INQUIRY INTO THE RENTAL AND HOUSING AFFORDABILITY CRISIS IN VICTORIA

7 July 2023

Legislative Council Legal and Social Issues Committee
Inquiry into the Rental and Housing Affordability Crisis in Victoria
Parliament House, Spring Street
EAST MELBOURNE VIC 3002

via email [redacted]

Dear Chair,

We welcome the opportunity to make a written submission to the Parliamentary Inquiry into the Rental and Housing Affordability Crisis in Victoria.

About

Melbourne has long been celebrated as one of the most liveable cities in the world and Victoria is the fastest growing State in Australia – a testament to its attractiveness as a place to live, work and invest. However, we are also one of most expensive cities to live in the world; we have one of the highest rates of homelessness in Australia; and our supply of diverse and affordable housing has consistently failed to keep pace with the State's growing population.

UDIA Victoria research tracks and forecasts market trends, providing a comprehensive picture of the state of the Victorian urban development and housing sector. The data we have collected has informed this submission.

Rising cost-of-living pressures and successive interest rate hikes are diminishing consumer buying capacity. More Victorians are locked-out of the housing market, which is adding pressure on an increasingly competitive rental market. A return to steady population growth post-pandemic, coupled with unattended supply shortages, is expected to further exacerbate the State's housing shortage.

Research shows a significant reduction in buyer capacity of up to $300,000 for the average Victorian couple, and a rise in the median house price in Melbourne to nearly $1 million. The market is also suffering from a lack of land supply within the growth corridors, where demand (27.5 years zoned and unzoned) far outstrips incoming supply (13 years).

thirteen consecutive cash rate hikes have so far failed to curb Australia's inflation rate, that sits stubbornly at 7 percent. Prospective homebuyers are increasingly forced to remain in a highly competitive rental market, which has seen a staggering 14 percent increase in 2023.

Research conducted by Urbis shows the exodus from Central Melbourne, witnessed during the pandemic, has ended. Both vacancy and rental rates have returned to pre-pandemic levels and are continuing to rise. In addition, it shows a significant decline in the apartment pipeline in developed areas in Melbourne. 2016-21 saw the creation of an average of 4,400 apartments annually, 2022-27 will see an average of just 2,000. This dramatic reduction, partnered with a return of international migration, will exacerbate the existing housing supply shortage, and push more Victorians into housing stress.

Similarly, a lack of availability of zoned land in the State's designated growth areas as a result of long-term strategic and statutory planning delays is constricting supply of house-and-land stock.

About UDIA Victoria

The Urban Development Institute of Australia, Victoria (UDIA Victoria) is the peak-body representing the urban development industry. We are a not-for-profit advocacy, research and educational organisation supported by a membership of land-use and property development organisations, across the private sector and Victoria's public service.

Victoria is in the throes of an unprecedented housing crisis that will require government and industry cooperation to address. The development industry is uniquely placed to play a key role in addressing this challenge.

We believe every Victorian should have access to secure and affordable housing and are committed to working with industry and government to build homes and thriving communities to meet this aspiration.

Background

The issue of housing and rental affordability is one of national significance and continues to be of profound concern to the community, UDIA Victoria and our membership.

For the last 30 years housing and rental affordability has been declining, culminating in the current crisis. Importantly, this has disproportionately affected marginalised and vulnerable Victorians. Inadequate access to housing threatens to undermine the strength, stability, productivity and economic prosperity of our State.

Victoria's population is growing at a rapid rate, outpacing every other state in Australia. This year, Melbourne surpassed Sydney as Australia's most populace city – almost a decade earlier than previously forecast. Victoria's population is set to reach 11.2 million by 2056, with Melbourne on track to becoming a city of 9 million by 2050.

Much of the strong population growth is due to overseas and interstate migration, as more people, attracted to our prized liveability, choose to call Victoria home. Historically, population growth has fuelled Victoria's economic prosperity, however, the unchecked challenge of housing Victoria's growing population may see this reverse in coming years.

Our competitiveness and prosperity are in jeopardy as demand for housing increasingly outpaces supply, leading to unattainable housing prices and a severely overheated rental market.

Meaningful and progressive reform to the State's notoriously inefficient planning system; a significant reduction in the over-reliance on property and development-related taxation; and greater supply of developable land in Melbourne's inner- and middle-suburbs and growth areas are needed to urgently address this critical issue.

Housing supply and development

With an update to the Victorian Government's overarching strategic planning document, Plan Melbourne 2017-2050, on the horizon, the Government has announced their renewed focus on the aspiration to deliver 70 percent of all new housing in Melbourne's established areas, with the remaining to be delivered across growth areas and the regions.

Infrastructure Victoria's Our Home Choices report, released earlier this year, outlines that to meet forecast demand, we will need to build an additional 1.3 million homes by 2051 – approximately 44,000 homes per year.

In the last decade, half of Melbourne's population growth has occurred in Melbourne's growth areas. To meet the State Government's policy aspiration, over 30,000 additional homes will need to be built in Melbourne's established suburbs, per year, over the next 30 years – an unprecedented two-fold increase of the annual average over the last decade.

Infrastructure Victoria's Our Home Choices report also acknowledges the important role Melbourne's growth areas will play into the future – noting that many households would choose to live in our growth areas, even if established areas were more affordable. The report notes that four out of five households surveyed would not trade a detached home in a new suburb for a townhouse or apartment of a comparable price, closer to a city centre.

Greenfield development is one of the key drivers of Melbourne's competitive advantage, with a consistently strong market for new detached dwellings underpinning our long-term population growth.

We also support the need to improve access to housing in established areas that are already well-served by infrastructure and amenities. The development industry is uniquely placed to operationalise this policy aspiration and UDIA Victoria is committed to working with the State Government to facilitate this.

A consistent pipeline of new housing supply will make more homes more affordable to rent and buy for Victorian families. New housing is also critical to ensuring Victoria remains an attractive state to live, work and invest – our economic prosperity is reliant on a robust housing sector.

UDIA Victoria supports the State Government's intention to increase the supply of diverse housing stock and the desire to maximise the delivery of housing in established areas. However, housing creation has routinely failed to keep pace with demand. This is particularly concerning in the context of a return to strong population growth. As a result, housing is becoming increasingly unaffordable, with research showing that by the end of 2023, no newly delivered detached dwellings will be affordable to a median income household.

Importantly, the State Government also has a responsibility to ensure that services, infrastructure and amenities continue to meet the needs of our growing communities. This includes timely upgrades to existing infrastructure and the provision of new infrastructure where people are choosing to live.

Development and housing industry taxes, fees and charges

Just over a decade ago, property taxes were responsible for less than 18 percent of all state government tax revenue. Over the past decade, this has risen to around half of the State's tax revenue and is forecast to remain around 50 percent for the next four years.

Property taxes have contributed to almost 50 percent of all State taxation revenue, since 2014:

- A total of $57.1 billion in property-related stamp duties have been collected;
- Annual property-related stamp duty receipts have increased by over $6 billion, or more than 140 per cent;
- A total of $27.1 billion in land tax has been collected; and
- Annual land tax receipts have increased by over $2.5 billion, or more than 250 per cent.

Approximately 45 percent of the cost of a new home is made up of taxes, fees, charges and levies.

The average median house price in Metropolitan Melbourne is approximately $975,000. Over $409,500 of this is collected in the form of taxes, fees, and charges. There is a direct relationship between taxes and charges levied against development and growing house prices.

Additional taxes and charges applied to residential development will only decrease the number of dwellings that fall within the price brackets associated with the low- and moderate-income ranges as defined by the State Government, and result in fewer private market affordable housing options for Victorians.

Research commissioned by UDIA Victoria shows that taxes, fees, charges, levies and contributions are ultimately reflected in dwelling prices as shown below:

- Approximately 44 percent of the median greenfield lot price.
- Approximately 28 percent of the dwelling price for apartments.

The research demonstrates that the cumulative impact of development charges directly contributes to the escalating cost of new housing. Importantly, Victorian families are often required to borrow to pay these taxes, meaning almost half of every mortgage repayment goes towards paying off these taxes.

Duties: a barrier to home ownership

Homeownership is one of the main features of the *Australian Dream*. However, this dream is out of reach for a growing number of Victorians. Over the last decade, housing prices in Victoria have exploded, creating a barrier to homeownership for low- and moderate-income households.

Stamp duty and other taxes levied on housing add significantly to the cost of housing.

Land transfer duties can add tens-of-thousands of dollars to the price of a property, creating a significant hurdle for buyers attempting to enter the market or disincentivising households from right-sizing. At the same time, the current inflationary environment and record succussive cash-rate hikes have led to a significant reduction in buyers' borrowing capacity.

The *Planning and Environment Act* 1987 defines a moderate-income couple with no dependents, earning between $62,871-94,300 per year. This couple cannot feasibly purchase a median property in Metropolitan Melbourne.

A couple at the upper annual earning threshold of $94,300 would have a borrowing capacity of $394,460 with a 10 percent deposit – well below the $975,000 needed for a median home.

According to research conducted by Westpac, only 23 per cent of 25-34-year-olds (the traditional first home buyer age bracket) have up to $15,233 saved towards buying a home. In a dual-income household, this would equate to $30,466 – a third of the total deposit ($97,500) required for a median house in Metropolitan Melbourne.

If this couple were to purchase a home in Preston, where the median house price is $1.1 million, they would receive a land transfer duty of $60,500. The land transfer duty alone is twice their available savings, and their borrowing capacity is $705,540 short of the asking price. If the same couple were to look at purchasing an apartment in Glen Waverley, they could expect to pay a stamp duty charge of $45,500 on a median apartment price of $840,500.

First homebuyers currently receive an exemption from stamp duty for properties valued under $600,000 and an adjusted reduction for properties between $600,001-$750,000. With metropolitan Melbourne's median house price approaching $1 million, the existing concession is increasingly inaccessible to first homebuyers looking to purchase in Melbourne. The story is the same in regional Victoria, where the median house price is $610,000.

Until the over-reliance on stamp duty and other property-related taxes is genuinely addressed, housing affordability will remain at risk and the dream of owning a home will remain out of reach for the average Victorian family.

The current reliance on property taxes also places Victoria's economy at risk. Inflationary pressures, and the RBA's sharpest increase in the official cash rate since 1994 has placed immense pressure on the property market, while the State's budget and spending program is built heavily on housing construction and land release taxes.

The return of post-pandemic interstate and international migration will continue to add even greater pressure to the housing and rental markets. Land transfer duties not only impact the homeowner market but also affect Victoria's rental availability and cost.

The Victorian Government temporarily increased the land transfer duty concession threshold in 2020, to under $1 million, between 25 November 2020 and 1 July 2021. This temporary measure, implemented to stimulate the market and support Victoria's post-pandemic economic recovery, demonstrates the economic impacts of the existing stamp duty regime.

Compared to every other state and territory across Australia, Victoria is the most reliant on stamp duty, with well over 30 per cent of total tax revenue attributable to the tax.

The State Government's overreliance on tax revenue from urban development, including through stamp duty, is throttling the State's economic productivity, and impacting the sector's ability to address Victoria's growing housing supply shortage.

Additionally, changes to market conditions, including to price and volume of transactions make stamp duty revenue uniquely volatile. This is especially the case with significant market events – as we are experiencing now.

Stamp duties has led to under-investment in the property sector and the insufficient distribution of property among the population.

Foreign Purchaser Additional Duty (FPAD)

Victoria's Foreign Purchaser Additional Duty (FPAD) increases the cost of foreign investment in Victorian residential property by 8 percent, serving as an obvious disincentive.

Research from AEC Group in 2019 examined the contribution of foreign investment in residential and non-residential property on the Victorian economy, and the impact introduction of surcharges has had on this contribution. The assessment reviewed historical levels of foreign investment as a share of total investment in residential and non-residential property and compared it to previous modelling on the economic contribution to the Victorian economy.

The impacts of the surcharge were estimated based on the observed reduction in foreign investor levels between 2015-16 and 2016-17 in Victoria (and other states) from the introduction of a surcharge. It was predicted the tax had cost the Victorian economy up to $7.4 billion in foregone investment and employment.

When the FPAD was introduced, Melbourne's median house price was $671,000 and median weekly rents in the CBD were $410. Today, that price is a just shy of $1 million and weekly rents are approximately $625.

The FPAD was introduced to artificially reduce demand, however evidence suggests that FPAD has also throttled supply, by disincentivising foreign investment that is critical to the delivery of new apartment stock.

Removal of the punitive additional duty would help to restimulate lagging apartment supply in central Melbourne and the inner- and middle-suburbs.

Inefficiencies in the State's planning system and the need for reform

The current planning system is notoriously inefficient and too often impedes beneficial urban development. By the State Government's own admission, meaningful reform could add approximately $7 billion to the State's economy.

The current planning approvals process is undertaken by municipal planning officers, with ultimate approval granted by elected Councillors, following various delegations or approval hurdles. Council Assessment has three eventual outcomes: approval, refusal and failure to determine. Each of the three outcomes are availed of a right of appeal by all represented parties, applicant, third parties (referral parties and neighbouring objectors) and Council through VCAT.

The current approach to planning applications has ongoing challenges which ultimately lead to slower and more costly applications. In addition to this, local governments are not always adequately resourced and are often overwhelmed with the volume of planning applications required to be assessed.

Planning system reform, cutting red tape and streamlining approvals processes will be critical to ensuring a greater volume of housing can be delivered in Melbourne, efficiently and within reasonable timeframes.

Reports suggest that the existing backlog of planning permit approvals is anywhere from 12-months to 2-years, from council-to-council. These timeframes are supported by the Planning and Building Approvals Process Review, that outlined over 25 percent of all permit assessments take 6-months or more.

The report also detailed the impact of these delays on housing, noting they are:

- Keeping families in the private rental market for longer periods than necessary – while they incur significant costs;
- Creating upward pressure on house prices and rents;
- Increasing the costs of getting the necessary permits approved for all types of construction, including commercial and industrial; and
- Leading to significant additional holding and opportunity costs for development.

UDIA Victoria was engaged extensively in the Planning and Building Systems Approval Review process undertaken by the Commissioner for Better Regulation and Red Tape Commissioner. We encourage the Victorian Government to adopt and implement the recommendations that increase the efficiency, productivity and output of the planning and development approval system in Victoria, in the interests of homebuyers and the broader Victorian economy.

Closing

The current housing and rental affordability crisis is arguably one of the most pressing issues facing the State. We are pleased to see that it is the focus of the Committee's Inquiry and we trust that our insight will be beneficial to the Committee's investigation.

UDIA Victoria thanks the Committee for its time and their consideration of this written submission. If you would like to discuss any of the matters raised, please contact UDIA Victoria's Director of Policy, Jack Vaughan, at [redacted]

[redacted]

Jack Vaughan
Director of Policy
Urban Development Institute of Australia, Victoria