

Inquiry into the rental and housing affordability crisis

Master Builders Victoria Submission

Table of Contents

Contents

1. Executive Summary	2
2. About Master Builders Victoria (MBV)	2
3. Rental and Housing Affordability in Victoria	3
4. Measuring Rental and Housing Affordability	4
4.1 The Importance of Data	5
5. Factors leading to low availability and high costs of rental properties.....	7
5.1 Taxation.....	7
5.2 Regulation and Legislative Change	9
5.3 Development Contributions.....	12
5.4 Land Supply and Planning	13
Land Supply.....	13
Planning Delivery.....	14
6. Options to address insecurity, availability and affordability issues facing Victorian renters	15
6.1 Increasing the Supply of Social and Affordable Housing	15
Social Housing.....	15
Build to Rent.....	17
2026 Commonwealth Games: Opportunity to deliver a legacy.....	17
6.2 Protection for Renters	18
6.3 Supporting Innovation: Modern Methods of Construction.....	18
7. Recommendations.....	19
8. Contact Details.....	22

1. Executive Summary

Master Builders Victoria is the leading voice and representative of the Victorian building and construction industry. Addressing the barriers to a greater supply of housing will form part of the solution in reducing the pressures on rental and housing affordability in Victoria. Our broader policy is about how the industry and Government can work together to reduce the cost of building and deliver more homes in a shorter timeframe.

This submission outlines the importance of collecting data to measure the progress of policy settings to boost affordability outcomes, as well as the factors that impede the supply of new homes and potential policy options to explore and address these issues.

Taxes, regulations, charges, and the supply of residential land all impact the delivery of new homes and rental properties. Regulations play a key role in ensuring that minimum requirements are met to deliver a better built environment. However, it is vital that the industry is provided with the resources and tools to continue to upskill and adapt to the legislative changes to do this.

There are a variety of government-led initiatives that can assist in providing a secure pipeline of home building work for Victorians. This includes exploring opportunities such as build-to-rent, greater investment into social housing and utilising the 2026 Commonwealth Games to deliver some of the social housing in regional areas. State and local governments must work together to meet land release and urban densification targets to boost the supply of new homes.

The Victorian population will only continue to grow. This is why it is vital that the building and construction industry works together with other stakeholders, such as the government, to deliver a mix of housing stock to meet the needs of all Victorians.

2. About Master Builders Victoria (MBV)

Master Builders Victoria (MBV) represents over 6000 stakeholders from across the building and construction industry. They range from large and small builders, tradespeople across the domestic and commercial sectors, and apprentices, suppliers and manufacturers.

The building and construction industry is one of the most important sectors of the Victorian economy. Our industry is the third-largest full-time employer in Victoria and supports 126,370 businesses, more than every other sector of the economy. The overwhelming majority of these businesses (98.8 per cent) are small, with less than 20 employees. Almost two-thirds of Victoria's construction businesses (62.7 per cent) have no employees at all, typically operating as sole traders.

Building and construction activity has one of the largest multiplier effects on the economy. This is because the structure of activity requires high domestic content for our industry's inputs, such as building materials, labour, and professional services. As a result, it is estimated that every \$1 million spent on residential building activity delivers \$3 million worth of economic activity.

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Our sector delivers housing, parks, infrastructure, schools, hospitals, and other important amenities for the liveability of all Victorians, critical to our community’s well-being and the state’s future prosperity.

3. Rental and Housing Affordability in Victoria

The issue of rental and housing affordability is complex, with considerable variation across geographic markets as well as the circumstances of individuals, families, and households. Affordability is not static, and a household’s affordability situation can change over time due to interest rate variations, job loss, illness, taxation changes and many other factors.

Having the financial capacity to maintain the quality and comfort of a home over time is an aspect of the affordability equation that is often neglected. Related to this is the need to sometimes undertake costly alterations to the home to cope with ageing, disability, or other mobility issues.

Estimated number of homes in Victoria and Australia as of 31 December 2022

Dwelling Age Group	Victoria	Australia
Built in the last 5 years	315 800	954 700
Built between 5 – 9 years ago	289 400	955 700
Built between 10 - 14 years ago	234 400	752 400
Built between 15 - 19 years ago	208 600	786 000
Built between 20 - 24 years ago	192 600	721 800
Built between 25 – 29 years ago	141 300	751 300
Built at least 30 years ago	1 484 600	6 045 700
Total Number of Dwellings	2 866 700	10 968 200
% of Homes at least 30 years	51.8%	55.1%

Source: Master Builders Australia analysis of ABS Building Activity (December 2022)

It is also important to recognise that poorly built or maintained dwellings can have a negative impact on people’s health and wellbeing. In Victoria, data from 2016-2018 found that only around 3 per cent of dwellings were built to a 7-star+ standard¹. This impacts people’s ability to heat and cool their homes to

¹ Moore, Berry, and Ambrose, “Aiming for Mediocrity: The Case of Australian Housing Thermal Performance”; UK Government, “NB2 Energy Performance of Building Certificates.”



maintain a comfortable standard. High energy bills contribute to energy poverty problems. The quality and performance of a home can therefore impact rental and housing affordability outcomes,

As the table illustrates, it is estimated that over 1.4 million Victorian homes are at least 30 years old – just over half of the total.

The Productivity Commission (PC) recently reviewed the National Housing and Homelessness Agreement (NHHA) in 2022. The PC found that issues with rental affordability and security of tenure are better addressed by removing barriers to supply more widely, providing targeted income support for low-income renters and reforming tenancy regulation². As the leading industry body representing the building and construction industry, this submission will focus on addressing the barriers to the delivery of new housing supply.

MBV's view is that the best rental and affordability outcomes generally result when new housing supply can be delivered as quickly and as cost-effectively as possible. Incentives towards developing more housing stock will provide renters and homebuyers with more choices and relieve price pressures on the established home market. This submission will identify the factors which prevent this from occurring and propose solutions to address affordability issues in Victoria.

MBV has recently released a research report, *Building a Transition: Innovative Approaches to Construction Industry Transformation towards a Safer and More Sustainable Future (2023)*. The report reflects on learnings from an international study tour across the UK, Europe, Canada, and the US. Through this research, MBV partnered with RMIT University and examined a range of topics, including regulatory reform insights and innovation in sustainable building practices³. This submission will draw upon some of the findings from international examples of improving rental and housing affordability outcomes and their implications on Victoria.

4. Measuring Rental and Housing Affordability

The issues with rental and housing affordability are not unique to Victoria. The price and availability of rental and housing represent the outcome of demand and supply conditions in the local market. In the case of rental stock and housing, there are numerous factors that can make affordability more difficult and ensure that the problem persists.

The demand for housing in Victoria has continued to increase. This is influenced by population growth, employment opportunities and wages. Over recent decades, there has been a very substantial and long-lasting reduction in mortgage interest rates which has magnified the impact on housing demand. The

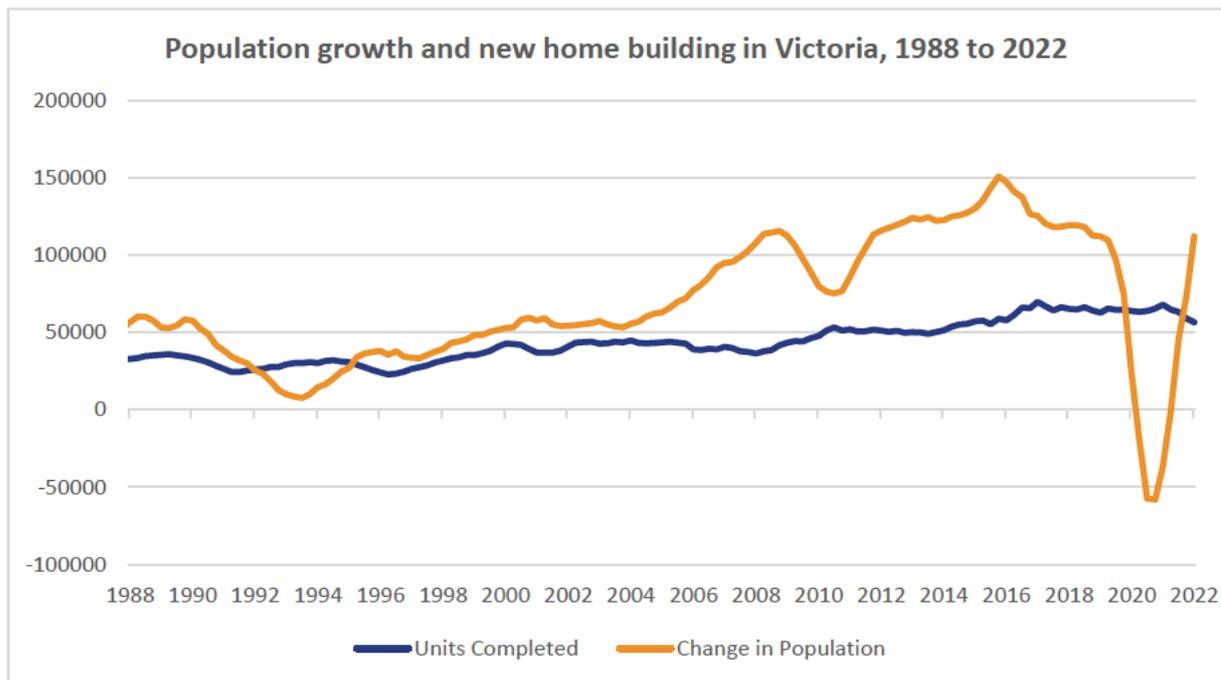
² Productivity Commission. (August 2022). *In need of repair: the national housing and homelessness agreement*. Australian Government. <https://www.pc.gov.au/inquiries/completed/housing-homelessness/report/housing-homelessness.pdf>.

³ Correia, J., Dorignon, L., Moore, T. (2023). *Building a transition: innovative approaches to construction industry transformation towards a safer and more sustainable future*. Master Builders Victoria and RMIT University. doi:10.25439/rmt.23538873.



Reserve Bank of Australia (RBA) has now increased interest rates 12 times since May 2022. This has led to declining consumer confidence and a slowdown in building and construction activity across Victoria. This, paired with the recent surge in immigration, has exacerbated the strains on the rental and housing market.

While housing demand can increase significantly over short periods of time, the supply of new housing usually responds to these changes very slowly. This means that prices in the market rise to achieve some degree of rebalancing of supply and demand. The relationship between population growth and the supply of new homes since the 1980s is demonstrated in the graph below.



Source: Master Builders Victoria Analysis ABS Building Activity and National, State and Territory Population

4.1 The Importance of Data

To be able to establish whether affordability is improving or worsening over time requires good data. Affordability measures can also help identify the categories of individuals, families and households who face the most difficult affordability challenges.

While the measurement of affordability understandably tends to focus on current market home prices, there are several other important aspects to the issue. These include:

- The cost of saving a home deposit and the amount of time required to do so.
- Transaction costs that occur at the time of home purchase, such as, stamp duty, conveyancing fees and insurance costs.
- Other costs related to owning or renting a home such as repairs, maintenance, insurance, council rates.



- Major alterations or additions to the home that may have to be undertaken due to changes in the personal circumstances of its occupants related to health, mobility, disability, or other factors.

While there is a large range of official statistics on building and construction activity in Australia, there are some gaps in some areas that prevent us from fully understanding the sources of affordability problems. This makes it more difficult to understand rental and housing affordability outcomes.

The National Housing Finance and Investment Corporation (NHFIC) found that ‘there is no publicly available aggregated data on developer contributions across most states and territories’. This makes it difficult to assess how developer contributions have increased over time and how they differ across jurisdictions, impeding proper policy evaluation.⁴

NHFIC found that Victorian councils report developer contributions on a consolidated basis in council financial statements, with no detailed breakdown as to which infrastructure type the income is collected for and spent on.⁵ The need for greater transparency in developer contributions will be discussed later in this submission.

Recommendation 1: Optimising data opportunities

Significant data gaps exist with respect to the residential building pipeline. These gaps prevent us from pinpointing the more urgent areas for action. They also make it much more difficult to know whether progress is being made over time. Improvements here would illuminate our understanding of the affordability problem and improve the likelihood of delivering solutions. We currently lack adequate data on:

- The volume and price of land at all stages in the residential pipeline.
- The time taken for land and new home building projects to navigate important processes like zoning, planning milestones, development approval and building approvals.
- The number of new homes being built annually in the social, community and affordable housing spheres.

A centralised and comparable national database of each local government area’s developer contribution receipts and pricing behaviour would allow for performance to be gauged and the best practice models to be identified and learned from.

⁴ National Housing Finance and Investment Corporation. (2021). Developer contributions – how should we pay for new local infrastructure?. Australian Government. <https://www.nhfic.gov.au/sites/default/files/2022-10/210831-research-paper-developer-contributions-how-should-we-pay-for-new-local-infrastructure-final.pdf>.

⁵ Ibid.



5. Factors leading to low availability and high costs of rental properties

Unlike most other goods and services, the time between the start of a new home building project and its completion can be very long and stretch for many years. The time taken to complete a building project depends on its complexity. Once construction work has started, builders and developers face the risk that market conditions can deteriorate significantly before the project reaches completion. This could transform a project providing an acceptable level of financial return to one which barely breaks even or ends up being loss-making.

For example, during COVID-19, the building and construction industry was subject to international and domestic supply chain disruptions, leading to unprecedented material price increases as well as major price increases and delays in finding skills and labour to complete works. These unforeseen shortages and delays led to major business uncertainty across Victoria. The vast majority of contracts signed throughout the Homebuilder stimulus ended with businesses losing money because of the unprecedented price rises and delays.

Building projects face a wide spectrum of potential risks which could emerge from the economic, financial, demographic, regulatory, planning, or political spheres.

Market demand conditions at the time of project completion are the most important factor in determining the viability of new home-building projects, particularly larger-scale ones. There will always be some degree of uncertainty about future demand conditions, and the longer the time lag between project commencement and completion, the greater the uncertainty. The lack of certainty on future demand conditions makes developers and builders more reluctant about proceeding to create new homes in the first place.

5.1 Taxation

Taxation is one of the single most important sources of revenue that governments use to fund public services and meet their financial obligations. However, taxes can make the cost of performing economic activity more expensive. Taxes also can distort how markets function and create or prevent efficient economic outcomes from being achieved. Housing represents an easy target for heavy taxation because of the fundamentally immobile nature of the land and the dwelling stock.

The process of transforming undeveloped greenfield land into finished, habitable homes is met with a range of taxes that are collected by all three levels of government. The effect of these taxes prevents many new home-building projects from proceeding. Those that do get built, are built more slowly, and end up being more expensive because of the many taxes that are 'built-in' to their cost.

Taxes are paid directly to the relevant government during the process of developing, building and selling new homes to their first owner. For example, the residential land developer will pay stamp duty to the state government when purchasing land. Regular land tax payments will also have to be paid for the

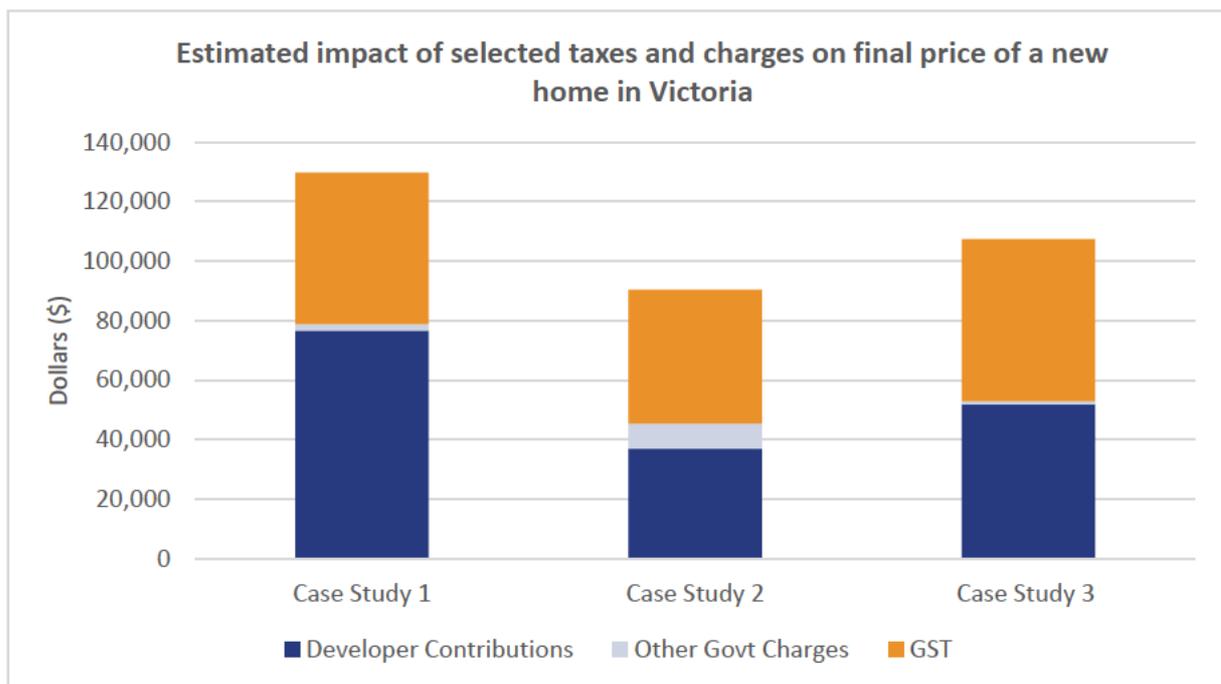


entire period for which the developer holds the land, in addition to local government rates. The stamp duty paid by the buyer of a home is another form of tax and one that impacts people's capacity to save for a deposit and buy a home.

Below is an outline of the taxes that apply to home building:

- Goods and services tax (GST)
- Conveyance stamp duties
- Land taxes paid by the developer and/or builder
- Local government rates
- Levies applied during the development and building process.
- Developer contributions.

The following chart is based on case studies included in the NHFIC (2021) report⁶ and shows how developer contributions, GST and other government charges can add significantly to the cost of a new home.



Source: Master Builders Victoria analysis of NHFIC (2021) Developer Contributions: How should we pay for new local infrastructure?

⁶ National Housing Finance and Investment Corporation. (2021). Developer contributions – how should we pay for new local infrastructure?. Australian Government. <https://www.nhfc.gov.au/sites/default/files/2022-10/210831-research-paper-developer-contributions-how-should-we-pay-for-new-local-infrastructure-final.pdf>.



The base for calculating taxes applied after a new home has been completed, such as GST and stamp duty, includes taxes levied earlier in the development of the home, such as developer contributions and land tax. As a result, earlier taxes have the effect of magnifying later taxes. This ultimately has flow-on effects on rental and housing affordability in Victoria.

Recommendation 2: Review of current property taxation settings and its impact on affordability

The myriad of taxes imposed on housing over the course of its creation need to be fully identified and investigated. Forms of taxation found to have the most detrimental impacts on housing affordability should be transitioned out of with a view to substantially reducing their burden over the longer term.

5.2 Regulation and Legislative Change

Australia, like many developed countries, has sought to improve quality and performance for new housing through the setting and revision of regulations. While well drafted regulation is necessary to ensure buildings meet a suitable standard for the community, when it comes to residential building activity and its final outputs, the imposition of rules and restrictions can have unintended consequences for the cost of producing new homes.

MBV recognises the need for regulation to raise the standards of the built environment, but overregulation can become a burden and have negative consequences on affordability. The amount of regulation placed on residential buildings by governments and regulatory bodies is high compared to many other goods and services in the economy. Regulations can impede the supply of new home building, making it a more expensive activity. Consequently, it can reduce the supply and increase the price of rental properties.

The setting of regulations governing new home building is constantly changing for various reasons. This can often result in poor and fractured development and implementation of regulation across jurisdictions. Absorbing both new regulations and changes to existing ones can also divert some of the resources of the industry away from building new homes.

Governments introduce mandatory regulatory requirements on housing that contribute to delivering broader environmental and social well-being objectives, such as climate emissions reduction and better mobility outcomes. MBV recognises these social dividends are well-intentioned, however, change in regulation must be well drafted and implemented to ensure the industry can deliver better building outcomes to consumers. The rush to regulate can make building more complex and costly, adding to immediate cost pressures and affordability of housing.

For those in the residential building industry, some mandatory regulations can restrict the way in which work can be performed. This means that more efficient and cost-effective ways of completing projects may have to be dropped in favour of significantly more expensive techniques. This includes alternative



approaches to new home building, such as off-site modular construction, which is discussed later in this submission.

The overwhelming majority (98.9 per cent) of building and construction businesses are small⁷. 62.7 per cent of building and construction businesses operate as sole traders. A further 30.4 per cent operate with one to four employees⁸. This means that most building and construction firms do not have resources in the form of technical expertise or departments. As a result, the ever-changing regulatory environment can make it difficult for sole traders and small businesses to keep up. Industry feedback suggests that the net effect of regulatory change over time is resulting in a heavier burden rather than supporting productivity.

MBV has continued to advocate the importance of upskilling industry and ensuring they are provided with the tools and resources for ongoing training. The need for upskilling will be partly addressed when mandatory continued professional development (CPD) is introduced.

The following table indicates the body of regulation that the building industry must navigate to design and build a Domestic Class 1 (single stand-alone dwelling) type building. The number of regulations and pages of material has doubled over the last 20 years. This does not include the Australian Standards that also need to be considered in delivering this type of building work.

NCC Update	Number of Pages of Regulation in Reference to Domestic Class 1 Type Buildings
2022	888
2012	528
2002	415

To demonstrate the impact of regulatory changes, the current National Construction Code (NCC) 2022 includes significant regulatory changes that will substantially alter construction methods for home building. These include:

- New energy efficiency requirements in the construction of the home regarding thermal building fabric (glazing and insulation), space heating, cooling and ventilation, preparedness for renewable energy power supply and energy assessment of building work.
- Accessible housing design requirements for the entrance and ground floor amenities of a home that require more space when governments keep reducing the size of housing.

⁷ The Australian Bureau of Statistics (ABS) defines a small business as a business employing less than 20 people.

⁸ Master Builders Victoria Analysis of ABS Counts of Australian Businesses, including Entries and Exits, June 2022.

<https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/latest-release>



While these changes are well intentioned, the building and construction industry has not been given the appropriate time and resources to develop and upskill to deliver the intended outcomes for consumers⁹. The benefits for the broader community in these reforms can be lost as a result.

The new energy efficiency requirements are expected to increase the average value of a new home building by \$20,000 - \$50,000 per home¹⁰. These additional costs will be directly borne by consumers.

For the thousands of small construction businesses, the existing set of regulations and the stream of changes to their place represents a very major cost. This cost is not just paid in financial terms; learning to understand regulation can take time and energy and add to stress on well-being, mental health and relationships of the people and families who run building and construction businesses.

In addition to the process of implementing regulations, the financial cost of acquiring the publications and manuals in which regulations are detailed can also be very substantial. For example, access to the set of supporting standards relating to NCC 2022 is currently being sold by Standards Australia at a cost of \$1,090 for a one-year subscription. As such, the cost of access and education of regulations impacts the cost of the build and attributes to rising building costs.

Recommendation 3: Tools to support regulation and legislative changes

Building and construction firms should be provided with appropriate implementation time frames to obtain relevant training and upskill to deal with regulatory changes in regulation. Mandatory continued professional development can assist in this space.

Future regulatory changes which affect building and construction activity be evaluated with respect to the aggregate cost of all existing regulations rather than just the marginal cost, however small, of proposed new regulations.

Introduce an effective whole-of-government process for taking a more holistic approach to boosting local capability in the construction supply chain to respond to government crisis and reform efforts. This relates to workforce, materials and infrastructure supply, skills and industry innovation.

Effective implementation of changes can be supported through data sharing with industry bodies and RTOs to support upskilling and effective implementation of regulatory changes.

⁹ The Victorian Government has recently delayed the National Construction Code (NCC) 2022 changes in response to the collapse of Porter Davis Homes and to provide much-needed relief for the industry as it recovers from the effects of supply chain issues, unprecedented material price increases, and skills and labour shortages. These price increases and delays have exacerbated cash flow pressures in the residential and commercial sectors of the industry, particularly for builders who use fixed-price contracts. The Livable Housing, Energy Efficiency, and condensation mitigation requirements, which were due to commence on 1 October 2023, will now be delayed until 1 May 2024. MBV has welcomed this and hopes that there will be forthcoming information and training available for the industry.

¹⁰ Feedback from MBV residential building members and Housing Sector Committee.



5.3 Development Contributions

The link between the value of developer contributions paid and the volume of infrastructure provided in return by the local government is often unclear, disproportionate, and lacking in transparency. The lack of competition in these areas can mean these charges are higher than they would be in a competitive market. As a result, an excessive cost component becomes embedded into the chain of costs impacting the price of a new home.

The Victorian Auditor-General's Office (VAGO) audited local government's developer contributions in 2020. VAGO found that local councils' use of voluntary agreements/ section 173 agreements (VA/s173) lacks transparency because there is no publicly available information about their usage. It is not possible to know or compare how councils use this tool, or its impacts on development, council revenue and infrastructure delivery.¹¹ Growth Areas Infrastructure Contribution (GAIC) was also found to be inefficient and lacking strategic effect due to project funding decisions being split between two disconnected processes.¹²

Recent research by NHFIC found that developer contributions increasingly act like a tax on new housing, which can impede new housing supply and reduce housing affordability for buyers and renters¹³.

Case studies sourced by NHFIC show that developer contributions can amount to between \$37,000 to \$77,000 per dwelling in Victoria. NHFIC has thus estimated that developer contributions can typically amount to around 8 to 11 per cent of total construction costs, making it a substantial contribution to the cost of building a new home and rental costs¹⁴.

¹¹ Victorian Auditor-General's Office. (2020). Managing Development Contributions. Independent assurance report to Parliament 2019–20. https://www.audit.vic.gov.au/sites/default/files/2020-03/20200318-Development-Contribution-report_0.pdf

¹² Ibid.

¹³ National Housing Finance and Investment Corporation. (2021). Developer contributions – how should we pay for new local infrastructure?. Australian Government. <https://www.nhfc.gov.au/sites/default/files/2022-10/210831-research-paper-developer-contributions-how-should-we-pay-for-new-local-infrastructure-final.pdf>.

¹⁴ Ibid.



Recommendation 4: Framework for development contributions

In line with recommendations from the VAGO report on managing development contributions, there is a need for DELWP, Victorian Planning Authority (VPA), State Revenue Office and local councils to work in collaboration to establish a framework that delivers:

- strategic direction for development contributions
- clear accountability and governance arrangements for development contributions
- a plan for monitoring, evaluating and reporting on the outcomes achieved by development contributions at a state and council level.

This will assist in ensuring that developer contributions are being maximised and is delivering infrastructure and services to support new housing developments. It will also ensure that developer contributions are not costed excessively and that they are matched to specific infrastructure provisions and does not negatively contribute to the cost of new housing.

5.4 Land Supply and Planning

Land Supply

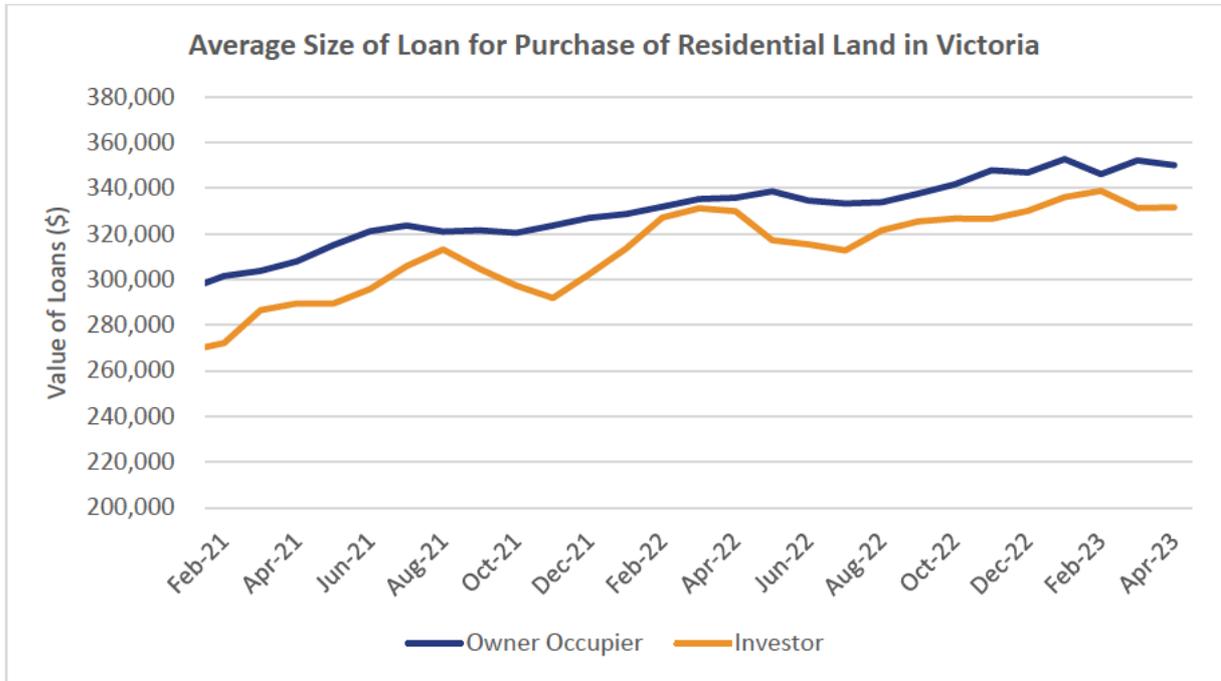
Residential land is the most critical factor in developing every new home. No other input to new housing production can have a massive effect on the price and eventual volume of new home supply. Releasing more land to meet growing demand will mean land prices and new home prices can decrease. As such, the release of land and planning arrangements play a key role in delivering housing and rental affordability outcomes. Inefficiencies and delays in the planning and development stages of building increases the time and cost it takes to create new homes.

Governments often have dominance of the supply for greenfield land. The supply and release of land often ends up being insufficient relative to demand in the market. As a result, greenfield land costs are often elevated due to the excess demand from consumers and developers.

There is limited residential land data available to measure how the impact of land prices and delays contribute to the cost of housing. There is a lack of a nationally consistent set of figures relating to the volume of land at different stages of the pipeline and information relating to transaction volumes and sales prices in the market. This makes it difficult to measure how land prices are impacting rental and housing affordability outcomes in Victoria.

Some understanding can be achieved by analysing the average loan size for the purchase of residential land. As the chart below illustrates, the average size Victorian loan for the purchase of residential land came to \$340,876 in Victoria over the three months to April 2023. Owner-occupiers and investors took out an average loan size of \$352,807 and \$331,661 during this period, respectively.





Source: Master Builders Victoria Analysis ABS Lending Indicators, Australia

MBV has continued to advocate on the importance of greater urban densification to meet the growing housing demand. Incentives for more significant urban densification will play a crucial role in housing our state’s growing population. This will relieve pressures on the existing housing market and positively influence rental and housing affordability outcomes. More significant expansion of ‘as-of-right’ codified planning to fast-track planning approvals for non-contentious development will also support urban densification.

Planning Delivery

The Victorian Planning System is an integral tool to ensure future developments meet the needs of our communities and protect the long-term interests of our built environment for all Victorians. Whilst the current system may deliver successful outcomes for its intended objective, there are concerns from the industry that the process of obtaining planning approval through local government is fragmented, making it difficult for those requiring permits to navigate and obtain them on time.

Implementing a digital tool to assess compliance through the design process, so applications are readily approved will be a positive step forward. MBV recognises that work is in progress to develop e-Planning and e-Approval tools to improve compliance and process, through the development of the Digital Twin Victoria. However, it is vital that there is appropriate funding for the practical delivery of the much-needed improvements to the current inefficiencies through the planning permit process.

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Recommendation 5: Greater land supply for new housing and digitisation of the planning approvals process

The State Government should collaborate with local governments to incentivise the delivery of more residential land and greater urban densification. Developing high-density residential buildings such as apartments, secondary dwellings, and duplexes should be incentivised for local governments. There should also be a greater expansion to fast-track planning approvals for non-contentious developments such as secondary dwellings and subdivisions. This can be achieved by requiring local governments to set targets to provide greater supply options and reward good performance.

Released land should also be appropriately subdivided to ensure that energy efficiencies and savings can be maximised when designing homes.

Funding should be provided to local governments to expedite the digitisation of planning controls so that designers and planners can work with a codified planning system.

6. Options to address insecurity, availability and affordability issues facing Victorian renters

6.1 Increasing the Supply of Social and Affordable Housing

Increasing the supply of social and affordable housing options will assist in boosting the available housing options in Victoria and play a role in supporting rental affordability in Victoria. The Productivity Commission found that ‘supply can have a more sizeable and immediate effect on household rents, which are important to the outcomes of low-income households in the housing market. This is because rents are largely driven by vacancy rates, which are determined in part by the level of supply of housing’.¹⁵

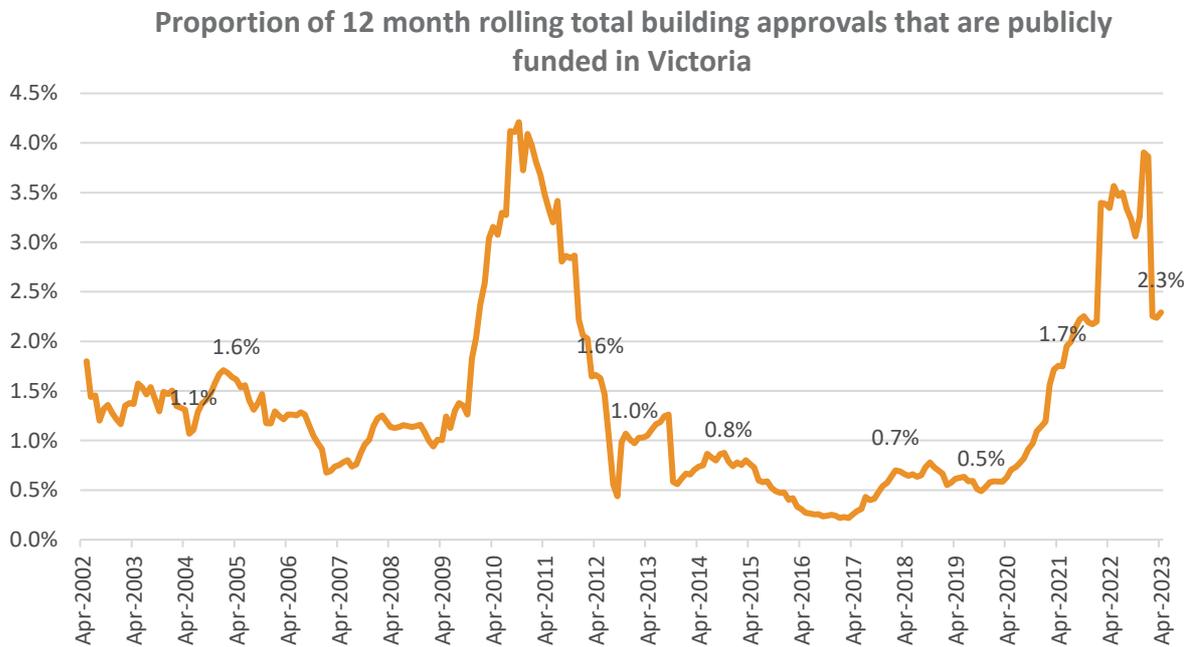
Social Housing

The most direct form of supply-side intervention to assist in rental and housing affordability involves the government’s provision of social housing. The primary purpose of social housing is to meet the housing needs of those who are unable to access private-sector housing. MBV supports the work led by Homes Victoria in the delivery of the \$5 billion Big Housing Build, which was set to deliver 12,000 new dwellings over a four-year period. However, there is yet to be an announcement of a future pipeline of work beyond this.

¹⁵ Productivity Commission. (August 2022). *In need of repair: the national housing and homelessness agreement*. Australian Government. <https://www.pc.gov.au/inquiries/completed/housing-homelessness/report/housing-homelessness.pdf>.



The chart below demonstrates the portion of new home building undertaken by the public sector over recent decades.



Source: Master Builders Victoria Analysis ABS Building Approvals, Australia

The sizeable reduction in new home building by the public sector is largely the result of changes in how social housing is created and delivered. Community housing providers play an important function in the delivery of social housing. However, in official statistics, new housing stock created by them is categorised as ‘private sector’ rather than ‘public sector’. These changes make it more difficult to measure occupant flows in and out of social housing, highlighting the importance of improved data collection relating to social, affordable and community housing needs.

Improved data collection will help ensure that there is accountability and transparency in delivering a pipeline of social and affordable housing options. State and Federal Governments will be better equipped to address any shortfalls in social and affordable housing not only in Victoria, but across Australia.

Recommendation 6: A supply of social and affordable rental and housing options

Social, affordable, community and crisis housing perform a vital function in terms of meeting the needs of some of the most vulnerable Australians. By committing to a long-term pipeline of new housing in this part of the market, governments can tilt the balance of risk in a way that will result in more new homes being created.

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Build to Rent

In recent times, housing stock held by the private sector has been leveraged for use in the provision of social housing. This has involved the use of subsidies that enabled housing to be rented out to tenants at rates well below market norms. Institutional investors should play a larger role in the supply of rental properties. These investors can invest in the construction of new rental properties, also known as build-to-rent. Build-to-rent properties generally employ professional property managers to oversee operations. Greater institutional investment in the rental market could increase the overall supply of rental properties and relieve pressures on prices.

Institutional investors attract a lot of attention but represent only a small part of the Australian rental market. This low share reflects barriers to institutional investment in Australia, including low rental yields and uneven tax settings. Tax and policy settings should be reviewed to promote institutional investment. The Victorian Government has recently introduced a 50 per cent land tax discount for eligible built-to-rent projects. There is a case for governments to level the playing field and review unnecessary barriers to investment.

Recommendation 7: Supporting alternative funding models such as Build-to-Rent

The use of alternative funding mechanisms like Build-to-Rent to allow domestic and international capital to be funnelled into the delivery of new housing supply in Victoria should be examined.

2026 Commonwealth Games: Opportunity to deliver a legacy

The MBV Research report: Building a Transition (2023) visited Birmingham in the UK, where the 2022 Commonwealth Games was held. The Games were hosting 6500 athletes in the villages, which was then to become mainly affordable housing for local residents. Homes England, a government agency, made a significant investment into the delivery of the Games, which made it seen as a future legacy project. Housing outcomes from the Glasgow Commonwealth legacy included affordable rental and an aged care facility which were able to be delivered from the athletes' accommodation with a small retrofit. The housing village was constructed for the athletes to stay in is now 2000 homes for people to live in, in areas of the city that needed regeneration¹⁶.

¹⁶ Correia, J., Dorignon, L., Moore, T. (2023). *Building a transition: innovative approaches to construction industry transformation towards a safer and more sustainable future*. Master Builders Victoria and RMIT University. doi:10.25439/rmt.23538873.



Recommendation 8: 2026 Victorian Commonwealth Games

The delivery of housing for athletes in the upcoming 2026 Commonwealth Games should be seen as an opportunity to deliver a legacy and re-purposed as social and affordable housing options for Victorians across regional Victoria.

6.2 Protection for Renters

The MBV research report: *Building a Transition* (2023) explored opportunities to help make energy efficiency more affordable for households and incentivise people to go beyond the minimum requirements. In Brussels, the local government has introduced a requirement that rent rises be tied to quality and performance requirements¹⁷. Policy decisions and reforms should be considered to incentivise landlords of poorer-quality housing, such as low energy efficiency ratings, to make improvements to the existing housing market.

6.3 Supporting Innovation: Modern Methods of Construction

Modular construction

The MBV research report: *Building a Transition* (2023) identified that the potential benefits of a more concerted move to manufacturing and off-site fabrication as a key short- and longer-term opportunity for Victoria. This type of construction could attract a much-needed more diverse and differently skilled workforce and make use of emerging digital technologies. It could help reduce construction times and affordability, address safety and mental health concerns, and challenging work cultures characterised by a male-dominated, physically demanding industry¹⁸.

There are currently two main barriers to the development of manufacturing housing communities, government regulations such as zoning and negative perceptions. Prefabricated construction methods are less preferred over traditional construction in Australia. This is due to the lack of knowledge on the benefits, limitation, design and construction of the prefabricated construction¹⁹.

Prefabricated construction constitutes a larger portion of the building industry across the world, such as in Sweden (80 per cent), Netherlands (20 per cent), Japan (12 per cent) and Germany (9 per cent).

¹⁷ Correia, J., Dorignon, L., Moore, T. (2023). *Building a transition: innovative approaches to construction industry transformation towards a safer and more sustainable future*. Master Builders Victoria and RMIT University. doi:10.25439/rmt.23538873.

¹⁸Ibid.

¹⁹ Navaratnam, S., Satheeskumar, A., Zhang, G., Nguyen, K., Venkatesan, S., & Poologanathan, K. (2022). The challenges confronting the growth of sustainable prefabricated building construction in Australia: Construction industry views. *Journal of Building Engineering*, 48, 103935. <https://doi.org/10.1016/j.jobbe.2021.103935>.



However, in Australia prefabrication only constitutes to 3 – 5 per cent of the building and construction industry²⁰.

According to the Modular Building Institute (MBI), projects using modular construction accounted for 6 per cent of the total square footage for new construction in 2022 in the US²¹. Conversations with industry stakeholders from the US, highlighted how the misperceptions are starting to evolve from what was once thought as being cheap boxes to a process that offers a higher degree of quality control that is starting to catch up with consumers. Modular construction still requires appropriate regulatory controls, education and outreach, but its use is currently increasing in the US through demonstration projects led by large residential or short-stay accommodation developers²².

Consumers predominately influence the preferred methods of construction of a home. Increasing the uptake of modern methods of construction also requires consumer confidence, which will drive the transformation from the traditional forms of on-site construction. The transformation will not only require the industry to evolve, but also further government investment for the industry, to address regulatory barriers, and market the benefits of this innovation.

Recommendation 9: A regulatory framework and education to support innovation and modern methods of construction

The Victorian Government supports and invests in the development of a regulatory framework, upskilling the industry and educating consumers on the benefits of the transformation towards modular construction to assist in the delivery of new homes.

7. Recommendations

7.1 Optimising data opportunities

Significant data gaps exist with respect to the residential building pipeline. These gaps prevent us from pinpointing the more urgent areas for action. They also make it much more difficult to know whether progress is being made over time. Improvements here would illuminate our understanding of the affordability problem and improve the likelihood of delivering solutions. We currently lack adequate data on:

- The volume and price of land at all stages in the residential pipeline.

²⁰ Ibid.

²¹ Modular Building Institute (MBI). (2023). *2023 Permanent Modular Construction Report*. <https://mbimodularbuildinginstitute.growthzoneapp.com/ap/CloudFile/Download/LwYRWRzp>.

²² Correia, J., Dorignon, L., Moore, T. (2023). *Building a transition: innovative approaches to construction industry transformation towards a safer and more sustainable future*. Master Builders Victoria and RMIT University. doi:10.25439/rmt.23538873.



- The time taken for land and new home building projects to navigate important processes like zoning, planning milestones, development approval and building approvals.
- The number of new homes being built annually in the social, community and affordable housing spheres.

A centralised and comparable national database of each local government area's developer contribution receipts and pricing behaviour would allow for performance to be gauged and the best practice models to be identified and learned from.

7.2 Review of current property taxation settings and its impact on affordability

The myriad of taxes imposed on housing over the course of its creation need to be fully identified and investigated. Forms of taxation found to have the most detrimental impacts on housing affordability should be transitioned out of with a view to substantially reducing their burden over the longer term.

7.3 Tools to support regulation and legislative changes

Building and construction firms should be provided with appropriate implementation time frames to obtain relevant training and upskill to deal with regulatory changes in regulation. Mandatory continued professional development can assist in this space.

Future regulatory changes which affect building and construction activity be evaluated with respect to the aggregate cost of all existing regulations rather than just the marginal cost, however small, of proposed new regulations.

Introduce an effective whole-of-government process for taking a more holistic approach to boosting local capability in the construction supply chain to respond to government crisis and reform efforts. This relates to workforce, materials and infrastructure supply, skills and industry innovation.

Effective implementation of changes can be supported through data sharing with industry bodies and RTOs to support upskilling and effective implementation of regulatory changes.

7.4 Framework for development contributions

In line with recommendations from the VAGO report on managing development contributions, there is a need for DELWP, Victorian Planning Authority (VPA), State Revenue Office and local councils to work in collaboration to establish a framework that delivers:

- strategic direction for development contributions
- clear accountability and governance arrangements for development contributions
- a plan for monitoring, evaluating and reporting on the outcomes achieved by development contributions at a state and council level.



This will assist in ensuring that developer contributions are being maximised and is delivering infrastructure and services to support new housing developments. It will also ensure that developer contributions are not costed excessively and that they are matched to specific infrastructure provisions and does not negatively contribute to the cost of new housing.

7.5 Land supply for new housing and digitisation of the planning approvals process

The State Government should work in collaboration with local governments to incentivise the delivery of more residential land and greater urban densification. The development of high-density residential buildings such as apartments, secondary dwellings, and duplexes should be incentivised for local governments. There should also be greater expansion to fast-track planning approvals for non-contentious developments such as secondary dwellings and subdivisions. This can be achieved by requiring local governments to set targets to provide greater supply options and rewarding good performance.

Released land should also be appropriately subdivided to ensure that energy efficiencies and savings can be maximised in designing homes.

Funding should be provided to local governments to expedite the digitisation of planning controls so that designers and planners can work with a codified planning system.

7.6 A supply of social and affordable rental and housing options

Social, affordable, community and crisis housing perform a vital function in terms of meeting the needs of some of the most vulnerable Australians. By committing to a long-term pipeline of new housing in this part of the market, governments can tilt the balance of risk in a way that will result in more new homes being created.

7.7 Supporting alternative funding models such as Build-to-Rent

The use of alternative funding mechanisms like Build-to-Rent to allow domestic and international capital to be funnelled into the delivery of new housing supply in Victoria should be examined.

7.8 2026 Victorian Commonwealth Games

The delivery of housing for athletes in the upcoming 2026 Commonwealth Games should be seen as an opportunity to deliver a legacy and re-purposed as social and affordable housing options for Victorians across regional Victoria.



7.9 A regulatory framework and education to support innovation and modern methods of construction

The Victorian Government supports and invests in the development of a regulatory framework, upskilling the industry and educating consumers on the benefits of the transformation towards modular construction to assist in the delivery of new homes.

8. Contact Details

