

**Submission to the Inquiry into the rental and housing
affordability crisis in Victoria**

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Preface

This is a brief submission as after thirty years of housing research at the national and international level I have given up on the notion that detailed evidenced based research has any real impact. I and other colleagues have made detailed submissions on dozens of housing inquiries (Commonwealth and state) over these years and it is difficult to think of one substantive reform flowing from any of them. My submission, is therefore, by way of some general points that may assist in reflection and discussion by the inquiry panel.

Topics Discussed.

- 1 Bi-Partisanship.**
- 2 The adequacy of the rental system and its enforcement**
- 3 The Supply Problem; will planning deregulation help?**
- 4 Is Built to Rent a solution?**
- 5 Short term rental Accommodation. (STRA)**
- 6 The ownership rental relationship**
- 7 Rent control**
- 8 Federal state relations.**

1 Bi-Partisanship. One reason for lack of any substantive policy reform over the last thirty years is the adversarial nature of the contemporary party system. If one party suggests a housing reform it is inevitably used to create a political wedge by other parties, and nothing happens. In most cases policy reforms are not even floated for fear of political reaction. Meanwhile the housing system is in crisis and no evidence of any future improvement.

The best thing that could come out of this inquiry is the establishment of a process towards bipartisan agreement around a housing strategy and associated set of policies. Do politicians and policy advisors really think that Australia's housing crisis can be solved without some form of bi-partisanship? What is most likely is that they will kick the problem further down the road with another inquiry in the future but in the meantime with millions of households experiencing housing hardship and blocked aspirations.

2 The adequacy of the rental system and its enforcement. Various research over the last thirty years, including substantial work by AHURI, could only produce one conclusion; the rental system is inadequate for the role that it now plays (Stone et 2013, Hulse et al 2018, 2019, Martin et al 2018,2022). In the era 1950 to the 1990s it was predominantly a transitional sector for younger households aspiring to, and indeed achieving, home ownership. Event have rendered that role obsolescent and now, and increasingly into the

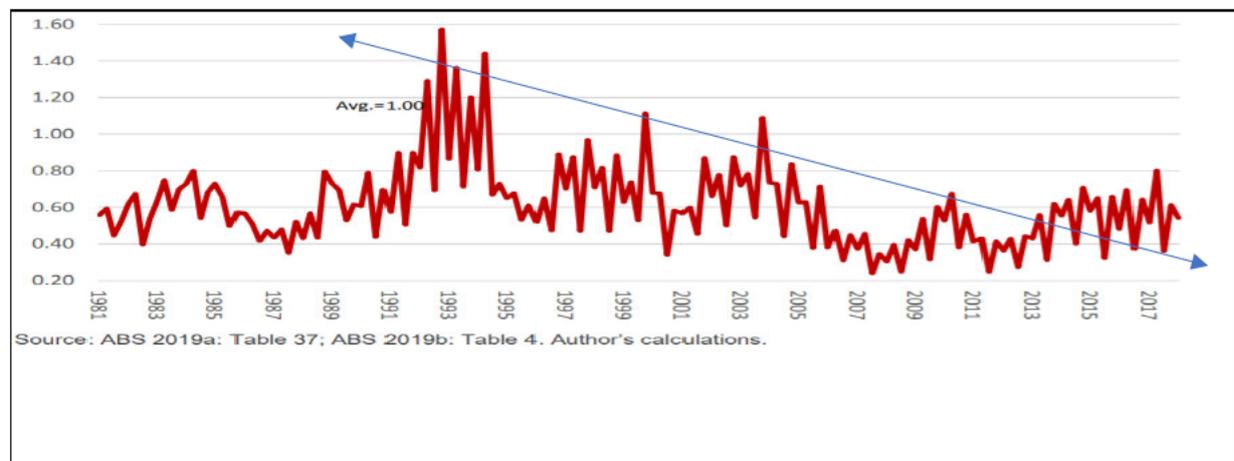
future, its role for large number of households is to provide permanent or long-term accommodation (Stone et al 2013, Burke et al 2022). Residential Tenancy legislation is still premised on the old model as is the provision of small apartment stock with few regulatory requirements of quality or energy efficiency. The ability to document the adequacy of the system is limited by lack of data on dwelling quality, rent increases (data only available for new lets not tenanted), number of occupants, attributes of landlords, and energy consumption. Registration of landlords which includes attributes of the landlord, e.g. multiple ownership, criminal record, and of the rental property should be a starting point and clearly residential tenancy legislation needs further review and adaptation perhaps with incentive to landlords to provide secure long-term rental.

3 The supply problem; will Planning deregulation help? The simple explanation for the rental crisis is excess demand relative to supply; demand being generated by migration and international student household growth and more households blocked from achieving ownership and with supply unable to meet this demand.

The fashionable (although pushed for decades) solution to the supply problem is deregulation of the planning system, just build more dwellings. It is a myth that this idea, along with the associated concentration of development within the existing urban area, will increase housing supply and specifically rental supply. This appears more an accommodation to lobbying and wishful thinking than reflection on how the housing system works. We have now had over thirty years of increasing deregulation and is there any evidence that it has increased housing supply, improved affordability, mitigated homelessness, increased housing security or housing quality? No! it **has** increased housing diversity, reduced urban sprawl over what might have been and probably (this is an unknown) reduced government infrastructure costs but it is difficult to see any contribution to mitigating the problems besetting the rental sector and, in some cases, it has accentuated them, e.g. affordability, quality.

The rate of dwelling construction per population has **declined** over these thirty years (see Figure 1), affordability has declined as urban land values have increased substantially to reflect the best allowed use, i.e, high rise apartments, and many of the multi units are of poor quality and design. In terms of the latter a visit to Scandinavia to see what can be achieved is required by Victorian Politicians and policy makers. Further pushes to deregulate to allow more multi-unit development in urban areas will place even greater pressures on land values (a key factor in declining affordability) and produce little increase in total stock.

Figure 1: Dwelling completions relative to population growth 1981 2018



Source: Burke et al 2019 figure 8 p22.

Why the decline in supply and why won't it increase? The problem that must be faced here is that Australia and Victoria have a contract building system where only as many dwellings will be built as contracted. Whether detached houses on the fringe or multi-unit apartments (75% need to be contracted to get the finance) this is the case. The combination of labour market inequalities, a lean and mean income support system, and ever worsening affordability inevitably means fewer households can contract the construction of a new dwelling. And landlords are no help as historically they have purchased existing stock not commissioned new. Whether regulated or deregulated a turnaround in the declining rate of dwelling construction is unlikely. Blaming local government for the restrictions on supply is an easy political option but denies the reality of the contract housing system.

In short, the key factor leading to low availability of rental properties (and notably at the more affordable end) is the interaction of declining affordability with the contract building system accentuated by the tendency, in the absence of any planning or tax incentives, for landlords to invest in existing stock. As the affordability problem worsens so will the supply problem- a vicious circle that only an increase in social housing can address as was the case for most countries in the post war era. There is a simple test for this argument; ask a builder developer how deregulation will enable or encourage more households or investors to contract the provision of more dwellings!

4 Is Built to Rent (BTR) a solution? In relation to the above BTR will make some contribution to the supply problem by being a construction model that does not depend on the contract system of supply. It is more of a speculative system and one where some deregulation might assist but only for this construction form.

In terms of rental affordability, the BTR sector has lobbied extensively using affordability as their bait to governments. But there is no way this sector will ever be affordable. For the same reason superannuation funds have remained out of affordable housing BTRs are the same; a responsibility to shareholders for a return that is not possible at the affordable end of the market. BTR will concentrate on the higher end of the rental market! Never the less the sector will make an important alternative contribution and that is **rental security**. Even if

it will be for higher income households the ability to offer at least some households greater security than that provided by current residential tenancy legislation is important. Importantly it could be used as a model for more general residential tenancy reform.

5 Short term rental Accommodation. (STRA). It is surprising given the clear problems associated with STRA growth that Victoria has had a hands-off policy for so long. This is a sector even the founders acknowledge has got out of control and reflects the financialisation of property that is creating housing problems internationally (see Burke et al 2003). Particularly in inner urban areas it is clear that the stock being used comes from what would have been long term rental. Regional areas are more uncertain as much of the stock could be holiday houses rather than long term rental.

In inner urban areas where much STRA stock is located that stock is predominantly in multi-unit apartments managed by owner's corporation. The starting point for any policy is a registration system with appropriate penalties for noncompliance but this should be backed by legislation giving Owners Corporations the right to vote on whether they are willing to have Airbnb's in their buildings. Assuming they choose No (a likely majority) this would release stock in those buildings to either the long-term rental market or the owner occupier market. Such legislation needs to be backed an appropriate compliance regime to give body corporations the power to fine non-compliant landlords

To summarise given the evidence of loss of long terms rental and other problems associated with STRA including anti-social behaviour it is important for Victoria to consider state-wide implementation of regulation, licencing of STRAs and appropriate carrots (incentives) and sticks for investors to return STRA dwellings to the long-term rental housing sector. This needs to be a nuanced program appropriate to different sub markets (see Burke et al 2023)

6 The ownership rental relationship. The failures of access to the ownership sector are putting clear pressures on the rental sector but it cuts both ways; the growth of rental **must** come at the expense of ownership. Let's be blunt here. The landlord sector is politically powerful and its attempts to reign in the generous tax provisions e.g. negative gearing and capital gains tax concessions, have been successfully resisted. But politicians and policy makers who are swayed by this lobbying must ask how can home ownership growth and private rental growth coexist? Given the social housing sector is so small in Australia one must grow at the expense of the other. Those who promote landlordism are effectively being anti-home ownership. Desirably politicians and policy makers must evolve a strategy as to what Australia's housing future is to be and what is the roles of each of the tenure sectors. Given the lack of bipartisan ship I suspect inaction will be the default and home ownership will further wither away in the face of a greater political lobby for landlordism than for ownership. Australia has traced a path from the definitive home ownership society in the 1960s and 1970s to not even ranking in the top dozen any more (Burke et al 2019).

7 Rent control. The housing system problems, particularly rental affordability, is being experienced in many other countries. To deal with such problems some countries have had some form of rent control for decades, others more recently. The concern with rent control is that it will have unanticipated side effects and distort the market.

Much of this negative argument is based on research on hard rent controls (such as rent freezes) and not soft controls that allow some increase, only apply to tenanted properties and even then, exclude certain rental stock e.g. that purchased in the last five years, or where there have been substantial renovations, or only in certain locations, i.e those under intense stress (Arnott 2003) The early evidence is that these forms of control do have positive benefits and the side effects are not great (Kholodilin K 2022 Marsh et al 2022, O’Toole 2023). Victoria should give considered thought to soft rent control but in conjunction with other actions such as landlord registration, which would help in the monitoring and evaluation of any such controls.

8 Federal State relationships. It is difficult for any state to have any coherent and meaningful housing policy including for rental without the Commonwealth having its own housing strategy and well targeted housing and housing related policy. Most of Australia’s housing crisis is a federal issue; a lean income support system, a poorly targeted tax system, an inflationary home purchase grant, an inadequately funded Housing and Homeless Assistance program (social housing), an out of date rent assistance scheme, and a migration policy creating demand pressures. Some of these were once solutions to the housing problem; virtually all are now causes. However, the adversarial nature of politics referred to above is even more intense at this level giving little hope for reform and little hope for the states to evolve appropriate housing, including rental housing, options.

At the state level policy options are limited; planning reform (constrained by the attributes of the housing system), residential tenancy reform, regulatory changes e.g. STRA landlord registration, land tax adjustments, and perhaps limited capacity for some financial incentives (state grants) for better rental outcomes are the only possibilities. It is an obvious point, perhaps a pious hope, but real outcomes require pressure from the states for reform and strategic direction from the Commonwealth Government and oppositional parties.

I wish good luck to the inquiry.

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Who am I? Emeritus Professor Terry Burke

I have had a long history of housing research at Swinburne University and have been on a number of Ministerial housing advisory committees, was part of the consultancy team that did the first major review of the need to deregulate Victoria’s planning system (1988), was a member of the Commonwealth local Government and approvals reform program (LARP), have researched and written over a hundred consultancy reports and academic publications e.g. AHURI, developed and convened Swinburne’s flexible delivery suite of post graduate

housing programs (1994-2014) and was deputy chair of the Asian Pacific Network of Housing Researchers (APNHR) from 2003 to 2016.

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