

PROOF VERSION ONLY

LEGISLATIVE ASSEMBLY ENVIRONMENT AND PLANNING COMMITTEE

Inquiry into the Supply of Homes in Regional Victoria

Melbourne – Friday 4 April 2025

MEMBERS

Juliana Addison – Chair

Martin Cameron – Deputy Chair

Jordan Crugnale

Daniela De Martino

Wayne Farnham

Martha Haylett

David Hodgett

**Necessary corrections to be notified to
executive officer of committee**

WITNESS

Michael Fotheringham, Managing Director, Australian Housing and Urban Research Institute.

The CHAIR: Welcome back to the public Inquiry into the Supply of Homes in Regional Victoria. Thank you to everyone for joining us. On the behalf of the committee, it is wonderful to have people tuning in and being here. Before we begin I will just run through some important formalities.

All evidence taken today will be recorded by Hansard and is protected by parliamentary privilege. This means that you can speak freely without fear of legal action in relation to the evidence you give. However, it is important to remember that parliamentary privilege does not apply to comments made outside the hearing, even if you are restating what you said during the hearing.

You will receive a draft transcript of your evidence in the next week or so for you to check and approve. Corrected transcripts are published on the committee's website and may be quoted from in our final report.

Thank you for making the time to meet with the committee today. My name is Juliana Addison, and I am the Chair of the Environment and Planning Committee and the Member for Wendouree, representing central Ballarat.

Martin CAMERON: I am Martin Cameron. I am the Deputy Chair and Member for Morwell down in the Latrobe Valley.

Wayne FARNHAM: Wayne Farnham, Member for Narracan. I represent the West Gippsland region.

David HODGETT: David Hodgett, Member for Croydon.

Jordan CRUGNALE: My name is Jordan Crugnale, the Member for Bass. I take in Cardinia council, Casey and the Bass Coast shire.

Martha HAYLETT: I am Martha Haylett, the Member for Ripon. I take in the northern and western areas on the outskirts of Ballarat and up to Ararat, St Arnaud, Wedderburn and Beaufort – the whole lot.

The CHAIR: Our other member Daniela De Martino, the Member for Monbulk, will be joining us later. Would you please introduce yourself and make any opening remarks?

Michael FOTHERINGHAM: Sure. My name is Michael Fotheringham. I am the Managing Director of the Australian Housing and Urban Research Institute, often abbreviated as AHURI because it takes a lot less time. AHURI has existed in its current form for a little over 25 years. We are a partnership between federal and state governments, so co-funded by all of the state and territory governments and by the federal government through a multilateral agreement to deliver housing, homelessness and urban policy evidence to inform policy practices across the country. We run the National Housing Research Program each year, which is funding for independent research into a range of policy priorities identified by our funding agencies, which are Homes Victoria and its equivalents across the country as well as federal Treasury. We also run the National Housing Conference, which is the largest gathering of housing expertise across the research, policy, industry and community sectors in the Southern Hemisphere. Later this year that will be held in Perth, in this October, but it is a very large gathering with around 1400 people contributing to that conference. We run the Australian Homelessness Conference every second year and a range of other fee-for-service activities for government departments across country.

In relation to the specific terms of this inquiry, I have just some opening remarks: the supply of housing in regional areas is just as big a challenge as it is in Melbourne but with the added constraint of having much less private sector industry available to do that construction. It is a fairly intuitive point that there are more companies working on housing construction in Melbourne than there are in the regions, particularly in the more remote parts of the state, and so that housing supply challenge is even more hard to overcome. It has the same cost barriers that we are seeing across Australia and in fact across the developed world at this point. This is a global situation, not just an Australian situation, so the demand shortfall is playing out in every part of the country, including in regional Victoria.

The barriers are essentially the same as they are for Melbourne or for Sydney or for any large city. The barriers are twofold. One is around material supply and the additional costs that come with that in the post-pandemic period. These are weaknesses in the housing system that existed for probably 20 years, but the pandemic really reached a breaking point for a lot of those systems. The second one is around workforce, and particularly in the post-pandemic era having enough workforce for housing construction has been a global challenge. Migration patterns have changed, and we are not getting enough workers on the tools through that or through traineeship programs. That plays out right across the country.

I do not want to make a long speech at this point because I know you do not have time for that, so I might stop at that point and go to discussion.

The CHAIR: Terrific. I am going to open it up straightaway to the committee. Who would like to lead off with a question? Member for Narracan?

Wayne FARNHAM: All right. I will go. Why not? There is one thing that I get in my electorate office quite often – and you are in the homeless space as well. A lot of people are coming in and cannot find anywhere to live. I will go to every housing provider: ‘We’ve got nothing’, ‘We’ve got nothing’, ‘We’ve got nothing’ – particularly women trying to get out of domestic violence situations, and we do know that there is about a two-year wait now for that emergency accommodation. How do you see governments fixing this problem? Because it is getting to a point where I cannot see a way forward. What is your suggestion on this?

Michael FOTHERINGHAM: I think we need to recognise that there are no quick fixes here. This is a generational problem. It has been brewing for a long time and it is, frankly, going to take a long time to solve.

Wayne FARNHAM: How long do you think it has been brewing for?

Michael FOTHERINGHAM: Oh, 30 years – right across the country, regardless of which party is in power in which jurisdiction. Both federally and at a state level we have underinvested in our housing systems broadly and in our social housing systems particularly. I would note that with the Big Housing Build in Victoria over the last five or six years there has been a return to the levels of investment we need to see, but we need to see that level of investment for the next 20 years, not as a five-year sugar hit. One of the challenges we have in our housing systems and our social housing systems is we tend to do these short-run investments where we think, ‘This is an issue at the moment. Better address that.’ So for one or two terms of parliament there is real investment into our housing system, and then it drops off for another generation. We need to actually sustain that higher level of investment for the next 20 years if we want to take this on.

Wayne FARNHAM: I think at the moment the current government policy was about \$5.4 billion for 12,000 homes. You are saying it needs that level of investment for the next –

Michael FOTHERINGHAM: 20 years.

Wayne FARNHAM: 20 years.

Michael FOTHERINGHAM: Yes. We need a 25-year plan, not a five-year plan is essentially what I am saying, because these things take time. Housing construction takes a long time. You need to acquire the land, prepare the land, get development approvals, do the construction work and so on. It is typically a two-year cycle. But when you are doing that en masse as a government, you are looking at three or four years to really get things starting to happen, so by the time the money runs out you have barely got started. Victoria was coming from the lowest base in the country in terms of its social housing; it had the lowest proportion of social housing of any of the states and territories. Its aspiration these days is to hit the middle amongst the states. In Australia roughly 4 per cent of housing stock is social housing. There are a number of countries with similar numbers, but many countries have more like 20 or 25 per cent; some have 50 per cent. We are well below those sorts of measures. Different economies and different systems of government are in play, so those sorts of comparisons are a little simplistic, but we do not have enough social housing in Australia. That is quite clear. We need real investment from both state and federal levels, as I say, for the next generation.

The CHAIR: What is the role of the federal government in supporting the states – and particularly the federal housing support fund?

Michael FOTHERINGHAM: The answer to that question will change in May depending on who is in power. One of the problems we have is that whenever we have a change of party in control of the government, the priorities, the intent, change completely. So under the current federal government, the federal government have a role in funding community housing particularly but also public housing. There are two main mechanisms for that. The Commonwealth–state housing agreements have existed since the mid-1940s – the NASHH is the current version, the National Agreement on Social Housing and Homelessness. That is a flow of funds between the Commonwealth and states so that tax revenue is provided to each of the states and territories for provision of public housing and funding of community housing – which is the broad umbrella for social housing, the two groups. That is one mechanism, and that has been broadly agreed over the last 70 or so years, though the details of those five-year agreements have varied quite considerably and have become much more transactional and much less strategic over time.

The other mechanism under the current federal government is the Housing Australia Future Fund, which is investing from a future fund dedicated for this purpose into consolidating and building more social housing. That is going to large-scale community housing providers and to state governments for that supply. The federal coalition have committed to repealing the HAFF if they come into power in May. That changes the role of the Commonwealth once again. What we need to see is stable policy in this. We need bipartisanship on this issue if we are going to address it properly, because what we have at the moment is a rinse-and-repeat cycle where a government comes into power, cancels all the programs of the previous government because they do not like them, puts in their own version and starts over, and in three years, before things have got going – because remember, housing construction takes a while – the same thing happens: delete, start over. And so unless we have the same party in power for many, many years, which our system of government tends not to lend itself to for terribly long – 10 years seems to often be the interval at federal level. But what we need to see is successive governments building on each other's work rather than demolishing and rebuilding.

Martha HAYLETT: Michael, what do you think the Victorian government can learn from other states and territories, especially about regional housing supply? Do you see that there is any stand-out state or territory government that is doing really well with housing supply in the regions?

Michael FOTHERINGHAM: Doing well and moving in the right direction are two different things. I would say there are some that are moving in the right direction. No-one has got this terribly well under control. New South Wales for many years was leading the nation in its support of community housing particularly, which plays well into the regions, but in the last couple of years the jurisdiction that has done the most in this space is Queensland. Now, Queensland has a much higher regional population share – roughly 50 per cent of the Queensland population live in regional centres or regional areas or remote areas and only about 50 per cent in the main cities of south-east Queensland. Victoria obviously is a lot more centralised – not as much as South Australia – but still has much less of a regional spread.

But what Queensland did in the previous term of government and with the change of government have retained – for once, thank you – is a target for how much housing they need to build, how much social housing they need to build at a local area level, right across the state over the next 25 years. So both parties have committed to 53,500 social dwellings over the next 25 years. That is an uplift of roughly 50,000 against what it would normally have been, so it is a very ambitious target. It is going to take a lot of system reform to do that, much like the national accord targets, which are ambitious and unashamedly so; we need to retool our nation to do this construction. But Queensland have done that mapping, and I will declare here that AHURI did the modelling for them for that – did that work to map it out. We have been talking to the Victorian government about doing similar work, and we are at an advanced stage of talking with New South Wales about that sort of work. We need to understand what we need to build and where, and that is not just how many dwellings but what type of dwellings –

Martha HAYLETT: And just to that point, because you would have obviously seen the *Plan for Victoria* that was launched only a few weeks ago, we have got housing targets for each LGA for that, but we do not – exactly what you are saying – have the type of housing target. Do you think that that would be something that the Victorian government would benefit from – of saying, 'Okay, we've got a housing target for each local government area, of which X per cent needs to be social housing'?

Michael FOTHERINGHAM: Yes. Absolutely. And social housing, but also built form – so are we talking about apartments, high-rise, are we talking about townhouses or are we talking about freestanding houses? A

figure that tends to surprise a lot of people is that in Australia today we build six freestanding houses for every apartment. People think we are building lots of apartments. We are not. We are mostly building houses. In fact Australians have the largest homes in the world on average – bigger than the Americans, bigger than the Canadians – and New Zealand is the other one that is up there. But our houses are twice the size of many countries' average house, because we are mainly building houses, not apartments or units or townhouses. And that is quite inefficient from a supply point of view. It also means that our cities are incredibly low-density – and I know that is not the focus of this committee today, but we do need to think about what kind of housing we are building for what are ultimately largely small households. The average Australian household is now 2½ people; 100 years ago it was 4½ people. Houses are twice as big as they were then; the blocks are smaller. It is not a logical solution.

Martha HAYLETT: Can I just ask one more question? What role do you think inclusionary zoning has to play in some of this? For example, on the outskirts of Ballarat that I represent there are conversations that people have about, 'Oh well, we'll put in a really small amount of social housing,' but that has actually just relied on the developer's goodwill; it is not in any way a set target for them. So what does AHURI say about inclusionary zoning? Is that something we may need to explore in the regions?

Michael FOTHERINGHAM: Yes, but not on a region-by-region or council-by-council basis. Inclusionary zoning runs into trouble when it applies to this patch of land but not that neighbouring patch of land, because for a developer the obvious commercial decision is to go to the area where they do not have to do any lower-return, lower-yield work. If it applied to the whole state, it would be effective. Various jurisdictions have toyed with that as a notion – statewide inclusionary zoning rules. There was a motion put to the ALGA, the local government association nationally, to adopt this approach nationally; it did not get up. That is a real pity, because this would have been a useful policy.

The specifics of the design of an inclusionary zoning policy do matter. What size development does this apply to? Sometimes it has been when you are building a hundred units or more, so suddenly everyone builds 99 units at a time; you know, you need to actually have well thought out policy for this. Some previous Victorian examples have allowed for alternative buyouts – so you provide community facilities, which end up being a gym within an apartment building that actually does not get used terribly much, instead of building any affordable housing within it. So you need to actually have intelligent policy for this, but done well it works. London has shown that; a number of countries have shown that.

Martha HAYLETT: Thank you.

Jordan CRUGNALE: What does London do?

Michael FOTHERINGHAM: 25 per cent, across the board.

Wayne FARNHAM: Our social and affordable housing – we have like a 10 per cent target. Is that on the money? Do we need more?

Michael FOTHERINGHAM: There is no magic number.

Wayne FARNHAM: No magic number?

Michael FOTHERINGHAM: There is no magic number. I mean, there's a trade-off here between viability or feasibility of the site for whoever is developing it; whether it is a public-private partnership or a private development or straight government investment, it needs to be feasible. You know, the higher proportion of social housing or affordable housing you put in – it does start to erode that, and that is a challenge these days. But it is an investment, and I think we need to understand the financial ledger for the construction, the capital cost, is only one dimension of the cost here. There are the savings in terms of the social return but also the financial return, because actually keeping people homeless is very expensive; housing them is cheaper in the long run.

Just on inclusionary zoning, the other thing is when you apply a policy in that space, having a lead-in time is really important. Developers have already purchased land with a set of assumptions for the feasibility; if the rug is pulled out from under them, you will get industry pushback, and the whole thing falls into pieces.

A member: They want certainty.

Michael FOTHERINGHAM: Yes. That is right. So you need to say, 'Starting in three years time,' or what have you. Some discussion with industry, I am sure – I know you have got people from industry later today to talk about that. Or having a grandfathering clause is the other way you do it – you know, 'You can apply it to any purchase after this date'; you know, give them six months for work that is in the pipe, purchases that are in the pipe, but grandfather the current contracts.

Wayne FARNHAM: Michael, let us look at greenfield development, for example. Would you say a figure that maybe government should invest in or maybe a statewide approach would be, well, that 20 per cent of every greenfield development should go back to social housing or social accommodation?

Michael FOTHERINGHAM: That is inclusionary zoning 101, yes. Yes. Absolutely. I would also make the point, though, that for greater Melbourne we are doing too much greenfield development. The urban boundaries have spread too far. This is a unicentral city. You look at Sydney, and they went from being a three-cities model to a five-cities model to these days a six-cities model. So they have economic hubs sprinkled all the way around, and that includes the Hunter and, say, Wollongong.

Wayne FARNHAM: So, decentralisation?

Michael FOTHERINGHAM: Decentralisation at a genuine level – we do not have that in Melbourne, so people are travelling in and out. Suburban Rail Loop is looking to help with that, but at the moment it is still one main economic hub. That is a challenge for the shape of this city. So we need to be doing more infill development. The current government target is, I believe, 70 per cent infill and 30 per cent outer-urban greenfield; that is not ambitious enough. Mind you, the only city in Australia that is delivering that kind of level of infill is Canberra, because of its unique shape.

The CHAIR: Michael, in your view, how well is the supply of homes and mix of homes meeting demand in regional Victorian communities?

Michael FOTHERINGHAM: It is not.

The CHAIR: You are very short and sharp in your answers, which I love – the explicitness of the answer. We have heard earlier today from the Department of Transport and Planning that 90 per cent of dwellings or homes in regional Victoria are detached homes. What do we do? How do we move the dial?

Michael FOTHERINGHAM: There seems to be an assumption that Australians want freestanding houses, which is based on not market research, not rigorous assessment. It is based on memory of people's grandparents or something. It is, frankly, a deeply outdated idea. A hundred years ago we had 4½ people per household, and yes, that was the norm. We had small cities at that point. Melbourne was not 4 million people, 5 million people; it was 1 million or thereabouts – probably not even that. Things have changed, and people's appetites have changed. We have got people moving from all over the world into Victoria. Many of them are coming from places where apartment living is absolutely the norm and having separate, detached houses is kind of weird and isolating, but we are still doing that is though it is the only solution. It is not actually the right solution for what we need these days, and that includes in regional centres and smaller towns. There are lots of people who would have their needs better met by more high-density living – by townhouses and apartments.

Jordan CRUGNALE: There is that perception as you go into the region: 'Well, I've moved to the regions because I have got space and need space', as opposed to, 'If I wanted an apartment, I would go and live in the city'.

Michael FOTHERINGHAM: And that is true for some, and we have done research on this. There are some who move to the regions for exactly that reason. They want cleaner air, they want to have a bigger backyard than you get in Melbourne these days, because you do not get a quarter-acre block anymore. No-one is doing that. We are building bigger houses on smaller blocks. It is environmentally ludicrous. Yes, there are some people who move to the regions for that exact reason. There are more people who move to the regions for employment opportunity, for different lifestyle reasons that are beyond the dwelling and in fact are much more about community than they are about the dwelling. There is a little bit of a myth there that that is why people move to the regions.

A lot of people move to the regions because actually that is where they have come from. There is a general perception that what happens is people grow up in regional Victoria, and then when they get to about 17, 18 they move into the city to go to uni or to get a job. It is not the way it works. People tend to stay in the regions. In fact more people are moving out than are moving in these days, and it is not just to get a bigger house. That is simply not true. And there are a lot of empty nesters and older people who are living in family homes because there is not an option for them to move into unless they move down to Melbourne, and the cost barrier of doing that and the social barrier of doing that are huge. Why are we not giving them options?

Jordan CRUGNALE: We have in the Bass Coast, you know, in your Wonthaggi, Inverloch, Cowes and what have you, and Grantville, there are shopping strips. There is no-one really living above them, so that is an opportunity I guess for –

Michael FOTHERINGHAM: Shop tops have been forgotten, yes.

Jordan CRUGNALE: That is right. So how can we turn that around? What levers do council, state and community –

Michael FOTHERINGHAM: Council have a role in encouraging that. The property owners who own those typically use the stuff that is above –

Jordan CRUGNALE: Storage.

Michael FOTHERINGHAM: Yes. It is used for storage, and often in pretty poor condition. That absolutely could be revitalised.

Jordan CRUGNALE: Because then you are revitalising the street and you have got people out at night.

Michael FOTHERINGHAM: Yes. And we are seeing some of that happen as Airbnbs; we should be doing that as actual housing.

Jordan CRUGNALE: So what levers?

Michael FOTHERINGHAM: That is in partnership – well, it is not a partnership. It is owned by whoever owns the property, so it is really their decision ultimately, but council can doorknock, can write to the owners, can encourage. There is an opportunity there that is not being realised. I think there is a perception amongst many of those people who own those commercial buildings that that is all it is now, that the mixed use is no longer available. There may be a zoning rule or a perception of a zoning rule that prohibits it. That is worth looking at. In different council areas there may be discouragements against that that are worth examining. I could not speak for every council.

Jordan CRUGNALE: Given councils now have to have housing targets for their LGA –

Michael FOTHERINGHAM: The motivation is there, surely.

Jordan CRUGNALE: The motivation is there.

Martin CAMERON: Michael, are we fixated a lot on the number of houses we need to build rather than the number of rooms in the house that we need? Is there a difference in that, or is it just that we need to build X amount of houses, whether they be one bedroom, two bedrooms or three bedrooms?

Michael FOTHERINGHAM: I would not use the term ‘houses’, I would use ‘dwellings’ – that includes apartments and townhouses. The term ‘houses’ tends to mean detached house on a separate block.

Martin CAMERON: Yes, thank you.

Michael FOTHERINGHAM: Forgive my pedantry on that.

Martin CAMERON: No, that is all right. That is good.

Michael FOTHERINGHAM: But yes, we need to think about what form they are. Not every family needs a four-bedroom house or a three-bedroom house; many households are fine with two bedrooms, many are fine

with one. There are more single-person households than there are four-person households. Half of the households in the state are one or two people – that is either a single parent with one child, a couple or a single person.

Martin CAMERON: How do we sell that to people that want to have that four-bedroom home and there are only two of them living in that dwelling?

Michael FOTHERINGHAM: One of the challenges we have for private development of housing is the feasibility of apartments of higher density. It is very challenging. The costs are very high. That is not something that is easy to overcome. Once the cost has got out of control, bringing it back is hard. We cannot make material supply cheaper very easily. We do need to be thinking about alternative construction methods. We are pretty outdated in the way we build houses in this country. We are lagging behind most of the world in terms of offsite construction, or modular construction or whatever term you would like to use for that – modern methods of construction. They are not considered modern methods in most parts of the world; they are considered normal. But we are not doing it. And when we do do it, we are not doing it in the most efficient way. The offsite construction we do have tends to be focused on freestanding houses which are bespoke, which are individually designed and which have to have the site prepared for them appropriately, which comes down to drainage and slope and a whole lot of issues to do with that. For planning works in many countries that offsite construction is used for apartment buildings. You have a ground floor that is effectively poured-in concrete. That deals with your sloping block and your drainage issues, puts the pipes exactly where they need to be and all of that, and your parking below. And then you put modules of apartments – bang, bang, bang, bang. I have seen factories that pump out eight apartments a day. We are not doing that.

David HODGETT: Why?

Michael FOTHERINGHAM: Great question.

David HODGETT: Is there room for an incentive scheme? For the countries that do that well, how do they get going on it?

Michael FOTHERINGHAM: Scale of market is the biggest challenge. For that sector to get to that level of construction, it needs a really big investment to get rolling. It needs five years of really strong investment. The private sector is never going to have that scale. It needs government investment to get there. Five years of that sort of investment in that form of construction would get that industry on its feet, and off you go.

Wayne FARNHAM: With the modular construction, it is not overly cheap.

Michael FOTHERINGHAM: No.

Wayne FARNHAM: We did a tour down in Colac –

Michael FOTHERINGHAM: The way we are currently doing it, no.

Wayne FARNHAM: Forty-eight square metres was \$200,000. That is an expensive modular –

Michael FOTHERINGHAM: Because we are still doing bespoke houses. We are just building them somewhere else and then moving them, rather than actually taking the real benefits of an offsite model as I have described. Sort of crab-walking into it.

David HODGETT: I just wanted to quickly ask too: you spoke before about the two years of the development process. We constantly hear the frustrations of – and there have been a couple of examples in regional Victoria that seem to have everything ticked, from local government all the way down. What advice could you give us, without fear or favour, of where we could explore to try and truncate that process?

Michael FOTHERINGHAM: A lot of that is out of government hands; it is in private sector hands. If you think about going from a vacant site or a current site that needs to be knocked down and rebuilt, there is the purchase of the land, there is designing what you want to do on it, there is getting planning approval for that, then there is usually a delay before any work commences, there is the actual work and then you get to completion and occupancy.

David HODGETT: The one we hear more about is delays in planning approval.

Michael FOTHERINGHAM: That is the one that gets talked about the most. It is not the biggest one. The biggest one is actually after planning approval to commencement.

David HODGETT: Okay.

Michael FOTHERINGHAM: There are a lot of sites that have them. There are hundreds of thousands of dwellings in Australia that have been approved but not commenced.

David HODGETT: So what is the main factor there, say, in a multiunit development? Are they are trying to sell X amount before they commence construction?

Michael FOTHERINGHAM: A few different things. Some of them are just in the construction pipeline, so the developer is working on other sites at the moment and that one will come on when they get to it. They have got work lined up for years. That is good business practice; that is sensible. But it does mean that site is sitting there doing nothing. We all drive past those sites every day.

David HODGETT: Very interesting.

Michael FOTHERINGHAM: It can be that, or it can be waiting for the value of that land to appreciate and then onselling it. That happens a lot.

The CHAIR: Land banking.

Michael FOTHERINGHAM: Yes. Flipping the land over and over. Say you get an approval for a development with six floors – that land is suddenly worth more than it was before you had that approval. Wait a year or so, sell it again, and then the next developer gets an approval for eight floors. That land is now worth more. Rinse and repeat. There are sites that have gone through that for a decade or more.

David HODGETT: Interesting. Thank you.

The CHAIR: Good questions. Michael, thank you so much. It was a really great discussion. If we have got further questions, are you happy for us to send those through, because there could be some other things that we would like to have your insights on?

Michael FOTHERINGHAM: Any time.

The CHAIR: Thank you for the work you are doing, and all the best for your conference in Perth in October. Some of us might have to register. Thank you very much for making the time to participate in this inquiry. If you would like any additional information or would like to respond to any questions on notice, please speak to our secretariat. Good luck with all the good work that you are doing. Thank you very much.

Witness withdrew.