

TRANSCRIPT

LEGISLATIVE COUNCIL LEGAL AND SOCIAL ISSUES COMMITTEE

Inquiry into the Rental and Housing Affordability Crisis in Victoria

Melbourne – Tuesday 19 September 2023

MEMBERS

Trung Luu – Chair

Ryan Batchelor – Deputy Chair

Matthew Bach

Michael Galea

Joe McCracken

Rachel Payne

Aiv Puglielli

Lee Tarlamis

PARTICIPATING MEMBERS

Melina Bath

John Berger

Moira Deeming

David Ettershank

Renee Heath

Wendy Lovell

Sarah Mansfield

WITNESSES

Quentin Kilian, Chief Executive Officer (*via videoconference*),

Sarika Bhalla, Marketing and Communications Manager (*via videoconference*), Real Estate Institute of Victoria; and

Tim Graham, Vice-President, Strata Community Association (Victoria).

The CHAIR: Welcome back to the third session of today's hearing of the Inquiry into the Rental and Housing Affordability Crisis in Victoria.

Before I continue I would like to introduce the members. To my right are Deputy Chair Mr Ryan Batchelor, Aiv Puglielli, Dr Renee Heath and Dr Sarah Mansfield. To my left are Dr Matthew Bach, Mr Joe McCracken and Mr Michael Galea, and we also have Ms Rachel Payne on Zoom.

Joining us in this third session are Mr Tim Graham here and also Mr Quentin Kilian and Ms Sarika Bhalla on Zoom.

I will just quickly read this to the witnesses before we continue. All evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council standing orders. Therefore the information you provide during this 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 thing, 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. The transcript will ultimately be made public and posted on the committee website. For the Hansard record, I will shortly ask that you state your full name and the organisation that you are appearing on behalf of.

Due to time constraints I just remind you I will not ask for opening statements. We will just go straight to questions. Due to the shortness of time, I remind the committee members that their time will be constrained to 4 minutes each, just to make sure that everybody has time to ask questions. Could we start with Mr Tim Graham. Please state your name and organisation. Thank you.

Tim GRAHAM: Thank you, Mr Chair, and good afternoon, committee. My name is Tim Graham, and I am here in my capacity as Vice-President of Strata Community Association.

The CHAIR: Thank you. And Mr Kilian, could you state your name and organisation, please.

Quentin KILIAN: Thank you, Mr Chair. Quentin Kilian. I am the Chief Executive Officer of the Real Estate Institute of Victoria. I do apologise if the line gets a bit dodgy. I am in Auckland at the moment.

The CHAIR: Aren't you lucky?

Quentin KILIAN: Sort of.

The CHAIR: Thank you. And also we have Ms Bhalla.

Sarika BHALLA: Yes. Sarika Bhalla, also from the Real Estate Institute of Victoria.

The CHAIR: Okay. Thank you. As I said, we will go straight to questions due to time constraints. Deputy Chair, would you like to start, please.

Ryan BATCHELOR: Thanks, Chair. Thanks, everyone, for coming. I might start my questions with you, Mr Graham, with respect to how strata associations are managing or dealing with the issue of short-stay accommodation in your buildings. I wonder if you could describe for the committee any of the challenges – and maybe some of the opportunities – faced by strata associations in dealing with short-stay accommodation.

Tim GRAHAM: Thank you. Yes, that would be my pleasure. It certainly has presented a challenge. It is a challenge that existed before Airbnb and similar platforms, but I think it is fair to say it has been given impetus and acceleration by those types of platforms.

It is fair to say – well, it is often characterised – that there are three interest groups in strata developments. There are owner-occupiers, who have a vested interest in both economic and social factors within strata; owner-investors – probably an economic investment but less so social; and tenants – less in both regards, and there is some relationship between the length of tenancy and the level of interest, it is said. I think anecdotally it is fair to say that the interests of overnight tenants are going to be different than long-term owner-occupiers. I think that is a given.

As far as the challenges – well, we have had the Supreme Court tell us that it is beyond an owners corporation's power to make rules prohibiting letting for under a threshold period. It can be done by way of restrictive covenants in the developmental phase, but in my experience that is exceedingly rare.

What the SCA believes should occur, Mr Chairman and committee, is a proper balancing of interests. We recognise that tenancies are important. They underpin things such as tourism and what have you, but there needs to be appropriate regulation in place in order to balance the interests of all stakeholders. Unfortunately, that does not seem to have been occurring. There are no reported decisions to my knowledge – and I am confident in saying there are no reported decisions full stop – in relation to the amendments caused by the *Owners Corporations Act*, so we certainly entreat some regulation. I know there has been some discussion about taxation level and data matching to see where this is occurring, but I do not think that has got too much traction, so we would certainly entreat a closer look at those sorts of things.

Ryan BATCHELOR: So would you be open to things which would give you greater powers or greater capacity to deal with the issues in owners corporations?

Tim GRAHAM: It is submitted that that is appropriate. Owners corporations, rightly or wrongly, are often referred to by the nomenclature 'form of government', and it seems to me that in the same way an owners corporation has the sovereignty to dictate what happens in terms of a whole range of behavioural things within common property, that should extend to short-term letting.

Ryan BATCHELOR: Thanks very much. I might go to the real estate institute briefly if I can within the time. Your submission raises some questions with the minimum standards that are applied to rental properties here in Victoria that were introduced a couple of years ago. I suppose my fundamental question is: do you think there should be minimum standards, and if so, which of the ones that currently apply do you think should not apply going forward?

Quentin KILIAN: Look, I think that is a fairly broad question. Should they apply – absolutely. Yes, we should have some minimum standards, but we have always argued that there needs to be a degree of flexibility in the application of the minimum standards depending on the age of the property, the use of the property, where it is placed. It cannot be a one-size-fits-all model that simply says, 'Here are a range of minimum standards, and they apply to every single property.' We have seen a number of examples that have arisen in particularly older houses where changes have been made to the property and the minimum standard then requires a major retrofit of that property which can extend into hundreds of thousands of dollars. The owner of the property then looks at it and goes, 'Well, I'm never going to get a return on investment for that, so I'll just simply take that out of the marketplace. I'll use it for something else or sell it or move on.' And that simply removes another property from the rental market, so –

Ryan BATCHELOR: Just quickly, are you advocating a position that some tenants in the rental market should have different standards and different rights applied to them than others?

Quentin KILIAN: No. It should be that there is a minimum standard for the livability of the property, so simple things like running water, gas, heating. They are absolutes. It is how it is applied and in what nature, because what we are seeing in many of the properties are some extensive renovations that are required in order to meet what is now the minimum standard – a one-size-fits-all minimum standard. There has to be a case-by-case application of minimum standards, but should you have running water, should you have gas, should you have heating – absolutely, yes.

Ryan BATCHELOR: Thanks very much. Hopefully we get more than just running water in our houses. Thanks, Chair.

Quentin KILIAN: Well, yes. I mean, I am generalising here.

The CHAIR: Thank you. Dr Bach.

Matthew BACH: Thank you all for coming in. I might stay on this broad theme with you first, Mr Kilian. I was interested to hear some evidence from previous guests of ours about exactly the issue you are talking about now – older properties, newer properties and how standards would be applied. I am also concerned about more investors moving out of the marketplace. This might have to be something you take on notice or not, sir. Do you have any data about the impact – just sticking on this issue of older properties – of people retreating from the market because of the significance of the cost burden of meeting the current requirements, for older properties in particular?

Quentin KILIAN: Look, I will be corrected by my staff if I am wrong in this, but with our evidence that we have gathered we have not delved down into the age of the properties per se. We have gone out and we have spoken directly with members en masse to establish how many of their rental providers or landlords are looking at moving out of the marketplace, and it was quite substantial. In fact just recently the *Herald Sun* carried some statistics that showed around 25 per cent of rental providers had left the market in the last 12 months. Now, we know it is actually a little bit higher than that; it is probably more around 27 per cent. That puts the figure at around about 175,000 properties that have been removed from the rental market. On balance to that, reia.com.au have figures that are a little bit rubbery, but around about 5 to 6 per cent of their purchasers are investors. Around about 25 to 27 per cent of investors are leaving the market and only about 6 per cent are coming back in, so we are talking about hundreds of thousands of properties coming out of the rental market in just the last 12 months.

We know that, from discussions we have had with members on this, a great bulk of that has to do with costs – so land taxes going up, increased rates, increased costs. Some of that is also tied to their interest rates going up and making it unaffordable to keep the mortgage. But we also hear from many of our members that the changes that came through in the *Residential Tenancies Act* in the last couple of years, including requirements for new locks and changes that are initiated through the *Residential Tenancies Act*, have been too burdensome for a lot of these smaller rental providers. Bear in mind that 90 per cent of the renters are renting from private residential providers, and out of that, if you look at the numbers, 70 per cent of the rental providers in Victoria own just one property and they, according to ATO stats, earn below \$100,000 a year. So we are not talking about wealthy landowners or land barons; we are talking about the average mum-and-dad investor, for want of a ubiquitous term, that have invested for their future and do not have a lot of spare cash themselves and are barely making ends meet. They want to keep this property, they want to keep the tenant in there and they want to keep the tenant as happy and comfortable as they possibly can, but they have limitations on what they can do and what they can afford.

Matthew BACH: All right. Thank you so much. My time is up, but thank you. We will see if I get another go.

The CHAIR: Aiv, please.

Aiv PUGLIELLI: Hi, Aiv here. Thank you for either Zooming or coming in today. I might go back to REIV for the beginning of my questioning. Just for clarity, for yourselves and the individuals that you represent within your organisation, how is it that you make your money?

Quentin KILIAN: I am so sorry. Can I come back to you? I have just got to get to somebody at the door. Can you go to the other guest, and I will come back to you on that one?

Aiv PUGLIELLI: That is all right. Could I go to your colleague? Is that possible? Thank you. Hi. How do you or members in your organisation make your money within the property industry?

Sarika BHALLA: We are a membership body only. We are a not-for-profit membership body, so we would only get membership fees from the organisation, and our members are across the real estate sector, so there will be buyers agents, real estate agents, property managers – everyone who works under a real estate agent licence.

Aiv PUGLIELLI: Thank you. I appreciate that. So if rents increase in Victoria, do your members or a portion of your members make more money?

Sarika BHALLA: I think I understand where you are going with this, but it is important to remember that renters are just as important for people to keep in the business and for people to earn any income. So when we are talking here, we are talking about the rental market in general, where it would be important to keep a property occupied for anyone to make any money.

Aiv PUGLIELLI: Thank you, I appreciate that. But is that a yes?

Sarika BHALLA: Yes.

Aiv PUGLIELLI: Yes, thank you – just to clarify.

Quentin KILIAN: I will jump in here. Bear in mind that as we see rent rolls decreasing and we see tenants out in the street, that is also going to create a loss of income for our members. If we are increasing pressure on renters to the point that they are departing the market, that is actually detrimental to our industry.

Aiv PUGLIELLI: Just to clarify: departing the market – do you mean becoming homeless?

Quentin KILIAN: No, I am talking about rental providers leaving the market and creating homelessness.

Aiv PUGLIELLI: Providers, pardon me. Thank you. You can see where I am going with this. Does the membership of the REIV or a large portion therein have a vested interest in not only ensuring that rental prices continue to rise but also that there will be more rental properties on the market compared to owner-occupiers if they are receiving income from them?

Quentin KILIAN: No, because we deal in rental properties, we deal in commercial properties and we deal in sales properties. The broad church that we represent also includes owners corporations. It includes buyers advocates, sellers advocates and tenants advocates. There are a number of people within the REIV across an entire broad church. But what we want is a stable property market – a property market that not only grows in value for those that are investing in it but creates homes for those that want to live in them – and the more properties that we have in the marketplace, the better it is going to be for everybody.

Aiv PUGLIELLI: Thank you. Yes, this is what I am going to here. It is good to have the clarification. For the members that receive income from increasing rental rates or from sales, is it in your interest for property prices or rental prices to go down in Victoria?

Quentin KILIAN: I am not sure what you are alluding to here.

Aiv PUGLIELLI: To clarify, in case it helps, I am alluding to: if property prices go down, is that in your financial interest?

Quentin KILIAN: The market drives property prices, not the real estate institute or its members. The market dictates where prices go depending on supply and demand, and if you look at longer term trends, the market goes up and down all the time. It is a fluid market.

Aiv PUGLIELLI: I appreciate that. But when you look over many –

Quentin KILIAN: Our members adjust to the market as the market occurs. We are not going to dictate or be concerned whether the market is going up or down. That happens all the time. What we are concerned about here –

Aiv PUGLIELLI: Yet decades go by and prices have gone up and up and up, and you are saying that is not necessarily in your interest.

Quentin KILIAN: Prices are going up because of lack of supply. The prices are not being driven up by our members or by the investors. The prices are being driven up by the fact that there is a lack of supply and an increased demand, and in any economy if you put supply and demand together and you have an increased demand for a commodity and a lack of supply, it increases the prices.

Aiv PUGLIELLI: Thank you. That is my time, thank you.

The CHAIR: Thank you. Mr Galea, thank you.

Michael GALEA: Thank you, Chair. Thank you all for joining us today. I might also start with you, Mr Kilian. We heard in the previous session from some real estate agents, and by all accounts they seem to be full fee charging agents aiming to deliver a high-quality service. But we also heard the commentary that they will obviously pursue those high-quality properties. What do we do then with those – say, for example, your members – who may be going for a different tack, aiming for low fees and then not providing that same level of service or not providing that same level of upkeep and compliance with, for example, maintenance issues? Do you see that as an issue, and if so, how do we address it?

Quentin KILIAN: We always encourage our members to be fair and equitable in all of their dealings with all socio-economic levels and all pricing levels. I was not privy to the previous conversation that you had and I am not sure who you spoke to or what the commentary was, so I cannot give comment on that. But the reality is that we have agents who serve all levels of socio-economic engagement, from houses in Toorak to farmhouses in Horsham. It is irrelevant. They have a fiduciary duty to look after the owner's interests, because they are being paid by the owner, but they also have a duty to ensure that the tenant's interests are met, to look after those and to relay those back. If repairs and maintenance are due, required and necessary, part of their role is to ensure that those are done in a timely manner. They have a number of external issues that come into repairs and maintenance. That can be whether a tradie is available or whether a part is available. But yes, their duty is to ensure that if repairs and maintenance are required they pass that on to the owner and get them done in a timely manner.

Michael GALEA: I am not saying this is the majority of course, but in the scenario where there is an agent that does not fulfil that duty, what should be the consequence?

Quentin KILIAN: As the regulator, CAV needs to be advised of that. VCAT is a remedy for anybody who is not getting the proper service and adequate repair done, again, in a timely manner. There are regulatory environments that they can take their complaints to and have them looked after and have them met.

Michael GALEA: You said to Mr Batchelor before that a case-by-case approach should be adopted for the minimum standards. What does that look like?

Quentin KILIAN: A case-by-case environment means you need to look at what is being asked of the property owner as to what is actually required for a comfortable living standard for the tenant.

Michael GALEA: If I can perhaps prompt you, you have cited concerns talking about the vastly increased number of pages in the *Residential Tenancies Act*, many of them reforms brought in a few years ago. Do you think that lockable doors should be assessed on a case-by-case basis?

Quentin KILIAN: You are assuming that a simple lock is not an adequate thing for a lockable door. What we have in the Act is quite confusing as to what is a deadlock or what is a deadlatch. It is a rather confusing collection of notes.

Michael GALEA: Do you accept that a house that is being tenanted out should be at least lockable to a basic standard?

Quentin KILIAN: In my view yes, absolutely.

Michael GALEA: And that is one of the provisions of the *RTA*. That is one example, but I am trying to get to what you are saying is in there that actually should not be in there.

Quentin KILIAN: No, I did not say that at all.

Michael GALEA: So what should be considered and perhaps a bit more flexible in a case-by-case approach?

Quentin KILIAN: If you have got the next 2 or 3 hours to spend with me, I can have my colleague send you across the *Residential Tenancies Act* review that we have done for the department. There are at least 20 and

possibly 30 key issues in there that we have raised that need review that are imbalanced and unfair. I am not going to sit here today and try and extract all of those, because (a) I do not have them in front of me and (b) I do not have time because you have got 4-minute blocks for questions.

Michael GALEA: I did want to ask you about your granny flats proposal as well, which I think is very interesting as a good way to increase supply. But I think I am out of time, so I will pass back.

Matthew BACH: Mr Kilian, would you mind providing that document that you just referred to to us, and then we can consider that in your absence. Would that be all right, sir?

Quentin KILIAN: I certainly can, and I will have my colleague send it across to you.

The CHAIR: Thank you. Dr Heath, have you got a question?

Renee HEATH: Thank you very much. Thank you for your submission and your presentation. My first question is: what impact do you think Victoria's taxation regime is having on rental providers?

Quentin KILIAN: It is sending them away in droves. We have seen the evidence of that. We said two years ago when the *Residential Tenancies Act* was being changed and taxation was being mooted that we would lose residential investors by the handful. We are now seeing evidence of that, with 25 to 27 per cent of residential investors pulling out of the market. They have choices now in the marketplace. They can invest their money elsewhere and get much better yields with much less pressure, and that is exactly what is happening. It is putting a heck of a lot of pressure on the rental market. We are now seeing vacancy rates down below 2 per cent, and anything below 2 per cent is rather scary in any rental market. We are down to I think it is about 1.7 or 1.8 per cent in the metro area.

We are seeing pressures in country areas where they cannot employ staff up there to run bars or to work in restaurants, because they have got nowhere to house them. There just are no vacant properties. Mildura alone has a vacancy rate of 0.3 per cent, so quite literally any property that comes to market rents before it has even got a chance to go into an advertisement.

Renee HEATH: Wow. Do you have anything to add, Mr Graham?

Tim GRAHAM: No, thank you.

Renee HEATH: Okay. Obviously, we are experiencing a rental crisis in this state. Would you say some of the actions or the situation with tax in this state are driving that rental crisis?

Quentin KILIAN: I would say a large part of it is driving that rental crisis. Instead of incentivising landlords or rental providers to stay in the market, to increase their investments or to find new and inventive ways of keeping these properties there, the taxation regime is actually driving them away. It is driving them out of the marketplace, and it is actually reducing that rental stock. So yes, we have been advocating for quite some time now that instead of the big stick approach of continually increasing taxation and continually punishing landlords, we need to be incentivising them. We need to be finding ways to make it easier for rental providers to provide those properties. Remember we are dealing with an ecosystem here that has renters on one side and rental providers on the other side. If you break that ecosystem, which is what is happening at the moment, somebody is going to suffer, and it is the renters who are suffering because we do not have the properties for them to rent.

Renee HEATH: To me there seems to be a huge desire to make sure people have housing, yet landlords or rental providers seem to be demonised. Would you agree with that, and what incentives do you think would be helpful to get people into the market?

Quentin KILIAN: Yes, I would agree with that. For some reason it has become a bit of a battleground between renters and rental providers, and it should not be, because the two need to coexist; the two need to be there. One of the things that we have suggested, and it is quite an easy incentivisation, is that if a rental provider keeps a property rented for, say, a period of five years and can show that they have got either a single renter or consecutive renters – with reasonable times for turnovers and transfers, but can show a rental period for those five years – they get a rebate on their land tax. Then for every year or every five years after that that they continue to keep that property rented, they get a rebate on their land tax. Instead of continuing to punish by

increasing land taxes, putting COVID levies on top of land taxes and so on, we should actually be rewarding them for providing these properties.

Renee HEATH: Fantastic. I think that is my time up, unfortunately. Thank you so much.

The CHAIR: Dr Mansfield.

Sarah MANSFIELD: Thank you. I might continue with you, Mr Kilian. The reason we are having this inquiry is because there is a housing affordability crisis at the moment, and we know four in five renters, or 82 per cent of renters, are currently experiencing housing stress. That means they are paying more than 30 per cent of their income on housing. We have rising rates of homelessness, and that is expected to continue. Now, a lot of what you have argued is that to deal with this we need to create more supply, but what are people meant to do right now who are experiencing such significant housing stress? We heard this morning from property managers about people just not being able to afford a rental in the private market anymore. What are these people supposed to do at the moment if the answer is just ‘Build more houses’?

Quentin KILIAN: I am afraid I do not have a magic silver bullet answer for you on that one. The problem stems back over many decades, and it sits firmly in the seat of government in not providing a continual and growing supply of public and social housing. We have seen over the last two decades or three decades the public housing being built dropping off so dramatically but the need for that growing at an equal rate to how it is actually disappearing. The issue comes not now. The issue came three or four decades ago, when it should have been attended to.

So I do not have the answer. As the private industry we do not have the answer. We provide the rental stock through our members and through their investors. What is available is available. We cannot magically go to Bunnings and create more stock; it just does not happen that way. But the government needs to attend to this as quickly as they possibly can, because the great majority of people that are in trouble are those people that need their assistance – those people that do not necessarily have to be looking towards the private market for their rental stock but should be looking towards subsidised or assisted housing through government stock, which is not there and has not been there for decades.

Sarah MANSFIELD: Thank you. You mentioned before that investors are exiting the market. There is other data to show that some of that is really just churn – investors selling to other investors. If you do not agree with that, what is happening to that housing? What is happening with those houses that are being sold?

Quentin KILIAN: Most of the stock is coming off the market and not being used at all, some of it is going into the short-stay market and a lot of it is going back to private buyers, so it is not going to other investors. That is the problem. If it was going to other investors, we would not have a shortage of housing stock for the rental market. You would simply be churning it over. What we have is a rental crisis because we are losing stock in the rental market. It is not being sold to other investors. That is the problem.

Sarah MANSFIELD: You are saying that some of these properties are sitting empty, potentially?

Quentin KILIAN: Some may be used by families, going to children. They may be going to holiday homes. We do not track what is actually happening to the stock, but we know for a fact that it is not going to other investors.

Sarah MANSFIELD: Are you saying that this is an issue in just Victoria, or is it an Australia-wide problem?

Quentin KILIAN: It is an issue Australia-wide. But it is interesting – I am actually in New Zealand meeting with my other CEO colleagues at the moment, and we were discussing this this morning. Each and every one of them is feeling the pinch in the rental market at different levels, with the exception of the ACT. ACT has now become so expensive that investors are not able to sell their properties and people are leaving the ACT itself because of the cost of living. So they are actually seeing a little bit of an increase in their rental availability, but their rental stock is so overpriced because of the regulatory environment that it is in that people cannot afford to live there anymore, so they are leaving.

The CHAIR: Thank you. Ms Payne, do you want to continue?

Rachel PAYNE: Just following on from my colleague Mr Galea's remarks around granny flats, there are obviously limitations in planning applications. I am just wondering, Mr Kilian, if you could talk us through putting a small dwelling on your property. Is that something that could be a potential option for the committee to consider by way of our recommendations?

Quentin KILIAN: Yes, certainly. I think any form of increase in supply is worth considering. The planning considerations certainly have to be taken into account. You have to look at the size of the block, the access to a granny flat and its construct, but absolutely. To give you an example, in the Northern Territory, where I have been living for the last 20-odd years, they worked on a subdivision concept where any block over about 800 square metres could be subdivided provided it had separate access, such as a driveway, and amenities such as availability of water, sewerage and electricity that could be run as a separate supply to that unit. Look, if that is a possibility that people can build granny flats or smaller dwellings or subdivide successfully, it will help to increase supply, absolutely.

Rachel PAYNE: I guess it is looking at and reframing what is currently the system at play. Just on the limitations of granny flats, Victoria has a relatively small amount of granny flats in comparison to other states. Is that due to the limitations here, or is it just that there is not that uptake?

Quentin KILIAN: Look, I honestly could not speak to that. I have not been in Victoria long enough to have any great knowledge of that, but I would suggest that one of the things that do need to be examined and looked at is whether or not council regulations in various areas allow for granny flats or allow for separate dwellings to be built in blocks. You must be mindful of course that a lot of the new building blocks, particularly stock that I have seen, are quite small, so to add an additional dwelling could be quite difficult. But if you go out to the older areas, particularly where you have got much larger house blocks, yes, it is quite doable to add dwellings in there without subdividing a block. It comes back I guess to looking at council regulations in those areas as to what is allowable and disallowable.

Rachel PAYNE: I guess just moving on, in regard to what Dr Heath asked, you talked about the Victorian taxation structure, and 'It doesn't seem to stack up against other jurisdictions' is the point that you made. Do you want to talk us through that a little bit, and is this something we could be reflecting on, looking at other jurisdictions particularly in Australia?

Quentin KILIAN: Well, I would look further afield than Australia. I would look at jurisdictions around the world and look at where they have had success in reviving housing markets, rather than just confining yourself to what is happening here. What is happening here at the moment is that other state governments are starting to follow Victoria, which is a pity and rather scary because we are seeing other state governments looking at our legislation and going, 'Well, that's a nice revenue raiser; let's do that,' and that is causing problems in their states and territories now. I would be looking further afield and looking at areas like Singapore and other jurisdictions. I mean, Singapore has 82 per cent home ownership through their Housing and Development Board. It is a different model, but it is one that is very, very successful. So there are numerous areas that we could be looking at to say, 'How could we incentivise people to be landlords? How could we then incentivise people to become home owners?' Longer term it would be fabulous, for those that are not absolutely fixed into renting – I mean, I am a renter and I will be probably for the rest of my life – for those that do want to become home owners, let us again find ways to incentivise the rent-to-own process rather than demonising it.

The CHAIR: Thank you, Ms Payne.

Rachel PAYNE: Thank you. Thank you, Chair.

The CHAIR: Mr McCracken.

Joe McCracken: Thank you, Chair. Thank you both for your evidence so far. My question is to both of you, and I will probably go to Tim first. In both submissions you have talked about the cost of holding a house, in particular the regulations and how complex they are. I just want to unpack that a bit more. When you say that sort of thing, what does it mean for your members?

Tim GRAHAM: That is a broad comment. Can I just come at –

Joe McCracken: If you have you got any examples, more specific, then that would be helpful.

Tim GRAHAM: Examples of?

Joe McCRACKEN: Any regulation that you find, you know, challenging for members to deal with.

Tim GRAHAM: Probably the main challenge arising out of this discussion is that affordable housing and public housing or social housing we see as two different things that are often thrown in the same amorphous bucket, and they should not be. One of the main challenges for our members has been, particularly in the instance of social housing, owners corporation managers being asked to perform roles that they are simply not equipped, qualified or experienced to deal with.

Joe McCRACKEN: Who is asking them to do that?

Tim GRAHAM: Well, the director of housing in a de facto way, by placing people with needs in a medium- and high-density owners corporation environment, where they should not be. We would entreat for some rigour and criteria around who goes into medium- and high-density environments, because of the impact on the proximity of their neighbours. That is at the front end, and at the back end some mechanism that makes it easier to remove them if they have caused a problem, maybe a three-strike policy or something similar, our submission goes to.

Can I take the opportunity for one short minute to just make a comment about the increase of supply. It was not your direct question, with respect, but I think it would be remiss to be left unsaid from our perspective, and that is that there is a huge potential stock of buildings that warrant renewal. If there are formerly commercial and office buildings that with flexible working arrangements now et cetera could be converted into residential, we would encourage that. There are barriers. There is a wholesale thing that could be done pretty easily, and that is termination of existing strata with a threshold of less than 100 per cent. Currently 100 per cent is required. Other states go at 75. Singapore has a model depending on age about the threshold criteria. But 100 per cent makes it impossible to regenerate these buildings, many of which are beyond their usable life. We are spending a whole lot of money eking out another year of amenity, which is just a false economy. We are not talking, with respect, about picking up granny flats here and there. We are talking about wholesale buildings that can be used. Typically they have already got infrastructure around them and services. As quickly as this, absent the 100 per cent threshold, VCAT has jurisdiction to order collective sales and termination of schemes. There was a legislative amendment implemented by the *Owners Corporations and Other Acts Amendment Act 2021*. It came into operation on 1 December that year. The corollary, with respect, to me seems to be what should have occurred, but one of the barriers to VCAT ordering the termination, absent a unanimous resolution, is that a majority of owners must be opposed, not in favour. So you can have a last-man-standing situation where 99 per cent are in favour of terminating the owners corporation and regenerating the building, but with the last man standing, one person opposing it – last person standing, I should say – VCAT cannot do anything. It needs to have a majority against it, which was the obverse of the previous situation as of 1 December, so we would encourage that to be revisited.

Joe McCRACKEN: So that would make a massive difference in building supply then.

Tim GRAHAM: A hundred per cent, huge and wholesale, with minimum intrusive infrastructure works needed. We are not talking roads and infrastructure or services. It is there.

Joe McCRACKEN: Basically densifying.

Tim GRAHAM: Yes, exactly.

Joe McCRACKEN: Interesting. I think my time is up, I am afraid.

Tim GRAHAM: I went off topic, and for that I do apologise.

Joe McCRACKEN: No, no. It is very useful. I have got more questions.

The CHAIR: Another one.

Joe McCRACKEN: My other question is probably to the real estate institute. You guys talked a lot about taxation, the cost of holding a property and even the over-reliance on property taxes. I want to unpack that a bit more. How does Victoria compare to other states? I know that was part of the discussion before. What does it

mean for the movement of property investors in particular, which is what we are looking at, for the rental market? Are we seeing a big movement away from Victoria to other states or other jurisdictions?

Quentin KILIAN: We are seeing a movement away from Victoria to other, lower taxing jurisdictions, but we are seeing also a movement of investors to other investment vehicles. If you were to go back pre COVID, say, back about two, three or four years, you had very little in the money markets. You had very little in term deposits. You were almost at zero. But your rental yields were producing anywhere around, say, 5 per cent. What you are seeing at the moment are rental yields sitting around 2.5 to 3 per cent at most, but I can get 4.5 to 5 or 6 per cent in term deposits. For a number of investors it is a simple measure of 'I get no grief, no issues and no regulatory hurdles if I simply take my money, go and place it in the money market and do a set-and-forget', which is a concern because bringing those investors back if things change is going to be difficult.

We need to be encouraging the investors to stay in the marketplace, and at the moment we have one of the highest taxing regimes in Australia, with land tax and levies on top of land tax. We have now reduced the threshold from \$250,000 down to \$50,000, which means it captures pretty much every small investor with a tiny one-bedroom apartment, who is now going to be paying a land tax and a COVID levy. On top of that we have a windfall gains tax. Then you have got your federal taxes on top of that. It is a really heavily regulated and heavily taxed environment, and when you consider, as I said before, that 70 per cent of your investors own one property and earn less than \$100,000 and are probably carrying a mortgage on their own property as well as their investment property, with the rising interest rates on top of all of that, the simplest thing for a lot of these people is to go 'I'll just divest myself of that investment and walk away from it.'

Joe McCRACKEN: It is a great shame. Thank you.

The CHAIR: Thank you very much, gentlemen. The time has caught up with us. I also wanted to ask a few questions. I think in those last two answers you actually answered my question as to how and what recommendation you would have to increase the number of stock for both community and private. But at this stage I would like to bring this panel session to a close. Again, I will thank you very much for giving your generous time coming today and giving your submissions. We appreciate it, and definitely we will consider your submissions. Witnesses will receive a copy of the transcript for review in about a week's time, before it is published on the website. We will move to the next session if we could. Thank you very much, gentlemen. Thank you for your time.

Witnesses withdrew.