

# **TRANSCRIPT**

## **LEGISLATIVE COUNCIL LEGAL AND SOCIAL ISSUES COMMITTEE**

### **Inquiry into the Rental and Housing Affordability Crisis in Victoria**

Melbourne – Tuesday 10 October 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**

Joseph Moloney, and

Brendan Coates, Grattan Institute; and

Peter Tulip, Centre for Independent Studies (*via videoconference*).

**The CHAIR:** Welcome to the second session for today's hearing. With us we have, from the Grattan Institute, Mr Joseph Moloney and Brendan Coates, and on Zoom we have, from the Centre for Independent Studies, Mr Peter Tulip. Welcome, gentlemen.

Just before we proceed, I would like to read this to you. 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's 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's website.

For the Hansard record, I will later ask you to state your full names and any organisation you are appearing on behalf of. Due to time constraints, there will be no opening statements; we will go straight to questions from committee members. Just reminding the members that have we got probably 5 minutes again for questions from each member. Ryan, would you like to proceed?

**Ryan BATCHELOR:** Absolutely. Thanks, everyone, for coming. I might start with Grattan. The first thing you said in your submission was that we should do more on Commonwealth rent assistance. Obviously three weeks ago we had the largest increase in rent assistance for a very long time. What do you expect to happen in the rental market as a result of the increase in Commonwealth rent assistance? And then what more should happen in terms of that form of Commonwealth subsidy, either in terms of quantum or program reform?

**Brendan COATES:** Certainly. Thank you, Deputy Chair. The 15 per cent increase will help alleviate housing and financial stress amongst those that are recipients of it. The reality is most people who are receiving Commonwealth rent assistance are receiving the maximum amount because the way Commonwealth rent assistance works is you get a 75-cent-on-the-dollar subsidy up to a maximum rent. Most people who are receiving that payment are paying much more than the maximum rent, so the net effect of that policy, frankly, will be not that dissimilar to an increase in JobSeeker or other income support payments. It will alleviate their financial stress because they will have more money in their pockets in order to go out and spend on goods and services. We do not expect it would have a big increase in impact on the rental market in terms of rents, again because it is analogous to a baseline increase in income support payments for most people. What we find in our research is that most people pay to keep a roof over their head first, and then they struggle to afford everything else. So what we expect the rent assistance increase will do is it will in fact mean that people can afford food and can afford other essentials, but again that 15 per cent increase is insufficient given the rates of financial stress that low-income renters are under. We have recommended at least a 40 per cent increase, so that 15 per cent increase should become a 40 per cent increase. There is probably a case for the number to be higher. For example, we have not done the work, but I would expect that if you wanted to avoid retirees living in poverty if they are renters – and half live in poverty today – you would probably need to double the payment.

**Ryan BATCHELOR:** Do you think there are any aspects of the program design that need to be changed, other than the quantum?

**Brendan COATES:** Yes, absolutely. The issue at the moment is the payment is only available to those that are in receipt of a Commonwealth income support payment. There are constitutional constraints. What that means is that many people who do need that support are missing out. Minimum wage earners that do not have children are certainly often in financial stress, but they are not in a position to receive that payment. We could also look at trying to better make use of the money that is currently distributed. At the moment it does go to

some people that are probably in less financial stress, because of the way it interacts with the family payment system, so within any given quantum of federal government expenditure you could make the payment do more to alleviate financial stress and poverty than what we do today.

**Ryan BATCHELOR:** Obviously CRA only goes to those who are on income support payments, so people who are between income support and minimum wage or very low income earners are not receiving that kind of assistance. What sort of assistance in making renting more affordable should we be giving to those types of rental consumers?

**Brendan COATES:** The ideal way that we would deal with that is the Commonwealth and the states would work together to extend income support to those recipients. I am not a constitutional lawyer, but I imagine what that would require would be state governments deferring some of those legislative powers to the Commonwealth in order for that to happen. Otherwise there are various state schemes that I am not as across that seek to support low-income earners, whether it be paying a month of their rent or helping them with the bond. Ultimately, it would be better to do it via Centrelink because that would be a single demand-driven system of support, and that is something that the Commonwealth and the states should work towards via national cabinet.

**Ryan BATCHELOR:** There are obviously a range of subsidies that are going into affordable rental programs that are being run through community housing providers. Do you think that those should go into a direct form of income support?

**Brendan COATES:** There are a couple of reasons for that, Deputy Chair. First of all, subsidies that are attached to the dwelling, which a lot of those affordable housing policies are, limit the choice for the consumer, for the renter, about where they choose to live, because you have got to rent that particular dwelling in order to get access to that subsidy, which can constrain choice. We know that people who find themselves in vulnerable financial situations have often got a lot of constraints they are trying to optimise over, and not giving them choice is costly. The other issue is that they are rationed. We know that a demand-driven system will inherently be more effective in meeting needs over time, and that is what rent assistance is, whereas unfortunately we are not in the same situation when it comes to those affordable housing programs that are not demand driven today.

**Ryan BATCHELOR:** I am at my time, Chair.

**The CHAIR:** Thank you. Dr Heath.

**Renee HEATH:** Thank you for your presentation. How long do people need that social and affordable housing? Do they ever get out of that cycle?

**Brendan COATES:** That is a really good question. The data that we have pulled up, which I do not have immediately to hand, is that actually the typical tenant in social housing tends to stay for at least five years. If you think about what social housing is, it is a deep rental subsidy but also the guarantee of that rental subsidy for a long time, security of tenure and potentially the prospect of wraparound services. A lot of the discourse around social housing treats those that are in a period of rental stress at any one point in time as needing social housing. I am not sure that is the best approach, so certainly there needs to be more work done. If you are thinking about who needs social housing, it is really those that are in an enduring period of financial stress, in the precarious position of nearing homelessness, and that is not everyone who is in rental stress or financial stress in any one given year.

**Renee HEATH:** That is really interesting. Are there supports available to keep people out of this cycle, or do you see it as, 'We're just going to continue to have to build more and more public and social housing'?

**Brendan COATES:** There is certainly a need for more social housing because the existing stock is occupied by those that are going to be there for a while. If you do not have any growth in the stock, even in line with population growth, then those who find themselves in difficult circumstances do not have access to that new stock, and that has been the experience in Victoria and much of Australia over the last 20 years. Trying to get people out of that social housing model is a really tricky one. Obviously if you are in social housing and your income improves, then the size of the subsidy, the rental discount you are getting, falls because your rent is set as a proportion of your income. Currently that is the way in which we support people to reduce the size of the subsidy as their incomes rise. Obviously some affordable housing schemes and some community housing

providers have a combination of both and can switch you between those two. But a real challenge in the way we design social housing today is that once you are in that system there are strong incentives to stay, and for many people that is exactly what they need. But it is why we have always favoured demand-driven subsidies like rent assistance, even a stronger form of rent assistance, to allow people to choose the housing they want and to allow people to transition out of particular forms of social housing as a way of allowing them to get back on their feet.

**Renee HEATH:** That is good. You mentioned in here that rental freezes could do more harm than good. Would you like to explain that a bit more?

**Brendan COATES:** Certainly. There are obviously proposals on the table – the most prominent ones are those made by the Greens both here in Victoria and at a federal level – to freeze rents for two years and then to cap rental growth at no more than the CPI. I think it is 2 per cent perhaps. Obviously it will benefit renters that are already in a home that suits them, but any time that you put a wedge in the long term between what someone is paying for their housing and the opportunity cost of that housing, proxied by the market rent, you are going to cause a big misallocation of the housing stock over time. We see that in places like New York, where you see a misallocation of the housing stock. People are living in homes and hoarding spare bedrooms that they do not need anymore. We see this, to be frank, in social housing as well, which is a form of rent control but one that we think is justified because of the severe situation that that person is in. If you have a rent freeze or long-term rent control that drives that wedge between where rental prices should be and what the person is paying, the risk is you get a big misallocation of the housing stock. You also reduce the incentives to maintain that dwelling in the long term. We have seen that as well – that properties often end up in disrepair. Whereas, if we use things like rent assistance as a demand-side subsidy, that has always struck us as a better approach of generating support for people. It can be funded via higher taxation of things like capital gains tax or negative gearing, something Grattan has supported in the past. That would be a better approach to supporting people that does not have those downside costs.

**Renee HEATH:** Thank you. Thank you, Chair.

**The CHAIR:** Thank you. Mr Puglielli.

**Aiv PUGLIELLI:** Thank you. Thank you for coming in or for Zooming in. I might start with our pair from the Grattan Institute just on the topic of rent freezes and rent controls. You spoke about the benefit that renters in their existing properties will experience from that policy. You are highlighting it as a benefit. Could you see how for those renters in those homes a rent freeze would do them good?

**Brendan COATES:** For some people that are in those homes today it would be beneficial in the short term. There is no doubt about that. You are paying a lower rent than you would otherwise pay in the counterfactual world where rents continue to rise. The issue with rent freezes or strict forms of rent control is that they have costs that grow over time.

**Aiv PUGLIELLI:** What are those costs?

**Brendan COATES:** We just mentioned the one before about misallocation of the housing stock. What that would mean is that if people are hoarding bedrooms – if I could put it that way – because they are not facing the full market price of the housing they occupy in the market, then you need to build more housing for other people in order to house people as well as you would in the world where rent control does not exist.

**Aiv PUGLIELLI:** Just to clarify, who is hoarding the bedrooms? The renters or the owners of the property?

**Brendan COATES:** The renters in this situation where we talking about a rent control that means they are paying below the market rent in the long term.

**Aiv PUGLIELLI:** Sorry, how are they hoarding bedrooms? Are you saying they have got an additional room that could have another person sleeping in there?

**Brendan COATES:** What it means is they would be living in housing where because they are not paying the market cost, the opportunity cost of that housing, they are not paying the price that represents the true scarcity value of the housing that they occupy. They are more likely to find themselves living in properties

where if the rent control policy did not exist they would perhaps be living in a share house, they would perhaps be living with family or they would perhaps not have as large a property.

**Aiv PUGLIELLI:** To clarify, you are saying either they should pay more in rent or have more people live with them. Who benefits in that scenario?

**Brendan COATES:** Well, those who are looking to find a home that cannot find one because the rent control policy is in place.

**Aiv PUGLIELLI:** So the landlords, arguably, in that they are receiving more income from rent?

**Brendan COATES:** Absolutely, yes, which is why we have supported changes to housing taxation policy for a long time. It is just a more efficient way of trying to achieve the objectives.

**Aiv PUGLIELLI:** For sure. Thank you. On the topic of social housing, which we have also just covered in prior contributions, we see a scenario in this country where arguably social housing is seen as a safety net. It is seen as something where you speak about people needing it in the short term to catch them on the pathway potentially to homelessness, whereas in other parts of the world social housing is much more abundant. Public housing is seen much more as a public good that is regularly available to many, not just those who are in really dire straits. Why do you think that is in Australia?

**Brendan COATES:** I think historically it is because governments have not owned a great deal of land. The countries where you have seen that social housing is a large share of the housing stock are countries where either government or community housing providers – not-for-profits, if you will – own a substantial share of the land, often as a result of postwar reconstruction in places like Britain and a bunch of European countries as well. In Australia I think the latest calculations are that governments own less than 4 per cent of land. That social housing stock or public housing stock in other countries is an asset that is worth hundreds of billions of dollars, and the governments in those countries are deploying that asset to provide subsidised housing to many people.

**Aiv PUGLIELLI:** So given that, what would your view be of a scenario where public land is sold off or indefinitely leased to private development given that scarcity of public land that you have noted?

**Brendan COATES:** Well, land has a cost, and so if government is getting a fair market price for the land, then I am ambivalent as to whether the land stays in public ownership or not. The objective here is to make sure we have enough social housing available to fulfil need. That is inherently a values-based proposition because it is about the degree of redistribution in society. So if you are referring to, for example, Victorian government policies that have involved selling off public land in order to modernise or renovate existing social housing developments, I think my concern there is not that the land is no longer in public ownership but my concern there is that it is unclear whether the government is getting value for money because the transactions are opaque.

**Aiv PUGLIELLI:** So you are concerned about the value for money for government and yet you are ambivalent to the use of public land for social housing to provide that crucial support to people who need it?

**Brendan COATES:** This is a question about how we best use public resources. So whether the land is owned by the state, whether the land is owned by community housing providers or whether the land is owned by someone else, what concerns me is the total flow of housing subsidies that are going to those that are vulnerable.

**Aiv PUGLIELLI:** Can you see how it would be a view held by many in the community that we would want to see public land held in public hands for use in public housing?

**Brendan COATES:** Sure. I will put it to you this way, if I may. I am ambivalent whether the existing government landholdings are used for public housing or not. What we should be doing is seeking to make sure that we have social housing available, whether it be public or community housing provider driven, that is in the places where we need that housing. If that involves the government selling some land and buying some more over here or selling some land or passing it on to community housing providers and giving them a subsidy, I am ambivalent between those models as long as it is delivering social housing for the people that need it.

**Aiv PUGLIELLI:** Buying back public land – it sounds really good. Thank you.

**The CHAIR:** Thank you. Michael, would you like to continue please?

**Michael GALEA:** Thank you, Chair. This is a very fascinating conversation. I would love to continue. I might actually ask some questions of Mr Tulip, though, if I may. Mr Tulip, in your submission you talk about the value that can be gained from rezoning. I think you used a really good example from Chapel Street in South Yarra. Obviously it is quite clear how supply has such a major role in this issue, but I would like to ask you about land banking. With that specific example, I do not have the figures to hand, but it was an increase, I think, of \$36 million because the allowance for that property was raised from 13 to 30-something storeys. How do we stop developers from just buying these properties, not developing them and then trying to make the profits off land banking?

**Peter TULIP:** Thank you for having me. I think the first thing I should say is that I am in almost complete agreement with everything that Brendan Coates has been saying so far. On the issue of land banking, it is not clear to me why people are worried about this. It is definitely the case that there are some speculators that hold onto land and do not want to put it on the market immediately, but so what? Why is that an argument for stopping the hundreds of thousands of builders that do want to supply the market? There are lots of builders out there desperate to build. Why are we stopping that just because some developers are not availing themselves of these opportunities. I mean, it is a bit like vaccination. Despite the clear benefits of vaccination, we make it available to everyone, we encourage everyone, and still some people do not take it up. That is not a reason for making it illegal for those who do want it. There are a lot of arguments about land banking, and it is important because it is very much contested. But I have not seen any clear statement of what the policy implications of it are that differ from allowing those people who do want to provide housing that people want to pay for to go ahead. We should relax the zoning restrictions regardless of whether land banking is important or unimportant.

**Michael GALEA:** Do you think that would limit, though, the effectiveness of such reforms in planning rezoning if a lot of that land is locked away?

**Peter TULIP:** Sure. If people do not want to avail themselves of profitable opportunities, then markets do not work as well as they do. But that is unusual. Normally when you provide profitable opportunities, the private economy jumps at it. And it will be the case that if you allow more building, most of that will turn into housing that people want. Not all of it will for a range of reasons, some of them good and some of them bad, but we should still go ahead and allow the building that people do what.

**Michael GALEA:** Do you have any data on the proportion of rezoned land that actually gets built on within a relatively short period of time?

**Peter TULIP:** I do not have data on that. I think the Productivity Commission looked at this maybe over a decade ago and did not think that it was very important. I think there was also a study by the Reserve Bank at about that time, which did not find it was very important. I mean, I know there are other estimates out there that suggest it is more important than that. It is contested, but I do not see whether it matters whether it is large or small. I do not see that it matters; it is policy.

**Michael GALEA:** Thank you. In your submission you also talked about granny flats and how liberalising the construction of those in New South Wales has had a significant impact there. Obviously since then the Victorian government has announced similar reforms as part of the housing statement. How much of an impact do you think this will have for the housing crisis in Victoria?

**Peter TULIP:** Well, in New South Wales when it was liberalised, the construction of granny flats increased about fivefold, and there are about 50,000 new dwellings that have been created as a result of that policy that it looks like would not otherwise have been created. I might say that California, which has also liberalised ADUs, has had very similar responses. So the general result is if you allow more building, people will build and people will provide shelter that people desperately want.

**Michael GALEA:** Thank you very much. I am sure I could ask many, many more questions, but I will pass back to the Chair.

**The CHAIR:** Thank you, Michael. Mr McCracken.

**Joe McCracken:** Thank you. I am going to ask both of your questions about planning, because I note that it is similar in your submissions. I will go to the Grattan Institute first and then I will go to the Centre for Independent Studies. Grattan Institute, you have said that planning rules have impeded the growth of medium- and high-density housing in Victoria. Can you expand on that? What do you mean?

**Brendan Coates:** Certainly, and I will be brief so Peter gets some time as well, because I think his work on this has been leading the way. What we see in Victoria is an expansion of apartment buildings and denser forms of housing in the CBD and the immediate surrounds, and there is not a big change in density in those inner- or middle-ring suburbs. For example, I live 6 kilometres from the city. I am within 300, 400 metres of two train stations, two schools, a shopping strip and a freeway, and there is a single-dwelling covenant over my street. You literally cannot subdivide the homes on my street. Any time a home goes up for sale on my street the neighbours put out signs saying 'We will actively oppose any attempts to remove the single-dwelling covenant' to try to scare off developers.

**Joe McCracken:** So it is nimbby – not in my backyard?

**Brendan Coates:** They are nimbys, yes. Lovely people, but they are definitely nimbys. So what we see is that planning rules constrain what would otherwise be profitable opportunities to increase density in those areas. Our surveys show that certainly when you ask people what sort of housing they want and you give them real-world trade-offs – so they are not able just to say, 'Well, I'd like a six-bedroom house in Toorak with a tennis court and a swimming pool' – when you actually ask them to make real-world trade-offs, and Infrastructure Victoria did a similar exercise at the start of this year, we find unmet demand for denser forms of development, whether it be townhouses, whether it be three-, four-storey apartment buildings and, as Peter's work shows, particularly in Sydney and I suspect the same would apply here in Victoria, unmet demand even for denser forms of housing – so you know, apartment towers.

**Joe McCracken:** So you are saying that the advantage of that would be that – I will use you as an example, if we developed where you live – there is public transport, there are schools; all that is already existing there. The proportionate cost would not be the same as if you had to do that somewhere – a greenfield site, for example?

**Brendan Coates:** It would be cheaper for the individual because they would be closer to work and closer to major amenities than they are today. They would probably be less car dependent. We know that rates of female workforce participation are much lower in suburbs that are poorly served by transport connections to the rest of the city – Point Cook is the one that always comes to mind. And it is cheaper for government as well, because the infrastructure costs, as I understand from Infrastructure Victoria's work, are about two to four times less if you are connecting homes in existing established suburbs to infrastructure than to expand those greenfield trunk lines further out of the city – for freeways, water, electricity and all the rest.

**Joe McCracken:** Of course. The common counterargument is obviously amenity; it is going to impact amenity.

**Brendan Coates:** I think the purpose of planning rules is to manage land uses, right? It is why we do not put abattoirs next to schools and we do not put abattoirs next to people's housing, so I would probably oppose it if they put an abattoir next to where we live, but I am very happy for there to be a four-storey apartment building.

**Joe McCracken:** All right. Thank you. I will go to Peter now.

**Peter Tulip:** I agree with what Brendan was saying. To give you some numbers, the average apartment in Melbourne sells for about \$670,000, but builders can provide that; the cost of supplying that is only about \$550,000. So there is a gap of \$130,000 that arises because of zoning restrictions. It is a supply constraint, just the way it is with taxi licences, with the price well above the cost of supplying. If we allowed more building, the prices could fall about 19 per cent towards the cost of supply. As a general rule of thumb, for every extra per cent increase in the housing stock the cost of housing falls about 2.5 per cent, so there is a substantial improvement in affordability you could get simply by allowing more building – the supply would increase.

On the issue of amenity, Zac Lanigan and I looked at what happened in some Melbourne suburbs when there was high-rise development – in Footscray, Box Hill and South Yarra – and you will be familiar with how the

skyline of those suburbs changed. But neighbourhood amenity, as judged by nearby house prices, did not change. Even though the local residents often opposed those new developments, saying they were going to destroy neighbourhood character, as judged by willingness to pay, the amenity of living in those suburbs was essentially unchanged – and to be precise, it tracked, almost one-for-one, prices in adjoining suburbs. So even though there are some neighbours – Brendan’s neighbours, for example – that are afraid of change and think it will destroy their neighbourhood, there are lots of other potential buyers that like a lively, walkable neighbourhood, and they tend not to have a say and not to be represented in zoning decisions. And as we see from those examples I gave, they are about as important as the noisy nimbys that dominate the planning discussions.

**Joe McCracken:** Thank you. My time is up.

**The Chair:** Thank you. Dr Mansfield.

**Sarah Mansfield:** Thank you. I thank you both for your submissions. I guess part of the reason we are having this inquiry is because there is a housing affordability crisis – so people cannot afford housing. You have both mentioned planning barriers in terms of increasing supply of housing as being one of the big things to address that affordability question, but we know at the moment we have got 120,000 permits that have been approved in Victoria where construction has not actually commenced. It would seem that a part of the reason for this is that it is more profitable to sit on those approvals and delay supply. I am curious about your thoughts on that situation and how that fits in with providing more affordable housing. We have got permits being approved but building not happening because people are holding off until they can make a bit more money.

**Brendan Coates:** Thanks, Dr Mansfield. I think it is a really important question, and it is one of the key sources of contention in the debate. You will always have people acting strategically or landowners acting strategically to decide when they choose to exercise a right to turn that plot of land into housing. That is nothing new. The question is: is that behaviour occurring systemically across an entire development sector in order to constrain housing by developers collectively acting, essentially, as a cartel? There are many developers, even in Melbourne, for housing. There is obviously a bunch that do greenfield sites, where I think it is worth taking the concerns about land banking more seriously, and it is something we would love to see the ACCC look at, partly because if there is nothing there, then we can put the issue to rest, and if it is there, then we can action. There are many, many developers that build small-scale infill housing. If you think of the townhouses that go up all around Melbourne, they are not being built by a cartel of four to five big developers; they are being built by many developers. We do not see much in the way of evidence that says that at the aggregate that kind of strategic behaviour by developers, or landowners generally, is going to be a constraint on supply if upzoning occurs across much of the city, which is what we are advocating for.

The Victorian government, for example, announced a policy recently about taxing vacant land with an attempt to accelerate that process. That kind of policy is worth looking at. We have not had a detailed look at that particular work, but if that was to push some developers or landowners to develop sites more quickly, that would accelerate housing supply. But what we see when we look around the world at places that have done large upzonings, like Auckland, is an acceleration of housing construction at the same time as you still see some of that strategic behaviour occurring. So it is not a constraint. The policy prescription is still to allow more housing to be built. If that strategic behaviour did not occur, you would probably get more. Is it a constraint that means that you will not meet your housing targets if you upzone? I do not think so.

**Peter Tulip:** Can I just say that I agree with Brendan on that.

**Sarah Mansfield:** Thank you. Another issue that has come up in terms of this housing supply issue is that we currently have a situation where we have got 11 per cent of housing stock in Victoria sitting vacant. Again, we keep hearing we need more supply, but is it more profitable to leave places sitting empty at the moment with the current policy settings we have, given we have got such a high number of dwellings sitting empty? I am just wondering about your thoughts on that.

**Brendan Coates:** Look, it is a good question. I do know that the ABS released some data recently looking at vacant homes, but I have not actually got that. Joe here has got that – thank you. I was going to plead the fifth and hold out, but you have put me on the spot, mate.

Of those homes that are seen to be vacant, most of them were in use as a primary residence. The rate of vacant dwellings from successive censuses has not really increased very much. Historically I think 9 per cent of homes have been vacant – maybe it is like 9 to 10. That is a result of homes being renovated, homes currently empty and vacant because they are for sale – lots of different reasons. It is natural to see a certain number of homes vacant. Now, are there some homes that are being used as stores of financial wealth by some people? Yes. But those people are incurring a cost in doing that. They are incurring the cost of forgoing the rental yield on those properties, either by living in it themselves and not having to pay rent somewhere else or renting it out to someone else.

It is very hard to tackle that problem because the vacant property tax that the government put in place a couple of years ago is very easy to get around, because it is hard to prove. There are naturally legitimate exceptions and exemptions – holiday homes – and that is very hard to get around. Is that a reason not to upzone? Again, I do not think it is, because what we see is that lots of people will make choices about the land they own and the housing they occupy or own, but at the margin, will upzoning lead to more housing supply? The evidence says yes, and that is why we should do it.

**Peter TULIP:** Can I add something to that? When we are talking about the unused capacity to supply housing, people focus a lot on this 10 per cent of the existing housing stock that is not being used, but Brendan used the example of his property – think about the 10, 20, 30 storeys that could be above his single-family dwelling. You have got his property and his land where something like 5 or 10 per cent of that potential space is being used, so we have got something like a 95 per cent vacancy rate on that property where there is scope for extra housing that is not being used. The focus on the vacancy rate, which as Brendan mentions is typically for good reasons – holiday homes, people in transition and so on – it is just trivial relative to the unused space currently being used for detached housing that could be used for high density.

**The CHAIR:** Dr Bach.

**Matthew BACH:** Thank you. Thank you, both. Peter, I was going to ask you a question that I think you have already answered. I was going to ask you: how much do planning regulations add to the cost of new homes? You used a figure a little bit earlier of \$130,000.

**Peter TULIP:** Yes. That would be a figure for Melbourne apartments. It is about 19 per cent of the cost of supply.

**Matthew BACH:** All right. Thank you. I was really interested, both in your submissions and in what you have talked to us about today, that there is much unanimity around the notion that we need zoning changes. My pre-existing views have only been hardened through the course of this inquiry. Like where you said you live, I live 11 kilometres from the city, can walk to the tram, can walk to the train, in Surrey Hills. Everyone lives on a 700-square-metre block – it is quite outrageous – down the road from Box Hill, which is a fabulous place. Peter, you referred to it before, it most certainly has not destroyed our amenity. Could I ask you about something that we have not talked about, and that is the first home owner grant. Maybe we will start with you, Peter, and then I would love your views too, the team from Grattan. I think I know what you are going to say, but I would still love your views nonetheless, Peter.

**Peter TULIP:** We do not like first home owner grants. It is a boost to demand, so people use those grants to bid up the price of housing. It benefits the lucky recipients of the grant but everyone else in the housing market suffers. Unless you are doing something to boost supply, you are just reshuffling a given stock from your ordinary buyer to the favoured recipient of the grant, and it does not do anything to overall improve affordability. It just makes it harder for some and easier for others. But if we do want to improve overall affordability for everyone, you need to increase supply – you should not boost demand.

**Matthew BACH:** All right. Thank you very much, Peter. Is that broadly your view, Brendan?

**Brendan COATES:** Yes, that is right.

**Matthew BACH:** Excellent. I was interested, Peter, that you said that one of the ways to do what it looks like everyone here today is keen to do, and that is to increase density in middle-ring suburbs where we know people want to live, where we know there is excellent infrastructure, is to set and enforce high housing targets for local councils. You talked a little bit earlier, the team from Grattan, about some of your ideas. Perhaps

starting with you, Peter, what are some other things that we can do – noting that I think this is an excellent idea – to try to deal with our noisy nimbys? In discussions, especially with my friends in local council, many think that in Surrey Hills where I live, and elsewhere, there is just not a social licence for the sort of changes that the Centre for Independent Studies advocates and Grattan advocates and that I for one wholeheartedly support.

**Peter TULIP:** So yes, there is a very big problem in that even if Brendan and I were to convince all of you in this room that we need to increase density, I do not think that is going to change policy, because the millions of Victorians outside this conversation will be unconvinced. Public opinion is the big obstacle to housing reform and affordability, and we need to change that to get sustained changes in supply and affordability. Relevant to that, you mentioned the unanimity between Grattan and the CIS; it is not just us, it is the overwhelming bulk of urban economists.

**Matthew BACH:** Everyone with a brain.

**Peter TULIP:** No, it is everyone that has looked closely at the research, which has overwhelmingly suggested that the problem with affordability is one of zoning restrictions. You see that in all the surveys and the research, you see that in official reports from the commonwealth Productivity Commission, the NSW Productivity Commission, the Falinski inquiry, the Glenn Stevens inquiry. Again and again and again official reports and research suggest we need to increase planning. The big issue we need to do is to convince the public of that. I think the really important step there is just to explain to the public the harm that zoning restrictions do, because I do not think they understand that and I do not think they appreciate that. Brendan's neighbours think that they can stop high density in his street without harming the position of renters and future buyers and their own children, and in fact their own retirement, and it needs to be clarified to them that they are causing this huge affordability crisis.

**Matthew BACH:** Thank you very much.

**The CHAIR:** With just 3 minutes left, I will quickly ask these questions. In relation to you, Peter, I know you mentioned planning restrictions make housing expensive. In relation to social housing, can you just expand your explanation of what you consider, in relation to subsidies and choices, what is the best way to assist those in relation to social housing?

**Peter TULIP:** Well, I agree with what Brendan said on this: the most effective way of helping most renters in need of more affordable housing is through Commonwealth rental assistance. There are clear reasons why you would want social housing – you want temporary housing for victims of domestic violence or for refugees and you want permanent assistance for people with substance abuse problems or mental illness – but otherwise the overwhelming majority of people in receipt of subsidised housing would be better off with the cash and being able to choose housing that suits their own particular circumstances. With that support they can choose housing that changes when their job requirements change and their family conditions change, and this is generally a much more flexible way of helping them. I think what I am saying there is largely just rephrasing what Brendan said earlier.

**The CHAIR:** Okay. Thank you. I think you have answered most of the questions I was seeking to ask you, Brendan. Obviously in your opinion the overall framework puts too much restriction on development. Can you give some clear indication of some recommendations we can consider to improve that and make it more accessible for housing?

**Brendan COATES:** Thank you, Mr Luu. I should also just mention at the outset that my neighbours are lovely people and wonderful, generous people. But I think the point that Peter is making is that people probably do not fully understand the cost of the choices that we are making. I think that is true with respect to the zoning restrictions and the impact that has on people being able to choose where they want to live.

Specifically on how to upzone, I should note that this is probably the piece that was missing from the Victorian housing statement – the targets are very ambitious, and they are the right targets in our view. If we did build 20,000 to 25,000 extra homes above a baseline number and if we did that for a decade, we estimate rents would be close to 20 per cent lower than they currently, or than they otherwise would be I should say. So it has the potential to make a big difference. But what you need is to allow more houses to be built in established suburbs.

There are two ways I think you could do that. One is that you just directly change the rules. You are about to hear from YIMBY Melbourne shortly. They have got a report out this week on a missing middle-density zone that allows up to six storeys close to major transport nodes, as well as abolishing the neighbourhood residential zone and replacing that – allowing instead the general residential zone to apply in all areas where the neighbourhood residential zone currently applies. They look like the kind of recommendations that would make the difference. Now, we have not done the detailed work as to whether they are precisely the right answers, but they look certainly in the right direction. They would be the things that I would do.

You could also do housing targets for councils, noting that the councils themselves do not necessarily get to choose the underlying zoning on all properties. That is my understanding of how the planning framework works in Victoria. Ultimately the state will have to upzone, but you could also put in place housing targets for states, tied to local infrastructure spending. Ideally you would do a strength and windfall gains tax so any uplift from land values – let us say my property gets upzoned to four storeys and I decide actually I will sell that to a developer who will build 15 townhouses or 15 apartments. Then that upzoning value should be captured by the state and you could then take that money and plough it back into the local community to allow more infrastructure and parks and gardens and libraries and everything else that you want in the area.

Then, finally, I would say it is important to acknowledge that what does get built today is often not of great quality, and that is a form of externality. It is a one-shot game. Where I used to live in Preston, at the end of our street was a big factory that was zoned for seven storeys. If that development was done well, it would shape the entire area. It was done poorly, that opportunity would be lost. The government has expanded the future homes initiative, something that Grattan actually did push for ahead of the 2018 election. We think that is a good idea, because the quality of development actually makes a big difference, so encouraging the use of good design and good materials is very important as well, and it will actually reassure communities that what gets built around them will be good quality and stand the test of time.

**The CHAIR:** Okay. Just one quick question before we finish off our time. There is one thing we have not got to touch. Airbnbs have been mentioned quite a bit. In your opinion, very briefly, how do we encourage them to turn back to the long-term market?

**Brendan COATES:** I think a tax or levy is the best approach. Now, in the long term, building more supply is absolutely the answer. In the short term, we have a housing shortage, and it is going to time to fix that. So in the short term we have supported a levy on Airbnbs to encourage the owners of those properties to put them back on the long-term rental market and boost long-term supply. It is not costless – it will hurt regional tourism, it will have economic costs. But it is less costly than having more people homeless on the street.

**The CHAIR:** Thank you so much. That brings this panel session to a close. I would again like to thank so much the panellists for the generous time they have given today. Witnesses will receive a copy of the transcript for them to view in about a week's time before it is published on the website.

**Witnesses withdrew.**