15 September 2023

Mr Trung Luu MP
Chair
Legislative Council Legal and Social Issues Committee
Parliament House, Spring Street
East Melbourne VIC 3002

RE: Submission to the inquiry into the rental and housing affordability crisis in Victoria

Dear Trung

Thank you for your invitation to make a submission to the Legislative Council Legal and Social Issues Committee's inquiry into the rental and housing affordability crisis in Victoria.

Our submission covers trends in the housing and rental market, such as property ownership, rental and housing costs, measures of rental and housing affordability, housing supply and investment, and land transfer duty, the largest Victorian tax on property.

I would be pleased to appear before the committee to provide evidence at a public hearing.

Yours sincerely

[redacted]

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Parliamentary Budget Office

Housing, home ownership and renting in Victoria

Submission to the inquiry into the rental and housing affordability crisis in Victoria

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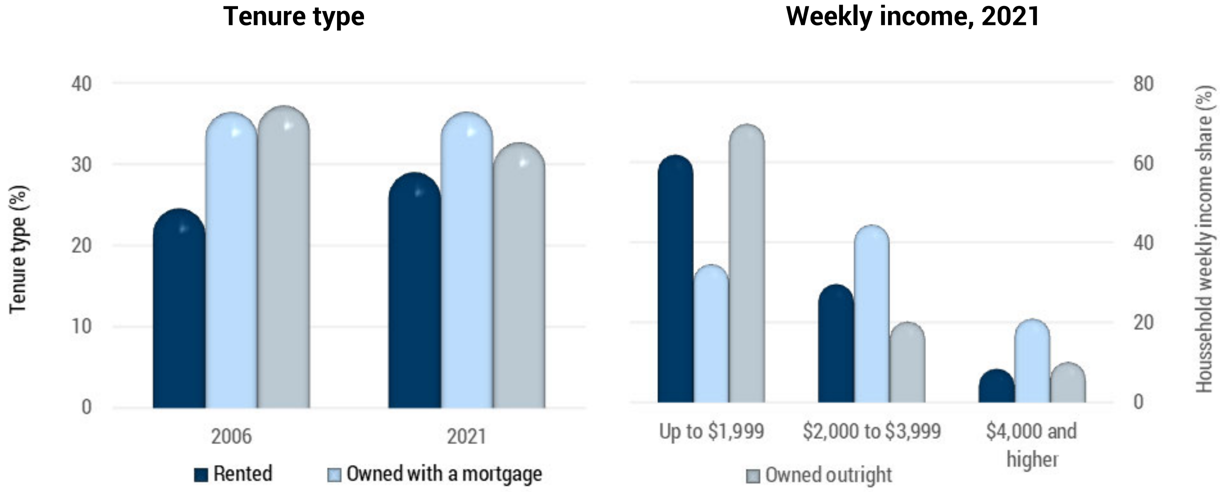
In brief

In this submission we examine Victorian rental and housing affordability. We focus on property ownership, housing costs, the supply of housing and land transfer duty — the largest tax on property.

Property ownership

Home ownership as a tenure type – people who own the home they live in – has decreased as a proportion of Victoria households. While it has fallen from 73.6% in 2006 to 69.2% in 2021, the proportion of renters has increased from 24.6% in 2006 to 29.0% in 2021. Over this period, the proportion of homeowners with a mortgage has remained stable, but the proportion who own their property outright has declined from 37.2% to 32.7%.

Figure 1 – Household tenure



Notes: This figure only includes occupied private dwellings. Owned with a mortgage includes dwellings being purchased under a shared equity scheme. This figure is based on census data, with 2021 the most recent year available.

Source: Australian Bureau of Statistics.

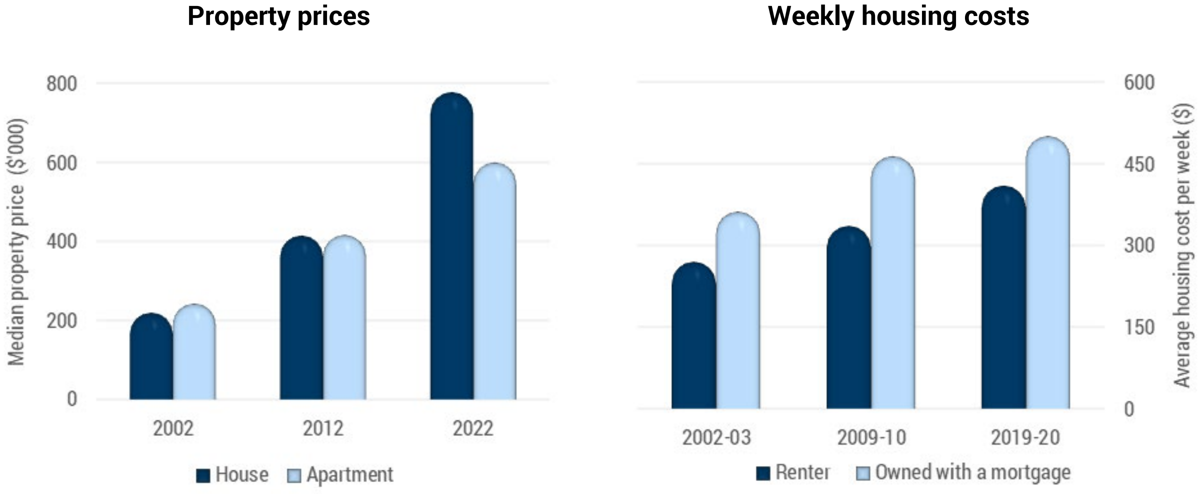
Income is one factor in determining home ownership. Generally, higher incomes correlate with a higher likelihood of home ownership. However, census data indicates that homeowners without a mortgage skew to the lower ends of the income distribution – a large proportion of them have relatively low incomes. This group is likely largely made up of retirees, who tend to have asset wealth but limited income. Homeowners with a mortgage are more concentrated in the interior of the income distribution – on average, they have incomes that are neither exceptionally high nor low.

Renters' household incomes tend to be lower than homeowners' incomes. Over time, this has remained consistent despite the increased prevalence of renters in the Victorian property market.

Housing costs

Housing prices have risen markedly in Victoria over the last 2 decades. The median price rose for a house from $220,000 in 2002 to $778,000 in 2022, and for an apartment from $243,000 to $600,000.

Figure 2 – Housing costs



Notes: Average housing costs are in 2019–20 dollars. This figure only includes occupied private dwellings. Owned with a mortgage includes dwellings being purchased under a shared equity scheme. This figure is based on the Australian Bureau of Statistics Housing Occupancy and Costs publication, with 2019-20 the latest data.

Source: Australian Bureau of Statistics.

Different household tenures face different housing cost pressures, such as rent, mortgage and rates. In absolute terms, homeowners with a mortgage have had higher housing costs than renters since at least 1995–96. In 2019–20, weekly housing costs were $501 for homeowners with a mortgage and $410 for renters.

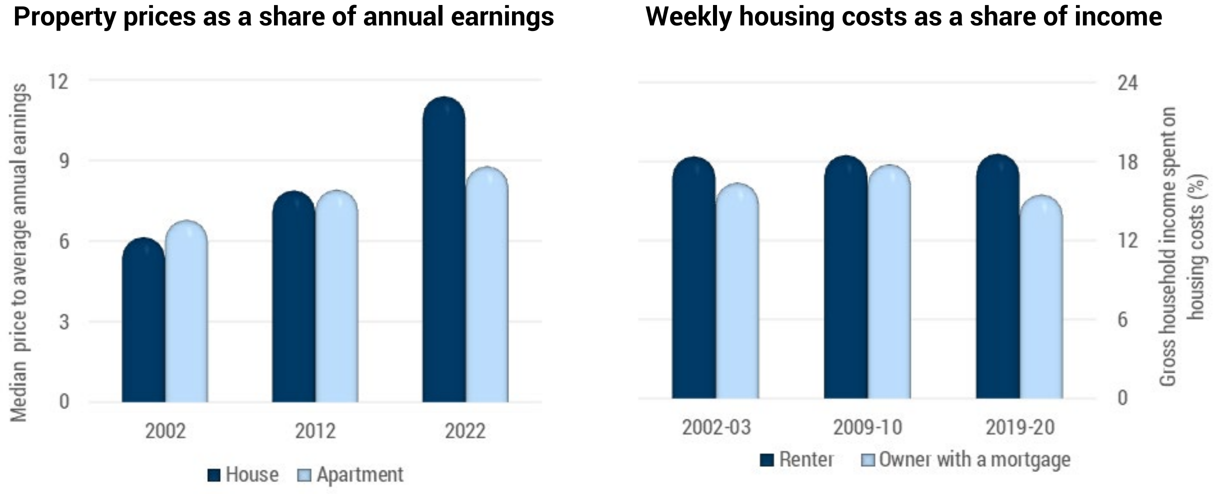
Housing affordability

Housing affordability measures the burden of housing costs, both ongoing costs and property prices.

Housing prices have grown faster than incomes, meaning purchasing a home is now a larger financial burden than it was 2 decades ago. In 2002, the median house price was 6.2 time the average annual salary. In 2022, house prices have increased to 11.4 times the average annual salary. This result is also reflected in growth in the size of owner-occupier loans.

Since 2009—10, renters have consistently spent a larger proportion of their income (around 18%) on housing costs than all homeowners. While comparable with renters in 2009—10 (17.8%), homeowners with a mortgage's spending on housing costs fell to 15.5% by 2019—20. This indicates that housing costs are a larger financial burden for renters but remained a stable relative burden to 2019—20.

Figure 3 – Housing affordability



Notes: Renters are for private dwellings only. The weekly housing costs figures do not account for reimbursement of housing costs, for example rent assistance provided by the Australian Government.

Sources: Australian Bureau of Statistics, Department of Transport and Planning.

Rent and mortgage repayments — a subset of housing costs — are generally considered to be affordable if they are less than or equal to 30% of household income. By this measure, housing is less affordable for Victorian renters than homeowners with a mortgage. In 2021, 28.6% of Victorian renters paid more than 30% of their total income in rent payments, while only 15.6% of individuals who live in a home with a mortgage paid more than 30% of their total income in mortgage repayments.

These housing cost and price estimates are from before May 2022 – it is likely both proportions are higher due to the subsequent 4-percentage point increase in the cash rate and recent growth in rents.

Housing supply and investment

Housing supply grows as new residential properties are built. Construction of residential properties is driven by the current and expected return to investment. Investment returns are a function of several factors, including:

- demand for housing (both to own and to rent)
- construction costs
- the cost of, and access to, finance.

The number of new properties built in Victoria has increased from around 50,000 per year from 2010 to 2013, to around 65,000 per year from 2017 to 2021.

The most recent data suggests that the number of new dwellings relative to growth in population has returned to pre-covid levels. While this may indicate that new dwelling construction has broadly kept pace with population growth, it does not account for compositional requirements – whether the new dwellings align with the type of housing Victorians seek.

Land transfer duty

Land transfer duty, commonly known as stamp duty, is a tax levied on property transactions. It is typically calculated on the purchase price or market value of a property, whichever is greater.

We estimate that the average Victorian land transfer duty rate (total land transfer duty revenue divided by total property value) was around 4.9% in 2021–22. The average rate has risen over time, as property values have increased substantially, while marginal land transfer duty rates have remained largely unchanged since May 2008.

Land transfer duty places a tax wedge between the supply and demand for property, resulting in:

- buyers facing a higher net cost due to the added tax liability
- sellers receiving a lower market price for their properties than they would in the absence of the tax.

As land transfer duty reduces the price paid for new dwellings, it has a dampening effect on housing and apartment development activity, and ultimately on the supply of dwellings. Additionally, land transfer duty reduces transaction volumes, meaning there are fewer available properties at any given time, and may result in a misallocation of housing stock.

Land transfer duty is generally a barrier to entering the property market. However, some first home buyers are not directly affected by land transfer duty, as they are exempt on purchases up to $600,000, and pay a concessional rate for purchases up to $750,000.

Context

Request

On 10 August 2023, Mr Trung Luu MP, Chair of the Legislative Council Legal and Social Issues Committee (the Committee), invited the Acting Parliamentary Budget Officer to provide an independent submission to the Committee's inquiry into the rental and housing affordability crisis in Victoria (the Inquiry).

Inquiry terms of reference

On 24 May 2023, the Legislative Council Legal and Social Issues Committee agreed to the following self-referral motion:

That the Committee inquire into, consider and report on the challenges facing Victorian renters and factors causing the rental and housing affordability crisis in Victoria, including but not limited to:

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.

Scope

In this submission we respond directly to the request from Mr Trung Luu MP, Chair of the Committee. This relates to:

- an overview of changing rental costs in Victoria
- changes over time in the proportions of housing which are rented and owner-occupied
- property ownership by number of properties for landlords
- historic landlord costs and returns on investment properties
- investment in new housing supply
- purchase of new builds by landlords-for-rent and owner-occupiers
- sources of financing for new purchases
- vacancy rates in Melbourne and Victoria
- an outline of stamp duty and broad analysis of its impact on the housing sector.

Limitations

We use the most recently available publicly information in this submission. For some indicators, the most recent data is from either 2019–20 or 2021. As a result, some parts of the analysis do not account for the effects of:

- COVID-19 restrictions
- interest rate increases since May 2022.

We prepared this advice on 15 September 2023.

Property ownership

In this section

This section considers Victorian property ownership by assessing:

- tenure type broken down by:
  - household income
  - metropolitan Melbourne and regional Victoria
- residential landlords by number of rental properties owned.

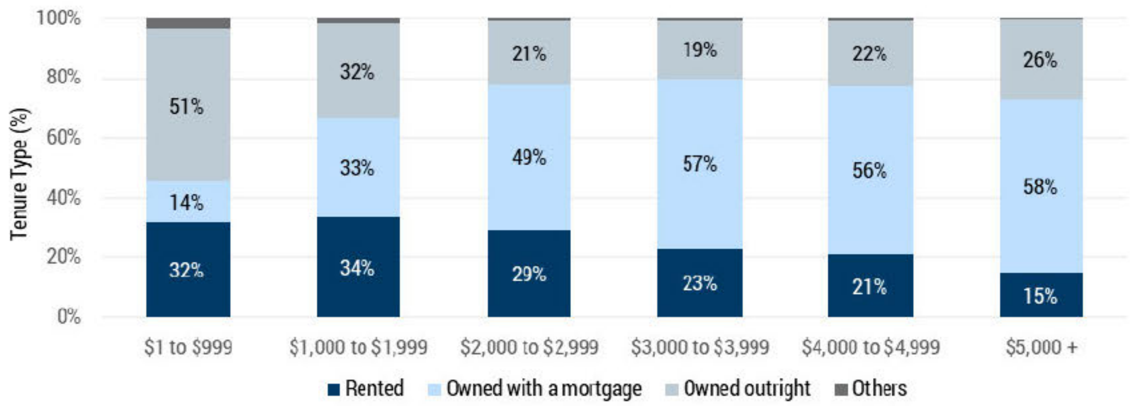
Tenure

Tenure type describes how a household occupies a dwelling – whether they own it, rent it from another party, or reside there under another arrangement.

Tenure type by household income

Income is a significant factor in determining homeownership. In 2021, we see that the higher the income of a household, the more likely they are to own their home and the less likely they are to rent. However, there is a stark divide between homeowners with and without a mortgage.

Figure 4 – Tenure type by weekly household income, 2021



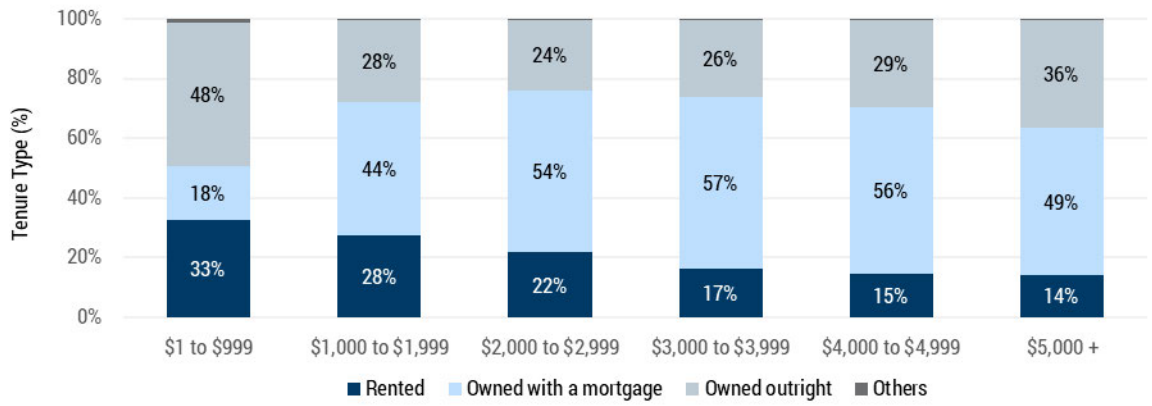
Notes: This figure only includes occupied private dwellings. Owned with a mortgage includes dwellings being purchased under a shared equity scheme. 'Others' includes rent-free occupation, occupations under life tenure schemes and other tenure types.

Source: Australian Bureau of Statistics.

Homeowners without a mortgage make up between 19% and 26% of households with weekly incomes of $2,000 or higher. This is well below the share of households which own their home with a mortgage across these income categories, ranging between 49% and 58%.

Home ownership without a mortgage is highest in the lower income categories. Almost one-third of households with weekly incomes from $1,000 to $1,999, and more than half of households with incomes below $1,000, own their home without a mortgage. We expect that this is largely driven by retirees, who tend to have more accumulated asset wealth but earn lower incomes in retirement.

Figure 5 – Tenure type by weekly household income, 2011



Notes: This figure only includes occupied private dwellings. Owned with a mortgage includes dwellings being purchased under a shared equity scheme. 'Others' includes rent-free occupation, occupations under life tenure schemes and other tenure types.

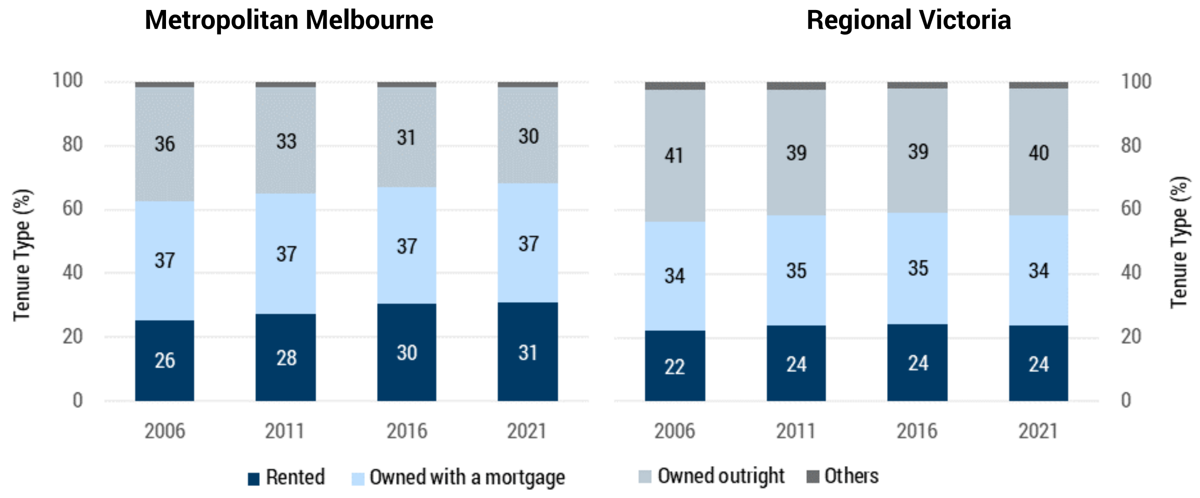
Source: Australian Bureau of Statistics.

Over the last decade, this distribution of tenure type by income has remained stable, however there have been some changes. Renters are more prominent in all income groups, except for those with income below $1,000 a week, while homeowners without a mortgage are less prominent among households which earn $2,000 or more a week.

Tenure type by region

The trends in tenure type over the past 15 years vary significantly between metropolitan Melbourne and regional Victoria. Over this period, home ownership has remained proportionally higher in regional Victoria, with a consistently larger proportion of renters in metropolitan Melbourne.

Figure 6 – Tenure type



Notes: This figure only includes occupied private dwellings. Owned with a mortgage includes dwellings being purchased under a shared equity scheme. 'Others' includes rent-free occupation, occupations under life tenure schemes and other tenure types.

Source: Australian Bureau of Statistics.

Homeowners with a mortgage make up a slightly larger share of metropolitan Melbourne households than regional Victorian households. The overall higher rate of home ownership in regional Victoria is driven by their substantially higher rates of home ownership without a mortgage.

Home ownership rates have been broadly steady in regional Victoria, while they have fallen significantly in metropolitan Melbourne.

The proportion of homes that are either owned outright or owned with a mortgage fell:

- significantly in metropolitan Melbourne from 73.0% in 2006 to 67.4% in 2021
- slightly in regional Victoria from 75.4% in 2006 to 74.1% in 2021.

The proportion of homes that are rented increased:

- significantly in metropolitan Melbourne from 25.5% in 2006 to 30.9% in 2021
- slightly in regional Victoria from 22.2% in 2006 to 23.8% in 2021.

Rental housing rates by Local Government Area (LGA) are provided at Attachment C.

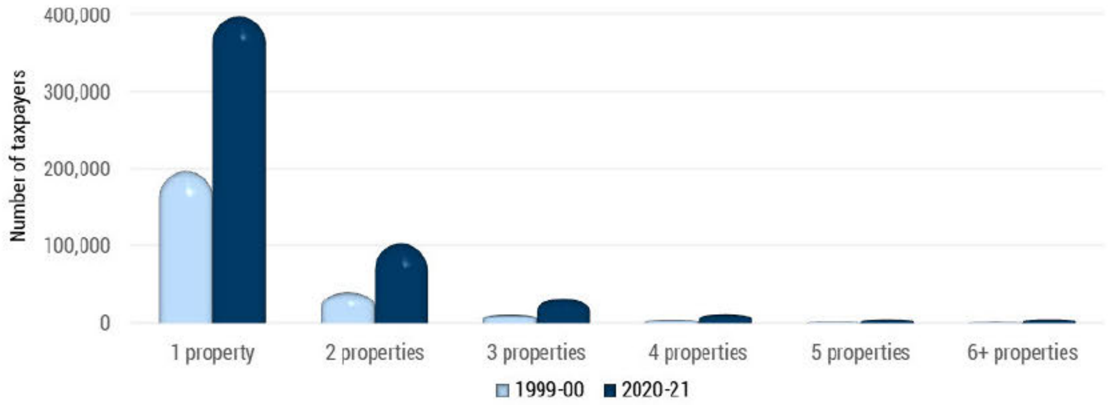
Landlords

Ownership of rental properties

The breakdown of the number of properties owned by individuals provides an insight into the concentration of rental property ownership. This compares the proportion of individuals that have invested in many properties to those that have invested in 1 or 2 properties.

The Australian Tax Office reports statistics on individual taxpayers' financial interests in rental properties. It reports the how many have at least partial ownership of in rental properties, and breaks this down by how many properties they hold such as stake in.

Figure 7 – Individual Victorian taxpayers with investment in rental property



Note: The number of properties each taxpayer has an interest in does not provide clear insight into the number of retnal properties they own, or the aggregate number owned by individual taxpayers. Additionally, this data only captures individual taxpayers, excluding properties owned by trusts.

Source: Australian Taxation Office.

In 2020–21, more than 550,000 individual Victorian taxpayers reported at least partial ownership of a rental property. Of these taxpayers, 72% reported a financial interest in only one property, down from 77% in 1999–2000.

Only 1% of these taxpayers reported a financial interest in 6 or more properties. This likely indicates that only a very small proportion of taxpayers own many rental properties.

The proportion of taxpayers that at least partially own more than one rental property has increased. In 1999–00 it was 23% but has risen to 28% in 2020–21. This suggests that there may be greater concentration of rental property ownership.

Administration of rental properties

Renters often rent properties through a real estate agent rather than directly from a landlord.

Figure 8 – Landlord Type, 2021

Region	Real estate agent	Housing authority/ community housing	Other private owner	Employer
Metropolitan Melbourne	76%	6%	16%	2%
Regional Victoria	60%	11%	24%	5%

Source: Australian Bureau of Statistics.

Renters in metropolitan Melbourne are more likely to rent properties through real estate agents and are less likely to rent from other parties. Other private owners, which includes landlords that do not hire real estate agents to manage their rental property, relatives, and residential park owners, are the second most prevalent landlords in Victoria.

Housing costs

In this section	In this section we consider the costs of private dwellings in Victoria for different tenure types, focusing on: ▪ property prices and loan sizes ▪ ongoing costs, specifically rent payments, mortgage repayments and rates.

Property prices and loan sizes

Victorian property prices have risen substantially over the last 2 decades. The median property price for houses and apartments were similar from 2002 to 2015. Sustained house price growth since 2015, after which apartment price growth softened, has caused these median prices to diverge.

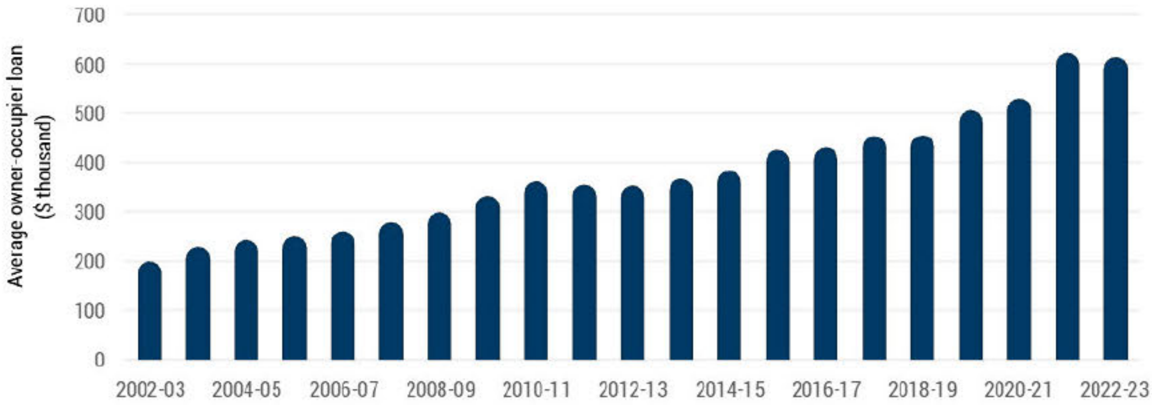
Figure 9 – Median property price in Victoria

Source: Department of Transport and Planning.

The median house price in Victoria increased by over 350% from $220,000 in 2002 to $778,000 in 2022. This reflects annual average growth of 6.5% per year. The median apartment price in Victoria increased by just under 250% from $243,000 in 2002 to $600,000 in 2022.This reflects annual average growth of 4.6% per year – 5.6% per year from 2002 to 2015 and 3.2% per year thereafter.

While property prices provide an indication on the costs of purchasing a property, average loan amounts indicate both the initial hurdle required from property buyers and the ongoing costs required to fully own a property.

Figure 10 – Average owner-occupier loan amounts in Victoria



Note: Owner-occupier loans include loans for the construction of dwellings, purchase of newly built dwellings and purchase of existing dwellings.

Source: Australian Bureau of Statistics.

The increase in the average loan amount borrowed by owner-occupiers in Victoria has mirrored the increase in property prices over the last 2 decades. The average loan has increased by over 200%, from around $200,000 in 2002–03 to over $610,000 in 2022–23. Since 2018–19, where the average loan size was around $455,000, the average loan has increased by around 35%. The increases in median property prices and average loans suggests that properties are increasingly more expensive than they were previously, with particularly large growth observed in recent years.

Financial assistance for purchasing property

Some home buyers receive funding from sources other than savings and borrowings to pay the deposit for their home loan.

Figure 11 – Monetary assistance sources for first home buyers' deposits in Victoria, 2019–20

Assistance source	Proportion of first home buyers that utilised assistance
All sources	74%
First homeowners' grants	50%
Gift from family/friends	22%
Government concessions/exemptions	14%

Note: Some of these values have a high margin of error, as they are estimated using survey data.

Source: Australian Bureau of Statistics.

In 2019–20, around 74% of all first home buyers in Victoria received some form of monetary assistance to afford a deposit or outright buy a home. Around half of all first home buyers utilised the First homeowners' grants, while just under a quarter utilised monetary gifts from family or friends. These results indicate that there are advantages for households with access to monetary assistance in buying a home.

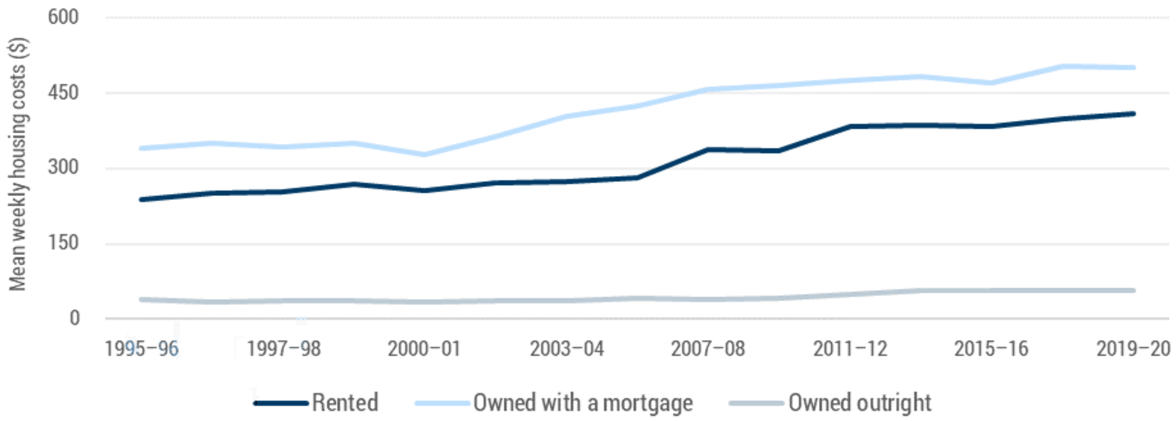
Ongoing housing costs

The Australian Bureau of Statistics' publication *Housing Occupancy and Costs* presents housing costs as the sum of:

- rent payments
- mortgage repayments
- rate payments (both general and water).

These are all ongoing costs, which occupiers pay either after purchase or once they have started renting. Ongoing costs presented exclude body corporate payments, payments for repairs and maintenance, and home insurance payments.

Figure 12 – Average weekly ongoing costs in Victoria



Notes: All values are in 2019–20 dollars. Renters are for private dwellings only. These figures do not account for reimbursement of housing costs, for example rent assistance provided by the Australian Government.

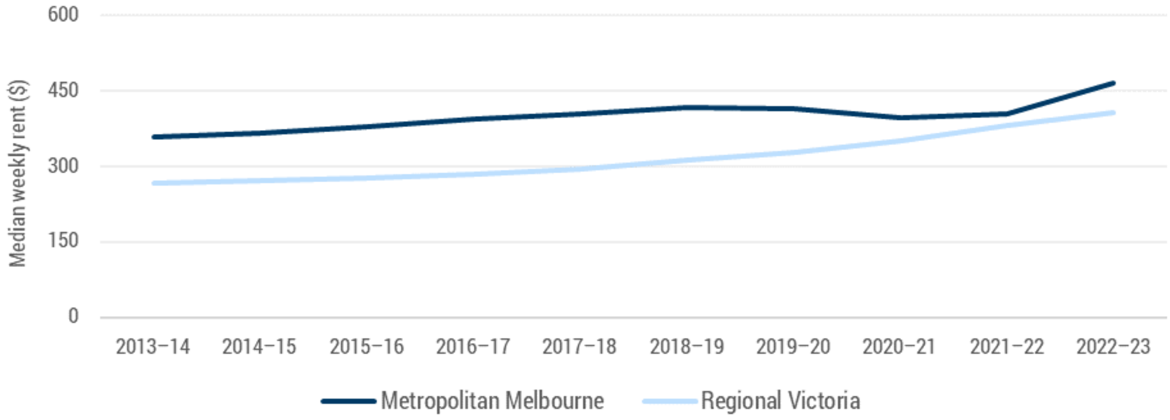
Source: Australian Bureau of Statistics.

Average weekly housing costs vary substantially for different tenure types. On average, housing costs are higher for owners with a mortgage than for renters. Owners without a mortgage have much lower costs than the other two tenure types, as they do not pay rent or mortgage repayments.

From 1995–96 to 2019–20, average housing costs increased by 43% in real terms for homeowners without a mortgage, 47% for homeowners with a mortgage and 73% for private renters. In absolute terms, average housing costs increased by $160 for homeowners with a mortgage and by $173 for private renters from 1995–96 to 2019–20. The increase in housing costs for owners without a mortgage has been proportionally similar but much lower in absolute terms.

The main ongoing cost for renters is rent payments.

Figure 13 – Median weekly rent



Notes: This figure shows median weekly rent in nominal terms (current prices). The median rent for each financial year was calculated as the average of the median rent in the 4 quarters of each year.

Source: Department of Families, Fairness and Housing.

The median weekly rent in Victoria has increased from $160 in the June quarter 1999 to $480 in the June quarter 2023 (nominal terms). Over the past decade, median weekly rent increased by 37%, from $332 in 2012–13 to $455 in 2022–23. The median weekly rent has increased substantially in 2022–23, following the end of COVID-19 related restrictions.

From 2013–14 to 2022–23, median rents increased by a greater rate in regional Victoria (53%) than in metropolitan Melbourne (30%). During the COVID-19 affected years from 2019–20 to 2021–22, the gap in median rents between metropolitan Melbourne and regional Victoria narrowed significantly. However, the large increase in median weekly rent in 2022–23 is more pronounced in metropolitan Melbourne than in regional Victoria.

Median weekly rents for all LGAs in June 1999, June 2013 and June 2023 are provided at Attachment D.

Housing affordability

In this section	In this section we consider the affordability of private dwellings in Victoria by adjusting housing costs for measures of income or earnings. We consider: ▪ relative property prices and loan sizes ▪ relative ongoing costs, specifically rent payments and mortgage repayments ▪ measures of affordability.

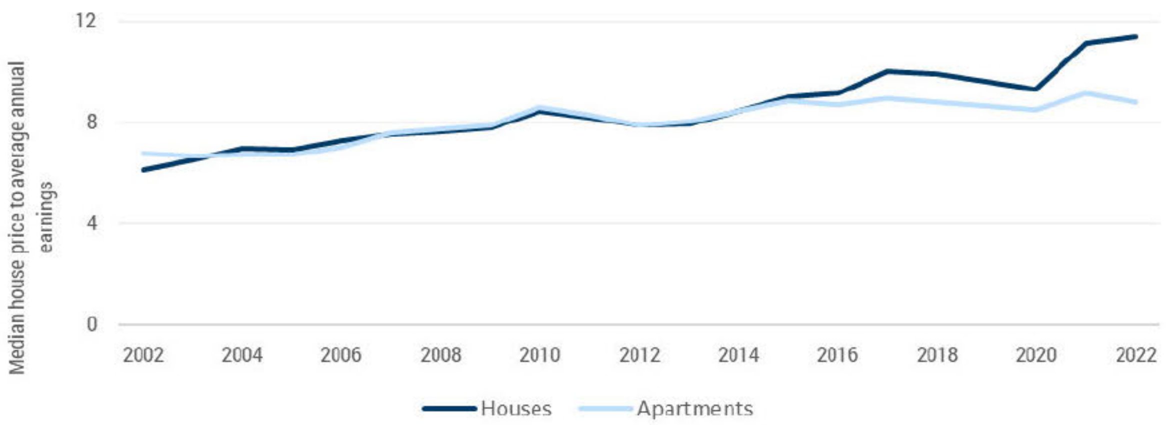
Relative property prices and loan sizes

While median property prices and average loan sizes provide an indication on how expensive purchasing property is, adjusting those costs using measures of income or earnings provide context to these costs. These relative measures show changes in the difficulty of purchasing a property.

Property prices

Property prices as a share of annual earnings provide insight into the financial burden associated with purchasing a property, or saving a deposit to do so.

Figure 14 – Median house price to average annual earnings in Victoria



Sources: Australian Bureau of Statistics, Department of Transport and Planning.

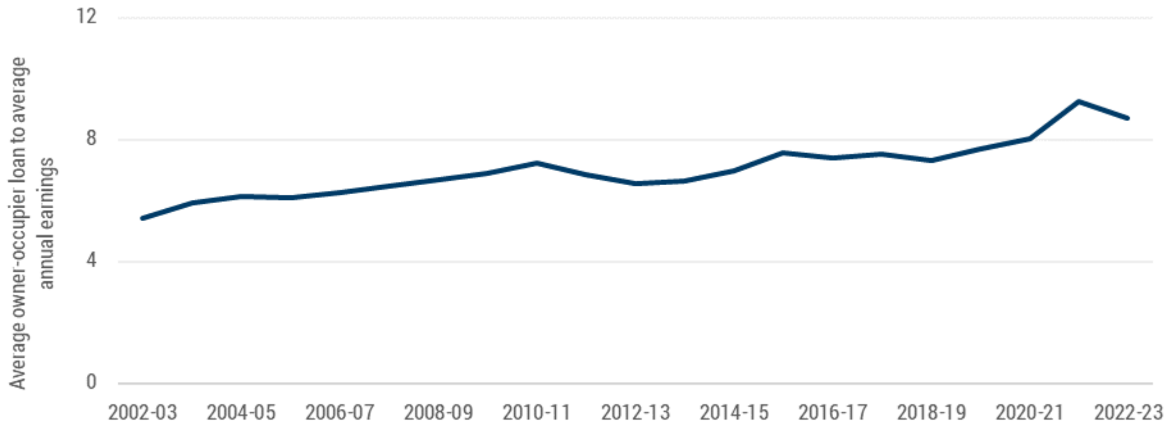
The median house price has consistently outpaced average household earnings over the last 2 decades. From 6.2 times average annual earnings in 2002 it has risen to 11.4 in 2022. This suggests that it is more difficult to purchase a house now than it was 2 decades ago.

As median apartment prices have generally been similar to median house prices over the last 2 decades, aside from the recent strong growth in house prices, this suggests that it is also more difficult to purchase an apartment now than it was 2 decades ago.

Home loans

Home loan sizes are highly correlated with property prices, particularly where property prices have outpaced incomes over a sustained period.

Figure 15 – Average owner-occupier loan amounts to average annual earnings in Victoria



Note: Owner-occupier loans include loans for the construction of dwellings, purchase of newly built dwellings and purchase of existing dwellings.

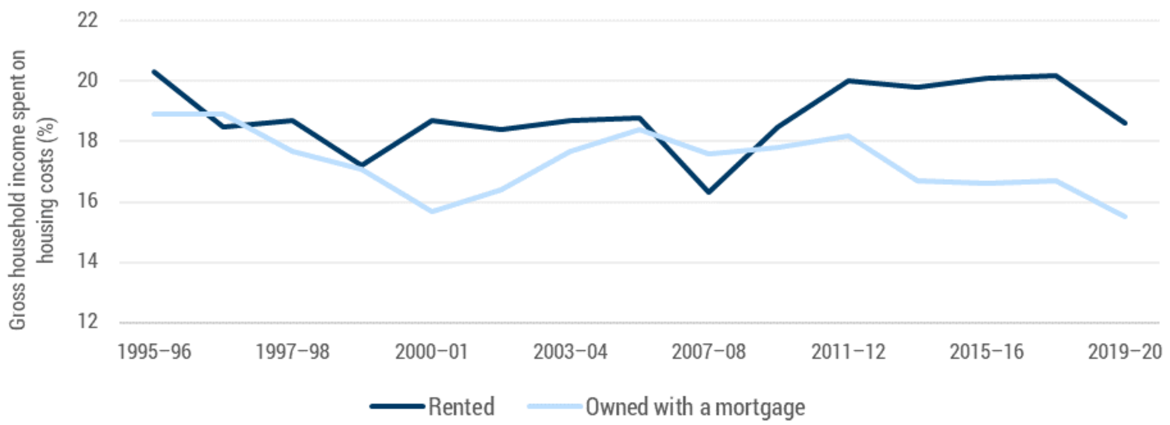
Source: Australian Bureau of Statistics.

In relative terms, the hurdle to purchase a property has increased over the last 2 decades, as the average loan to average annual earnings ratio has increased by over 60%, from 5.4 in 2002–03 to 8.7 in 2022–23. This aligns with the trend in relative property price figures since 2002.

Relative ongoing housing costs

The proportion of mortgage or rent payments to household income is a commonly used indicator for housing affordability.

Figure 16 – Relative ongoing costs in Victoria



Notes: Renters are for private dwellings only. These figures do not account for reimbursement of housing costs, for example rent assistance provided by the Australian Government.

Source: Australian Bureau of Statistics.

Over the 2010s, owners with a mortgage paid relatively lower housing costs as a proportion of income, falling from 18.2% in 2011–12 to 15.5% in 2019–20. Conversely, renters consistently paid around 20% of their total household income on housing costs throughout the decade.

This indicates that despite incurring lower housing costs in absolute terms, renters face a proportionally higher burden from the regular payments made by households to remain in their house.

Measures of affordability

Mortgage and rent payments are generally considered to be affordable if they are less than or equal to 30% of household income.

Figure 17 – Rental affordability, 2021

Share of individuals (%)	Metropolitan Melbourne	Regional Victoria	Victoria
Mortgage repayments over 30% of household income	17.2	10.5	15.6
Rent payments over 30% of household income	28.9	27.7	28.6

Note: This only includes households where mortgage or rent payments and total income were able to be determined.

Source: Australian Bureau of Statistics.

In 2021, 28.6% of people living in rental property and 15.6% of individuals living in a house with a mortgage paid more than 30% of household income in rents or mortgage. It is likely that both proportions are now higher, following the 4-percentage point increase in the cash rate from May 2022.

Metropolitan Melbourne had a larger proportion of individuals who lived in households where mortgage repayments and households where rent payments were over 30% of total household income in 2021.

The difference between metropolitan Melbourne and regional Victoria was more pronounced in mortgage repayments. However, it is likely that the difference in rent payments is now likely higher following the large increase in rents, predominantly in metropolitan Melbourne, in 2022–23.

While these results suggest that housing affordability is lower in metropolitan Melbourne, they do not account for other factors such as housing type, quality or economic differences.

A breakdown of the rental affordability measures by LGA is provided at Attachment E.

Low-income households

There are multiple ways to define low-income households. One commonly used definition is households with income between the 3rd to 40th percentiles. The 1st and 2nd percentiles are excluded as they include low income, high wealth households that may skew analysis results.

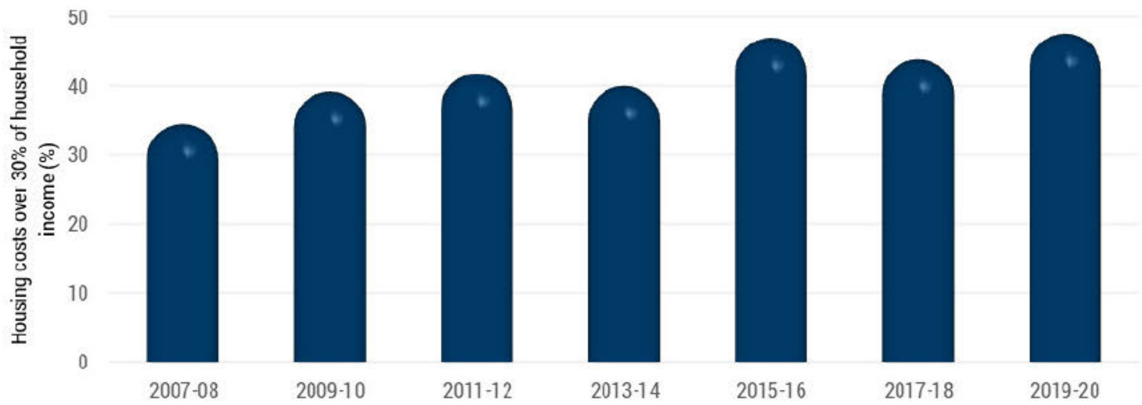
Figure 18 – Ongoing costs for low-income households, 2019–20

%	Private renters	Owners with a mortgage
Housing costs over 30% of household income	56.8	36.0

Source: Australian Bureau of Statistics.

In 2019-20, low-income households were substantially more likely to spend more than 30% of their household income on ongoing costs – rents, mortgage payments and council rates. For low-income households, more than half of private renters and more than a third of homeowners with a mortgage face unaffordable housing cost.

Figure 19 – Ongoing costs for low-income households, all renters



Note: This includes both private renters and renters from state housing authorities.

Source: Australian Bureau of Statistics.

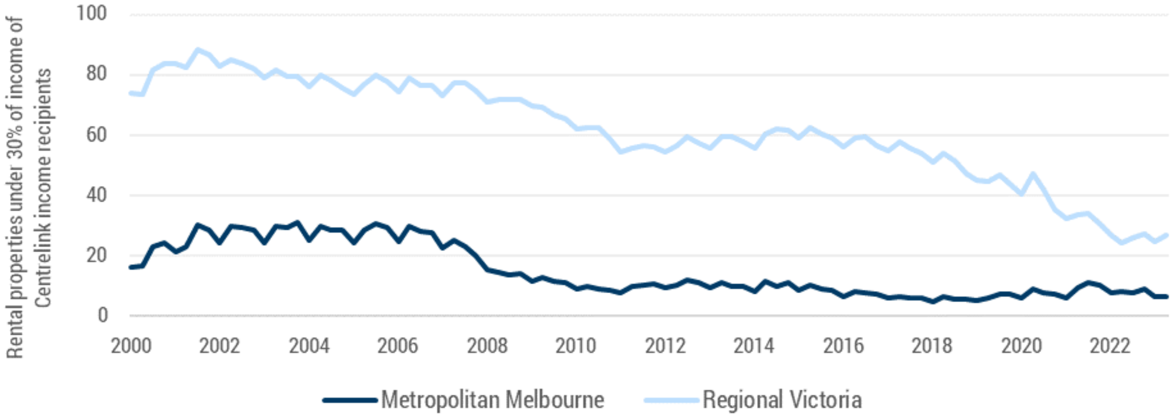
Since 2007–08, the proportion of all renters that pay over 30% of their total income on ongoing costs has increased, from around 35% in 2007–08 to over 45% in 2019–20. This suggests that a greater proportion of renters were living in houses considered to be unaffordable, prior to the impacts of the COVID-19 pandemic restrictions.

When accounting for renters from state housing authorities, the proportion of low-income renters that live in affordable rental properties falls by around 10%. This suggests that public housing has a significant effect on the proportion of low-income renters that find housing unaffordable or suffer from financial stress.

Centrelink income recipients

Another definition of low-income households is households that receive Centrelink payments.

Figure 20 – Affordable rental properties for Centrelink income recipients



Note: Temporary income support payments in 2020 and 2021 in response to the COVID-19 pandemic restrictions were not considered as household income.

Source: Department of Families, Fairness and Housing.

The proportion of rental properties that are affordable for Centrelink income recipients has fallen substantially for both metropolitan Melbourne and regional Victoria. For metropolitan Melbourne, around 20% to 30% of properties were affordable from 2000 to 2008. Since then, the proportion has declined to declined to less than 7%. For regional Victoria, the proportion of affordable properties has historically been much higher – as high as 88% in September 2001. However, it has declined substantially to less than 30% in recent years.

These results do not solely reflect changes in rental prices, and are also be affected by eligibility of Centrelink payments and payment rates.

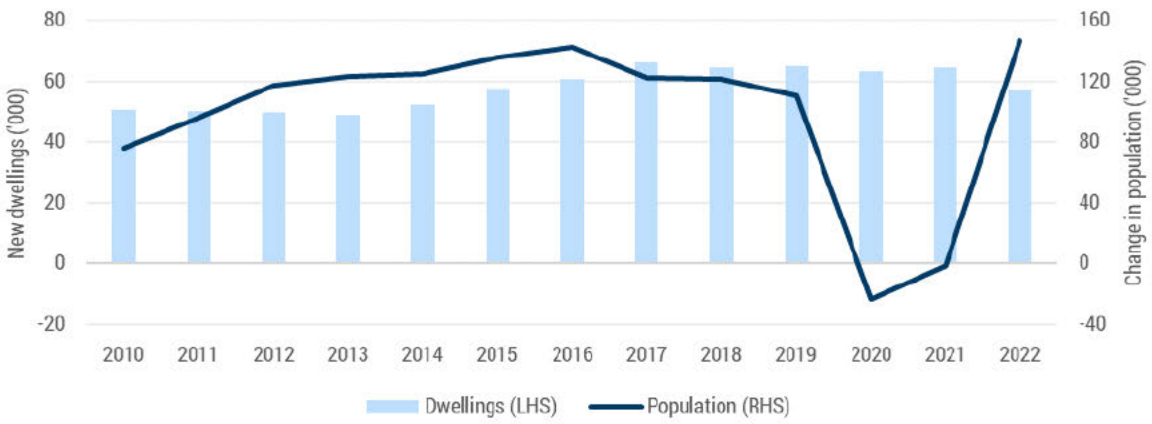
Housing supply and investment

In this section	In this section we consider housing supply and investment in Victoria, focusing on: ▪ the number of new properties built and value of residential work done ▪ monthly rental vacancy rates ▪ annual return and gross rental yield on property.

Construction of dwellings

Growth in housing supply is driven by new property builds. Comparing the number of new property builds to changes in the population gives an indication of how growth in supply is keeping pace with potential growth in demand.

Figure 21 – New properties



Note: The proportion of new dwellings per population increase was not provided for 2020 and 2021, as Victoria's population declined in those years.

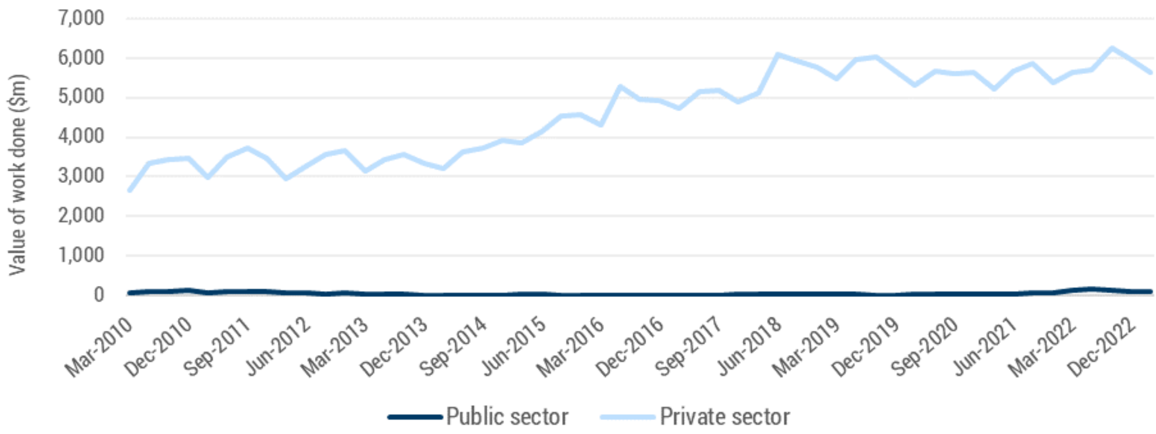
Source: Australian Bureau of Statistics.

The number of new properties built each year increased from around 50,000 each year from 2010 to 2013, to around 65,000 each year from 2017 to 2021. The number of new properties as a proportion of the increase in population grew from around 0.4 in 2016 to just under 0.6 in 2019. In 2020 and 2021, Victoria's population declined, yet over 60,000 new properties were built in each year.

This data may indicate that new dwelling construction has broadly kept pace with population growth in Victoria. However, it does not account for compositional requirements – whether the new dwellings align with the type of housing Victorians are seeking.

In 2022, the most recent complete year of data, there was $24.12 billion (in 2020–21 dollars) of work done on new residential properties in Victoria.

Figure 22 – Value of work on new residential properties done during quarter

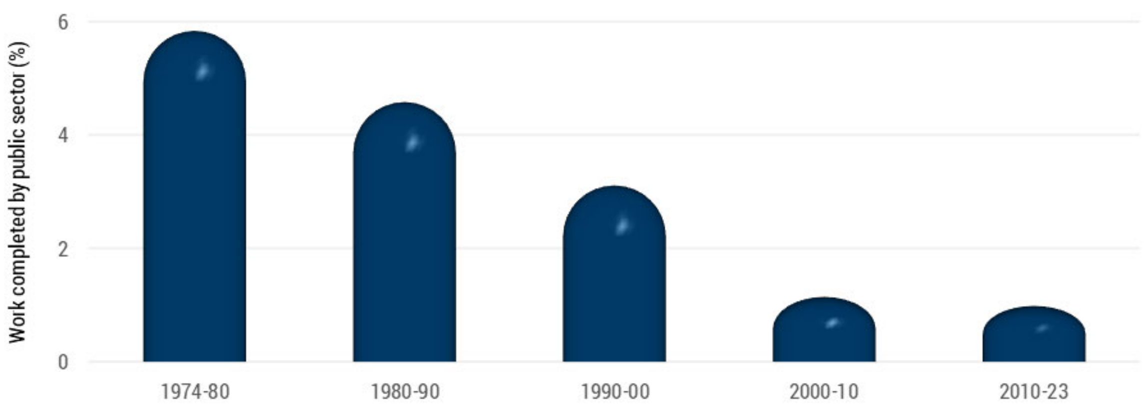


Note: All values are in 2020–21 dollars.

Source: Australian Bureau of Statistics.

Most residential work on new properties in Victoria is completed by the private sector, which indicates that the private sector almost solely contributes to housing supply. The public sector has not completed over 3% of all residential work in a quarter since the December quarter 2010. The value of work on new residential properties by the private sector has remained relatively constant since 2018 in real terms, mostly ranging between $5 billion to $6 billion each quarter (2020–21 dollars).

Figure 23 – Value of work on new residential properties, public sector



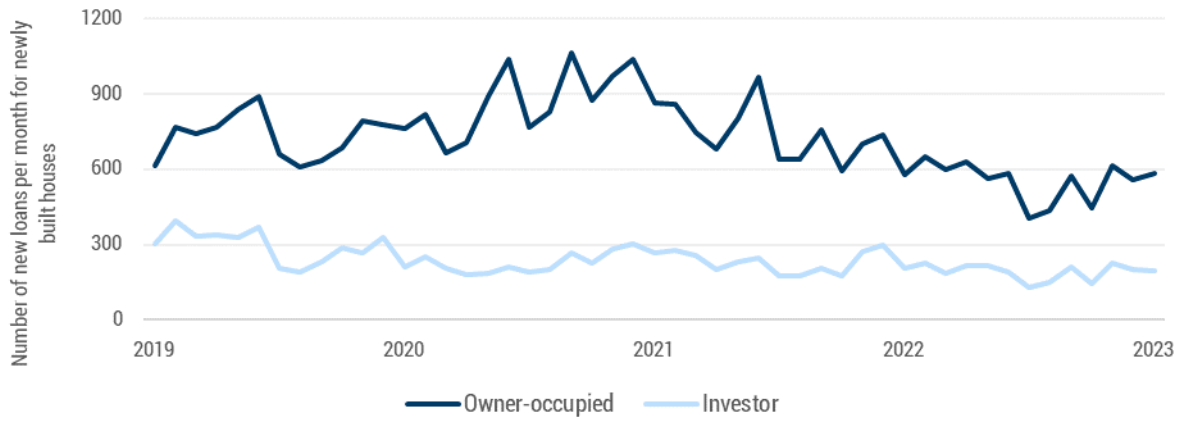
Source: Australian Bureau of Statistics.

The private sector has always been a major contributor to housing supply in Victoria, but it has become even more prevalent since the 1970s. The proportion of work completed on new residential properties by the public sector has fallen from just under 6% in the second half of the 1970s to around 1% on average since 2000.

Loans for newly built properties

The number of loans provided to owner-occupiers and investors to purchase newly built properties provides an indication of the relative increase in the supply of rental properties.

Figure 24 – Loans for newly built properties



Note: Newly built properties are all dwellings previously not occupied by a household.

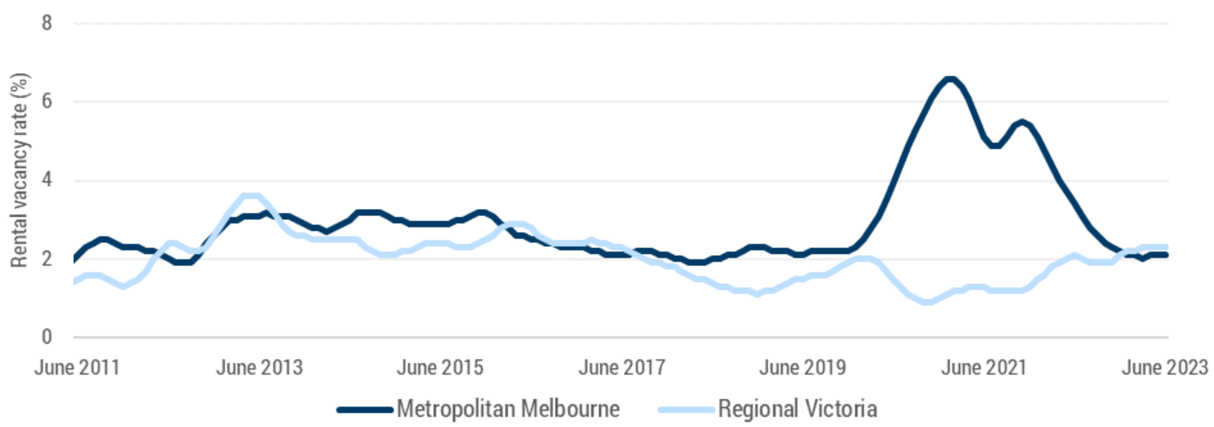
Source: Australian Bureau of Statistics.

In recent years, the number of loans to purchase newly built properties taken out by owner-occupiers has been around two to three times the number of loans taken out by investors. This indicates that, on average, around a quarter to a third of all new properties are additions to rental supply.

Rental vacancies

The rental vacancy rate is the proportion of all vacant rental properties to all rental properties in an area, and gives an indication of demand for housing.

Figure 25 – Monthly rental vacancy rates



Note: The rental vacancy rate is a trend rate, which uses a Henderson 13-month moving average.

Source: Department of Families, Fairness and Housing.

The rental vacancy rate increased substantially in metropolitan Melbourne in 2020, following the implementation of COVID-19 related restrictions, which aligns with the continuation of new properties being built and a fall in population. This rate decreased throughout 2022, following the removal of these restrictions. Aside from 2020 and 2021, the rental vacancy rate has remained below 4% since 2010 in both metropolitan Melbourne and regional Victoria. This implies that the increases in supply have been broadly equally matched by increases in demand for rental properties.

Average home occupancy

The number of people residing in each house has an impact on housing supply. If there are more people on average living in each house, then fewer houses are required to house a population.

The average number of occupants per house has remained relatively constant over the last 2 decades. From 2002–03 to 2019–20, the average number of occupants per house only fell below 2.6 once – in 2005–06. In the 2021 census, the average occupancy fell to 2.5, which was likely due to a response to the COVID-19 restrictions.

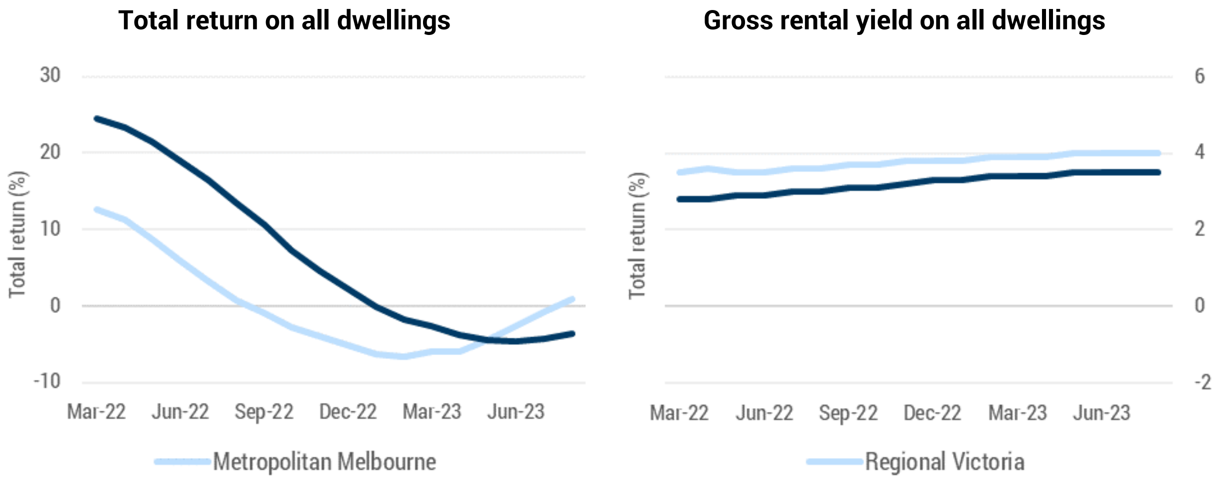
Housing investment returns

There are 2 measures that can be used to assess the return from housing investment:

- total return: total annual change in property value and rental income
- gross rental yield: the proportion of annual rental income to a property's market value.

The total return rate declined in both metropolitan Melbourne and regional Victoria throughout 2022. The rate has been falling throughout 2023, but has increased in recent months, especially in metropolitan Melbourne. The return rate in metropolitan Melbourne is now positive as at August 2023. These primarily reflect the fall in property prices observed in metropolitan Melbourne in 2022. We note this is a short time series and represents only a snapshot of recent developments.

Figure 26 – Returns on property investment



Source: CoreLogic.

The gross rental yield increased from February 2022 to July 2023 in both metropolitan Melbourne and regional Victoria. Increases have been less pronounced throughout 2023, however gross rental yield has been consistently higher in regional Victoria over this period. The increase in metropolitan Melbourne aligns with the large fall in rental vacancy rates in 2022–23.

The increasing returns to property, especially in metropolitan Melbourne, may encourage more individuals to purchase rental properties or businesses to build new rental properties. This could increase the supply of rental properties in the market, although any impacts would likely be lagged. Again, this is a short time series and represents only a snapshot of recent developments.

Land transfer duty

In this section	In this section we consider:
	▪ Victoria's existing land transfer duty arrangements ▪ the effects of 'bracket creep' ▪ the impacts of land transfer duty on the Victorian housing market.

Land transfer duty, commonly known as stamp duty, is a tax on property transactions, typically calculated on the purchase price or market value, whichever is greater. The amount of tax paid can vary depending on whether a transaction is eligible for a concession or exemption, and whether the 8% additional foreign purchaser duty surcharge applies.

Figure 27 – Land transfer duty rates

Dutiable value range	Rate
$0 – 25,000	1.4% of the dutiable value of the property
> $25,000 - $130,000	$350 plus 2.4% of the dutiable value in excess of $25,000
> $130,000 - $960,000	$2870 plus 6% of the dutiable value in excess of $130,000
> $960,000 - $2,000,000	5.5% of the dutiable value
More than $2,000,000	$110,000 plus 6.5% of the dutiable value in excess of $2,000,000

Source: State Revenue Office.

Bracket creep

Generally, governments adjust taxes with progressive rate schedules to keep pace with inflation of the tax base. For example, the Australian Government may adjust income tax brackets and rates for wage increases, depending on the budget position and revenue requirements. However, the Victorian Government has not substantially adjusted land transfer duty rates since 2008 – the only exception being a 1% increase in the marginal rate for properties worth $2 million or more, introduced in 2021–22.

Combining this lack of adjustment of tax thresholds with strong property price growth in recent decades, results in substantial bracket creep. It has pushed properties into higher land transfer duty tax rate brackets.

In 2008, the Melbourne median house price was around $390,000, carrying land transfer duty of $18,470 – implying an effective rate of 4.7%. In 2022, the Melbourne median house price was around $930,000, carrying land transfer duty of $50,870 – implying an effective rate of 5.5% (assuming no liability for surcharge or eligibility for concessions). This implies that almost 20% of the land transfer duty liabilities on a median price Melbourne house can be attributed to bracket creep.

Impact on housing affordability

From an economic perspective, land transfer duty places a tax wedge between the supply and demand for property. This results in:

- buyers facing a higher net cost due to the additional tax liability
- sellers receiving a lower market price for their properties.

In other words, land transfer duty makes both buyers and sellers of properties worse off.

As land transfer duty reduces the price paid for new dwellings, it has a dampening effect on housing and apartment development activity, and ultimately on the supply of dwellings. Furthermore, land transfer duty presents a significant barrier to potential buyers entering the property market. The exemption for first-home buyer purchases valued up to $600,000, and the concession for purchases up to $750,000, means that only first-home buyers purchasing more expensive properties are directly impacted. They are, however, affected by the broader market impacts of land transfer duty, including that there are fewer available properties at any given time.

Impact on transaction volumes

Land transfer duty is a tax on property transactions, and therefore creates a disincentive for property owners to buy and sell. This means that there are fewer available properties for purchase at any given time, and also that the housing stock may be poorly allocated by resident need.

Multiple studies have attempted to measure the impact of land transfer duty on property transaction volumes. The 2021 NSW Treasury paper *The economic costs of transfer duty: a literature review* presents a meta-analysis of estimates of the response of transaction volumes to the abolition of land transfer duty based on a range of Australian and international studies.

Figure 28 – Change in number of property transfers in response to abolition of land transfer duty

Duty rate reduction	Increase in transaction volumes	
	Lower estimate	Higher estimate
4.0% to 3.0%	7.8	8.3
3.0% to 2.0%	8.0	11.4
2.0% to 1.0%	12.1	12.1
1.0% to 0.0%	13.6	13.6
Cumulative impact	48.2	53.5

Notes: Duty rate is measured as total transfer duty divided by total property value transacted in a year. NSW Treasury estimates are based on Berard and Trannoy (2017), Borbely (2018), CoPS (2020), Dachis, Duranton and Turner (2012), Davidoff and Leigh (2013), Fritzche and Vandrei (2019), Hilber and Lyytikainen (2017) and Maattanen and Tervio (2018).

Source: NSW Treasury.

We estimate that the average Victorian land transfer duty rate (total transfer duty revenue divided by total property value) was around 4.9% in 2021–22. Based on these results, removing land transfer duty may result in an increase in property transactions of 50% or more – however, there are large uncertainties associated with this result.

Attachment A – Reconciliation against the request

Requested submission	Addressed in submission
An overview of changing rental costs in Victoria	Ongoing housing costs (pp. 13-14) Relative ongoing housing costs (pp. 16-17) Measures of affordability (pp. 17-19) LGA median weekly rent (Attachment D) Affordable properties by LGA (Attachment E)
Changes over time in the proportions of housing which are rented and owner-occupied	Tenure (pp. 7-9) LGA rental rates (Attachment C)
Property ownership by number of properties for landlords	Landlords (pp. 9-10)
Historic landlord costs and returns on investment properties	Ongoing housing costs (pp. 13-14) Relative ongoing housing costs (pp. 16-17) Housing investment returns (pp. 23-24)
Investment in new housing supply	Construction of dwellings (pp. 20-21)
Purchase of new builds by landlords-for-rent and owner-occupiers	Construction of dwellings (pp. 22)
Sources of financing for new purchases	Property prices and loan sizes (pp. 12)
Vacancy rates in Melbourne and Victoria	Rental vacancies (pp. 22-23)
An outline of stamp duty and broad analysis of its impact on the housing sector	Land transfer duty (pp. 25-26)

Attachment B – Data sources

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Attachment C – Rental rates by LGA

Figure 29 – Proportion of households renting by local government area

%	2006	2011	2016	2021
Alpine	22.7	22.4	22.6	20.3
Ararat	18.1	21.0	23.1	22.3
Ballarat	27.6	29.7	31.8	32.2
Banyule	21.9	23.7	24.8	26.1
Bass Coast	21.0	27.0	24.7	20.9
Baw Baw	18.1	19.5	20.2	19.0
Bayside	20.5	21.6	23.0	22.7
Benalla	22.7	23.9	23.9	22.9
Boroondara	26.3	27.9	30.2	29.1
Brimbank	19.8	23.4	26.2	27.4
Buloke	13.6	14.7	15.1	15.6
Campaspe	22.0	23.5	22.9	22.7
Cardinia	17.0	20.2	22.8	23.4
Casey	18.1	19.7	21.4	23.6
Central Goldfields	19.0	20.8	21.7	21.6
Colac Otway	20.4	21.8	22.1	22.1
Corangamite	17.9	18.4	19.2	18.5
Darebin	33.6	35.6	38.8	38.8
East Gippsland	21.5	22.3	22.0	20.1
Frankston	25.1	27.8	29.1	28.5
Gannawarra	18.8	20.0	19.0	18.8
Glen Eira	29.1	31.3	33.7	34.2
Glenelg	19.8	21.5	22.2	20.0
Golden Plains	6.5	7.6	7.7	7.3
Greater Bendigo	25.4	26.7	28.2	27.3
Greater Dandenong	29.7	33.3	35.5	35.8
Greater Geelong	24.0	25.9	27.8	28.5

%	2006	2011	2016	2021
Greater Shepparton	26.5	28.5	28.9	28.7
Hepburn	16.3	17.7	16.3	15.0
Hindmarsh	12.8	16.2	15.8	17.2
Hobsons Bay	25.9	28.0	29.7	29.8
Horsham	23.6	25.2	25.1	25.8
Hume	18.3	20.5	24.8	25.7
Indigo	16.0	17.6	17.4	15.6
Kingston	22.8	23.6	25.5	25.5
Knox	15.8	17.4	19.7	21.6
Latrobe	24.4	25.8	26.8	26.2
Loddon	13.8	13.3	13.4	12.5
Macedon Ranges	13.7	14.3	14.5	13.7
Manningham	13.6	15.4	18.3	20.7
Mansfield	19.1	18.9	17.8	16.2
Maribyrnong	38.2	40.1	45.2	43.6
Maroondah	21.0	22.3	24.0	24.6
Melbourne	65.8	63.0	66.5	67.9
Melton	15.6	19.9	21.6	23.1
Merri-bek	30.9	33.6	38.1	38.8
Mildura	27.7	29.8	30.4	30.8
Mitchell	21.2	21.4	22.2	21.3
Moira	20.4	21.8	22.4	21.5
Monash	22.9	25.5	29.5	30.7
Moonee Valley	29.6	29.8	32.7	32.8
Moorabool	15.6	16.7	18.0	17.5
Mornington Peninsula	18.7	20.3	20.4	18.8
Mount Alexander	18.5	17.7	17.3	15.2
Moyne	16.1	16.4	17.0	15.9
Murrindindi	15.6	15.9	15.2	13.9
Nillumbik	9.0	9.3	9.2	9.0
Northern Grampians	20.2	21.5	21.9	20.9

%	2006	2011	2016	2021
Port Phillip	53.8	53.9	54.8	52.1
Pyrenees	11.6	13.1	12.7	12.0
Queenscliffe	21.6	21.5	17.5	14.2
South Gippsland	15.2	16.7	17.3	15.5
Southern Grampians	19.4	21.1	20.4	20.4
Stonnington	41.7	43.6	47.4	45.5
Strathbogie	16.2	17.6	17.9	17.8
Surf Coast	19.5	21.2	19.9	18.2
Swan Hill	26.4	28.9	28.2	29.7
Towong	15.4	17.6	16.8	15.2
Wangaratta	21.1	22.0	22.7	23.1
Warrnambool	29.8	31.0	31.3	28.7
Wellington	20.6	21.9	22.5	21.1
West Wimmera	13.5	12.9	13.1	14.7
Whitehorse	21.5	23.8	27.6	29.5
Whittlesea	17.6	19.7	24.4	25.4
Wodonga	34.3	35.6	36.1	33.5
Wyndham	19.6	25.4	28.8	31.4
Yarra	52.4	52.3	55.4	54.0
Yarra Ranges	13.5	14.2	14.3	14.2
Yarriambiack	12.0	14.8	14.6	16.6

Note: This figure only includes occupied private dwellings.

Source: Australian Bureau of Statistics.

Attachment D – Median rents by LGA

Figure 30 – Median rents by local government area

$	June 1999	June 2013	June 2023
Alpine	120	225	443
Ararat	110	250	343
Ballarat	130	265	395
Banyule	180	345	470
Bass Coast	111	250	420
Baw Baw	125	270	450
Bayside	250	495	650
Benalla	120	210	400
Boroondara	220	400	550
Brimbank	150	300	410
Buloke	85	183	215
Campaspe	135	228	395
Cardinia	155	310	470
Casey	160	330	480
Central Goldfields	110	225	330
Colac Otway	115	250	420
Corangamite	93	200	350
Darebin	150	340	470
East Gippsland	120	250	400
Frankston	150	300	465
Gannawarra	100	160	298
Glen Eira	180	375	530
Glenelg	110	220	400
Golden Plains	143	280	460
Greater Bendigo	135	275	420
Greater Dandenong	140	300	430
Greater Geelong	135	295	450

$	June 1999	June 2013	June 2023
Greater Shepparton	135	240	390
Hepburn	130	280	450
Hindmarsh	93	185	265
Hobsons Bay	165	340	480
Horsham	115	235	360
Hume	165	315	450
Indigo	128	240	450
Kingston	165	350	520
Knox	180	350	500
Latrobe	110	215	360
Loddon	85	178	300
Macedon Ranges	140	330	510
Manningham	215	400	578
Mansfield	130	280	493
Maribyrnong	140	340	464
Maroondah	160	335	480
Melbourne	270	450	590
Melton	150	300	440
Merri-bek	155	350	480
Mildura	130	230	380
Mitchell	128	285	430
Moira	125	210	370
Monash	190	380	550
Moonee Valley	170	350	480
Moorabool	145	290	420
Mornington Peninsula	140	320	530
Mount Alexander	120	295	390
Moyne	130	250	430
Murrindindi	123	250	390
Nillumbik	200	345	500
Northern Grampians	105	180	328

$	June 1999	June 2013	June 2023
Port Phillip	205	410	535
Pyrenees	115	198	350
Queenscliffe	135	388	540
South Gippsland	110	240	400
Southern Grampians	110	220	330
Stonnington	200	400	550
Strathbogie	110	240	400
Surf Coast	145	365	520
Swan Hill	130	210	330
Towong	120	185	320
Wangaratta	125	240	400
Warrnambool	130	275	450
Wellington	115	230	400
West Wimmera	77	N/A	250
Whitehorse	185	380	520
Whittlesea	165	325	450
Wodonga	140	270	445
Wyndham	160	300	450
Yarra	225	460	575
Yarra Ranges	155	333	493
Yarriambiack	80	150	270

Source: Department of Families, Fairness and Housing.

Attachment E – Affordability by LGA

Figure 31 – Mortgage and rent affordability by local government area

LGA	Mortgage repayments over 30% of household income	Rent payments over 30% of household income
Alpine	11%	24%
Ararat	8%	26%
Ballarat	9%	28%
Banyule	13%	25%
Bass Coast	14%	37%
Baw Baw	12%	30%
Bayside	17%	29%
Benalla	11%	28%
Boroondara	22%	27%
Brimbank	19%	32%
Buloke	9%	14%
Campaspe	10%	27%
Cardinia	15%	28%
Casey	19%	28%
Central Goldfields	10%	35%
Colac Otway	12%	27%
Corangamite	11%	23%
Darebin	14%	27%
East Gippsland	11%	30%
Frankston	13%	33%
Gannawarra	9%	20%
Glen Eira	16%	28%
Glenelg	9%	24%
Golden Plains	11%	29%
Greater Bendigo	9%	27%
Greater Dandenong	23%	30%
Greater Geelong	10%	28%

LGA	Mortgage repayments over 30% of household income	Rent payments over 30% of household income
Greater Shepparton	12%	27%
Hepburn	14%	34%
Hindmarsh	5%	20%
Hobsons Bay	13%	26%
Horsham	7%	27%
Hume	22%	37%
Indigo	11%	23%
Kingston	14%	28%
Knox	16%	27%
Latrobe	8%	29%
Loddon	12%	18%
Macedon Ranges	11%	29%
Manningham	25%	34%
Mansfield	15%	25%
Maribyrnong	13%	24%
Maroondah	13%	31%
Melbourne	19%	34%
Melton	18%	32%
Merri-bek	13%	26%
Mildura	9%	28%
Mitchell	14%	27%
Moira	12%	26%
Monash	23%	28%
Moonee Valley	14%	24%
Moorabool	12%	28%
Mornington Peninsula	14%	35%
Mount Alexander	12%	34%
Moyne	13%	22%
Murrindindi	16%	31%
Nillumbik	12%	28%

LGA	Mortgage repayments over 30% of household income	Rent payments over 30% of household income
Northern Grampians	7%	25%
Port Phillip	17%	26%
Pyrenees	10%	26%
Queenscliffe	14%	28%
South Gippsland	13%	30%
Southern Grampians	8%	21%
Stonnington	19%	25%
Strathbogie	12%	31%
Surf Coast	12%	25%
Swan Hill	8%	19%
Towong	10%	27%
Wangaratta	10%	25%
Warrnambool	9%	27%
Wellington	10%	29%
West Wimmera	8%	11%
Whitehorse	20%	30%
Whittlesea	19%	31%
Wodonga	9%	24%
Wyndham	17%	26%
Yarra	12%	21%
Yarra Ranges	13%	31%
Yarriambiack	6%	18%

Note: This only includes households where mortgage or rent payments and total income were able to be determined.

Source: Australian Bureau of Statistics.