difference between the two is stark: in 2019-20 the median weekly housing costs in Victoria for low-income private renters was $349, compared to $120 for social housing renters. This equates to housing costs being equal to 32.5% of income for low-income private renters, compared to 23% for social renters.

Unsurprisingly, the waiting list for social housing has increased dramatically: the Victorian Housing Register increased by a third between June 2018 and March 2023, from 44,000 applications to 58,131.[6]

Social housing is a critical protective measure for low-income households, particularly at times of rapid cost of living increases. It is the ultimate form of rent control, and has the benefit of being targeted, predictable and can be integrated with other social services. Secure, stable, and affordable housing is a bedrock for to improved health outcomes, better childhood development, economic opportunity and social mobility. However at the national level, social housing has been in decline since the 1980s, and in severe decline from the early 2000s onwards. Between 2002-3 and 2019-20, the proportion of renters in social housing halved from 18%, to 9% (Figure 11 below).[7]

Figure 11
Social renters as a share of all renters (L) and proportion of income spent on rent by low-income[8] renter households (R)

[6] https://www.homes.vic.gov.au/applications-victorian-housing-register-vhr
[7] ABS, Housing Occupancy and Costs, Australia, 2019–20
[8] Low income equates to households in the bottom 40% of the income distribution.



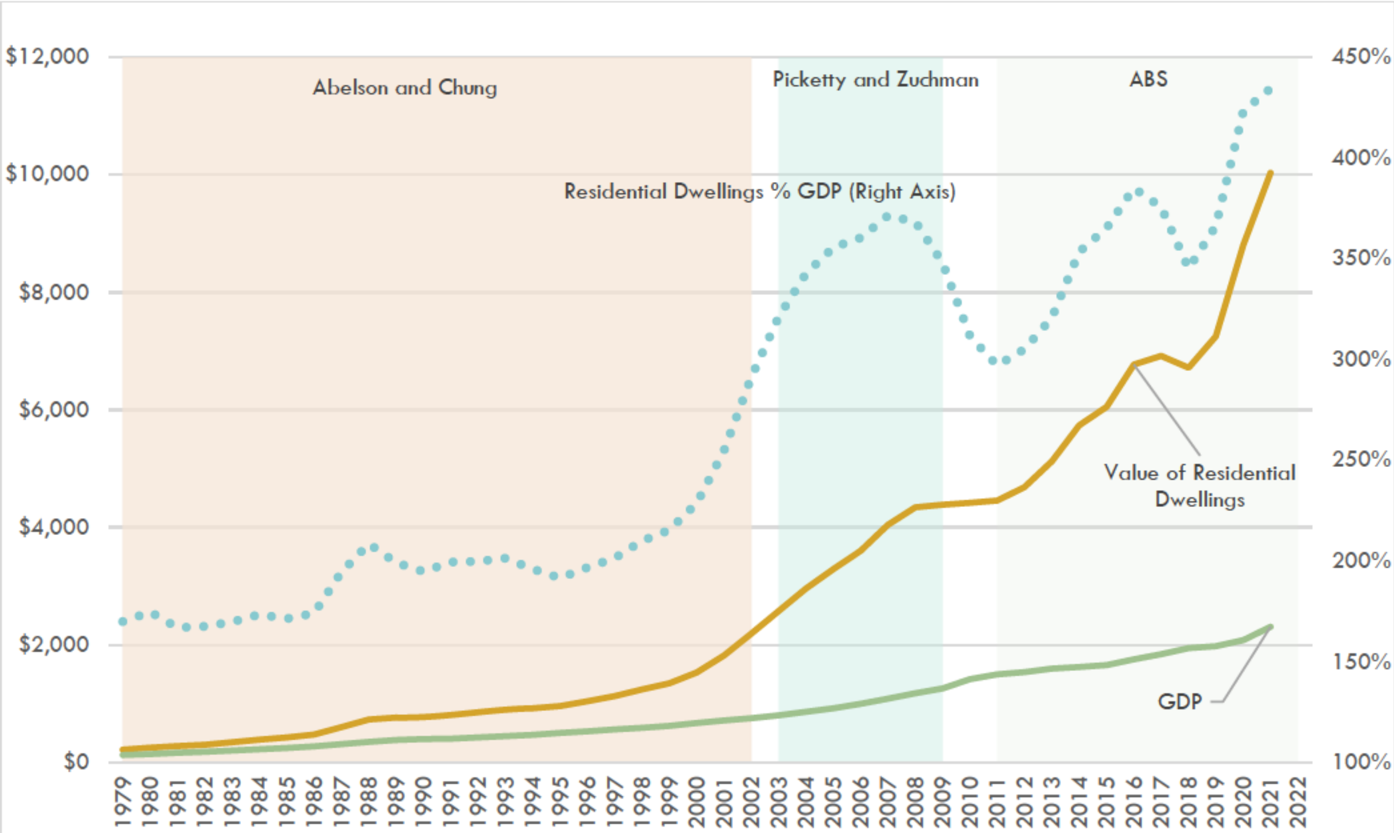

*Source: Authors calculations based on ABS census data (various years), ABS Housing and Occupancy Costs (various years) (left), (Interim Economic Inclusion Advisory Committee 2023)*

While price is the obvious difference between private and social renting, there are other critical reasons why social housing is superior for many low-income households. Landlords in the private rental sector are generally not equipped to provide the support and professional capabilities that tenants of public and community housing receive. Nor should they be expected to. Just as there are professionals dedicated to the health and educational needs of low-income households, so too should housing.

## House Prices and Housing Affordability

By some measures, buying a house has never been more expensive. In 2021 house prices rose by 19.4%, faster than anywhere else in the world other than Turkey.[9] As an indication of the scale of price increases, figure 12 below shows the increase in residential dwellings compared to GDP. In the late 1990s, dwelling stock was valued at twice the value of GDP, but by 2021, this had risen to 4.35 times GDP.

Figure 12
Value of Residential Dwellings and GDP ($b)

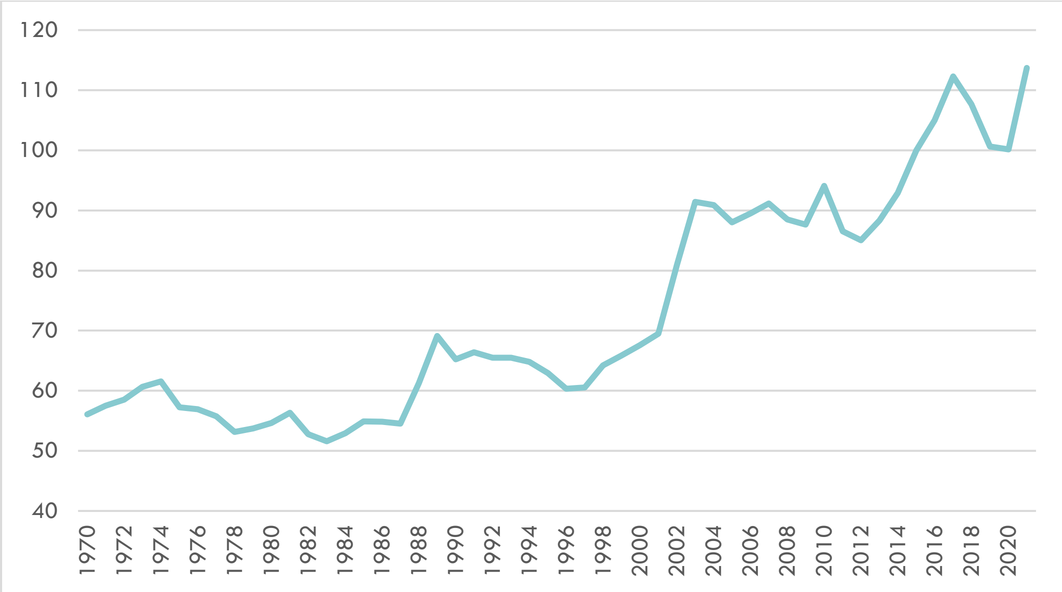



*Source: Authors calculations, based on Abelson and Chung (2004), ABS, (multiple), Picketty and Zuchman (2013)*

Incomes have not kept up, particularly in the past decade. The ratio of median house prices to median incomes rose relatively slowly until the late 1990s, and then increased very rapidly, almost doubling by 2021. This means that dwelling prices have risen from around 4.5 times disposable income in 1997,[10] to around nine times now.

[9] https://www.imf.org/external/research/housing/index.htm
[10] (Peter Abelson and Demi Chung 2004)

Figure 13
Median house price to income ratio (index)

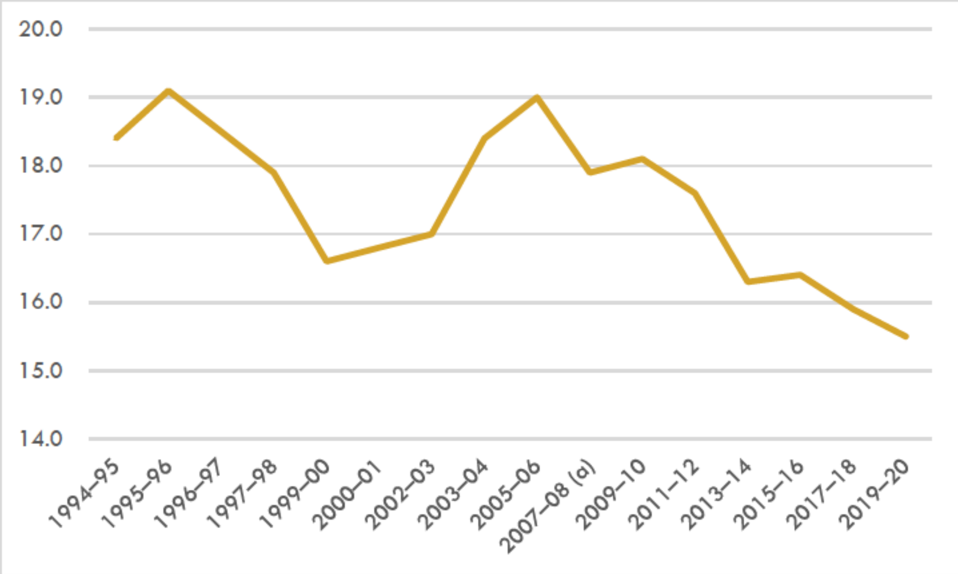



*Source: OECD (2023), Housing prices (indicator)*

In terms of affordability, much of this has rising price-to-income ratio has been mitigated at the level of monthly repayment serviceability, by an extended period of historically low interest rates since the GFC. From the GFC until 2019-20, median mortgage repayments as a share of incomes have actually declined, despite rising house prices (figure 14).

However, again the median trend does not show the full story. The decline is partly a cohort effect, as large proportion of older established homeowners with rapidly shrinking mortgage debts outweigh a smaller number of younger homeowners significantly.

Figure 14
Median housing costs as a share of income (mortgage holders)




*Source: ABS Housing and Occupancy Costs, 2019-20*

For new mortgage holders, things are significantly worse. While dwelling prices in Victoria fell by 5.7% in the year to June 2023,[11] mortgage affordability is still low.

Our previous research report, Generation Stressed: House Prices and the Cost of Living in the 21st Century, explored the cost of servicing a mortgage as a share of lifetime income for a homebuyer in 1970, in 1985 and in 2000. This research found that, despite lower interest rates over the past decade, the growth in house prices and stagnant wages were causing mortgage repayments to remain higher for longer than in previous generations.

The mortgage debt of the Silent Generation family buying in 1970 was worth around 3.7 years of median full-time male annual earnings in the first year of the mortgage, but after five years over half of the debt had been inflated away, to just 1.8 times annual earnings (Figure 15).

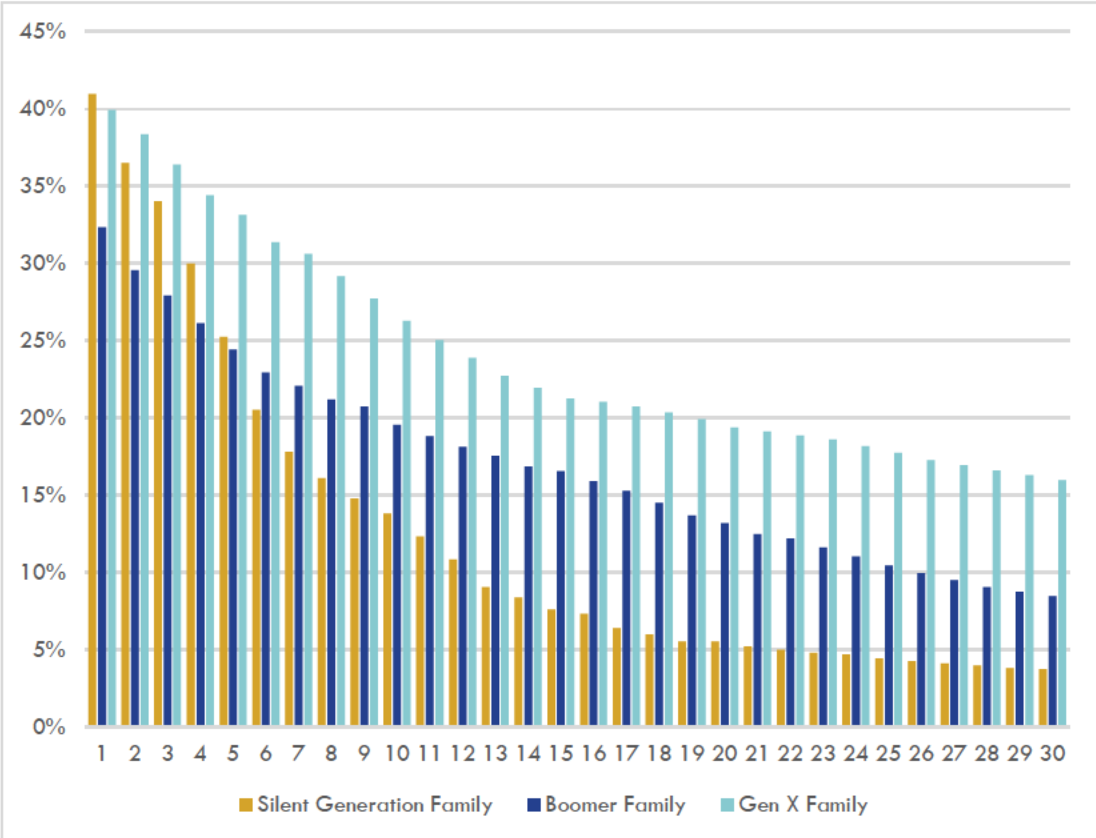
In 2000, the initial mortgage debt taken on by the Generation X family equated to 5.6 times annual earnings, and was still at 4.1 times after five years.

We estimate a single income Gen X family was paying $1425 per month on their mortgage in 2021. If they were on the same repayment trajectory as the Boomer family their monthly bill would be $910, while if they were on the Silent Generation trajectory it would be just $440 a month.

For the individual family, this is a huge loss of income - almost $1,000 a month - that would be far better directed toward education, health or day-to-day living expenses. For the nation, it represents a significant constraint on household consumption, savings and investment.

Figure 15
Mortgage repayments as a share of income for homebuyers in three time periods

[11] https://www.dtf.vic.gov.au/economic-and-financial-updates/victorian-economic-snapshot




For homeowners purchasing in the past three years, mortgage costs as a share of income rise from 24.6% in 2019 to 37.4% in 2023.[12] This means that younger and more recent homebuyers are at a far greater risk with their tottering mortgage debt become less sustainable as rates rise.[13] Per Capita has previously discussed the causes of house price increases in our 2022 report, Housing Affordability in Australia – Tackling a Wicked Problem. We would urge the Committee to review the report for further explanation of the causes of house price inflation.

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[12] https://www.theguardian.com/australia-news/2023/jul/04/bleak-outlook-for-first-home-buyers-as-rba-rate-rises-to-slash-disposable-income

[13] See also recent research by Moodys https://www.smh.com.au/politics/federal/housing-affordability-crumbles-as-mortgage-repayments-hit-record-level-20230308-p5cqgi.html

# Causes of Large Rent Increases and High House Prices

There are many factors that contribute to high rent price and mortgage increases. For renters, a relatively weak position vis-à-vis landlords, minimal regulatory settings around rent price increases, and the dominance of small-scale landlords, and a lack of non-market housing options mean that rental increases are more likely. For landlords and homeowners, the current interest rate environment, and the structure of our mortgage market, mean that mortgage rate increases are far more tightly linked monthly RBA cash target rate changes than in other countries. For everyone, the decline in real wages, after a decade of flat wage growth is contributing to housing cost increases, and worsening the cost of living.

## Market structure

The vast majority of landlords in Australia are small-scale, non-professional "hobby" landlords. 71% of landlords own a single rental property, 19% own two, 6% own three, and the remaining 4% of landlords own four or more properties. Just under half of all rental properties are owned by a landlord with a single investment property.[14]

Figure 16
Share of Lease Length


*Source: (Hanmer and Marquardt 2023)*

While hobby landlords are not necessarily bad landlords, there are features of this market segment which making renting more liable to sudden price increases and more unpredictable in other ways. The level of turnover within this segment of the rental market is extremely high, with 21% of property investors exiting the market within the first year, and 59% of them leaving within five years.[15] This leads to a high turnover of rental properties, with dwellings moving in and out of the rental market, contributing to extremely short tenures and contract lengths (Figure 16). As shown in Figure 2 short tenures tend to "reset" rental rates to the market maximum, while in-tenancy rent increases tend to grow at a slower rate, particularly when the landlord is happy with their tenant overall.

[14] (Martin et al. 2022)
[15] (Martin et al. 2022)

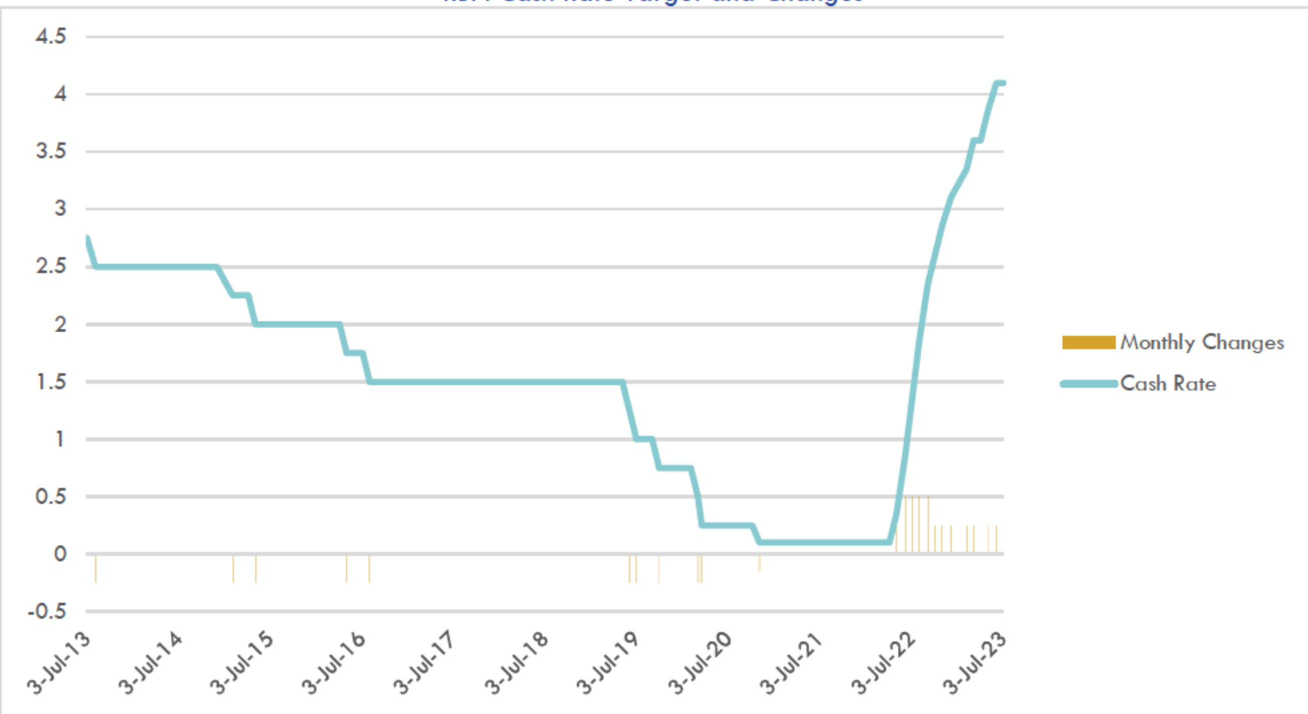
This unfortunate feature also means that the cost of moving has to be borne more frequently, which is particularly problematic for lower income households – a moving cost of $750 can easily absorb a full week's earnings for a low or middle-income worker.

This element of the Australian housing market is unusual: in countries with a higher share of institutional landlords and/or stronger rental market regulation, renters tend to enjoy a longer tenure. In Germany, the average rental tenure is 11 years. While Germany is an obvious outlier, it is worth noting that even in the weakly regulated US housing market, 30% of rental contracts are for two years or more.[16]

## Mortgage products and interest rate increases

The rapid increase in the RBA cash target rate is of course a major influence on rent and mortgage prices. With 12 increases in the last 15 months, the rate is at its highest in over a decade. With average mortgage debts being significantly higher now than in previous rate hike cycles, the weight of each basis point has far greater weight on monthly repayments.

Figure 17
RBA Cash Rate Target and Changes

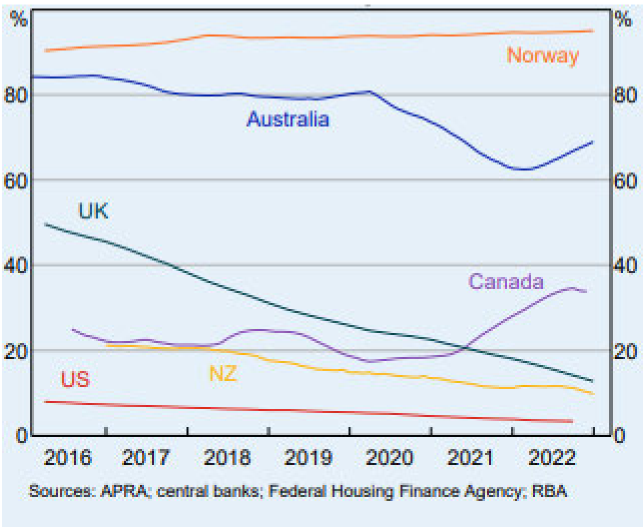



*Source: RBA*

These dramatic rate increases are more impactful on monthly cost than in many other countries due to our mortgage market structure. Unlike most comparable countries, the vast majority of mortgages are variable rate rather than fixed rate products (see Figure 18 below).

Figure 18
Variable Mortgages as a Share of All Outstanding Mortgages (L)

[16] https://www.bls.gov/spotlight/2022/housing-leases-in-the-u-s-rental-market/home.htm




*Source: RBA SMP Feb 2023, Box A*

This means that month-to-month costs for mortgage servicing inevitably rise in line with RBA base rate increases. In countries like the US, it is common for mortgage holders to have a fixed rate thirty-year mortgage, which is effectively subsidised by the US Federal Government. The US Government does not originate loans, but buys them in the "secondary market" from other banks. This allows them to set social objectives in the mortgage market, for example by favouring the purchase of specific kinds of loans, such as long term-fixed mortgages or mortgages for low-income households. During the COVID19 pandemic the US Government also used these mechanisms to protect vulnerable mortgage holders, by instituting a moratorium on foreclosures and evictions.

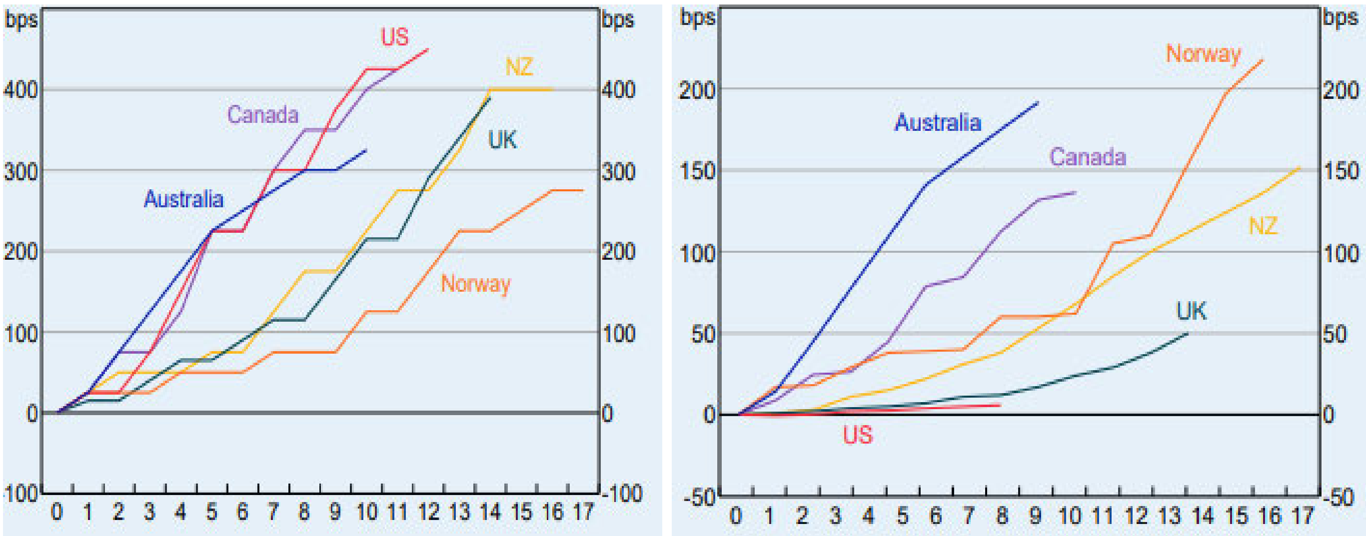
This stability and capacity of government to set social objectives is something almost entirely lacking in the Australian mortgage market.

Figure 19 below shows that as of February 2023, Australia had fewer rate increases than many comparable countries (L) however, because of the high passthrough rate caused by such a high share of variable mortgages, the effect on residential mortgages has been very high (R).

In the US, the 450 basis point increase from central bank led to barely any increase in average mortgage costs because so many mortgage holders were protected by fixed rates. The UK's 390 basis point increase led to just a 50 point increase for mortgage holders but in Australia, a 320 basis point increase led to around 190 basis points being added to mortgage holders' monthly bills. This exposes a structural weakness in our current mortgage market that causes greater volatility for homeowners and renters.

Figure 19

Changes in Base Rates (L), and Changes to Mortgage Rates for all Outstanding Mortgage (R)




*Source: RBA SMP Feb 2023, Box A*

Another relatively unusual element of our rental market is that investors seek capital gains rather than rental yields. For new investment rental properties, current rental yields do not cover mortgage repayments on high house prices and current interest rates. In fact, CoreLogic estimates that median mortgage costs for landlords are more than double median rental yields, despite the rapid growth in rent prices in the past year (see Figure 20 below).

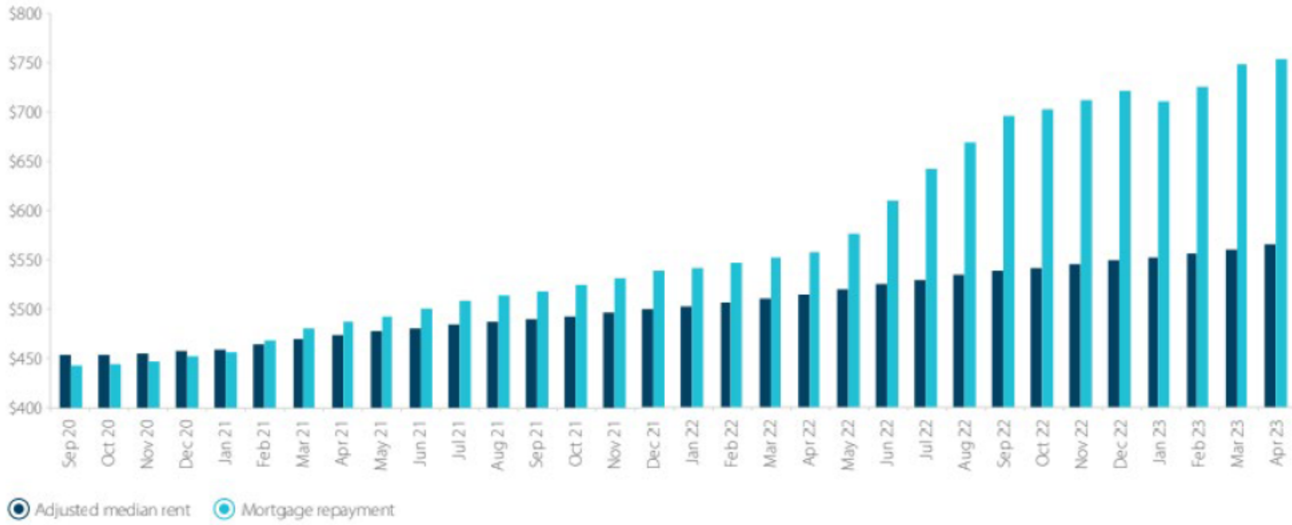
Features such as negative gearing and CGT discounting encourage speculation on property, with investors seeking capital gains rather than a positive rental yield. This contributes to the turnover in rental stock, house and rent price volatility, and maintains a non-professional landlord class, less capable of properly responding to tenants needs.

Such policies encourage the pursuit of short-term capital gains and are specifically skewed toward small scale and hobby landlords. For example, much of the interest loss accrued in an investment mortgage can be offset through negative gearing against investors' other income: the higher the landlord's marginal income tax bracket on other earnings, the bigger the return from the Treasury. This means that high income landlords receive more than low income landlords, and it also favours hobby landlords over professional or institutional investors who cannot negatively gear losses. By international standards, it is highly unusual for landlords to be able to offset their rental losses against other income, and in countries that do have negative gearing it can only be used to offset rental losses against rental income.

The Capital Gains Tax (CGT) discount is also structured to encourage short term property speculation, further increasing rental market volatility. The CGT discount of 50% can be realised by investors after they have owned a property for just 12 months. If the time period for realising capital gains was extended to five or 10 years, investors would have to think much more carefully about entering the property market: positive rental yields would become more attractive, leading to a reduction in negatively geared landlords, and average tenancy tenures would likely increase significantly.

Figure 20

Median Mortgage costs and rental yield



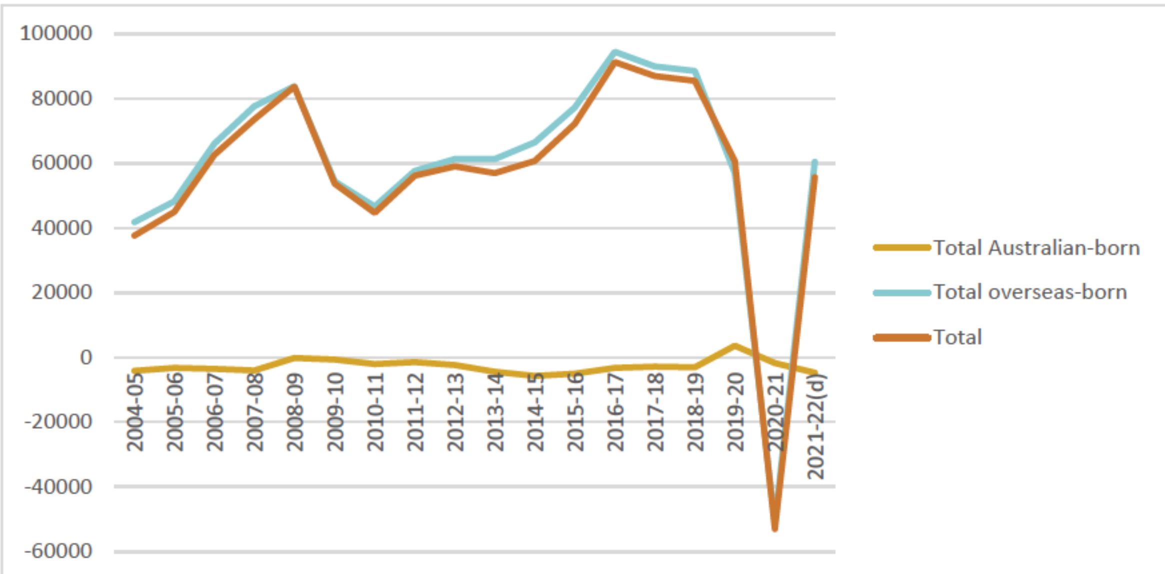

Source:: CoreLogic, RBA. Mortgage Payments are based on a 30 year mortgage **with a 20% deposit** on the median Australian dwelling value each month. Assumes average new variable rates for investors as reported by the RBA, adjusted for further rate increases. Rents are based on the median rent valuation, adjusted by changes in the hedonic rental value index.

## Vacancy Rates and Immigration

Vacancy rates in Melbourne are some of the tightest in the country (see Table 1), currently standing at 0.7%. Given Melbourne's attractiveness to international students and migrant workers, it seems logical that some sort of relationship between high immigration figures and rent prices exists.

However, blaming immigration for rising housing costs is simply wrong. Net immigration stock numbers in Victoria are actually still lower than the pre-COVID19 levels, not higher.

Figure 21
Victorian Net Immigration Rates




*Source: (Australian Bureau of Statistics 2022)*

What is important is the speed at which the population has changed following the reopening of the country. The use of housing stock changed dramatically during the COVID19 pandemic, with large swings in preferences between cities and regional areas, and apartments and houses, as people sought extra space at home. The sudden large drop in temporary immigrant numbers led to rent prices falling by 12% as the market adjusted to high vacancy rates (Helm 2023). This allowed for a huge redistribution of tenants, for example with former sharehouse tenants moving into their own apartment.

Now the reverse adjustment process is underway, as housing stock is redistributed under changing preferences and the return of immigrants, which is compounding the interest rate increases caused by the issues outlined above. As such, it is likely that current tight rental availability rates will resolve themselves to a certain extent over the coming months, as dwelling usage returns toward something like the pre-COVID19 normal.

Immigration is critical for our economic and social success. It contributes to growth, brings in foreign income and bolsters the construction workforce that Victoria requires to keep building and improving our towns and cities. As our locally born population ages, it is even more critical to ensure that our construction workforce (as well as many others) is supplemented through migration of young skilled workers.

## Rent price regulation

Australian regulation of rental properties, including rent price controls, is relatively limited. One of the most fundamental prerequisites for making sound economic decisions is having the ability to predict future costs. When it comes to rents, having the capacity to understand how much prices might increase by is limited in nearly all Australian states by a lack of rent stabilisation measures, short tenure periods, and in most states, the "nuclear option" of a no-fault eviction.

In Victoria, legislation mainly focusses on the timing of rental increases: the rental provider is not allowed to increase the rent during a fixed term agreement unless the rental agreement explicitly contains such a clause. If this is the case, the agreement must also state how the increase will be calculated. The rental provider must tell the tenant in writing that they are going to put the rent up at least 60 days in advance.

Moreover, tenants have relatively weak and difficult to enact protection from excessive rental increases by appealing to Consumer Affairs Victoria.[17] Requiring tenants to challenge rent decisions, particularly in a tight and poorly regulated rental market is inherently ineffective given the power imbalance between landlords and tenants. Anecdotal evidence suggests that most renters prefer staying silent so as not to risk losing their home at the next break in contract or being blacklisted on a landlord database.

## Effect of Short-Term Rentals

The short-term rental (STR) market is a large and growing segment of residential dwelling stock usage. STRs include platforms such as Stayz and Airbnb. These platforms allow property owners to list rooms in their home or entire homes for short stays, often through an app or website. Australian housing stock is heavily utilised by this sector, with Airbnb's Australia and New Zealand Country Manager Sam McDonagh describing Australia as "the most penetrated market in the world".[18]

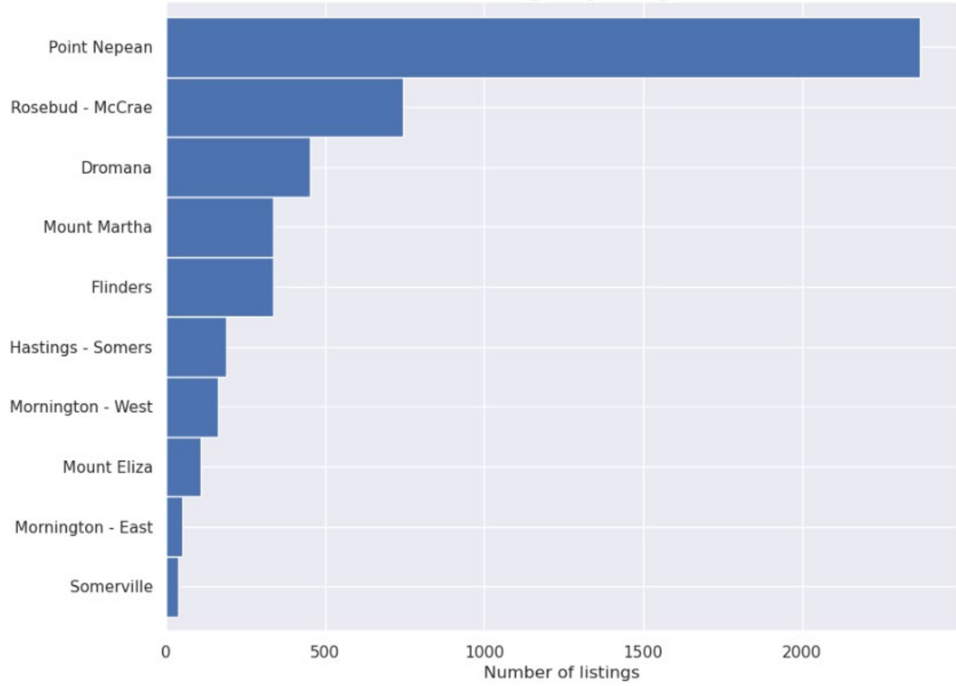
The CEH is currently conducting research into the STR sector and appropriate regulatory frameworks, including in Melbourne, Barwon South and the Mornington Peninsula. We would be pleased to discuss our findings with the Inquiry Committee once this research is concluded.

Early findings indicate that in localised markets, STRs take up a significant proportion of the overall rental stock. For example, the 2021 census found that Port Fairy contained 2,332 dwellings, of which 386 (16.5%) were listed on Airbnb. In Blairgowrie, 797 homes out of 3530 homes were listed on Airbnb, a rate of 22.5%. Greater Melbourne is home to nearly 21,000 Airbnb's, around 1% of the entire dwelling stock.

[17] https://www.consumer.vic.gov.au/housing/renting/rent-bond-bills-and-condition-reports/rent/challenging-rent-increases-or-high-rent

[18] https://www.domain.com.au/news/aussies-global-website-skewers-sinister-airbnb-20170118-gtttm0/

Figure 22
Mornington Peninsula Airbnb listings by Neighbourhood

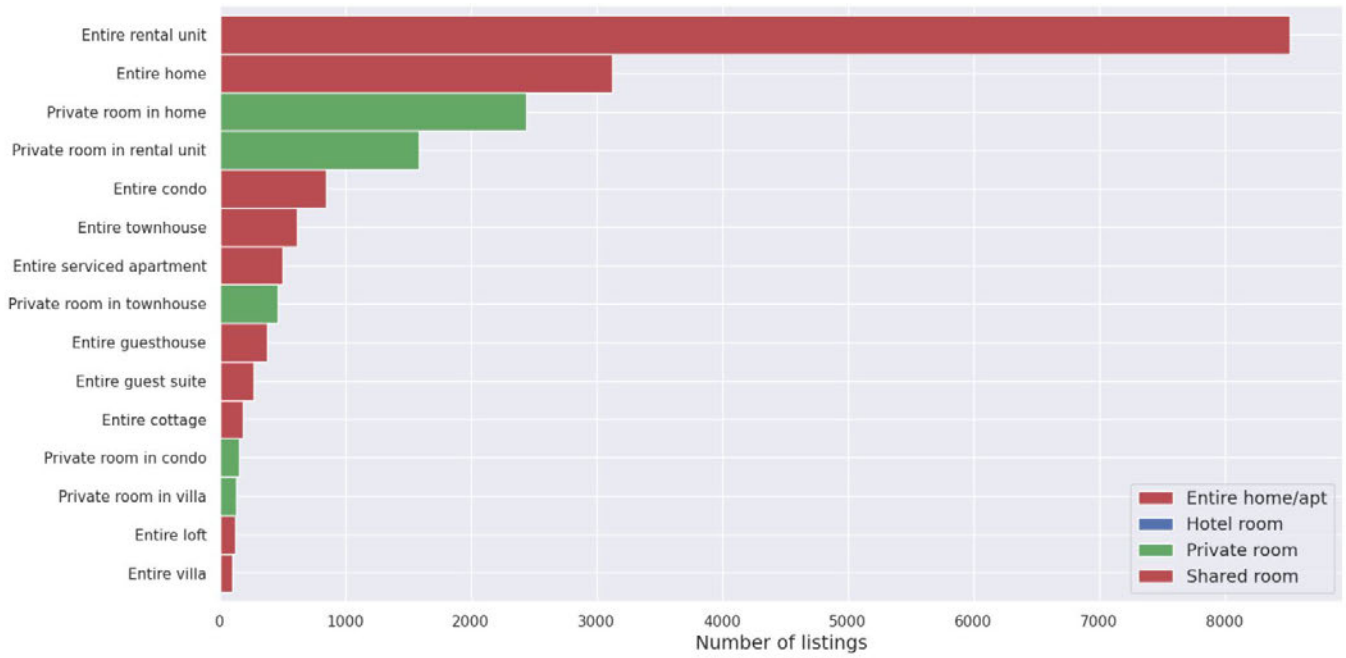



STLs in residential property can be a potentially beneficial means of sharing access to houses that would otherwise be the reserve of the wealthy. Another major selling points of short-term rentals, from an economics point of view, is that these platforms could improve the efficiency of housing stock use: if someone with a spare room can rent that room out when it is not in use, then the utility gained from that housing asset improves the overall productive use of our housing stock.

However, given the relatively strong returns from STRs, particularly in high tourist areas, there is a question as to whether short term rentals are actually *reducing* the efficient use of housing stock, with landlords choosing to leave properties empty for extended periods between STRs rather than renting them to long term tenants.

While there is a role for STLs, and while some dwellings have always been operated as holiday lettings, even prior to the arrival of online peer-to-peer platforms, there is an urgent need to provide an appropriate regulatory framework, given the rapid growth of this sector and its significant share of the residential property market, particularly in areas with established infrastructure and amenities.

Figure 23
Airbnb properties in Melbourne by type




Regulation of short-stay accommodation is limited in Victoria, where it is broadly left up to local government to implement. Regulations generally relate to the management of noise and disruptive behaviour by occupants of short-stay accommodation, with many councils not requiring a use or development permit for short-stay rentals. Some councils have also implemented a registration scheme and guidelines for the cancellation of short-stay accommodation permits based on disruptive behaviour.

Some regulation relating to short-stay accommodation within buildings managed by a body corporate were introduced by the Owners Corporation Amendment (Short-Stay Accommodation) Act 2018. This change gives VCAT the power to manage bad behaviour within short stay rental properties, introducing joint liability for bad behaviour.

VCAT may fine people up to $1,100 for breaches of the Act, while compensation may be awarded to residents whose amenity has been affected by inappropriate contact. VCAT may also prohibit the use of homes for short stay if they have been found guilty of three instances of inappropriate conduct in two years.

Regulation, largely relating to noise and amenity issues, has been introduced in a select number of local government areas. For example, the Mornington Shire Council's 2018 Short Stay Accommodation Local Law provides guidelines for the required standards for the occupation and operation of Short Stay accommodation. The Law establishes that owners are responsible for the conduct of occupants, and also specifies that owners must submit an application to register their property, with a $311 registration fee payable every 12 months.

The Yarra Ranges Council Have amended Neighbourhood Amenity Local Laws to address a growth in short-term accommodation. The Local Laws' Short-Term Accommodation provision "aims to protect… neighbourhoods from anti-social behaviours and amenity issues caused by short stay properties".

Under the new Laws, owners of land providing short stay accommodation are guilty of an offence if three or more complaints in 12 months are made to the council about nuisance or anti-social behaviour on premises.

The Frankston City Council enacted the Short Stay Accommodation Local Law 2020, which establishes a registration fee for Short Stay Properties (used as such for over 30 consecutive days a year) of $150. The Law also sets out a "standard of management" establishing that short stay accommodations should not interfere with neighbourhood amenity and enjoyment of nearby residents.

Local regulations such as these allow for context-specific flexibility in responding to the local demand and density. However, the state should research, or commission research, into the net effect of such accommodation types on long term rental stock, and establishing policy objectives to ensure that the social costs of STLs do not outweigh the benefits. Summary tables of different regulatory options are included in Appendix 1 and 2.

# Recommendations

## A coordinated national approach

The problems at play in the housing system are so complex, operate in so many different policy areas, and have such differing timeframes that broad, ambitious policy reform that addresses the housing system as a whole is now urgently required.

Such significant reform will require coordination of local, state and federal housing policies, meaning that strong intergovernmental agreements must be reached.[19] This must be underpinned through significant leadership at the Commonwealth level, a strong set of state-commonwealth targets, agreements and financing arrangements.

Chris Martin, Senior Research Fellow at UNSW puts the problem succinctly:

> *Within the Australian Government, housing policy making is divided. No one agency has overall responsibility for housing outcomes and for forming a strategic view of the housing system. Most intergovernmental activity has been around housing and homelessness conceived of as residualised welfare issues, concerned chiefly with housing services for individuals, rather than the whole system and structure of housing provision (2023, 34).*

As a progressive state with a demonstrated commitment to improving housing outcomes, the Victorian Government is well placed to lead such an agenda.

The CEH supports the proposals laid out by Chris Martin et al (2023) that the review of the NHHA provides Australian governments the opportunity to commit to and develop a strategic, mission-oriented housing policy reform agenda.

[19] See (Martin et al. 2023; Pawson, Milligan, and Yates 2020)

Box 1. A mission-based housing policy framework

*"As a national project, Australia should have a Housing and Homelessness Strategy with a mission: everyone in Australia has adequate housing.*

*The Strategy should be comprehensive, with a set of secondary missions:*

- *Homelessness is prevented and ended.*
- *Social housing meets needs and drives wider housing system improvement.*
- *The housing system offers more genuine choice – including between ownership and renting.*
- *Housing quality is improved.*
- *Housing supply is improved.*
- *Housing affordability is improved.*
- *The housing system's contribution to wider economic performance is improved."*

*Chris Martin et al, (2023), Towards an Australian Housing and Homelessness Strategy: understanding national approaches in contemporary policy, page 4*

Such an agenda would help establish and coordinate objectives for state and federal governments and prioritise housing policy changes for the next generation. The scale of ambition and action that this entails should not be seen as impossible or unaffordable – we have done this before. Under the Commonwealth State Housing Agreements from 1945 and to 1970, federal and state governments worked together to build a quarter of a million homes – an average of 10,000 per year at a time when the population was just 7 million to 12.5 million. The scale of the current housing crisis demands a similar level of ambition, commitment and resolve.

New approaches, consultative structures and targets should be coordinated by Housing Australia. Alongside the policy arrangements, state and federal governments will need to establish reasonable and appropriate funding arrangements. The current reconstitution of the National Housing Finance and Investment Corporation, and the proposed National Housing Supply and Affordability Council (NHSAC) should be used to coordinate appropriate financing structures of a scale and on a repayment timeframe appropriate to each state and territory.

***Recommendation 1:***

*: That the Victorian Government work with the Federal Government, and other state/territory governments, to pursue a national housing policy framework bound by ambitious targets and objectives, as well as associated funding structures.*

*This should be founded on a national mission-based approach, including strategies for social housing, establishing a set of national of rental standards, a review of housing-related tax arrangements, and diversifying the rental housing sector.*

## Social housing

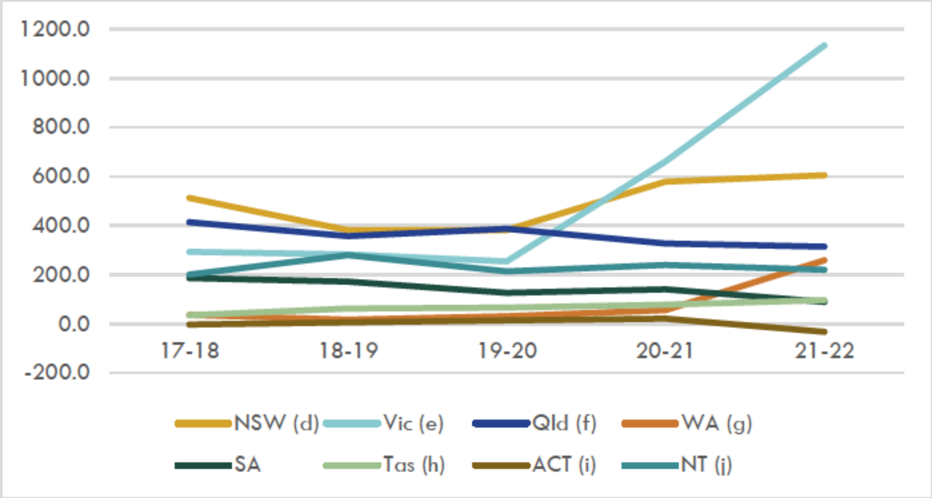
In the medium to long term, increasing social housing stock is central to resolving housing unaffordability. Any other attempt to tackle the housing issues facing Victorians will simply not address those most in need, and those most failed by current policy arrangements. Without a major recommitment to social housing by all governments, problems in the private rental and owner occupancy sectors will be compounded.

While the CEH supports appropriate rent stabilisation policies (discussed below), social housing is simply the best form of rent control. In the 1980s roughly one in four Australian renters were living in social housing; that figure is now less than one in ten. The transfer of social housing tenants to the private rental market has proven to be one of the most significant policy failures of the past 40 years, with a far higher proportion of low-income private renters now in housing stress, and a large cost to the taxpayer in terms of funding schemes such as Commonwealth Rent Assistance, costs to the productivity of the economy, a loss of social mobility, and increasing residualisation of the shrinking social housing stock.

The private rental market simply has not provided appropriate housing for low-income families, and private landlords cannot, nor should not, be expected to provide the wrap-around social services that some social housing tenants require. Housing, particularly for the most vulnerable, is a responsibility of governments. The sooner state and federal governments begin a concerted course of action to reinflate social housing stocks, the sooner the housing crisis will be over.

The Victorian Government has spearheaded work in this area. The Victorian Big Build will provide 12,000 new dwellings for low-income households, and the growth in state capital expenditure reflects this (see Figure 24 below). Capital expenditure has increased from $254 million in 2019-20 to $1,134 million in 2021-21, almost doubling that of the next states' outlay (see Figure 24).

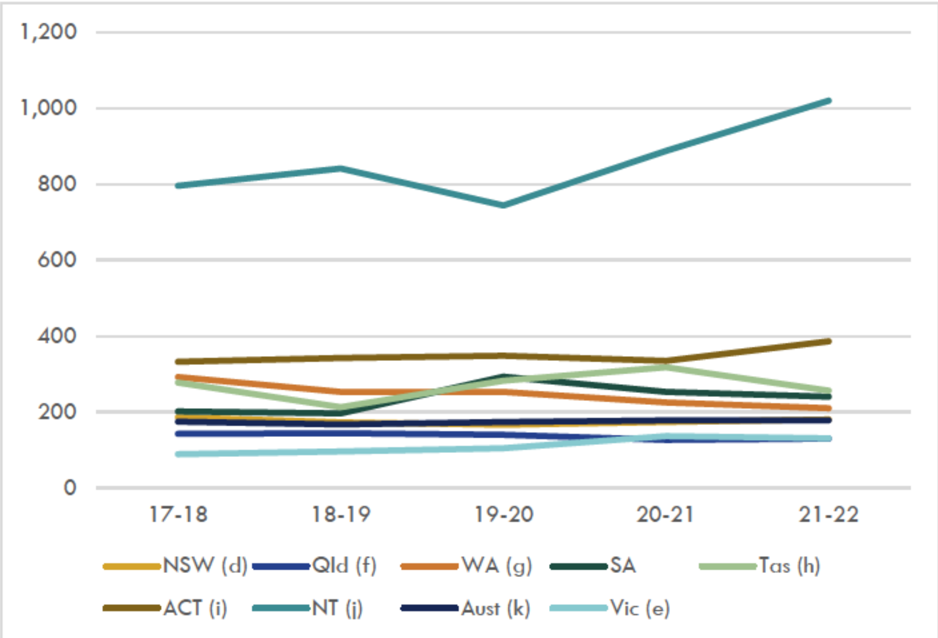
Figure 24
Capital Expenditure, State and Territory Government Expenditure on Social Housing, 2021-22 dollars




*Source: (Productivity Commission 2023)*

While this investment is to be applauded, total spending on social housing per person by the Victorian Government is still relatively low compared to other states. The Victorian budget allocated $131.53 per person in 2021-22, around one third less than the national average (Figure 25). It is critical that the Victorian Government allocate a greater share of government revenue to public housing, but state-level spending will not be sufficient. The Victorian government will have to work to convince the Federal Government to turn around the long-term decline in federal social housing spending.

Figure 25
Expenditure per Person, State and Territory Government Expenditure on Social Housing, 2021-22 dollars




*Source: (Productivity Commission 2023)*

While a national target around social housing is critical, the Victorian Government should also establish its own targets to eliminate the backlog in social housing waiting lists. In a 2019 report for the Victorian Government, Judy Yates estimated that 1700 new social housing dwellings would need to be built in Victoria each year, just to maintain the current social housing share of 3.5% of total homes. This would lead to an increase of 30,000 in two decades. The

Victorian Government appeared to use this figure when establishing the target for social housing construction funded by the proposed 1.75% levy on multi-dwelling construction.

However, to overcome the current shortfall the same report estimated that to eliminate low-income rental stress, the state would need to double that target, building 3400 homes per year, to a total of 60,000 (Yates 2019). This is the sort of ambitious policy agenda that is needed to address the structural problems in the housing market.

The Victorian Big Build figures of $5.3 billion to build 12,000 homes,[20] suggests a per unit cost of just over $440,000. To make up the shortfall between the 12,000 homes already costed in the Big Build and the 60,000 total dwelling target would mean adding an additional $21 billion into social housing spending over 23 years. This estimation suggests that the capital investment required to end low-income renter stress at less than $1 billion per year, a bargain by any reckoning.

This cost would also be offset by improvements in the wider economy. A full cost/benefit analysis which incorporates the cost of inaction produces a far more favourable economic case for acting to plug the gap in social housing. Research by Christian Nygaard suggests that the total social and economic cost of *not* reducing the shortfall in social housing in Victoria is $141.2 million per year, rising to $263.6 million a year by 2036 (Nygaard 2022).

The Victorian Government should be applauded for attempting to introduce a funding pipeline for such a scheme - the social housing growth fund – which was to build 1,700 homes per year. This was to be financed by a levy equal to 1.75% market price value of new developments and appeared to be successful until the property development sector apparently reneged on their informal agreement with the Government.

The CEH urges the Victorian Government to reintroduce this levy, with a public campaign to educate Victorians as to the urgency of such home construction, and with a coordinated campaign drive including parties such as local councils, trade unions and housing advocacy groups to assist in making the case for this levy.

Our survey of housing experiences and attitudes, the Housing Monitor,[21] found that around two-thirds of Victorians are highly concerned about the decline in social housing construction. Furthermore, 70% and 71% support greater public housing spending among Melbournians and other Victorians respectively. It is by far the most popular policy option among Victorians for addressing the housing crisis, and we believe there is a good deal of public goodwill to be harnessed.

***Recommendation 2:*** *That the Victorian Government recommit to the 1.75% levy on new multi-unit developments, and commit to building a further 48,000 social housing dwellings between now and 2036.*

## Rental Sector

### Investment Tax Incentives

The Victorian Government should work with federal counterparts to reduce the high levels of rental property turnover and short-term tenancy agreements among small-scale, or "hobby", landlords. For example, linking the federal capital gains tax (CGT) discount or negative gearing on investment properties to specific policy objectives would help direct investment toward better housing outcomes.

The Victorian Government should work with the Federal Government to change the criteria under which investors can claim these tax benefits. When it comes to the CGT discount, eligibility should be limited to properties that have been held for a longer time period. If investors are to gain this valuable discount it should be in exchange for holding property assets for at least five years instead of the current one year. This would help reduce the incentive to flip properties in a rising market, and would help incentivise landlords to seek long-term renters, and keep rental properties in the market for longer periods. It would also help professionalise landlords through a process of self selection. This is, people who just want to "have a go" would be put off by the longer commitment period.

[20] https://www.premier.vic.gov.au/victorias-big-housing-build
[21] https://housingmonitor.org.au/

Negative gearing (NG) reform could also be carried out based on improving the rental market. The CEH believes that NG is indefensible in its current form, channelling financial rewards to the most wealthy in society, at a rate far higher than that spent on social housing (Dawson, Lloyd-Cape, and D'Rosario 2022). While abolishing NG on investment properties may not be politically feasible at present, making NG work to improve the rental housing stock is definitely possible.

NG quarantining, which would limit property loss tax offsetting only against rental income would bring NG laws more in line with international comparators. Alternatively, NG could be limited to only new build properties, and thus stimulate investment in increased housing supply.

***Recommendation 3:*** *That the Victorian Government cooperate with future Federal Government efforts to alter the tax incentives that encourage speculative property investment in order to improve affordability of homes for owner-occupiers.*

## Novel housing models: Build-to-rent and ground lease

Victoria is the national leader in the build-to-rent sector, and it is likely that further diversification of the landlord sector with a higher proportion of institutional investors will provide renters with a broader set of choices regarding tenancy length. This is important as Australians increase their length of time in the rental market due to high purchase costs, and as the share of older Australians who rent increases, since stability is particularly important for this group. More private rental properties held by long-term, institutional investors may also help to mitigate the impact of short-term interest rate increases on rent price increases, if encouraged through legislation or tax benefits. While the BTR sector has so far not provided cheaper rental options in Australia, state governments could legislate requirements for the inclusion of affordable rental units within new BTR projects in return for land tax concessions or other incentives.

Current state taxation arrangements such as the 50 per cent Land Tax Concession for BTRs show that the Victorian Government is well placed to attract new investors, such as superannuation funds, as this market develops.

The rollout of the Ground Lease Model[22] is also an extremely promising initiative on behalf of Homes Victoria, one that Per Capita has promoted to the Victorian Government in previous communications. This model allots the use of a parcel of land to a housing provider for a period of 40 years. During that period, community housing providers manage dwellings built on the site, but the land remains the property of the State Government and is transferred back at the end of the 40-year period.

***Recommendation 4:*** *That the Victorian Government continue to work with the BTR sector, and expand the ground lease model to diversify the rental property market, establishing Victoria as the most favourable location for investment in private and community BTR development.*

## Inclusionary Zoning and land value uplift capture

It is the view of many housing experts that inclusionary zoning could play a significant role in increasing the supply of affordable housing. The term inclusionary zoning (IZ) "can encompass any framework in which an affordable housing contribution is specified for a given development scheme. Implicit here is that such a contribution must be promised by the scheme proponent as a condition for development consent." (Pawson, Milligan, and Yates 2020, 309).

IZ can refer to the inclusion of dwellings at market price (e.g. to prevent gentrification) or to include a proportion of below-market priced units. IZ is often associated with rezoned plots of land, where commercial or agricultural land is rezoned for residential, or where land prices increase due to the addition of nearby new government amenities such as railways. This makes IZ a potentially very powerful tool for raising the stock of social and affordable housing, because it does not require revenue raising, but is funded through the uplift in land values. Under these circumstances, it may actually help reduce the spiralling of land values, since the overall resale value of the land is somewhat suppressed.

The current Victorian Government Inclusionary Housing Pilot Scheme now underway in six sites, aims to produce 100 social housing units and an undisclosed number of affordable dwellings.[23] The scheme is a good step toward building

[22] https://www.homes.vic.gov.au/ground-lease-model

[23] https://www.planning.vic.gov.au/guides-and-resources/strategies-and-initiatives/housing-strategy/inclusionary-housing-pilot#:~:text=Using%20surplus%20government%20land,-

government capabilities in delivering such policies, and generating institutional knowledge around the local context and issues associated with IZ implementation.

The CEH supports the Victorian Government's work in this area and supports the further development and roll out of IZ schemes more broadly.

A broader roll out of the scheme should aim to set specific targets to help increase social and affordable housing stock in the state. For example, the ACT government has established a target of 15-25% of all new land releases to be designated affordable, while in South Australia around 17% of all dwellings between 2005-15 in major residential development areas of SA were dedicated affordable homes (Gurran et al. 2018).

However, there are issues with compliance and policy design that are critical in ensuring success. The first is that in some instances, plots size or building quality were simply reduced, meaning that the value proposition of "affordable" homes was essentially identical to "market rate" homes. As such, only marginal land value uplift capture is evident. The second is to determine the type of home that is most needed. Under the NSW SEPP 70 framework, the expectation is that homes should be rental properties, potentially managed by community housing providers.

However, some homes under this scheme have been redesignated so as to be sold below market rate instead, which benefits the first buyer, but no future tenants gain any benefit. In the USA and the UK, there are more standardised national or state based limitations, for example, that IZ rental units must be rented out to qualifying social renters for a period as long as 30 years (Pawson, Milligan, and Yates 2020). Considering the cost to the state in administering the scheme and in offering concessions to developers, administrators should ensure that public benefits from IZ schemes continue for as long as possible.

We look forward to the hearings on this matter by the Government Land Standing Advisory Committee, and request to be included in all consultative and public matters relating to the scheme.

***Recommendation 5:*** *Notwithstanding the findings of the Inclusionary Housing Pilot, the Government should establish a target of at least 15% of land release to be allocated to social rental homes, which should to remain social rental homes in perpetuity or with minimum terms of at least 25 years before units can be sold.*

## Rental Tenure Security

Victoria led the country in tenancy reforms with the introduction of the Residential Tenancies Amendment Act 2018, and the Residential Tenancies Amendment Regulations 2021. Critical changes around rental bidding, minimum standards, and allowable modifications by renters went some way in correcting the unequal relationship between tenants and landlords.

The Victorian Government can build on its already ambitious rental reform agenda by ending the option for no-cause evictions at the end of the first fixed-term rental agreement. The ACT has now shown that a total ban on no fault evictions is achievable, and Victoria should aim to maintain its position as the state with the best rental standards in the country. such a ban would greatly improve tenants' rights and sense of security, particularly in times of low stock availability when the power of renters is at a low ebb in relation to landlords.

***Recommendation 6:*** *That the Victorian Government remove the option for a no-cause eviction at the end of the first fixed term from the Residential Tenancies Act.*

## Rent Price Increases

For many renters the corrosive impact of unpredictable and rapid price increases have significant negative effects.

Rent stabilisation policies should be considered to address this problem.

The CEH will shortly be releasing a paper discussing under what circumstances rental regulation might improve the functioning of the rental market. Broadly speaking, the CEH supports the proposition of a modest version of rent

We%20are%20supporting&text=As%20part%20of%20Homes%20for,social%2C%20affordable%20and%20market%20housing.

stabilisation, such as that in operation in the ACT. Under such a scheme, rent increases are limited to once per year, as is the case already in Victoria. However, for sitting tenants increases would be limited to rental CPI+ ten percent of CPI, or 110% of rental CPI.

It is important to note that under the Canberra scheme, the CPI used is *Canberra rental CPI*, not overall CPI. This means the limitations on increases are very closely linked to the actual market changes in the rent price, making it less invasive than other forms of rent price regulation. This should help assuage the concerns of those less in favour of rent stabilisation policies.

This model would also require that an appropriate metric be chosen which reflects the varied local rent price increases – the CPI for rents in Melbourne may be very different from that in Mildura. The scheme fits Canberra conditions particularly well because of the relatively unitary nature of the area of application, and the availability of ABS CPI data for Canberra. However, for Victoria, it may be more complex to find appropriate data on localised rental changes. The public rental data gathered by the ABS and the Victorian Department for Families, Fairness and Housing is grouped into "Melbourne" and "regional", which may is likely insufficient to ensure local applicability.[24]

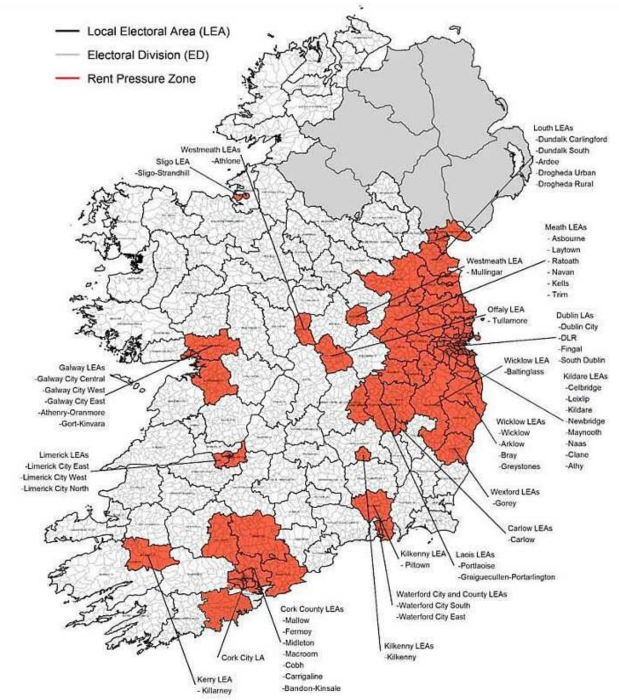
Another option would be one based on the system in operation in Ireland, where local councils can apply to a Residential Tenancies Board to be designated as a "Rent Pressure Zone". The Irish scheme allows for councils to apply for Rent Pressure Zone status once local rents have been growing at an annualised rate of 7% for four out of the past six quarters. Following designation, rents in the RPZ are limited to CPI, or 2%, whichever is lower. Exemptions for new builds and for properties which have been significantly altered or refurbished are incorporated into the scheme to minimise the potential for disinvestment. However, a local system in Victoria would have to designate its own metric and level of rent growth and, again, the data available locally may be insufficient to design an effective system.

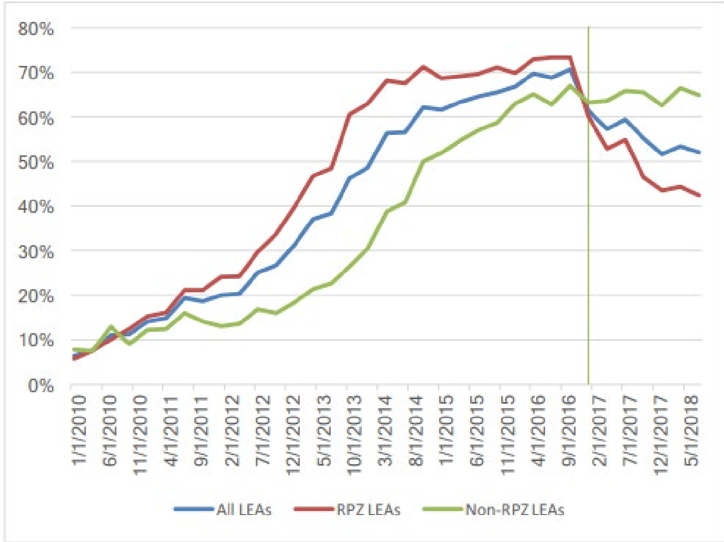
An early assessment of the Irish model in 2019 found that rent price growth in rent pressure zones had been moderated by between two and three percentage points (Ahrens, Martinez-Cillero, and O'Toole 2019). More recent follow-up research suggests that rental price moderation is between two and five per cent (O'Toole 2023), in part due to a greater use of exemptions. Supply of new rental stock in Rent Pressure Zones has not been shown to be lower than in other areas of the country (Coffey et al. 2022).

Figure 26

Rent Pressure Zones (L) and Share of Tenancy Agreements in Ireland with Growth Rates Above 4 Per Cent (R)

[24] Although there may be more localised CPI and data that we are unaware of




Source. (Liu, Arnedillo-Sánchez, and Chen 2022) and Ahrens et al 2019

The Irish case shows how the policy of rent stabilisation also requires changes to other areas of tenancy law. For example, the laws surrounding short term rentals were altered, to prevent the transfer of properties from the long term to the short-term market. Changes to basic contract length were also made, with the standard contract increased to six years.

Such necessary ancillary changes should be clearly understood when developing the case for rent stabilisation. For example, in Victoria, any scheme of within-tenancy rent stabilisation like that of the ACT would require the ending of no-cause evictions at the end of the first fixed term contract. The Irish model would not. However, there is a case for ending no-cause evictions on principle.

Rent stabilisation can help limit dramatic price increases, without preventing market rates from operating in the long run.[25] However, rent control is not necessarily appropriate for all areas and all times. Nor is it a cheap option to administer, requiring very rich data collection of local rent movements, and monitoring of effects in other areas such as in the short-term rent sector. However, as a means to ensuring greater predictability of rent price increases, the policy should be explored.

In our survey, the Housing Monitor, we found that support for rent stabilisation was particularly high among regional and rural Victorians. 71% of Victorians outside of Melbourne supported rent stabilisation, significantly higher than the national average. This may reflect the speed at which rent prices have increased in regional Victoria in recent years. Support within Melbourne was also high at 64%.

***Recommendation 7:*** *That the Government implement appropriate policies to prevent unreasonable increases in rental costs, learning from the experiences of the ACT, and international examples such as Ireland, Canadian Provinces and Scotland, as territories with the most similar legal and regulatory frameworks.*

## Short Term Lettings

As discussed above, some form of regulatory framework will be required in order to maximise the benefits and minimise the costs of STRs. In the appendices there are some documents which describe the regulatory frameworks for STLs currently in use by other governments. The CEH will be making recommendations in a report in August, and would value the opportunity to discuss the issue with the Committee.

[25] For a recent systemic review of rent stabilisation see (Gibb, Kenneth, Soaita, Adriana Mihaela, and Marsh, Alex 2022)

## Barriers to owner occupancy

One of the key barriers to for aspiring first home buyers is the deposit gap. In our survey of housing experiences and attitudes - the Housing Monitor - 70% of Victorians who wished to buy their own home agreed with the statement *"The main reason I don't own a house is that it is impossible to save up a deposit"*.[26] This is not surprising, given that the cost of a deposit has risen far quicker than incomes, meaning that it takes far longer to save. In 2019, a deposit of 20% on the national median house took 6.8 years to save for. By 2022, that gap had risen to 11.5 years (CoreLogic/ANZ 2023). With deposit rates frequently rising faster than the ability of people to save, there is a question of whether governments can assist in mitigating such problems.

While Melbourne was relatively shielded from the worst of the price increases during the pandemic, the median home value increased by 18.6% - $172.522 - between December 2020 and December 2021. That meant a deposit growth of $34,504, or 83% of the median Victorian individual income that year.[27] Such jumps can set back aspiring homeowners by years.

Table 2

Median house price increases and deposit growth

| City | Median house price, Dec 21 | Median house price, Dec 20 | 20% deposit, Dec 21 | 20% deposit, Dec 20 | Deposit growth |
|---|---|---|---|---|---|
| Melbourne | $1,101,612 | $929,090 | $220,322 | $185,818 | $34,504 |
| Sydney | $1,601,467 | $1,202,804 | $320,293 | $240,561 | $79,733 |
| Brisbane | $792,065 | $629,884 | $158,413 | $125,977 | $32,436 |
| Adelaide | $731,547 | $573,952 | $146,309 | $114,790 | $31,519 |
| Canberra | $1,178,364 | $862,340 | $235,673 | $172,468 | $63,205 |
| Perth | $612,348 | $569,883 | $122,470 | $113,977 | $8,493 |
| Hobart | $752,110 | $558,732 | $150,422 | $111,746 | $38,676 |
| Darwin | $645,487 | $496,132 | $129,097 | $99,226 | $29,871 |
| Combined capitals | $1,066,133 | $851,883 | $213,227 | $170,377 | $42,850 |

Source: *(Domain House Price Report 2021)*

Savings rates often at 2-3% for the deposits of aspiring first home buyers, however, dwellings increase in price at around 7% per year, meaning that the lengthier time period of saving is made all the longer due to the rapid growth in property prices.

Given the rising and increasingly unaffordable deposit barrier, the Victorian government might consider ways to further assist first time buyers to purchase their first home other than first home buyer grants which can inflate house prices. The CEH will shortly be releasing a paper discussing a policy proposal to address this issue, which we would be happy to share with the Committee.

[26] https://housingmonitor.org.au/

[27] Annualised median weekly income from the 2021 Census https://www.abs.gov.au/articles/snapshot-vic-2021#income

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# Appendix 1. STL regulations in various cities

| | **Annual Night Booking Limit per property**<br><br>(Quantitative Restriction) | **Host Registration/ Licencing** | **Licence Cap**<br><br>(Density Restriction) | **Limit by Building/Residence Type**<br><br>(Qualitative Restriction) | **Limit by location**<br><br>(Locational Restriction) | **Compensation for lost residential stock** | **Tourist Taxes** | **Guest Limits**<br><br>(Quantitative Restriction) |
|---|---|---|---|---|---|---|---|---|
| *Amsterdam* | 30 nights annually[107] | Mandatory permit for all holiday rentals[108] | | Short-term renting of boats and summer houses prohibited. Short-term renting of properties rented from housing corporations prohibited[109] | Attempted ban of holiday renting in central city locations (overturned)[110] | | Tourist tax of 10% of the listing price[111] | 4 guest limit[112] |
| *Barcelona* | Letting of spare rooms for under 31 days prohibited. | Licences required for all tourist accommodation[113] | No new short-term rental licences permitted in central zones[114].<br><br>Recent invalidation of hosted (room rental) short term rentals[115] | | New short-term rental licenses banned in central zones. New licences may be granted in outer districts upon cessation of a licence in central zones (considering density ratios)[116]. | | Nightly tourist tax of EUR 4.00[117] | |
| *Berlin* | 90 day cap for renting a secondary residence[118] | Permit required for entire residence short-term rentals and private room rentals exceeding 50% of a residences' total size[119]. | | | While restrictions based on location are not strictly specified, the "public interest" in using a property | Approval of permits may be granted in "exceptional circumstances" if the loss in residential living space is offset | An 'Overnight' or 'City Tax' payable by tourists at 5% of the listing price[122] | |

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| | | | | | as a short-term rental is considered by individual councils, possibly influencing spatial distribution of properties[120] | by the "creation of appropriate replacement housing"[121] | | |
| *Dublin/Ireland* | | Planning permission required for homeowners n Rent Pressure Zones seeking operate as an entire-unit STR for more than 90 days annually, or et out a second property for short-term lets.[123] | Determinations of planning permit rent pressure zones will be based upon current housing demand, supply and volume of applications.[124] | Applications for planning permission required for second homes in rent pressure zones.[125] | Rent pressure zones are determined based on annual rent inflation and average rents in relation to national average rents.[126] | | | |
| *London* | 90 nights annually if planning permission is not obtained (entire home only)[127] | Planning permission required if letting for over 90 nights a year[128]. | | | | | | |
| *New Orleans* | | Dwelling Units in the Orleans Parish must possess a short-term rental owner and operator permit, with a limit of one permit per person.<br><br>Differing licences exist for residential (whereby a host ives in a property) and commercial short term rentals[129] | *Limits to short-term rental permits issued within each city block (generally one per block with some exemptions)*[130] enforced by a lottery system[131]. | | Listings in key heritage and tourist neighbourhoods such as the French Quarter and Garden District are not permitted[132].<br><br>Exemptions to block permit limits may be granted based on | | A 4% Hotel Occupancy tax is payable in central parishes[134] | Generally a 6 guest per dwelling limit with some variations based on Zoning ordinances[135] |

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| | | | | | neighbourhood land use and characteristics[133] | | | | |
| *New York City* | | Mandatory registration of eligible short-term rental hosts (hosted rentals only)[136] | | Entire Unit short-term rentals not permitted in dwellings intended for permanent residence purposes[137]. Short-term letting of rent controlled properties prohibited[138]. | | | | | 2 Guest limit |
| *Paris* | 120 nights for entire primary home listings. | Registration for short-term rentals required for unhosted renting of primary residences for less than 120 days a year.<br><br>No registration required for hosted rentals[139].<br><br>A 'Change of use' authorisation is required for the conversion of a secondary residence into a short-term rental[140] | Registration of inner-city secondary homes as short-term rentals is dependent on the replacement of lost residential stock through a compensation scheme[141]. | Short-term renting not permitted by tenants of social housing[142]. | | In inner-city neighbourhoods, applicants seeking to change the use of secondary residences to vacation residences must purchase an equivalent area of commercial space to be converted into a residential space[143]. | A tourist tax of between 1% and 5% of nightly fee based on luxury rating of accommodation | | |
| *San Francisco* | A limit of 90 unhosted nights annually[144] | Registration is required. Hosts must require a Business Registration Certificate for the property, and receive a certificate from the Office of Short-term rentals. | | Income-restricted affordable housing, public housing buildings with eviction controls, sleeping quarters in outdoor areas (such as | Short-term rentals cannot be located in the Presidio, Treasure Island or Fort Mason districts[148]. | | A transient occupancy tax of 14% is charged on hotel or short-term rental stays of under 30 days[149] | | If the host is staying in the unit, they may not host more than "four simultaneous distinct renters" in the same unit. Couples sharing a |

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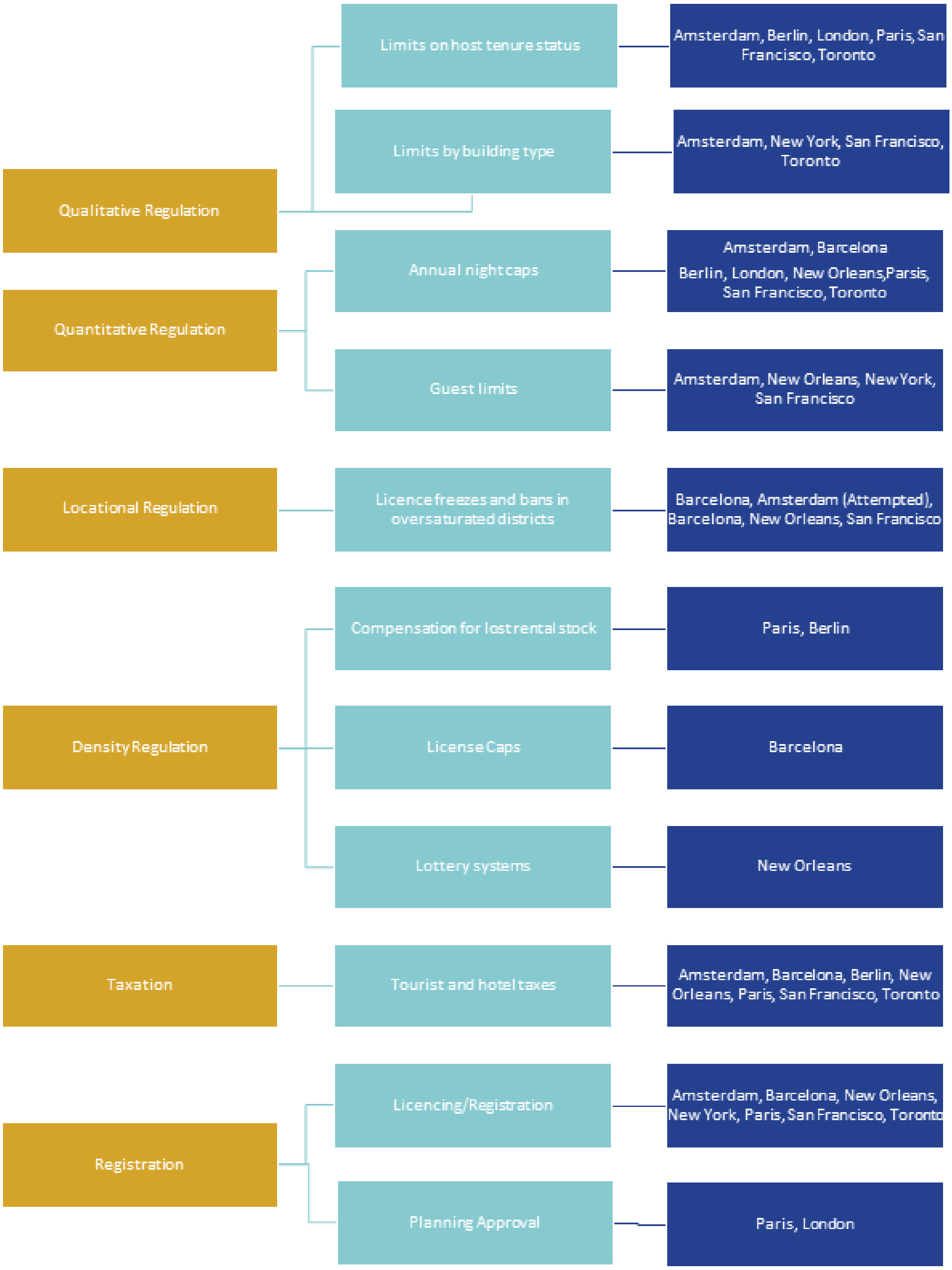
| | | Registration is only available for primary residences (where the host resides for at least 275 nights a year)[145]<br><br>Prospective hosts living in single-family zoned neighbourhoods must notify all property owners and residential tenants within 300 feet of the unit of their intention to commence hosting.<br><br>Property liability insurance of 500,000 USD or more must be held by hosts[146] | | treehouses) and ancessory dwellings (such as 'granny flats) are not eligible to be used as short-term rentals[147] | | | | bedroom are counted as a single distinct renter[150]. |
| *Toronto* | Entire home rentals are imited to 180 nights per year [151]. | Registration required for short-term rentals. Primary residences may only be registered as short-term rentals[152].<br><br>Short-term rental companies must also obtain a licence to operate in Toronto[153] | | | | | A 6% Muncipal Acommodation Tax is payable for guests of short-term rentals[154]. | |

# Appendix 2. STL regulatory structures




Centre for Equitable Housing
A Per Capita initiative