

Inquiry into the Rental and Housing Affordability Crisis in Victoria



Legislative Council Legal and Social Issues Committee



Australian
Institute of
Architects

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Inquiry into the Rental and Housing Affordability Crisis in Victoria SD Stage 2: “Cooling and Greening” and “Waste and Recycling”

INFORMATION ABOUT THE INSTITUTE

- The Australian Institute of Architects (Institute) is the peak body for the architectural profession in Australia. It is an independent, national member organisation with more than 13,000 members across Australia and overseas.
- The Institute's vision is: *Everyone benefits from good architecture.*
- The Institute's purpose is: *To demonstrate the value of architecture and support the profession.*
- At the time of this submission the Victorian Chapter President is David Wagner FRAIA and the Chief Executive Officer is Cameron Bruhn.

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The Australian Institute of Architects recognises the unceded sovereign lands and rights of Aboriginal and Torres Strait Islander peoples as the First Peoples of these lands and waters. This recognition generates acknowledgement and respect for Aboriginal and Torres Strait Islander Countries, Cultures and Communities, and their ways of being, knowing and doing. Caring for Country practices including architecture and place shaping have existed on this continent since time immemorial.

The Institute recognises a professional commitment to engage and act meaningfully through reciprocal partnership and relationships with Aboriginal and Torres Strait Islander peoples. Together we will support and develop the emergence of new possibilities for our shared future.

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INTRODUCTION

The Institute welcomes the opportunity to provide a submission to the Inquiry into the Rental and Housing Affordability Crisis in Victoria (the Inquiry). Housing and rental affordability is one of our most pressing social issues and requires urgent but considered action. The Institute has focused our response to the first two issues raised in the Terms of Reference. The rationale for this is that our experience is most concentrated in this space, and others are more capable of addressing issues experienced directly by renters.

The Australian Housing and Urban Research Institute (AHURi) says

Australia is experiencing a period of very low rental vacancy rates and rising rent levels, which has led to what is widely recognised as a 'rental crisis'.¹

It found that the national rental vacancy rate was 0.9% in September 2022, the lowest rate since April 2006. Average national rent sat at Au\$542 per week, the highest on record. It notes that new housing has failed to keep pace with population growth, largely the result of immigration. AHURi also noted that the most impacted are low-income households, who are increasingly unable to find affordable rental housing near the employment centres of Australia's major urban areas.

According to the latest data from the Department of Families, Fairness and Housing (DFFH) there were 86,887 social housing dwellings across Victoria as of 30 June 2022 – a net increase of 74 since 30 June 2018, when there were 86,813. In that time, Victoria's population increased by around 305,000. For that same period, social housing waiting lists exploded from an already high 44,000 applications to just under 65,000.²

It is clear that something needs to be done and that the primary focus of such action needs to be in the area of social and affordable housing (two distinct, but for the purpose of this submission, linked housing groups).

¹ Why does Australia have a rental crisis, and what can be done about it? AHURi 2022

<https://www.ahuri.edu.au/research/brief/why-does-australia-have-rental-crisis-and-what-can-be-done-about-it>

² Victoria's social housing stock grows by just 74 dwellings in four years despite huge waiting list, The Guardian, 17/03/23
<https://www.theguardian.com/australia-news/2023/mar/17/victorias-social-housing-stock-grows-by-just-74-dwellings-in-four-years-despite-huge-waiting-list>

(1) THE FACTORS LEADING TO LOW AVAILABILITY AND HIGH COSTS OF RENTAL PROPERTIES

Like most complex and “wicked” problems, the causes of low availability and high costs of rental properties are multifactorial and complex. They have arisen over time due to a mix of inaction and as consequences of attempts to address other issues.

Identifying the causes may be relatively simple; however, understanding how they interact and are magnified by other issues is more complex. This is further complicated by the fact that many of the issues that are arising are not within the power of the State government to address. We will therefore attempt to identify those issues that are outside the ability of the State Government to address and those that may potentially be able to be addressed by the Victorian parliament.

Factors outside the ambit of the Victorian Government to address:

Migration: Housing prices, whether to buy or rent, are subject to the market factors of supply (number of housing units available) and demand (number of people needing housing). Net immigration increases demand. Immigrants, by their nature, do not have existing housing. As a result of the ending of the Covid restrictions, the number of migrants is expected to swell and will place a significant burden on housing availability. However, other than to raise concerns, the ability of the Victorian Parliament to address this issue is significantly reduced as it is a federal power to regulate. The State’s need for international Students and skilled migrants also means it is not a simple matter of stopping migration.

Federal Taxation Policy: The preferential tax treatment of property, particularly the taxation of capital, provides a distorted investment market favouring investing in property and capital assets. This is another demand factor skewing the supply and demand dynamic in favour of ever-higher prices, requiring higher rents to satisfy.³ It also provides a distinct advantage to those with large incomes and asset bases to crowd out traditional buyers. Having said this, improving the supply of housing (rather than money for housing, two related but very distinct issues) could bring the supply and demand dynamics back to some level of equilibrium.

Property as a wealth accumulation tool: Property is seen by many in Australia as the primary means to accumulate wealth and provide a buffer in retirement. In and of itself, this need not be an issue; however, the tax advantages have meant that for a portion of Australians, housing is merely means of accumulating and storing wealth⁴. Given their advantage in existing capital, together with the tax advantages conveyed to them (both in terms of CGT and the ability to reduce their taxable income through negative gearing), this provides investors the ability to outbid others, particularly first-home buyers.

This encourages the development of housing stock not for those living in them but investors. Thus, we get poor-quality apartments and other housing options.

We have also created a significant voting block that will oppose some options to address the housing shortage (and thus high rental values) due to the impact on themselves. Governments at both State and Federal levels have largely abandoned building social and affordable housing themselves, hoping the market plus government money would provide the solution.

³ *Fuel on the fire: negative gearing, capital gains tax & housing affordability*, ACOSS April 2015 www.acoss.org.au/wp-content/uploads/2016/04/Fuel_on_the_fire_ACOSS.pdf

⁴ *HOUSING WEALTH AND THE ECONOMY: ALL THAT GLITTERS IS NOT GOLD*, UNSW Sydney https://cityfutures.ad.unsw.edu.au/documents/661/Wealth_Final.pdf

Supply chain: During the Covid lockdown, supply chains were massively interrupted.⁵ Australia's major construction firms have long abandoned Australian-sourced materials for cheaper materials from China and elsewhere. This meant that when those supplies were disrupted, Australian construction firms could not get the necessary supplies. Even when those markets started to reopen, they were met with competition from other markets that were also opening at the time. Thus, a bidding war ensued for what supplies were available. The use of fixed costs contracts then made many projects unviable under the new supply costs and forced many into administration. This has limited Australia's ability to respond promptly.

Factors within the ambit of the Victorian Government to address:

Government-funded housing: Government-funded housing stock has fallen out of favour with all levels of government and within the major political parties (other than the Greens). Direct housing provision has been dropped in favour of payments and subsidies. However, payments and subsidies only act to increase the availability of money, not necessarily the availability of new housing. If there is insufficient housing, it just means more money for the same housing stock. This is a recipe for rental price inflation, and this is what has occurred.

The only way to keep rent prices down in the medium and long term is to increase housing stock. While the market is good at providing solutions that suit their needs (ie profit maximisation from housing stock), they are not the most effective means to address issues that do not fit this paradigm.

Social and affordable housing (SAH) is not as profitable nor as desirable to the private sector. Therefore, without incentivisation or support, there is less interest from the private sector to address such housing needs. Given the limited supply of land and high costs of materials and labour, market forces will focus on those areas that maximise their returns.

While there is a general shortage of rental housing, it is most acute at the SAH end. The Government is best able to address social and affordable housing and leave it to the market to address the remainder of the market. This is not to say that market operators and others should not be involved in SAH, rather, the driver needs to be the government, using a range of different solutions, including market and social society groups. However, the direct provision of new government housing stock must come back into consideration as part of the solution.

Government competition for building resources: Debt fuelled construction by the State government is not merely adding to a ballooning level of debt but creating competition in the market for building materials such as steel, concrete and glass. It has also bid up the costs of labour. As housing also requires these inputs, competition is merely increasing costs.

While some price inflation for such goods has arisen from supply chain disruption, the State has also contributed through its "Big build".

The State government cannot spend large amounts on both the large infrastructure and housing without bidding up supply prices.

State vs Council: While the Institute does not believe that removing Councils (LGA) from the planning process is either necessary or good policy, the Institute would like to see the State use its leverage with LGAs to improve the approval of greater densification and the need for social and affordable housing in all local government areas.

The State should consider setting densification mandates on LGA with financial "carrots" for those LGA that

⁵ *Supply chain issues hurting construction in Australia and New Zealand* International Construction, Nov 2022
<https://www.international-construction.com/news/supply-chain-issues-hurting-construction-in-australia-and-new-zealand/8016041.article>

set and meet these and financial “Sticks” for those that do not.

Planning laws: Planning laws are labyrinthine and complex. Even LGA planners have trouble at times dealing with all the new requirements. This adds cost and delay to development. Part of the solution is to open a quicker path through the planning process where development applications meet agreed-upon design parameters.

Lack of available land: Existing suburbs face the problem of a relative lack of accessible land for housing development. However, this is not to say that there is no availability. A lot of existing land is underutilised.

What is required is the identification of underutilised land and then the development of options that could make such land available for housing. Potential sources include:

- Deindustrialisation means industrial areas could be rezoned.
- holdings of religious institutions are high vs need.
- State, LGAs and the Federal government are large landholders, some of which could be reallocated to SAH (for example, closed schools, unused railway land, former LGA offices and depots, and defence assets)

Land Banking: Land banking artificially increases the cost and value of land. Land banking creates false scarcity by reducing the supply of land/housing stock that should be available. Where governments release new tracks of land for housing developments, the State Government should set strict rules on land usage such that the rights to the land are surrendered if timeframes are not met to develop the land for housing. Taxation of land that is sitting empty or uninhabited could also be used to reduce the financial incentive to land bank.

Apartments designed for investors not tenants: Melbourne and certain of its suburbs are home to very high apartment developments. However, many of these developments are designed as investment opportunities rather than intended as long-term housing options. The apartments are often small, poorly built and for short-term renting.

This may be fine for investors and potentially students seeking short-term housing solutions while they study, but they are not of interest to longer-term renters. They often do not provide housing options for families. They also add to the poor perception many Australians have of apartment living.

The fact that many of these apartments remain either unsold, empty or provided as AirBnB style options further reflect the poor fit for use for a large portion of the population.

If the government is keen to ensure that more and more Australians see apartment living as part of their options, then the stock of such needs to be designed with tenants, not just investors, in mind. This may require planning laws that ensure a genuine mix of housing stock and stock at various pricing points. It requires designs that focus on liveability, not just profitability.

From a design perspective, apartments can be made both more liveable and attractive to a range of potential renters with little to no additional cost to build. Architects are skilled in making the most of any space to create a liveable yet profitable/economically viable way.

The use of design review panels in apartment designs, as recommended to the government, is a cost-effective mechanism to ensure apartment designs not merely meet regulatory guidelines but adopt design principles that ensure apartments are liveable and shared spaces are effective. Addressing issues such as airflow, condensation, and lighting can make major improvements to the liveability of an apartment, but are often ignored by builders as an unnecessary additional cost. This is reflective of the often short-term

thinking of builders versus the need to ensure apartments are viable long term.

(2) OPTIONS TO ADDRESS INSECURITY, AVAILABILITY AND AFFORDABILITY ISSUES FACING VICTORIAN RENTERS

The Institute believes the leading cause of the housing crisis is the lack of sufficient housing stock. Therefore, our options to address the issues facing renters are focused principally on ways of increasing the housing stock, particularly SAH. We will leave for others to address other options to address the rental affordability crisis.

Government-funded housing -potential options

As noted earlier, the main contribution, in the Institute's view, to the rental and housing affordability crisis is the lack of provision of SAH provided by the State. This lack of sufficient SAH stock means those requiring SAH must compete directly with private renters for available stock. When there is insufficient supply, as currently exists, this creates ever-increasing rents.

While the private sector can provide solutions (and is part of the overall solution), it is neither best suited nor incentivised to provide the majority of SAH by itself.

It should also be recognised that there are financial benefits to landlords and landholders of a degree of housing stock scarcity. Therefore, we cannot simply rely on market forces to correct the social problem of high rental costs.

There are a number of options available to the State government that it can use to increase the availability of SAH stock. Some solutions are old-fashioned such as the State Government getting back into the business of building SAH itself. At the same time, others are more cutting-edge and will require the bringing together of a range of actors. We believe that a range of solutions should be adopted rather than simply picking one in the hope that it solves all problems.

Direct provision of government-funded housing

The Housing Commission of Victoria (Housing Commission) was established in 1938 to address the dire need for affordable and social housing. Despite the negative connotation of the Housing Commission in the late 20th and early 21st centuries, it should be recognised that the Housing Commission provided significant levels of housing to the most vulnerable, helped many to climb out of the poverty trap, and helped to ensure a fairer and more just Victoria.

The Housing Commission provided many with more than just a home of their own. It provided financial and social security. It meant tenants could not be thrown out at a moment's notice or subject to unaffordable rent hikes. This stability afforded them the ability to concentrate on raising children in a stable environment, it allowed them to be able to budget for other necessities in life. It allowed many the comfort to study and improve their own financial security. Secure and affordable housing provides massive psychological benefits, just as insecurity of housing has strong negative impacts.

While we must learn from past mistakes, such as ghettoization, poor standards of some housing and high costs of ongoing maintenance, we must not let those past errors cloud the many more advantages the Housing Commission brought.

Unfortunately, many of the problems that created the initial need for the Housing Commission have returned. These include lack of sufficient rental housing, increased migration, housing instability and the psychological and financial burdens this brings and a housing system that is skewed in favour of financial interests who benefit from relative housing scarcity. Added to these are new problems as the limits on the boundary growth potential of Melbourne and pushback from homeowners to greater densification of Melbourne's existing suburbs.

The Institute appreciates that it is not a simple matter of the government building new homes and that there would be significant costs to the government, in the short term, from directly providing housing. However, the government can no longer shirk its responsibilities either.

One means of reducing the upfront new costs to the government is to introduce (as was previously planned) a levy on new construction of homes (excluding SAH). While such a levy will increase costs at a time when costs are already high, a modest levy would not significantly alter the price of such housing, which is primarily determined by supply and demand dynamics. It would, however, provide the seed funding for the Government to once again engage in building SAH stock of its own.

Over time the rental returns from SAH to the government should mean the long-term direct financial costs would be even. It should also be considered as part of these calculations the benefits secure housing brings in terms of financial and psychological well-being.

We, therefore, implore the Government to consider the important role it can play in directly providing new SAH stock.

Co-operative arrangements involving government, private sector, Investment vehicles, philanthropic and charitable organisations and social housing co-operatives

While the direct provision of housing is one of the options available to the State Government to address housing and rental affordability, another is for the Government to bring together a range of different interests to create a new class of joint venture housing projects. These projects would bring together the building knowledge of the construction sector, the monetary might of the financial institutions, landholders with underutilised assets and the SAH knowledge of the social housing sector.

Finding suitable land

One of the drivers of the increased cost of new housing in inner suburban areas is the lack of available land for new developments. Land is the most expensive upfront cost to any new development, making new developments, particularly those including SAH, financially difficult to justify. This often means a reduced ability to include SAH and the need for ever bigger buildings, which create their own planning problems.

Opening up new landholdings to housing development should reduce this cost and allow for greater SAH and smaller buildings. But where can such land be found?

Our churches and charities are some of the largest landholders in Australia, much of which has been bequeathed but capital and income constrained as a result of the caveats put on the donated land. Often the land cannot be sold other than to a similar organisation.

The Uniting Church in South Australia undertook a review of its property holdings entitled *Property Viability Discussion Paper*⁶. It identified a large number of 'underutilised' properties in South Australia. The primary causes were a declining and ageing congregation. Added to this, the age and condition of these properties was a financial burden to the Church. As a result, the Church was looking for the best ways to leverage its property assets, including selling or using the land in other ways.

The Uniting Church is not alone. Most traditional religious organisations are seeing the same problems of declining and ageing congregations and ever higher costs of maintenance. Many are looking to leverage their landholdings. This is a relatively untapped resource that clever thinking and policy development could unlock.

Other potential sources of land include disused schools, LGA offices and depots brought about by mergers

⁶ *Property Viability Discussion Paper* Uniting Church of South Australia, 2016

and outsourcing of services, railway lands and defence properties no longer fit for purpose.

An example of how the State Government could incentivise the opening up of such land is as follows:

Partnerships to develop these properties for Diverse Affordable Housing, which meet Australian Charities and Not-for-profits Commission (ACNC) Guidelines.

- The model is a leasehold of land for up to 75 yrs.
- Housing with 50% middle/50% Affordable and Social including NDIS
- Typically scale between 50 to 250 dwellings.
- The Church/Charity is provided with a rental return typically in the order of 3-4% or facilities to the equivalent value to pursue their mission/parish programmes.
- The Institutional partners provide Design, Construction/ Finance & Management.

Under this model, the State and local governments would be asked to provide the following supports/subsidies to make the model viable:

- Retain the existing lots' treatment for land for tax relief
- LGA levees removed from the social and affordable housing units, with the LGAs compensated by the State for their support through other means.
- Exemption of land from Property & Development Land Tax, GST, Stamp Duty, Withholding Tax, and Council Rates for the term of the lease, provided the purpose & arrangement retained this core purpose and mix. Arrangements would need to be reached across all three levels of government to achieve this.

This model is not completely unique, the government has successfully piloted a similar arrangement for its Estate Renewal projects in Flemington and Kensington. The opportunity exists to expand the toolkit of planning exemptions, fast track and tax structures to build and operate more cheaply on other government land and LGA land.

The benefit for the governments is that these development sites are within existing suburban boundaries and are often located close to existing infrastructure and services. Therefore, any loss in revenue can be made up for in reduced infrastructure costs compared to a greenfield site.

Finding funding

Whilst the provision of land is costly, there is also the need to finance any new housing developments. While the State could provide some of this through its own direct mechanism, it could also seek to tap into existing financial sources to help fund such developments.

One potential source of funding is Australian Superannuation funds. As of December 2022, superannuation funds had just under Au\$ 3.4 Trillion in assets under management⁷, which with additional contributions and recent stock market gains since December 2022, would now be in excess of this figure.

Housing can provide stable, long-term terms returns. Therefore, there is a potential synergy between the need for additional housing and the investment requirements of superannuation funds and Insurance companies.

Superannuation funds in Australia are required to have diversified investment portfolios over a range of investment classes. However, they are not required to have set percentages allocated to certain classes of investment, this is left to the individual funds to determine. Australian Superannuation funds are, therefore, heavily invested in the share market as compared to their international counterparts. On the

⁷ Canstar, <https://www.canstar.com.au/superannuation/largest-super-funds/>

other hand, most international jurisdictions require their equivalents to have a set percentage of their investments in low-risk investments that provide stable returns. That is why many of the institutional investors in Australian infrastructure projects - such as Build to Rent (BtR) - are international, not domestic.

Tapping into this reserve of funding could go a long way to provide stable and regular new funding for new housing developments that include a percentage of SAH stock. If even just 1 % of the funds under management of the superannuation sector were directed into this type of housing would provide around Au\$34 billion.

The Institute appreciates that there is nothing the State government can do in relation to mandating investment decisions by Superannuation funds other than to engage with their federal counterparts to raise this as a priority issue.

However, the State government and local LGAs could provide forms of relief and other incentives to make it more attractive to superannuation funds (and other institutional investors). These could include stamp duty and land tax waivers and reduced council rates.

However, aside from these financial incentives, the role of the State government would be to bring the superannuation funds and other institutional investors together with landholders, construction firms and social housing groups to develop and manage a new type of joint venture that includes commercially priced housing and SAH in a single development, to pass legislative reforms to make it happen, and where necessary to provide financial and other incentives.

Other parties necessary for these joint ventures would include social housing groups that have the knowledge and capacity to effectively manage the SAH component of these developments, construction firms with the knowledge and capacity to build projects on time and to budget, and architects to ensure that the housing provide meets not just building codes but also social amenity that makes such housing stock viable and appealing for tenants.

While there are commercial groups that provide similar solutions, the proportion of SAH is often relatively low, and their ability to source funding and suitable development sites is constrained. In order to get these developments to the necessary scale will require direct involvement and planning by the State.

To ensure that such joint ventures are effective, the State government needs to set strict rules around tenure of ownership of SAH proportions, a minimum percentage of SAH including, particularly in relation to the social housing side and the ability to increase rents in the SAH proportions.

The Institute believes that those minimums should include:

- Each joint venture must comprise at least 15% social housing and 15% affordable housing (rent capped at 30% of the combined wages of the tenants).
- Minimum of 25 years that the SAH component must remain SAH
- At the end of the period of SAH, the existing tenants if they have more than 5 years in the unit, be offered the option to purchase their unit at a discount to commercial rates

Adaptive re-use over knockdown and rebuild of existing government-owned SAH

Certain older government-owned housing stock is coming to the end of their economic life. Some of these land holdings have been sold off to developers with the intent to demolish and rebuild with a commitment to build a mix of new commercially priced housing as well as some social and affordable housing options.

This practice is highly controversial because:

- The number of new SAH does not always match the lost SAH

- Existing tenants have a strong connection to their homes. Removing such tenants creates real psychological harm, including concerns about where they will go, loss of community and loss of self.
- Existing tenants must also be rehomed either temporarily or permanently.
- Carbon emissions. The existing buildings have extensive embedded carbon. Demolishing and building anew will create significant additional carbon emissions, even where those new buildings meet higher energy ratings and use more energy-efficient materials in construction and household appliances.

The Institute believes that decisions about the future of such housing need to look beyond simple economic parameters. It needs to look at the social costs as well as the positive attributes of refurbishing such existing SAH. These include the issues raised above

Smart design and new materials can ensure that existing structures can be retained whilst bringing the housing up to modern standards while at the same limiting the destabilisation of people's lives.

The Institute appreciates that these may cost more. However, the State (compared to commercial developers) has an obligation to consider the broader societal context in addressing housing. If renovation can be achieved at only slighter greater costs, then this should be the preferred option.

Other Tools available to the State government

While providing additional housing stock is the main tool the government must consider in addressing the rental housing crisis, there are other things the State can do to make it easier for the market to provide more housing stock. We have highlighted some of those measures below.

Assisting LGA's

Whilst LGAs are often highlighted as a source of problems in getting new developments, the Institute believes that a better relationship between the two levels of government could assist in unblocking these impediments without having to drastically rewrite the planning process.

Some of the things that can be done include the following.

Setting enforceable densification requirements

While LGAs publicly support the need for greater densification, those words rarely meet action, particularly when there is local pushback by small numbers of local residents. This is not unique to Victoria or Australia.

The government should consider working with LGAs to develop local densification plans for the next 20 years. These limits should be coordinated to ensure that densification occurs across all LGAs. Where an LGA does not work cooperatively, the government should have the power to intervene and universally set the densification target for that LGA.

Once a densification target and dates have been set, the State government should offer financial carrots and sticks—additional funding for those that meet and exceed their targets and financial penalties for where they do not.

The setting of enforceable densification targets, accompanied by financial incentives and disincentives, should change the dynamics within LGAs to approve new housing developments.

Develop a database of underutilised land within each LGA.

The government and LGAs should work together to develop a database of underutilised land for each LGA.

Once identified, appropriate reuse and rezoning of those areas should begin. The government should provide financial assistance to the LGA to ensure they can undertake this process and be rewarded for releasing land under their control.

Allow simple rezoning of commercially zoned land areas where there is deindustrialisation and under-usage, subject to the land being safe to use for housing.

Incentivise LGAs to lease underutilised land

As with the underutilised land in the hands of religious and charitable organisations, the government could work with LGAs to assist them financially to provide land on a long-term lease in the same manner as proposed above for religious and charitable organisations.

Planning reform

There is considerable room within the current planning space to encourage greater housing development within existing suburbs for both social and affordable housing and commercially priced housing solutions.

Fast track planning

Planning laws and requirements are necessary. They ensure that housing is built appropriately and in connection with local needs and amenities. However, the process can be very time-consuming and considerably adds to any new development's cost.

The question is not about removing those requirements but providing a means by which developments that clearly meet requirements can be fast-tracked. Any developments outside of those parameters would then have to go through the longer traditional process to prove why, even though outside the broad parameters, those developments should still process.

Fast-tacked developments would also have limited time and reasons for protests.

Where the builder/developer/architect can show that a proposed building meets the following, they should be able to be processed through this fast-track system:

- Does not exceed height limits set by the LGA for the area
- Meets or exceeds the densification requirements for the LGA
- Meets or exceeds LGA guidelines in relation to energy efficiency, cross-ventilation, amenity and other design parameters
- For developments over a particular size, that development meets or exceeds minimum requirements for social and affordable housing
- Other requirements as approved by the State government (we don't want LGA's setting standards too high such that no building could meet this requirement and to ensure consistency)
- Commitments to the quick turnaround of development once approval is provided. This is to avoid effective land banking by getting approval and then sitting on the development. Planning approval should be conditional and come with fees and fines applied for late compliance and the potential to have approval revoked if building works are not started within the agreed timeframe.

Re-zoning of former industrial areas and golf-courses

Australia is one of the most rapidly de-industrialising major economies. Factories are closing, heavy industries are moving offshore. The move to the electrification of transport and housing means less need for oil and gas storage. Many small industrial zones are underutilised, with vacant buildings. Internationally we are even seeing malls and other shopping zones become derelict or underutilised. The underutilised and vacant land can become a haven for illegal behaviour, squatting and vandalism.

Therefore, land that was once required for factories and other industrial needs and zoned as industrial should be able to be rezoned more quickly. Subject, of course, to such land being safe for housing (eg removal of any commercial or hazardous waste).

Australia, particularly Melbourne, has an abundance of public golf courses. Whilst these provide important green areas, many are underutilised, and some are under financial stress due to the costs of maintaining the course and a decline in the number of golfers.

Some golf courses are seeking to relocate or sell their land to developers. However, because of complaints from small numbers of locals, planning approval by LGAs is often held up or denied.

The State Government can take action to free up the constraints of making such land available for housing. These include:

- Financial assistance to incentivise LGAs to rezone land
- Financial compensation for businesses to relocate
- assistance with the cost of rehabilitating the land so that it is suitable for housing
- limits on the ability to stop or constrain land redevelopment for housing

Defining affordable housing

While social housing is well defined, affordable housing has become a broad term that means different things to different groups in different circumstances. Thus, when someone commits to providing “affordable housing”, it is not always clear and consistent as to what that means.

It can broadly be defined as “...housing that is appropriate for the needs of a range of very low to moderate-income households and priced so that these households are also able to meet other basic living costs such as food, clothing, transport, medical care and education.”

As a rule of thumb, many use around 30 to 35% of gross household income. However, the lack of definition allows some to say that they offer affordable housing that would not meet the generally supported notions of affordability. It also makes it difficult for the public to understand if an offering really is affordable.

For these reasons, we would recommend that a definition be developed to ensure consistency in application and reduce confusion in the sector and for the public.

We recommend that it be set not as a percentage below average rents as some use but instead use the preferred definition of % of average gross household income. The reason for this is:

- Rents are increasing faster than incomes, thus using rent as the basis will mean much higher rents could be charged, and the definition would continue to grow as rents grow
- Focusing on the percentage of income allows the focus to understand it is not just rent that has to be paid. Lower-income renters need to be able to afford the normal things in life, such as food, education and other living expenses.

Consider technological solutions

Housing in Australia is still largely built the same way for the past century. However, technological advances mean that housing could be made cheaper and quicker through the use of new technologies, such as factory-built homes. Modular designs and building materials are another option, and they can be easily configured for different needs and usages.

These new ways of building homes offer a number of advantages for affordable housing. These include:

- Building in a factory means building can be done all year round, unaffected by weather
- the wage costs of factory workers are generally lower than the construction sector
- Allows for greater savings from building at scale
- Buildings can be built to higher environmental and social amenities without being significantly more costly than those built to lower standards.

While the State should not support individual businesses, it should look at providing support to build up the capacities in this area and for such businesses to reach scale. By the State taking responsibility for building at least a portion of the needed social and affordable housing itself, it can use itself as a builder to establish and provide scale for these businesses to operate.

Taxing land banking

As noted above, land banking creates artificial shortages that add to the supply and demand problems the market is currently experiencing. Land banking can be in relation to empty land or housing owned but neither occupied nor rented out. It can occur through the government's release of new land or through the purchase and holding of existing housing and land.

A recent report by Prosper Australia researched the issue in relation to recently released land to developers for the purpose of building new housing developments. It found the true cost to home buyers of “land banking” over the last 10 years to be \$5.9 billion nationwide. The study found that over 9.5 years, only 23.8 per cent of sites released by the government to the developers had been sold to home buyers.⁸

Prosper Australia also found that there are significant amounts of existing homes where there appeared to be no real tenant.

Land banking occurs because the capital gains from holding the land outweigh renting or developing. It is a purely financially driven decision. Therefore, the way to address this is through taxation of such land and buildings, such that the financial advantages of holding the land are extinguished.

The Institute, therefore, recommends that the government define land banking and then undertake research into the amount of land banking occurring. The government should then

Moving from Stamp duty to annual tax payments

Some economists argue for replacing stamp duty on sale with a progressive annual tax on land values. The principal argument in favour of this is efficiency and simplicity.

The Institute is neutral on the appropriate choice of stamp duty vs annual land tax, however, we note the following downsides of shifting to an annual land tax in place of stamp duty:

- Stamp duty is only paid at the time of purchase. It is usually factored into the overall price and borrowing. Land tax, though, would need to be paid on an annual basis. This additional annual cost would have to be passed on to renters. Given that annual land tax rates are likely in the thousands, this could add considerable costs to renters.
- Any reduction in the overall purchase price by removing Stamp Duty is likely to be fleeting. As stamp duty is usually factored into borrowing calculation, removing stamp duty only frees extra money. That money is likely to be used to bid up the price. This is particularly so in an environment of housing shortages.
- Efficiency gains are only to the State government. They are of little to no benefit to the

⁸ ‘Land banking’ by big developers driving up property prices: report, Cara Waters, The Age, July 26, 2022
<https://www.theage.com.au/national/victoria/land-banking-by-big-developers-driving-up-property-prices-report-20220725-p5b486.html>

homeowners or renters.

