

# **Submission to the Legislative Council Legal and Social Issues Committee Inquiry into the rental and housing affordability crisis in Victoria**



June, 2023



Mr Trung Luu MLC  
Chair, Legislative Council Legal and Social  
Issues Committee  
Parliament House, Spring Street  
East Melbourne VIC 3002

Re: Inquiry into the rental and  
housing affordability crisis  
in Victoria

Dear Mr Luu,

YIMBY Melbourne thanks the Legislative Council Legal and Social Issues Committee for the opportunity to provide input into the rental and housing affordability crisis in Victoria.

As an organisation that advocates for housing abundance, we write to the Legislative Council's Inquiry into the rental and housing affordability crisis in Victoria to bring to the committee's attention the barriers to housing development in Victoria, which this organisation contends is the primary factor "leading to low availability and high costs of rental properties", per this inquiry's terms of reference. We submit that by addressing these concerns, governments have the opportunity to simultaneously address the other concerns set out in the terms of reference: namely, housing insecurity, conditions of housing stock, and home ownership.

Our submission focuses predominantly on the supply-side pressures on the rental and housing affordability crisis in Victoria, and will address inquiry terms of reference 1, 2, and 6.

The recommendations in this submission, and the resulting high vacancy rates and market pressures, will increase bargaining power against landlords, and result in more equitable outcomes for one of Australia's fastest-growing demographics: renters.

We believe that through addressing the housing crisis through meaningful densification, governments can create a bigger, better Melbourne with improved outcomes for Melburnians' health, wellbeing, productivity, and environment.

We thank the Committee for engaging with our organisation, and look forward to working with you throughout this inquiry and beyond.

Yours sincerely,



Jonathan O'Brien  
Lead Organiser, YIMBY Melbourne  
[contact@yimbymelbourne.org.au](mailto:contact@yimbymelbourne.org.au)

## Introduction

For years, Melbourne's population has grown faster than our housing stock has been able to keep up. The result is housing scarcity: a framework in which shelter, an essential human need, is not made readily available for all. This is due to a set of perverse incentives, including a decades-long status quo in which housing has been the primary method for Australians to accumulate household wealth<sup>1</sup>. This has made reform challenging, as the call for affordable housing—that is, the call for housing prices to fall—requires great political willpower to execute. We at YIMBY Melbourne call for house prices to explicitly fall, and we believe the best way to bring that lowering of prices is through a framework of **housing abundance**.

Contrary to housing scarcity, housing abundance is a framework in which it is easy to build within our cities, and where growth happens around amenities and infrastructure, augmenting our existing communities with more resources and citizens. For a bigger, better, and more sustainable Melbourne, housing abundance, via inner-city densification and building up, rather than out, is the only viable path forward.

This document contains three sections.

1. The positive outcomes for renters and homeowners within a housing abundant framework.
2. The conservative biases and failings of local council planning tools.
3. Select state-level reforms that would in-part help alleviate the worst effects of the housing crisis.

We conclude this submission by providing a summary of our recommendations.

# Housing Abundance Enables More Equitable Renter Bargaining & Homebuyer Outcomes

Failure to provide adequate housing supply has shifted the balance of power away from renters and towards landlords, creating a significant imbalance in Victoria's rental market. The vacancy rate as of May 2023 is 1.2%<sup>2</sup>, falling dramatically short of the 3% rate widely considered necessary for a balance in bargaining power between tenants and landlords<sup>3,4</sup>.

To put it simply, the more variety of housing, and the more supply of housing located in places that people want to live, the more power is afforded to renters. Renters do not choose a home based on price alone; they also factor in location, amenities, and quality of stock. This is why we champion housing abundance: building houses where people want to live gives people greater bargaining power in the rental market, and leads to better social outcomes<sup>5</sup>.

As per the most recent Homes Victoria Rental Report, 6.1% of total lettings in Metropolitan Melbourne, or 3,186 available homes, are listed at affordable prices<sup>6</sup>. And when it comes to the increasing proportion of our population who live alone, affordable choices are nearly non-existent: a mere 83 affordable lettings are single bedroom, and only 219 are dual bedroom<sup>7</sup>.

If a single person wants to stay near their family, friends and work, their options are to either consume and pay for more housing than they want to, or move away from their community to a place they can actually afford. Furthering this point, rental prices for one bedroom flats have increased by 24.5% over the past year, highlighting the extreme imbalance between the supply and demand for this type of housing<sup>8</sup>.

Pushing poorer people to the suburban fringe forces them to be more car-dependent, and increases the amount of time they spend every day commuting, exposing them to increases in fuel prices and other costs associated with car-based transit<sup>9</sup>, as well as the lost time associated with an unwanted commute.

This situation is worse for those most vulnerable to rental stress. The lack of social housing in Victoria, which had a net increase of just 74 dwellings over four years<sup>10</sup>, plays a clear role in contributing to the rapidly rising rates of low-income households relying on the private rental market for housing, as per the Productivity Commission<sup>11</sup>. This further contributes to aggregate housing demand as more and more people fight for the scarce number of affordable private rentals. An increase in social housing builds, which we call for, would help relieve this pressure for those who feel it the deepest.

Housing scarcity affects everyone, and the impact on higher income earners, who are best-positioned for homeownership, flows down to everyone else. Melbourne's soaring housing prices in a housing-scarce environment is forcing prospective homeowners to spend more time in the private rental sector<sup>12</sup>, as the time required to save for a down payment on a house has nearly doubled from 6 years in 2001 to 11.2 in 2022.

Higher rents means less can be put towards a deposit, and higher house prices means more needs to be saved before a household can move out of the rental market<sup>13</sup>. Narratives around renter displacement pits these two groups against one another and assumes losers are a necessary evil; this is an overtly cynical view. Through housing abundance we can both grow these local communities whilst preventing displacement by providing housing for current and future residents.

Both local and state governments have a role to play in easing the housing crisis and the next two sections cover what can be done in terms of policy and design of government at each of these levels to enable housing abundance in Victoria.

# Local Government Planning: Bad Toolkit, Worse Outcomes

The Victorian Government has correctly identified that one of the key roadblocks to housing abundance is local councils, with several councils regularly weaponising planning powers against the expansion of housing supply<sup>14,15,16,17</sup>.

While this can sometimes be attributed to the political capture of councils or the inappropriate strength of local government planning powers, the core problem is that the restricted configuration of powers at local governments' disposal leads to bad outcomes.

This submission gives two examples of this blunt tooling:

1. Heritage and Neighbourhood Character Overlays
2. Per-application third-party appeals

This limited toolkit, combined with the shrinking scope of council powers and responsibilities, has resulted in councillors representing their communities in a reactive rather than proactive way<sup>18</sup>. This is exacerbated by recent reforms, such as the adoption of single-member wards and the reduction of fiscal independence. Research from the United States has shown that moving from at-large or multi-member districts on councils to single-member districts suppresses housing construction by as much as 25%—even more so for apartment developments, an effect exacerbated by the district having a higher than average proportion of homeowners<sup>19</sup>.

As such, the structure of local government privileges the views of time-rich existing residents—and overwhelmingly those who favour a more conservative planning approach—at the expense of renters and aspirational future residents, who support and would benefit from housing abundance.

This is reinforced when the tools available to councils also favour those time-rich residents who oppose change.

## Blunt Tool 1: Heritage and Neighbourhood Character Overlays

Council deployment of Heritage and Neighbourhood Character Overlays has created an additional barrier to densifying much of the inner-city. In Yarra alone, there are 22,505 heritage properties, and in the City of Melbourne there are 12,867 heritage properties<sup>20</sup>.

While support for Heritage and Neighbourhood Character overlays cross political lines, it is worth noting that they are by their nature tools of conservatism. There is no deployment of a Heritage or Neighbourhood Character Overlay which encourages growth, dynamism, or change within a community. Rather, these Overlays by necessity benefit the sensibilities, financial interests, and proclivities of incumbent landowners. That this is one of the main planning tools available to Melbourne's councils is a bad precedent for a city that wants and needs to grow.

## Blunt Tool 2: Per-application third-party appeals

The current third-party appeal system has a similar bias toward incumbents and conservatism. This is more explicit within some councils than others, such as Moroondara, whose planning webpage only has an 'Object' button for developments listed on their planning website, and no equivalent button for 'Support'<sup>21</sup>.

This adds another tier to the already high threshold for participation in planning politics. The time required to engage with meetings on a project-by-project basis privileges the voices of objectors to individual projects over the voices who would support broader strategic visions for the city. This is in no small part because when councils make decisions they often hear only the vocal anti-development incumbent minority within their LGA, consistently excluding the voices of those who do not live in an area but would like to<sup>22</sup>.

These tools and incentives add up to what Gleeson et al. (2010) call 'metropolitan disenfranchisement': the sum of factors that leave huge swathes of our cities' current and populations locked out of decision-making<sup>23</sup>. A simple tangible example of this is a young family in the outer suburbs wanting to move closer to work in the city has no way to influence an inner urban council to facilitate more affordable housing for them.

It has been a large part of our mission at YIMBY Melbourne to advocate on behalf of people like this, and to organise on behalf of future residents across a broad range of Melbourne's inner-city councils. We have done so successfully, and will continue to do so.

We do this while recognising that it is only through broader city- and state-wide politics that we can have productive conversations about the future of a bigger, better Melbourne. Local governments in their current form have access only to the least useful of planning tools, and are influenced by too many perverse incentives to use those tools effectively<sup>24</sup>.

Meaningful reform is required at the state level in order to create a housing-abundant future for Melbourne, and a number of those key reforms will be discussed in the following section.

# State Government Planning: Three Exemplary Reforms

The State Government has a number of levers available to them that would remove structural disincentives to housing development and promote housing abundance in Melbourne. Many such levers were raised in Infrastructure Victoria's March 2023 *Our Home Choices* report<sup>25</sup>. Within the scope of this submission, YIMBY Melbourne recommends three effective reforms.

## Setting housing targets and incentives for local government areas

As the negative externalities of local government planning decisions are often borne by those outside of the council's purview, setting minimum housing targets and pairing them with both incentives and disincentives could help manage these externalities. Setting targets based on clear guidelines and evidence will ensure new housing supply is added to areas where it is most needed, and will help ensure that new housing is spread optimally across council areas.

For proposed local models, both Infrastructure Victoria<sup>26</sup> and the Falinski Report<sup>27</sup> point towards linking the fulfilment of housing targets with additional funding for infrastructure and service delivery. This reward-based incentive will encourage councils to grow and densify, as expanded housing capacity will be supplemented with additional resourcing for councils and their communities.

Councils can also be incentivised to meet their housing target through a model similar to the 'builder's remedy' that has been used with success in California and New Jersey<sup>28</sup>. Under this incentive structure, councils that fail to meet their housing targets must abdicate control over most zoning restrictions, and housing developments that meet an affordability threshold are given a significantly streamlined approval process<sup>29</sup>.

## Car Parking Minimums

We echo the evidence from Infrastructure Victoria<sup>30</sup> and planners more broadly<sup>31</sup> that rigid minimum car parking requirements are raising the prices unnecessarily of new homes in areas with good public and active transport infrastructure. Merri-bek Council's 2019 Parking Implementation Plan found that building costs increased by upwards of \$46,000 per parking space, in a number of cases increasing apartment prices by more than 10%<sup>32</sup>. These costs are passed on to inner-city homeowners and renters who don't own cars, exacerbating the affordability crisis through poor land use. The abolition of parking minimums—that is, letting developers opt in to building a given number of carparks, rather than being forced to do so—would enable more affordable construction across Victoria, and would end a system in which many Victorians are forced to pay for carparks they do not use.

## Reforming stamp duty to improve housing affordability

The role of stamp duty as an inhibitor of housing affordability is well understood. First home buyers struggle to meet the combined upfront cost of a deposit and stamp duty, with stamp duty also acting as a deterrent for existing owner-occupiers who might want to downsize or move. This incentivises households to consume more housing than they currently need, and imposes costs on families that change their plans or who are unable to anticipate all of their future needs.

We recognise that while the benefits of stamp duty reform are great, there are political and financial costs associated with the transition away from stamp duty. We refer to our previous submission to the Inquiry into Land Transfer Duty Fees<sup>33</sup> for a more detailed exploration of the topic.

## Conclusion

**First and foremost**, we urge that the Government view the ongoing rental and housing affordability crisis as the result of chronic housing undersupply following decades of neglect. This has led to a reduction of equitable outcomes for renters and homebuyers alike. It has also led to the erosion of local councils and their planning toolkit, as well as an under-use of state-level incentives.

We call for the government to recognise that the way toward a more sustainable and affordable future is through the framework of housing abundance, and hope that the issues and reforms outlined in this submission provide some limited insight on how to begin making progress in that direction.

This report has a set of key recommendations:

1. Prioritise the increase of private and public housing supply in order to increase renter bargaining power and homebuyer purchasing power.
2. Reform local council planning toolkits, and amend the conservative bias of current processes.
3. Utilise a greater array of state-based powers, including but not limited to:
  - a. the introduction of explicit housing targets across councils,
  - b. the abolition of parking minimums and other outdated planning requirements, and
  - c. the abolition of stamp duty in favour of a broad-based land tax.

YIMBY Melbourne sees these reforms as a critical first step toward achieving housing abundance across Melbourne and Victoria more broadly. These recommendations are in no way exhaustive, and we look forward to expanding upon this list in further policy documents set to be released later in the year. ▲

## Endnotes

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