

T R A N S C R I P T

SELECT COMMITTEE ON VICTORIA PLANNING PROVISIONS AMENDMENTS VC257, VC267 AND VC274

Inquiry into Victoria Planning Provisions Amendments VC257, VC267 and VC274

Melbourne – Tuesday 29 April 2025

MEMBERS

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David Davis – Deputy Chair

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Gerogie Crozier

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Sarah Mansfield

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Aiv Puglielli

Sheena Watt

WITNESSES

Brendan Coates, Program Director, Housing and Economic Security, Grattan Institute; and

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

The CHAIR: Welcome back to the Select Committee on Victoria Planning Provisions Amendments VC257, VC267 and VC274.

Before we get our next witnesses to introduce themselves could I just advise that all evidence taken today is protected by parliamentary privilege as provided by the *Constitution Act 1975* and provisions of the Legislative Council standing orders. Therefore the information you provide during the hearing is protected by law. You are protected against any action for what you say during this hearing, but if you go elsewhere and repeat the same things, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided with a proof version of the transcript following the hearing. Transcripts will ultimately be made public and posted on the committee's website.

For the Hansard record can you please state your names and the organisations you are appearing on behalf of.

Brendan COATES: Brendan Coates, Housing and Economic Security Program Director at the Grattan Institute.

Michael FOTHERINGHAM: Michael Fotheringham, Managing Director of the Australian Housing and Urban Research Institute.

The CHAIR: Terrific. Thank you both for joining us on what I know has been very short notice; we do appreciate it. We might just take some opening statements if we could. If you could limit yourselves to 5 to 10 minutes each, that would be terrific. Would you like to kick off?

Brendan COATES: No worries. I will keep mine fairly short and sweet because you have already heard from a lot of people today. Grattan Institute welcomes this inquiry into what are really important reforms. I think the reality we have in Victoria today is we have not built enough housing to meet the needs of a growing population. That is particularly true in places where people most want to live: close to jobs, transport, schools and other amenities. We see land use planning rules as one of the key barriers to building more homes. They have historically been highly prescriptive. They have particularly restricted the construction of townhouses and apartments in established areas, where a lot of additional Australians or Victorians would prefer to live. About half of all residential land in Melbourne is zoned for three storeys or less, and the politics of land use planning – so the decision-making about what gets built where – does tend to favour those that often oppose change. The people who might live in new housing were it to be built do not get a say, and the result is that Melbourne is one of the least dense cities of its size in the world. It results in a large area of missing middle, prime inner-city land close to jobs and transport, where it is barely higher than two stories.

What our research shows is that a lot of Melburnians or Victorians would actually choose denser forms of housing if it was made available. This is not about saying where people have to live; it is about relaxing planning controls that allow Victorians to choose where they want to live, to engage a builder or developer to build new housing and to be able to live where they would prefer to. What we see is that semi-detached dwellings, townhouses and apartments made up 32 per cent of Melbourne's dwelling stock in 2021. That had increased from 27 per cent in 2011, but it is still well short of the 52 per cent that our historical surveys have said that people would prefer. And it is certainly backed up by work from Infrastructure Victoria that says that about 20 per cent of Melburnians would trade a house and land size to live in an established suburb in a medium-density home. You can see that beyond those surveys just in the prices people are willing to pay to live in those areas closest to the centres of our major cities, where prices and rents for housing are higher than they are in the urban fringe. This does not mean that of course people are not going to continue to build new housing in the urban fringe – we need that too. People should have the choice to live where they would like to live. But these reforms we think have the potential to unlock hundreds of thousands of extra homes in the coming decades, in areas with some of best infrastructure, amenities and public spaces.

I think as evidence of the potential success of these reforms we would look at examples of upzoning abroad like Auckland, which has been talked about earlier today, that led to a lot more housing in a very short space of time, most of which was two- and three-storey townhouses and some five- to seven-storey apartments. So these changes do not dictate what housing must be built in Melbourne, they simply permit more housing where demand for housing is highest. And they have proved in opinion polls to be broadly popular with the community as a whole, even if they are not popular with some sections of the communities of some local council areas. So directly upzoning well-located land and better codifying what is allowed to be built are the most direct ways to expand the housing choices available to Melburnians, and so we think the Victorian government should stay the course on these reforms. We think they warrant the support of the Parliament. There are obviously improvements that could probably be made along the way and we should look at those as the reforms are rolled out, but Victoria can afford no further delay in getting the housing we need built, because in a housing crisis the worst form of housing is the house that never gets built. Thank you.

The CHAIR: Thank you.

Michael FOTHERINGHAM: I would broadly support Brendan's comments and agree with pretty much everything he has said. We are not keeping up with supply as we need to. Australian cities are generally some of the lowest density in the world and therefore some of the most inefficient in the world in terms of the cost of living in them, because the amount of transport time, transport costs and pollution generated by that low density, by travelling around from one side of the city to the other, is incredibly inefficient. So we need to look at the way we are shaping our cities and live in greater density. That does not mean sloping up 50-storey apartment buildings next to quarter-acre blocks with a suburban home in them, but it does mean gentle increases in density. So the use of medium density or townhouses and smaller apartment blocks is a really important component. Local nimbyism can always be a factor, but increasingly there is community recognition that we do need to change the way we are doing things; we do need to think about the shape and the size of our city and deal with a growing population in a more effective way. So the reforms that are under consideration by this committee are broadly very positive ones.

The CHAIR: Thank you very much for your opening statements. That was blissfully succinct – my appreciation. We will go into questions now, and I will kick off. Brendan, you said that there were improvements that could be made along the way. I think we will just take it as given that everyone supports more housing; it is how we get there that is the subject of debate and also the adequacy and efficacy of these amendments to deliver that outcome. How do you envisage that those improvements might be determined and then occur?

Brendan COATES: I think the most important thing is that we roll out the reforms and we basically run the experiment. We see what housing starts to get built where, and then we could reform –

Members interjecting.

The CHAIR: A bit of order, please. Please continue.

Brendan COATES: Thank you. I think we have waited long enough to get more housing built in Victoria. We saw in the case of Auckland that it was not until after the fact we saw how substantial those reforms actually were. And my biggest concern is that we nobble these reforms before they go ahead, and we do not get more housing built where people most want to live. We have a series of processes for evaluating what is being built where and how much progress we are making towards the government's housing target of 800,000 homes over the next decade, and I think that should be the lodestar against which we evaluate our success here.

Now, obviously the planning system is not the only thing that affects how much housing gets built in the short term. I think we have clear evidence, when we have run experiments like Auckland, that if we reform the planning controls we get more housing, but there are other things that we would like to see happen too. If interest rates come down, we will see more housing being constructed. The Reserve Bank has been clear that every 1 percentage point increase in interest rates reduces housing approvals by 7 per cent the following year. That is enough to explain, in large part, the gap between where housing should be and where we are today.

So our lodestar should be building those additional homes. If we were to actually succeed and meet the Victorian government's target of 800,000 homes over a decade, we would see housing be substantially cheaper than otherwise.

The CHAIR: Thank you. Mr Fotheringham, did you want to add to that?

Michael FOTHERINGHAM: No, that is fine.

The CHAIR: Okay. Taking all of that on board – I think you use the word ‘experiment’. Recognising that there needs to be a process for presumably evaluation and improvement – and we have already seen, obviously, amendments to 267 since it was proclaimed, so obviously there are issues to be addressed – the Auditor-General in 2009 and the Auditor-General in 2017 recommended to the government that there should be in place a monitoring and implementation process. I am not sure if you are aware of that recommendation. I am wondering if you see that as an appropriate way of being able to actually track this process and determine what the opportunities for improvement are.

Michael FOTHERINGHAM: Brendan used the word ‘experiment’, and it caused a degree of tension in the room, I noticed. But we –

Members interjecting.

The CHAIR: It is all right. An apple strudel would cause excitement here at the moment, so keep going.

Michael FOTHERINGHAM: But it is an experiment either way. We are conducting an experiment – one where we are doing nothing.

The CHAIR: Can we have a discussion around the Auditor-General’s –

Georgie Crozier interjected.

The CHAIR: Ms Crozier, can we have discussion around my question, and then will come to yours in a minute.

Michael FOTHERINGHAM: Monitoring the impact of these changes would be sensible, just as monitoring the impact of failing to make them is appropriate. We can see what happens when we fail to make those changes; we have been doing that for some time. We are not keeping up with need. We are seeing housing costs escalate atrociously and living costs escalate atrociously, and transport costs and infrastructure are not keeping up. We need to do things differently, that is very, very clear. So yes, we should monitor what the effect of these interventions is, but that is not a reason to not make them.

The CHAIR: I do not think that is what is actually in dispute. The question I think I was trying to get to is: is it appropriate that there is a mechanism in place to do that monitoring, and if so, is the proposal that has come now twice from the Auditor-General an appropriate way to do that?

Brendan COATES: That is a good question. I am not as familiar with that particular Auditor-General recommendation, David, but the approach that I think has a great deal of potential is what New Zealand now requires, which is essentially requiring government and councillors to assess whether they have enough feasible capacity. That is not just paper capacity, but capacity where you combine what the zoning envelope will allow you to build with the fact of what it costs to actually build sufficient housing to meet 30 years of expected demand. That is now what is required in New Zealand of local councils.

The CHAIR: That is a statutory requirement?

Brendan COATES: I am not sure if it is a statutory requirement, but it is something that they have put forward under the current New Zealand government. I think what is missing at the moment is an understanding of how far we have actually gone with these reforms. We are having a conversation today and you have had conversations in recent days about particular parts of the reforms. We think that they will result in more housing being built, but the only way to understand how big those changes are is to assess changes in feasible capacity. We should have a stock of feasible capacity at any one time that can greatly exceed the demand for housing over that next period.

The CHAIR: Terrific. Thank you. Ms Crozier, you were very keen to get in. Would you like to go next?

Georgie CROZIER: I would be delighted to. Thank you so much for your time this afternoon. We did react to your word 'experiment' because I do not think that is really in the spirit of what the community expects. They do not expect this to be an experiment. They expect government to do it properly and with consultation. I just want to go to your submission where you claim that Boroondara council has said that six-storey dwellings are not allowed. That is actually not correct. Your submission by stating this is not accurate.

David DAVIS: In Kew and Camberwell there are large buildings.

Georgie CROZIER: There are large buildings, so your submission is incorrect. I want to go to the issue around the 800,000 homes. You stated Grattan Institute's calculations on this, and you made reference to those 800,000 homes. We have just heard from the property council and others that that ambitious target is not going to be met, so why do you think it can be met?

Brendan COATES: Well, I think it can be met.

Georgie CROZIER: How?

Brendan COATES: By building more homes and by relaxing the various constraints that are preventing more housing to be built. First and foremost of those is the planning system, but it is not the only one.

Georgie CROZIER: We are over 18 months into this process. In 8½ years you are suggesting that those full 800,000 homes will be built.

Brendan COATES: No. They could be built if we undertake the right reforms.

Georgie CROZIER: We have heard evidence in this inquiry from a number of witnesses to say that one of the big issues is the taxes and that developers are not prepared to do this work because of the impost, the barriers and the burdens applied by government. Do you believe that they are warranted concerns?

Brendan COATES: I am not sure I would take the position of the development industry at face value that those taxes have quite the effect that they believe they have on housing developments.

Georgie CROZIER: Really?

Brendan COATES: No.

David DAVIS: You think they have no effect?

Brendan COATES: No, I am not saying they have no effect, but I am saying that what we have is very clear evidence that when we upzone we get more housing. I am not aware of a similar study that says, 'If we reduce the taxes on the development industry, we get that much extra housing,' as we saw in Auckland.

Georgie CROZIER: There are a number of witnesses who have said that developers – I think of one, and I do not want to verbal them because I have not got their exact quote – basically are leaving the state because it is difficult here in Victoria to be doing this work because of the taxation burden. That is government policy; that is a government decision. We are at 18 months since they did their housing statement. The 800,000 were a pie in the sky. This never could be met, given what the government is doing to the building industry. These things have to be built. They cannot just pop up like mushrooms. They have to be built by developers and builders. We do not have the resources to do that, and taxation is adding to that burden.

Brendan COATES: If we take as a benchmark the maximum amount of housing we saw built in Victoria in a given year – I think it was about 71,000, if I recall correctly –

Georgie CROZIER: A one-off.

Brendan COATES: The size of the construction workforce over the course of the next 10 years will be between 20 and probably 40 per cent larger than what it was in the period in the late 2010s in which we built 70,000.

David DAVIS: Maybe. Not guaranteed.

Brendan COATES: Well, the workforce has already risen by 30 per cent nationwide since the mid-2010s, so it is already growing.

Bev McARTHUR: The workforce in housing or in construction?

Brendan COATES: In construction overall.

Bev McARTHUR: But is it all going into housing?

The CHAIR: Let us let the witness finish their answer, please.

Brendan COATES: Thanks, Bev. I think it is a valid question to ask. At the moment we are building a lot of additional infrastructure at once, but I think the perception that just because we have never built 80,000 homes we could not build 80,000 homes a year – you would say that about looking back at Melbourne in the 1920s and say we could not possibly build 60,000 homes a year. Obviously the economy is much larger, the construction workforce is much larger and the capacity to build is much larger as well.

Georgie CROZIER: What about resources, timber and the like? You pluck out these figures and you make these big claims, but there are a whole lot of implications along the way. I think that there has to be some realism around what we are dealing with here with these enormous figures that the government have promised Victorians they will do – 800,000 homes, which you are backing up. Given the barriers that are there, it does not seem feasible.

Brendan COATES: What exactly am I backing up?

Georgie CROZIER: The government's 800,000. You put it in your submission. You said 800,000 homes to be built over that period of time.

Brendan COATES: Sorry, have I said that they will be built, or that if they were built then this would be the impact?

Georgie CROZIER: Well, you can be picky with your words, but you are backing the government.

Brendan COATES: I am sure it is a very different claim.

Georgie CROZIER: No, no.

The CHAIR: All right. I think we have probably run the course. If we have some time we will come back to it.

Georgie CROZIER: No. Mr Coates –

The CHAIR: Mr Berger, please.

John BERGER: Thank you, Chair. Thank you both for your appearance this afternoon. Brendan, I am interested in the survey that you mentioned and what some of the outcomes or results of that survey were.

Members interjecting.

Brendan COATES: Sorry, could you – I was a little bit distracted by some of the commentary.

Sheena WATT: He might just start the question again.

Brendan COATES: Thank you.

John BERGER: Brendan, I am interested in the survey that you mentioned in your opening remarks and in particular what some of the questions were that you asked and who the audience were that the survey went to.

Brendan COATES: It was essentially a contingent evaluation survey. It was asking people to compare different options given the real-world prices and the trade-offs involved in different housing options, so between, say, a freestanding home on the urban fringe, a townhouse in a middle suburb and an apartment in a

sort of inner-city area. That is a kind of broad understanding or explanation of how we went about this. I should say this work was done prior to my time at Grattan. Within that you are essentially asking people how much do they value this particular aspect versus this aspect of a house – its location, its size and whatnot. And then from that you are basically getting a sense of, given real-world trade-offs that existed at the time, how much difference it makes and how much more willing people are to choose, say, a denser form of housing that is closer in over, say, a freestanding home on the urban fringe.

Since we did that survey Infrastructure Victoria did something very similar in 2020, which found that there were quite a few people that would be willing to trade a home on the urban fringe for something closer in. You see that as well in the fact that the prices and rents for particularly, say, forms like townhouses and dual occupancies in middle suburbs are very high. There is a gradient where people are willing to pay substantially more for housing to be closer to the city than they are to, say, be further out. People can make their own choices. That is the whole point: governments should not be dictating where people live, governments should be making it possible for people to make those choices while also internalising the fact that it does cost a lot more to service a home on the urban fringe for government than it does to service that same home in an established inner area with infrastructure.

John BERGER: What do you think the survey would look like now, given that the urban sprawl is coming towards finality in some areas?

Brendan COATES: My guess is that if you ran the same exercise today you would probably find more demand for housing in the inner-city areas compared to back then, because those other areas are now further out, as you say, and they are not necessarily particularly well connected to infrastructure at the moment. It is consistent with what we see in Auckland and elsewhere, where if you upzone you do tend to see a lot more of that urban infill occurring, which is basically the market at work, realising people's preferences and leading to more housing being built.

John BERGER: Okay. That is probably all I have got at this minute. Thanks, Chair.

The CHAIR: Thank you, Mr Berger. Ms Mansfield.

Sarah MANSFIELD: Thank you, Chair. Thank you for appearing today. I am interested in the question of affordability. We have heard different views on how these changes will impact on affordability. Some say that this will naturally lead to increased supply and that increased market supply of housing will have some sort of filtering or trickle-down effect that will mean those on low and very low incomes will have access to more affordable housing. I am just wondering what your views on that might be.

Michael FOTHERINGHAM: I would not get too excited that these changes will lead to cheaper housing directly. In the long run, yes, more supply does improve affordability, but this is a step in the right direction. It is not a complete supply solution. The demand is still very strong. We have very hot property markets across greater Melbourne. So it is not that demand will be fully sated by this and there will be no further need for private competitive auctions because there is so much property available, but it does flip-step us in the right direction and it would have a more positive impact than not making these changes.

Brendan COATES: Sarah, if I could elaborate on that, I think there is a lot of evidence that shows that building more homes – and you have heard it from others today – does lead to cheaper housing, including for those on lower incomes. So the rents across the community tend to be lower than otherwise. The Auckland example shows that some of the biggest changes in rents were at the lower end of the market. But if we are thinking about affordability, we are thinking about two things: what is the cost of housing, and then what are people's incomes to be able to afford housing in the market? I think it is pretty clear that if you reduce housing costs alone, even if you reduce them by 20, 25 per cent – there are estimates out there that if you added 10 per cent extra to the housing stock over, say, a decade – then you could reduce rents materially, like we saw in places like Auckland. Is that going to make housing affordable to everyone on the JobSeeker payment? The answer is clearly no. They will be spending less than otherwise, but they will still be spending a lot, and so it does not negate the need for other reforms.

Our view is that the most effective way of helping most people is by raising rent assistance, which has already gone up. We have been pushing for a further increase. Social housing is necessary for people who are otherwise going to find it hard to find a private tenancy that need that extra support. But obviously that does come at a

cost, and someone has got to pay. These reforms to get more housing built, Dr Mansfield, do not take away from the fact that we need to do more to support low-income earners as well.

Sarah MANSFIELD: What about using the planning system to deliver some of that more affordable housing, say, through inclusionary planning mechanisms?

Michael FOTHERINGHAM: Work when done on a large scale, when done on a one-council-at-a-time level, tends to be less effective, but if it was done across all of greater Melbourne it would be much more effective. London has shown the effect of that over time; there has been a positive impact. It can be done. I think it is worth noting that housing affordability is not going to be fixed by one measure or even one set of measures. While the measures that are under consideration today will not themselves solve housing unaffordability, they will contribute to and be part of a wider strategy. We need to be doing a whole lot of things, and inclusionary zoning could easily be in that mix.

Brendan COATES: I would probably be slightly more wary about using the planning system to do this. Inclusionary zoning has a cost. You are imposing what is essentially a tax on development. Some of that will be passed back to the landowner, who will get less money when they buy the land from the developer. But for other sites, it will make what is otherwise feasible housing infeasible, and the consequence of that is, yes, you will provide some support to those who benefit from those subsidised homes arising from the inclusionary zoning policy, but you will probably also raise rents for those that do not have access to those subsidised homes, so that is the trade-off. Our view would be that there are better ways to do it rather than a relatively narrow tax on development. A broad-based increase in rent assistance is, in most instances, going to be a better policy than an inclusionary zoning mandate. Obviously government is just going to have to pay for more social housing, and that is something that we would support, but it is not cheap. The average cost per dwelling per year for someone, say, on JobSeeker, is probably north of \$20,000 a year now.

Sarah MANSFIELD: Much of the criticism about these specific amendments has been levelled at VC267, which is the new ResCode changes around townhouses. Some of the concerns we have heard are that they will potentially take us backwards with respect to tree canopy coverage, vegetation and environmentally sustainable design standards. We have got at least 27 councils around Victoria that used to have a higher required standard than these changes introduced, so it is bringing those councils down a level. I am just wondering what your thoughts are around some of those criticisms that we have heard about the ResCode changes.

Brendan COATES: Do you want me to take this one?

Michael FOTHERINGHAM: Yes, you go first.

Brendan COATES: I think the challenge here is that regulations have trade-offs. If we are thinking about something like tree canopy, yes, you could see less tree canopy in some areas of the city where we allow more density, because some of those trees are currently in the backyards of homes that would be demolished and turned into townhouses. But is it better for the residents to move into those areas where they have got access to a lot of amenity, a lot of parks, a lot of green space and a lot of tree cover, or to put them in Brimbank on the urban fringe? People should be able to choose, but certainly, say, where I am in the inner city, I am on a street that has got lovely trees, and at the moment there is a single dwelling overlay on those homes. You cannot subdivide, even though we are within 400 metres of a couple of train stations and two schools. The result is that more people do not get to live in the area of Melbourne that I think is a great place and that has access to great green space. So I think there are trade-offs there as well. Obviously the more urban sprawl you have, then you potentially have knocking out of green space and farmland and other environmental costs from moving further out. If we allow more density, if we allow people to realise their preferences to live in some of the more affluent areas of our city where people most want to live, then that could reduce that other environmental cost. I cannot speak to the specifics of the 27 councils, but I would point out that there are trade-offs here and that necessarily requiring a higher standard in some of those regulatory measures – if it means less housing gets built, then the alternative might be housing that has more environmental costs further out.

The CHAIR: Thank you. Mr Davis.

David DAVIS: Now, I have got a number of questions. I was naturally disturbed by the idea of an experiment, and I wonder, Mr Coates, whether you are aware of the experiment that was tried in Melbourne in the late 60s and early 70s, when they allowed a 'let it rip' go. Lots of beautiful established homes were knocked

over and lots of ugly six- or eight-storey numbers were built, and after about six or eight or 10 years people said, 'Oh my God, this is destroying the character of our city,' and they stopped it. That is just to say to you we have an example in front of us not that long ago of when we removed these controls and allowed this type of development. Is that what you have got in mind with these proposals now?

Brendan COATES: What I have got in mind is what we see in places like Auckland, which is a lot of additional housing and cheaper homes.

David DAVIS: Auckland is actually a very expensive city worldwide, and lots of studies show that in fact.

Brendan COATES: Well, it is a very desirable place to live in the same way as Melbourne is, but we see that rents are lower in Auckland and they are higher by 20 per cent across the rest of New Zealand.

David DAVIS: You would not want to repeat what happened in the late 60s and 70s here, but we are going to rip out the protections and let it all go.

Brendan COATES: Well, I do not think we are ripping out all the protections. What we are doing is we are codifying what the urban form needs to look like. The same with things like –

David DAVIS: Square boxes and six storeys feels to me very much like 1970.

Brendan COATES: I think what we are doing is we are allowing more housing and we are making sure consumer preferences will partly determine what gets built.

David DAVIS: What happens at the end of the experiment when it has not worked? Do you take responsibility at that point?

Brendan COATES: Excuse me?

David DAVIS: When it has not worked well and we have got a shocking outcome.

Brendan COATES: My hope is that we will be able to look back and see that we have got more affordable housing that has made the city a more inclusive city.

David DAVIS: I just wonder if I could also ask you about the idea of packing more people in. The government has in parallel with this announced targets for municipalities. I could pick a number of municipalities –

Ryan BATCHELOR: Pick Boroondara.

David DAVIS: Boroondara – yes, I will pick that. I thought you would like that. It has 70,000 dwellings now after 190 years of European settlement, and they want to add in the target 65,500 new dwellings in 25 or 30 years. Have you examined what would be required with some of these new densities to actually be added in terms of health services, education and sewerage? Have you examined that?

Brendan COATES: Well, we do know from previous work from Infrastructure Victoria that it would be on average cheaper to build that infrastructure in those established areas.

David DAVIS: Not on those numbers. I do not believe they have calculated for doubling in municipalities.

Brendan COATES: That is a good question. It is not one that I can speak to.

David DAVIS: So can you actually answer what cost would be there in terms of each dwelling?

Brendan COATES: I think the evidence we have in front of us is that it is on average cheaper to build in those established areas than it is on the urban fringe.

David DAVIS: I do not think that is right. I would have to disagree with you on that.

Georgie CROZIER: Your own submission says it is more expensive.

Brendan COATES: Sorry, where does it say that?

Georgie CROZIER: You talk about more expensive.

David DAVIS: I have one more question here.

Brendan COATES: Sorry, I do not want to take away your time, David.

David DAVIS: I want to go to your point here. Reference 17 was the one I was looking at:

These preferences were also reflected in work by Infrastructure Victoria, which found that 20 per cent of Melburnians would trade house and land size to live in an established suburb in a medium-density home, if it was available at a more comparable price.

But they are not actually going to be available at a comparable price compared to the edge of the city, are they?

Brendan COATES: Well, at the moment those homes in the established suburbs are very expensive because that housing is really scarce.

David DAVIS: And you think that changing this will result in prices comparable to the outside or the edge of the city even though the base cost is many multiples of the land cost on the edge of the city?

Brendan COATES: Well, I think what works from what YIMBY Melbourne has shown is that in areas like Boroondara and elsewhere, that zoning tax, that increase in the cost of apartments and townhouses above and beyond what it would cost the market to build them, including a 20 per cent return on capital for the developer, is upwards, in some cases, of \$200,000 per home. So if we saw –

David DAVIS: We are not going to see \$200,000 homes, are we, though?

Brendan COATES: No. What we could see is homes that are 15, 20, 25 per cent cheaper than otherwise to rent.

David DAVIS: So how much would the cost of a two-bedroom home be?

Brendan COATES: I can't give you an answer to –

David DAVIS: Would it be a million dollars in Hawthorn? Or a million dollars in Brighton?

Brendan COATES: Well, what we see is the cheapest housing in any suburb is the denser form of housing that has been built. The most expensive housing is the freestanding home.

David DAVIS: But that is not the comparable choice, is it? The comparable choice is actually the edge of the city in many cases, and in fact you are not going to see prices under a million dollars in any of those suburbs for a two-bedroom apartment, are you?

Brendan COATES: I am sorry, I would have to look at how much those homes are going for today.

The CHAIR: Okay. We are going to keep moving. Mr Batchelor.

Ryan BATCHELOR: Thank you, Chair. Dr Fotheringham, Mr Coates, there have been a couple of waves in our history – Mr Davis had a go at the 1970s and the sixpack-type apartment blocks. We also had the wave in the 1930s with the Art Deco apartments that were built, the walk-ups. Do you think it was a mistake for us to build those houses?

Michael FOTHERINGHAM: At the time, Art Deco apartments received very similar commentary from those who did not want to see changes to their neighbourhoods; they thought it was spoiling the neighbourhood. Now they are some of the most prized housing in Melbourne.

Ryan BATCHELOR: Why is that?

Michael FOTHERINGHAM: Because it was different. It was a change. It was not what we were used to, not how we had been doing things.

Ryan BATCHELOR: How are they perceived now?

Michael FOTHERINGHAM: Much the same arguments as you can hear today from some corners, but change is challenging for some. It has delivered very good housing, good quality apartments, and as I say they are often very much prized now and attract very high prices amongst those.

Ryan BATCHELOR: One of the other things that we talked about earlier is, particularly in relation to the planning scheme amendments and the townhouse code, the consequences of having more consistent and certain application of built form rules, for example, that have greater certainty with deemed-to-comply provisions. The implication of that for replicability in builds, we heard that that has the potential to lead to an increase in labour productivity in the construction sector or other forms of productivity in the construction sector and downward pressure on price in terms of construction costs. Do you agree with that kind of analysis? Do you think that having housing that is built to more certain and common standards should decrease the pressure on upwards price?

Michael FOTHERINGHAM: It should. It should decrease the cost of applying for approvals and it should decrease the time for approvals because there is much more certainty around what is and what is not acceptable. So if there is a clearer set of guidelines, a clearer set of parameters that people can work to, then, yes, they can apply more effectively and more successfully knowing very clearly what is acceptable. So, yes, that will have a cost implication.

Ryan BATCHELOR: And you think that would have a positive implication on costs that would reduce costs because of the scale and the form. Okay.

One of the other things that we have heard about – Ms Watts mentioned it previously in some of the other questions – is the way that the current set of changes are dealing with things like provisions that deal with access to things like solar in homes, the ability for protections in the new code for solar overlays and the like. Do you have any perspective on the importance of those sorts of provisions in the new planning scheme amendments as they are presented?

Brendan COATES: No, Ryan, it is not something we have looked at in any detail.

Ryan BATCHELOR: Okay. A key theme in some of the discussions that we have had has been this proximity to transport centres, and certainly the approach in the activity centres is a significant core with a gradation out, as opposed to the implication of some of the scare campaigns that out there that there are going to be 20 storeys in the suburbs in residential streets. Do you have any perspective on the implications of – I do not want to say a scare campaign – misinformation that has been put out into the community about the implications of some of this work, what that does in terms of public discourse and why it would be important for us to make sure that there is both consistency but also clarity in the schemes that are being presented?

Brendan COATES: I think we have been in a world, Ryan, where we have not allowed the demand that Victorians have for housing to be realised in the built form of our city. If we now relax some of those controls, we will see more housing in those areas. I think that is why it is important –

David DAVIS: We will or we may?

Brendan COATES: I would expect that we will, because I think that is what the evidence shows us is most likely to happen. The question then becomes: where is it? I think one of the benefits of the reforms is there are obviously the activity centres, and I think they have captured more of the public imagination, because taller buildings are more prominent than three townhouses going up next door to my place. But I would actually expect, like what we saw in Auckland, quite a lot of the additional housing will probably be demolishing one home –

David DAVIS: That is heavily contested, actually.

The CHAIR: Mr Davis!

Brendan COATES: and turning it into, say, three, four, five townhouses. So I suspect quite a lot of it will be that gentler density, particularly in a world where it has become more expensive to build. It is more expensive to build particularly apartments at the moment, and those townhouses and dual occupancies and

small-scale apartment buildings are probably the sweet spot where you get the benefits of cheaper infrastructure, because you are closer to the city, because that is what the research shows, and you also maybe economise a bit on housing costs. We are seeing that in Sydney where their low- and mid-rise policy has already seen local residents in some of those communities affected band together and sell lots to developers to build more.

Ryan BATCHELOR: Thank you very much. Thanks, Chair.

The CHAIR: Thank you kindly. Mrs McArthur.

Bev McARTHUR: Thank you, Chair. Mr Coates, if everybody wants to live in the CBD, why haven't the 6000 vacant residences been taken up?

Brendan COATES: Just to clarify, are these residences that have been built but are currently left vacant?

Bev McARTHUR: They are there, ready to be occupied. Clearly nobody wants to go there.

Brendan COATES: Let me just break that down into a couple of bits, if that is okay. The first one is not everyone wants to live in the CBD.

Bev McARTHUR: I thought you said they wanted to live close to the CBD and in the CBD?

The CHAIR: I think we will let Mr Coates have an opportunity to answer.

Bev McARTHUR: Okay. Press on.

Brendan COATES: People have different preferences where they would like to live. You have the place that you prefer to live; I have the place I prefer to live. So does everyone in this room. What we see is on average there are people that would like to live closer in but cannot because we make it hard to build those kinds of homes.

Bev McARTHUR: Well, they are already built – they are just not being taken up. What is your excuse for that?

Brendan COATES: Those particular ones? Well, you are talking about, frankly, a small number of homes in the course of a city of 5 million people.

Bev McARTHUR: It is still 6000 residences that are not being utilised.

Brendan COATES: It reminds me a little bit of the conversation that was had recently about vacant homes and squatting. I do not know if people caught that story on ABC Melbourne –

Bev McARTHUR: I tend not to watch that program.

Brendan COATES: a radio show, where basically a home looked like it had been left vacant, and it turned out it was because the person who owned it – it was a deceased estate – was caring for their parent. So there are often lots of reasons for why homes are vacant.

Bev McARTHUR: I think these are new. Let us go to the –

Michael FOTHERINGHAM: I am not sure which 6000 properties you are referring to, but there is a normal churn of properties in any market. There is a sizeable market for the CBD, so there will be a range of property transfers, property disputes, property renovations, Airbnbs and a range of other reasons that properties –

Bev McARTHUR: All right, okay.

Michael FOTHERINGHAM: Newly built properties. So 6000 in a city this size is a trivial number. But I think there is also a confusion in your question between living in the CBD, the central business district, and living in the inner-ring suburbs. It is not just urban fringe versus the central business district.

Bev McARTHUR: Okay. Let us go to the suburbs then. We have got a situation in one council alone where the council have approved over I think 700 developments, which would equate to over 1200 residences, but not a spade is going into the ground because the costs of bringing that product to market are so great nobody will be able to afford to buy them. That is because of the taxes, charges, various tapes, the cost of construction et cetera, so they are not even a product that can go to market. Planning has not prohibited the fact that these properties have not gone to market. It is the cost that basically government imposes, and the construction industry, on getting these products to market, so there is no way these properties are going to be built. How is it going to be any different with these amendments?

Michael FOTHERINGHAM: Well, your conclusion as to why those properties have not been built – I am not sure where that analysis comes from, attributing it solely to government red tape.

Bev McARTHUR: You can ask the developers – ask them.

Michael FOTHERINGHAM: And they will also point to workforce shortages, and they will also point to material costs and to a wide range of barriers –

Bev McARTHUR: Yes, absolutely.

Michael FOTHERINGHAM: not just government red tape, as you have attributed it to.

Bev McARTHUR: And taxes, red tape, construction charges, supplies.

Michael FOTHERINGHAM: It is a small part of that reality.

Bev McARTHUR: What?

David Davis interjected.

Michael FOTHERINGHAM: I am not sure who the question is coming from.

The CHAIR: Excuse me, Mr Davis, I think Mrs McArthur has got the question, so Mrs McArthur, if you would like to continue.

Bev McARTHUR: Yes. You also referred to rental properties. Now, Mr Davis and I were on – were you on it? – the stamp duty and property tax inquiry, where all of a sudden the government had introduced yet another tax on rental properties and vacant houses. It immediately resulted in a large number of landlords vacating that space, selling the property and taking their investment interstate. So a reduction in rental properties was the end result of that government intervention into the market. Why would you be a landlord in Victoria – there are 125 regulations applying to you. So how are these amendments going to improve the ability of people to be able to rent a house and a landlord prepared to invest in one?

Michael FOTHERINGHAM: Again, I am not sure where that analysis comes from that there was a vast exodus of landlords. That has not been seen in the data.

Bev McARTHUR: Oh! Go to the Parliamentary inquiry.

Michael FOTHERINGHAM: That has not been seen in the data that I have looked at. But this is not a rental reform. This is a planning reform; it is about having supply.

Bev McARTHUR: Yes, but you are talking about how it is going to increase the capacity of rental housing as well – you referred to it.

Michael FOTHERINGHAM: When did I refer to it?

Bev McARTHUR: In your presentation.

Brendan COATES: May I, Mrs McArthur?

Bev McARTHUR: Sure.

Brendan COATES: So we should care a lot about making developments more feasible, right? We should care about that too. The New South Wales productivity commission did a study on this for the New South Wales government just less than a year ago, and the conclusions that they came to were to streamline the planning system to make sure that it is simpler and it is more certain, and that we need to boost our workforce, which is something I agree with, and Grattan is on the record in pushing for that. It was pretty careful about saying that waiving taxes and charges was going to be the way to get more housing.

Bev McARTHUR: No surprise.

The CHAIR: Okay. All right, we will leave it there.

Brendan COATES: And I will just leave it there if I may.

The CHAIR: Thank you so much. Ms Watt, over to you.

Sheena WATT: Thank you, Chair. I think I am the last one on the list of questions, so I might go to particularly the submission, Mr Coates, that you made, and I am thinking particularly of page 5, where you speak to some of the challenges with councils, some arguments there about the zoning of sufficient land for further development and also some of the problems that we have seen with local governments restricting medium- and high-density developments to appease concerns of a vocal minority of local residents. I really wanted to go to the question that I asked earlier about limited supply in some of these areas where we do have a higher number of appeals being made. Do you have any evidence, research or thoughts around that particularly? Because what we are seeing is uneven supply across Melbourne.

Brendan COATES: That is a good question. I think I would probably respond to that in two ways. First of all, the biggest constraint on what gets built is the rules that say what can get built – you know, the fact that where I live you cannot subdivide, so no-one in my street has put in a developer application to subdivide as far as I can tell for a long period of time. The second part is of it is then the application of processes. Given what is allowed and what the rules are, then what is the process through which a developer can seek an application to build a dwelling or multiple dwellings? Certainly what we have seen in our work historically – this is our 2018 report, *Housing Affordability: Re-Imagining the Australian Dream*, box 6 – is that we see a higher share of development applications in, frankly, wealthier, more affluent councils, such as the inner south in particular, going to VCAT and often being approved even though they had been rejected by the council originally. We can see that in the numbers. YIMBY Melbourne have done work that I believe they will be able to speak to tomorrow –

Sheena WATT: Yes. We will be asking them tomorrow.

Brendan COATES: on a similar sort of analysis that is actually more recent than what we did. Ours is over the period from – I think it finished in about 2015 to 2017; theirs is over the last couple of years.

Sheena WATT: You did point out, though, that Victoria's planning system is more open to third-party reviews and therefore results in a higher proportion of planning decisions being appealed. Can I just get some understanding about that point that you made there in your submission on page 6 and therefore what challenges that really presents for Victoria as we try to increase supply and build more homes for more Victorians?

Brendan COATES: My understanding is that –

Sheena WATT: Because, I mean, we are similarly sized.

Brendan COATES: Yes. The rights that Victorians had under the previous planning arrangements gave greater say to third-party appellars in the process than, say, you see in other places like Western Australia, which eschews third-party appeals altogether. YIMBY Melbourne, again, in their submission talked through or presented data on the number of appeals against DA decisions that, which has likely come from some previous academic research.

Sheena WATT: Given the remarks there about how a third of all local council assessed dwelling applications going to VCAT in Melbourne, Port Phillip and Yarra, are we actually seeing, then, confidence and supply being stymied in those areas where in some local government areas we are actually seeing a, what is the word, population decline –

Brendan COATES: Yes.

Sheena WATT: being represented in statistics? Is that something that is concerning when it comes to the challenge of more homes in middle-ring suburbs and inner Melbourne?

Brendan COATES: It is certainly concerning for me in a world where we know that more people would like to live in those areas. This, again, is not the planning system deciding where people must live; it is presenting opportunities for market forces to build more housing, because it is only if people want to live in those areas that more housing is going to get built. If everyone wanted to go to the greenfields, then we would see further greenfield development and no subdivisions, but the reality is that people have a different mix of preferences and –

Sheena WATT: But there is an unmet high demand for housing in these suburbs.

Brendan COATES: Absolutely, yes

Sheena WATT: Is that what your evidence is showing?

Brendan COATES: I think that is very clear.

Sheena WATT: Is that what you are hearing as well?

Michael FOTHERINGHAM: Clearly, yes.

Sheena WATT: Okay. I am interested to explore that further, about the equity of the supply and where it is going and the economic circumstances of those particular LGAs, because I am thinking about my community in Northern Metropolitan Region and the numbers of applications going to VCAT across the urban fringe versus the middle-ring suburbs, and there is that real inequality there and that is why VC267 I think will be so much supported in areas of our middle-ring suburbs. That is it for my questions, but I appreciate the opportunity. Chair, thank you.

The CHAIR: Thank you, Ms Watt. We have got a few minutes left if you are good to keep going. Mr Davis, a quick question?

David DAVIS: With large tracts of land that are available for rezoning and for potential development in the inner city like Fishermans Bend, why have they not been brought on and why have you not talked about those as an option to bring forward?

Brendan COATES: Well, there is development occurring in Fishermans Bend –

David DAVIS: Very little compared to its capacity.

Brendan COATES: Sorry?

David DAVIS: Very little compared to its capacity. I am just saying why have you not brought that forward?

The CHAIR: I think that question has been asked. Would you like to respond or not – whichever you prefer?

Brendan COATES: No, that is a great question. On the very particulars, Mr Davis, of Fishermans Bend, on why that particular area at this particular time has not seen the development, that is not something that I am across in detail. I would –

David DAVIS: The principle, more generally, perhaps of matters of large tracts of this type that are available for development and rezoning with appropriate infrastructure?

Brendan COATES: A great example of that is the Yarra Bend precinct in Fairfield/Alphington, right? We have seen upzoning, or basically we have demolished the former site. We have built a lot of housing.

David DAVIS: The paper factory.

Brendan COATES: The paper factory. That has resulted in a lot of additional rental properties in that area. I had to look for a short-term rental for a family member recently, and that was the only place pretty much in the entire suburb where you could find somewhere to rent.

The specifics of why Fishermans Bend has not been developed, that is a great question. We are happy to look at it, but generally what I would want to look at is: what are the prices and rents for those developments? What is the infrastructure going into those areas? Has it been upzoned before the infrastructure was there? They are some of the questions you would want to ask.

David DAVIS: I would put it to you that there are options. Rather than destroying established suburbs, there are actually options of previous industrial areas that could be brought forward. You are not opposed to that idea, it seems, in principle, but you would want to look at the detail.

Brendan COATES: Certainly.

David DAVIS: Fair enough.

Brendan COATES: The principle would be that you want people to be able to live – Victorians to congregate in the areas where they most want to.

You mentioned the word ‘destroy’. I would push back somewhat and say cities with similar populations but higher densities, places like Vancouver, Toronto and Vienna, outrank Melbourne on quality of life measures. So I do not think necessarily – you seem to be equating more density with destruction.

David DAVIS: Well, there will be destruction under these planning amendments. That is what will happen.

Brendan COATES: It will involve change.

David DAVIS: It will tear down large parts of established Melbourne.

Georgie CROZIER: It will change communities and amenity.

David DAVIS: And heritage.

Brendan COATES: Much like the Art Deco apartments.

David DAVIS: Where there are options – I am putting to you that there are options.

The CHAIR: Mr Fotheringham, would you like to make a contribution on this question?

Michael FOTHERINGHAM: Change is scary, as we have said.

Georgie CROZIER: Stop being patronising.

David DAVIS: It is not about change, it is about outright destruction.

The CHAIR: Blessed are the peacemakers. Mr Batchelor, would you have another –

Michael FOTHERINGHAM: What I was going to say, though –

The CHAIR: Sorry, go ahead.

Michael FOTHERINGHAM: What I was going to say – when Georgie is finished – is that a diversity of solutions is what is needed. Fishermans Bend will not solve all of Melbourne’s problems, nor will these provisions, nor will greenfield development on the outer urban fringes. There is no one solution to these things. We need to be doing multiple things and not cutting off one because there is another thing we could be doing instead that is more convenient to a particular group.

The CHAIR: Thank you. Mr Batchelor.

Ryan BATCHELOR: What are the consequences if we do not – because we are faced with choices, right? Governments, parliaments and members of the Legislative Council, indeed, face choices about whether we

support further action or we oppose further action. So I am interested in the consequences, you think, of us not pursuing an agenda to provide more housing for people who want it and what the consequences of that might be for our community.

Michael FOTHERINGHAM: Worsening housing unaffordability. We see in some international cities in parts of Europe and parts of Asia people are not sharing houses, they are sharing bedrooms because the housing shortage is getting to that stage. There is a risk that we end up following that path and dramatically under-supplying housing to the point that the options people have to take are severely compromised and severely overcrowded – what is, in Australian terms, defined as homelessness.

Ryan BATCHELOR: Brendan?

Brendan COATES: I would say we end up with a poorer economy. I think that has been shown by work from Infrastructure Victoria and a large body of evidence from urban economics. It would result in more expensive housing, as Michael has mentioned, and a greater gap between rich and poor in our suburbs and across our cities, but also, our cities are giant labour markets. They are the ways in which – the reason cities exist is because they are a way for economies to thrive, people to access more jobs and businesses to access more supplies. And certainly if we have a world where we allow more housing to be built, we end up with a denser city. If that is what people want, that is what will happen. If that is not what people want, then it will not happen. But we should make sure we ask the residents that would move into the area as well as those that live there already. So I think the consequence is we would have worse affordability, poorer environmental outcomes and poorer Victorians.

The CHAIR: On that note, we might call it a wrap. Could I firstly thank you, Dr Fotheringham. Mr Coates, it is greatly appreciated you coming in today. We appreciate your very thoughtful contributions and the robust discussion in which you have had the opportunity to participate. I just note that a copy of the transcript will be provided to you for review before it is published to the website. The committee will now take a break for 5 minutes to reset, and we will be joined by Dr Jonathan Spear from Infrastructure Victoria for our final session of the day. Thank you.

Witnesses withdrew.