

Policy Pitch – *Housing Affordability: resurrecting the Australian dream*

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Is the great Australian dream becoming a fantasy? Public anxiety about housing affordability is on the rise. Home ownership rates are on the decline, especially among the young. Australian house prices have more than doubled since the mid-1990s, outstripping incomes. Without change, a generation of Australians risks being locked out of the housing market.

Australian governments are responding. Federal Treasurer Scott Morrison's May budget contained a "comprehensive" housing affordability package. The Victorian and NSW State Governments have both announced packages to help first home buyers. But are these any different from a string of policy changes over the last few decades that were supposed to fix the problems with housing affordability? Why have house prices continued to rise? And how do we work out what would really make a difference to housing affordability?

In this *Policy Pitch* event at the State Library of Victoria, Sally Capp (Victorian Executive Director at the Property Council of Australia), Nicki Hutley (Director & Chief Economist at Urbis) and Brendan Coates (Fellow at Grattan Institute) discussed the problems, and weighed the options for reform.

Moderator: Paul Austin, Independent Media & Communications Consultant

Speakers: Sally Capp, Victorian Executive Director, Property Council of Australia

Nicki Hutley, Director & Chief Economist, Urbis

Brendan Coates, Fellow, Grattan Institute

PAUL AUSTIN: Thank you so much, Jo, and can I also welcome everyone to this *Policy Pitch* event at this wonderful forum, the State Library of Victoria. I'd like to join Jo in acknowledging the traditional owners of the land on which we meet and I too pay my respect to their elders past and present. It's my privilege to be joined tonight by a panel of experts in the field. I can promise you, I think, that in an hour or so you'll know a lot more about housing affordability; I know I certainly will.

Brendan Coates is a policy fellow and a colleague of mine at the Grattan Institute. Brendan has worked in the Federal Treasury and with the World Bank in Indonesia and his research focus at the Grattan Institute includes housing policy. In fact, Brendan right now is about knee-deep in preparing a new Grattan report on housing affordability, which will be available on our website or in an email inbox near you very soon, so watch out for that. Nicki Hutley is one of Australia's most distinguished economists. She's worked for Axis Economics, KPMG, Rothschilds, the Deutschebank, Lloyds, you name it, and she's given policy advice to governments across all levels in Australia and New Zealand. As Jo mentioned, Nicki is Director and Chief Economist with Urbis and we're delighted to have her with us this evening. Sally Capp, as many of you would know, has represented Victorians and Melburnians in numerous leadership roles with the Victorian Chamber of Commerce & Industry, on the Committee for Melbourne, and as Victoria's Agent General in London from 2009 to 2012. Sally is the Victorian

Executive Director of the Property Council Australia and, much more impressive than that, she was also the first female director of the mighty Collingwood Football Club. Please put your hands together for our panellists.

So very briefly, the structure for this evening is that the panel will discuss and debate the issues for perhaps half an hour/40 minutes, which will leave about half an hour for questions from you, our audience members. I have in my hands here some very good questions that have been submitted in writing from audience members when you registered and I hope that I might be able to put some of those to the panel tonight, but we certainly encourage live questions from the floor, so I would ask you to get ready to put your hands up and grab my attention when that time comes. In John Howard's famous phrase, housing affordability is surely one of the great barbecue-stoppers of Australian political and social life. It seems that we've all got something to say about property prices, about a development in our neighbourhood, or about how our kids might never be able to afford to get a foothold on the great Australian property ladder. We're going to tease out some of those questions tonight, but I wanted to start, if I may, with a couple of very basic definitional issues. Nicki, I wonder if I could ask you to explain this to us: what is housing affordability? We use the phrase endlessly, but what does it mean? What are we actually talking about?

NICKI HUTLEY: I think this is actually a crucial point to get right from the start, because people do misrepresent what we're talking about and people mean lots of different things when they're talking about housing affordability. When we talk about it from a traditional economic sense what we mean is that at least 40% of the lowest income earners, the lowest two quintiles, should be paying no more than 30% of their income in mortgage or rental payments, most likely rental payments. Now that's the standard textbook definition, but it's become a much wider definition because of the rapid rise in housing prices and so people start to talk about what about the income to house price ratio? If you actually look at mortgage payments from the recently released Census data to the last Census data, they've actually come down a tiny bit, but what has gone up is the amount of deposit that you need to pay.

I have Millennial children who tell me that they're better off eating smashed avocado and going on trips overseas because they will never own a house, so I sat down and thought alright, I really need to work out what it is they can and can't afford. For a young couple who might be a few years into the workforce, they're making their way up and they're earning \$70,000 each, which is not unreasonable given that average incomes are significantly higher than that now, they can basically borrow around about \$740,000 and still be able to have the occasional smashed avocado on toast without going overboard, but what they would need is a \$160,000 deposit. Now, even if they save around \$1,000 a month, it's going to take them nearly 11 years if the bank of mum and dad or grandma and grandpa don't help them out. We're seeing that the level of new home buyers in the market has fallen dramatically, but one of the interesting things that I found in some of the ABS data is the actual number of first home buyers in New South Wales it's only 8%, but if you look at Victoria it's 14%, in WA 24% and in Queensland 18%. So this is other thing to look at it is that there is not one property market in Australia; there are many.

Then we get to the final issue of affordable housing and the two issues have got conflated. Affordable housing is what we need to provide for those least able to provide for themselves and whether that's providing something that's at 20% below the market level so that you've got that 40/30 rule that I mentioned before, or whether it's providing social housing, public housing, some form of housing assistance, that problem is always going to be with us, if you want to call it a problem. It's an issue that will always have to be addressed. What everybody is now in a frenzy about is that particularly young

buyers, first home buyers think that they cannot get into the market. As someone who comes from Sydney, I look at the Melbourne market and think you don't have a housing affordability problem. So it's horses for courses, but using those benchmark terms - sorry, it's a very longwinded answer to a short question, but I think it's important to know which part of the equation we're dealing with when we're talking about this problem.

PAUL AUSTIN: Thanks Nicki. Sally, that raises another perhaps even more base and fundamental definitional question. We've called this session *Resurrecting the Great Australian Dream*, but describe the Great Australian Dream in 2017. What is it these days and how does it differ from what our parents may have dreamt of or even our grandparents?

SALLY CAPP: Well, it's a big question. I'm really looking forward to some of the conversation later. I can see that we've got a great mixture in our audience tonight so it will be terrific to get some reflections back. But picking up on Nicki's point, there isn't one housing market and I think that we are accepting that moving forward there isn't one Great Australian Dream either. Some of the recent trends that we have noticed, particularly from the feedback from our members, is that that Great Australian Dream is moving and needs to move and, given the massive population growth that we are experiencing, it needs to move from serenity to amenity. How do you like that?

PAUL AUSTIN: I like that.

SALLY CAPP: So that Great Australian Dream that we had of the white picket fence and the quarter acre block and that serenity that we obviously never had at Bonnie Doon in The Castle, but that concept certainly is changing and what we're really understanding more and this is not just for Millennials but all the way through to what we now call right-sizers - not downsizers but right-sizers - is that we are looking for amenity. That concept of being close to where we work, being close to essential services, being close to the lifestyle amenities that we are looking for as individuals and as families is starting to become more nuanced and broader and that's exciting, because I think it does reflect the different values that we have and also the different needs that we have in different stages of our lives.

So the Great Australian Dream is changing and some of the catchcries that we're hearing, and we're certainly seeing this in terms of some of the more recent developments, is that people are happy to accept a small footprint provided they're still able to have a big life. That's why there's that concept of amenity and what might be available either in your building, in your home or around you is really important. Density, despite our NIMBY sort of mindset, as a generalisation we are moving to become YIMBYS a little bit more as we're seeing more "Yes in my backyard" and a rise in acceptance of density. We still have a major debate to be had in our communities about what is appropriate and acceptable density in our communities and in different suburbs, precincts, and certainly the municipal planning that we're doing within the whole Plan Melbourne context. So those things are really important.

Just to touch on a couple of other things in the Great Australian Dream, we are obsessed with home ownership and I think we've really got to question that, because rental is an important part of our housing affordability equation and certainly in the social housing equation. So do we need to re-assess that concept of rental? I know there's been a lot said about this, but if we can address issues like security of tenure, which the Victorian Government is looking at at the moment, if we can help people understand wealth creation in ways other than owning your own home, because that's certainly become central to people's concept of how to create wealth over time, and if we can actually make a fairer tax regime that makes a level playing field, if you like, for all participants in the housing market. I think if we can address

those things then rental as a Great Australian Dream might start to even up not because it has to, but because of choice. So I think that's really important.

PAUL AUSTIN: Okay, so we'll come back to whether the market is capable of fulfilling that more nuanced dream, I suppose Sally, but Brendan, can I ask you about some of the data, some of the hard facts? What's the state of play with housing affordability in Australia and where are we at today compared to 20 and 30 years ago?

BRENDAN COATES: To take a step back and look at what's happened to house prices, first of all, over the last three decades, everyone would know that house prices have increased a lot in that period. For example, in Melbourne house prices have risen from, say, five times annual income to seven times and some of those measures, depending on what one you use, it could be as high as ten or in Sydney it's 12. So it's pretty clear that house prices have risen a lot and this is over the last 15 years, but surprisingly at the same time house prices have also risen outside our major cities. The median house price to income ratio in regional Victoria has gone from three and a half times median to five and a half times, so that's also a significant increase and I think that's worth keeping in mind when we get to proposals to say you should move somewhere out of the city to access housing, because prices have also risen in those areas relative to incomes and incomes are lower in those areas. Most of this really reflects an increase in the value of the land that sits underneath the house rather than the value of the dwellings that are built on top. Land values have increased nationwide by about 6% a year over the last 25 years, whereas the value of the dwelling has only increased by 3% a year. I think that gives you a sign about maybe what some of the drivers of this are with respect to problems in having enough housing supply onto the market due to land use planning, but we'll get to that.

To come to the idea of the Great Australian Dream and home ownership rates. We've mentioned in the introduction that home ownership rates are on the decline, but particularly among the young and the poor. In the 2016 Census we now know that in those that are aged 35 to 44 the proportion that own their home has fallen from 74% to 62% over the last 30 years, and for 25 to 24 year olds it's gone from 58% to 45%. So they're fairly significant declines, but they've occurred over quite a long period of time and there are some other reasons why they may take place. We're getting married later, we're having children later, and so households are being formed later, so part of it may in fact may be benign and just a natural part of the changing social mores of our society, but the part that actually is worrying is that home ownership rates are falling the most in each age group among those in the bottom 20% of income earners. We don't have the data for 2016 yet, so based on the 30 years to 2011 among 25 to 34 year olds home ownership rates for those in the bottom income quintile, so that's the bottom 20% of income earners, has gone down by 30 percentage points, whereas those in the top quintile are just as likely to own their home now as what they were 30 years ago, which may in fact be Nicki's Millennials in time.

So there is a risk that you end up having not a whole generation locked out of the housing market or home ownership per se, but instead lower and middle income groups. I think this is where it's important to have a distinction. While there is a distinction between housing affordability and affordable housing, what we've seen is that rising house prices have made it harder for both groups. So you have more people who are at risk of poverty because house prices are so high at the lower end, and then it's becoming harder for those that are not in that group to secure the housing that they want. Of course, not everyone owns their home. Renting is the alternative and, as we've mentioned, it's unattractive and I'll give a couple of quick stats on renting. Overall rents have grown roughly in line with wages, so house prices have gone up and rents haven't increased as quickly, but what we have seen is that the rate of

rental stress amongst low income earners in our major cities has gone up quite a lot. So of those that are paying more than 30% of their gross income on rent, that's risen from 35% a decade ago to 45% today. Surprisingly enough, when you think of financial stress amongst renters you think of, say, pensioners. Of those that are renting as pensioners, one in four reports that they have to skip meals, they can't heat their home, they can't pay their bills on time, but that's actually the same rate as amongst working age Australians that have a job. So we see that the rise in prices, the rise in housing costs, genuinely is having a lot of impacts.

PAUL AUSTIN: So we're looking here at a problem, possibly a crisis. I want to ask the panel, but you first Sally, how did we get here? How did we get into this mess?

SALLY CAPP: Well, like any really good complex crises, there are lots of reasons for how we got here and I know that Grattan has gone through a lot of those issues in their recent papers, just to acknowledge some of that good work. We have had a situation that many say goes back to the Menzies era where we started to become really obsessed about home ownership and I think that's driven a lot. Don't forget that for that part of the population that's finding it difficult to get in because of rising prices and values and land values, there's a whole part of the population that's benefited from that and, given that even those that are able to get into the housing market now are more likely to be paying that loan off over a longer period of time, it feels like that generation that own their own home and they're on a pension so they don't have any mortgage or rent issues, that might be a diminishing group as well in terms of how long it's taking for all of us to be able to pay our mortgages off. But what we would say in terms of one of the main factors underlying the situation we find ourselves in, it's supply.

The Sydney/Melbourne example, even if we just looked at it from a geographic, topographical point of view, Nicki, and you're from there, they're much more land-constrained than we are in any case. That's already created issues around supply and therefore had a big impact on rising prices, that element alone. Of course, Melbourne is one of the broadest cities in the world after Phoenix and Houston in terms of the fact that we're flat and we're able to go out. That's just been an absolute gift. We've been able to maintain supply at higher rates than a city like Sydney and we see massive differences in affordability, so you can buy a property for half the price two times closer into the city in Melbourne than you can for the same amount in Sydney, for example. But Melbourne is also - I think the stats came out today - the fastest growing city now in the developed world. That, of course, means rising demand and what happens there is if we can't match supply, then the obvious answer to that, which Nicki can answer better than I as an economist and probably Brendan, is that we're going to see pressure on prices once again.

So we need to address the supply issue in a big way and can I just say: this isn't just about land release. At the moment in our growth areas we have capacity for 22,000 lots per annum to be developed. We're currently developing those at approximately 16,000 per annum because we can't find enough people with the skills to actually pour concrete, deliver sewerage systems and utility services, or enough trucks to carry concrete etc. So we've got a land supply in terms of release and that's both for growth areas and I haven't even talked about infill yet, which is another exciting area, but we've also got all the other constraints that come with creating supply and if I could start again I'd probably start Sally & Sons Truck Moving, given we've now got also projects like Melbourne Metro, which will take up most of the tip trucks available in Australia I understand. So it's those sorts of constraints.

PAUL AUSTIN: We'll certainly dig more into both the supply and demand issues, but Nicki, describe for me the impact of this problem. Are we becoming more unequal? What's happening to our society because of the housing problem?

NICKI HUTLEY: It is a huge problem. We did some research recently for the New South Wales government and the cost of greenfield land in Sydney, if you compare Kellyville to Waleth here, is six times greater per square meter. Here it's \$218 a square meter and in Sydney it was \$1,300. It's about twice as expensive for medium density and probably four times more expensive for high density land, so just an interesting point of difference in how you put this problem in perspective.

The other thing that people don't talk about that much, and this comes to the generational issue, is as populations push out in Melbourne, which they can't necessarily do in Sydney, at the moment Melbourne has a reputation for having great transport systems and good roads, but as you push further and further out the legacy infrastructure is not going to supply and it's actually going to put a huge burden on all taxpayers and on the people that live out there if you don't deliver that new infrastructure that's required. And not just transport infrastructure, I mean social infrastructure. We talk about serenity and amenity, but are we going to have that serenity or amenity? It's at a cost to the taxpayers, I guess. I think what we are seeing at the moment is clearly battlelines have been drawn. I notice with my kids, who are Millennials, saying, "You guys, you've ruined everything for us. We can't afford a house and it's all your fault". Then occasionally one comes along and, usually with help from grandma, has managed to dip their top into the water, but there are also those who are buying in other parts of the market, so one who said, "I can't afford it in Sydney so I just bought something in Brunswick at literally half the price of something that you'd buy twice as far away from the CBD in Sydney".

I think that Sydney's problem is that we're pushing younger people further and further out, or else they're staying in and paying higher and higher rents because of the cost of time and the cost of transport of getting to and from where they want to go. But don't forget, all those Baby Boomers who are currently living in their four bedroom houses, which probably still has their children in because they can't afford to move out, at some point they will die and there will be a point at which there will be a huge transfer of wealth and I think people don't focus on this enough. As one of my kids said to me, "Well I guess the solution to the housing affordability problem is just for me to wait for you and Dad to die" and I said, "Well, thanks darling, but don't count on it anytime yet" but there is a point. There is clearly a trend towards people helping their kids more where they can and that to me is something that I feel quite uncomfortable about because that in itself is entrenching inequity, so you just are exacerbating that problem through the haves and have nots.

PAUL AUSTIN: Brendan, I know you've done a lot of work on these intergenerational issues, are we looking at an inevitable fight between us old guys, the Baby Boomers, and you younger people?

BRENDAN COATES: I think we're having that fight right now and the question will be what happens as those assets are passed on? What I anticipate will happen would be those inheritances are distributed rather narrowly because it's the top 30% of households that have housing in very valuable locations. We know from the HILDA data that inheritances tend to be very heavily skewed and that pretty much those in the top 20/30% have a lot of wealth that they pass on and everyone else doesn't have that much. Now that will change over time with superannuation and as we become more prosperous more people will have more wealth later in life, but I do worry that the solution to the intergenerational problem of housing affordability will be an intergenerational inequality within the next generation of society. The difference will be between did my parents own a nice house and someone else's parents not, therefore

I'll be in a position where I'll have quite a lot of wealth - and my parents don't own a nice house in Melbourne or Sydney, so I'm on the other side of that debate - and that will actually be a really big problem.

I think it's worth keeping in mind when talking about the intergenerational story that what we've seen is a one-off free kick that's come from the liberalisation of the financial system. We've freed up the financial sector so that you can easily borrow. Interest rates have come way down as we've had inflation targeting and we've got inflation under control. You've also had lots of population growth and everything else, but we've basically been able to buy more and better housing and that has led to house prices increasing. It's essentially a big jump that's occurred from the start of the 1990s through to now and it meant that if you owned property at the start of that period you're on a very good wicket and if you didn't own property then you're not doing as well. For example, households aged 65 to 74 today are \$400,000 better off in real terms, so after adjusting for inflation, than what the equivalent group of households aged 65 to 74 were a decade ago, whereas those that are 35 to 44 are only \$100,000 better off and those that are 25 to 34, well their assets have barely moved compared to the equivalent group a decade ago and that's simply because they didn't own anything a decade ago.

So as assets values have increased, particularly in the housing market, it has led to a big one-off kick to that group that, as Nicki says, will be passed down in some way. But there is a big geographic aspect to this where the downtrodden suburbs 20/30 years ago, the places that people moved to as first home buyers that were a bit rough - and I'm certainly not discounting that they were rough - were pretty close to the city. You might not have wanted to be there relative to the suburbs, say, in Melbourne and the inner south east, but at least you were only 25 minutes to your work.

SALLY CAPP: Exactly, yes.

BRENDAN COATES: Whereas now, you know, we've done some work that came out this week about the proportion of households that are in mortgage stress on the urban fringe and most of those households that are in mortgage stress on the fringe tend to be in suburbs with new development, say, in the north/northwest of Melbourne or the very far south east, and those are areas where you're a long way from the city, you're a long way from public transport. So in the northwest yes, it's only 20km, but it still takes you an hour and a half to get to the city.

SALLY CAPP: Yes, that's the affordable living part of it isn't it?

BRENDAN COATES: Yes.

SALLY CAPP: It can seem that it's a great entry point because you get the house and land package for \$429,000 or whatever it might be, but actually it's very expensive to live there and you've got a lower proportion generally available of your income to be able to spend on those other services anyway because of your mortgage repayments. So it does create a double whammy. It's an interesting conundrum. I'm in none of those age groups you just mentioned, I'm waiting for you to tell me how much better off I am. When I came into the property market a long, long time ago the deposit I needed was \$20,000 but the interest rate I was paying was 17.5%. So it was a completely different equation for me in terms of consideration, but the fact that I've managed to hang in there by my fingertips means that over time obviously I've been able to benefit from the massive uplift. But even that massive uplift in land values that you've been talking about, the more supply we have then over time actually those values

even out as well - isn't that true, Nicki, from an economic perspective? So the more supply we can put into the market, the equation in terms of the difference should equalise somewhat. Is that right?

NICKI HUTLEY: Well, it should, but what we've got to be careful of is that if we put too much supply or we put the brakes on quickly. As you mentioned, a lot of people have benefited from having a rise in prices and what a lot of people aren't focusing on is if we suddenly had a 50% drop in house prices, which I don't for a second think is going to happen, but if you were to have a massive drop that would create such an impact shock to the economy. We know there are direct links between the value of your home and how much it increases or decreases and how much you actually spend, so some people might be able to come into the market but there'll be a whole generation of people who are homeowners who would be actually in a worse situation and will pull back on their spending and actually tip the economy over into recession. So this is not a problem that can be solved very easily by let's just wind back prices by 50%, not that that's going to happen.

SALLY CAPP: Exactly.

NICKI HUTLEY: Even if you increase supply, but slowly increasing supply, I mean, if I could take a time machine back what I'd do is make planning laws different and actually make sure we had the supply when we needed it. As Glenn Stevens, former Reserve Bank Governor, has said, this is a problem generations in the making from a number of different things and it's going to be a long time in the solving of it.

PAUL AUSTIN: So, ladies and gentlemen, we have a problem. I want to talk now about the solutions. One of the reasons we know we have a problem is because our political leaders keep talking about housing affordability. I wonder if we can just touch briefly on I think there's been at least three government rescue packages in recent months on housing affordability. Scott Morrison in the May Federal Budget at one stage said that housing affordability was going to be the centrepiece of his budget. Since then the New South Wales government and the Daniel Andrews' government in Victoria have both announced housing affordability packages. Brendan, any good? What was in them and what are the similarities and differences among these government rescue packages?

BRENDAN COATES: There are some common themes amongst the three because they're all responding to the same fundamental political problem, that there's public anxiety about housing affordability and they'd like to see governments doing something about the issue. What we've seen is that governments have tended to do what voters say they want or do things that appear effective, and we'll come to those things that are actually effective probably a little bit later in the conversation. Most people if you ask are stamp duty concessions or first home buyer grants a good idea will say yes.

PAUL AUSTIN: Not everyone.

BRENDAN COATES: No, but 83% of people in an ANU survey said they support first home buyer grants, so this is where you basically give a leg up and the argument is you're helping people to overcome the deposit hurdle by giving them an amount of money which various state governments have, the Commonwealth used to have it a lot more, and we've seen that kind of thing a lot in both the New South Wales and the Victorian state government packages. The reason they don't work though is essentially they get capitalised into the house value because if the buyer has more money to spend on the home, their purchasing power is higher and they will spend most of it trying to buy a larger home, and if you're spending more on the home the price spits up and the winner is in fact the seller.

So in Victoria we saw more stamp duty concessions for first home buyers, I think it's up to \$600,000 no stamp duty for a first home buyer to \$750,000 concessional rate. In New South Wales it was no stamp duty for \$650,000 and up to \$800,000. The other areas that are popular are cracking down on foreign investors and, to a degree, cracking down on local investors as well, although I think that one's probably a bit more mixed. In Victoria we had the 1% vacant property tax, which is obviously targeted at all investors but in the public imagination it tends to apply to foreign investors. Victoria already has a high stamp duty surcharge, I think it's 7% and that's a lot of money. So we're giving stamp duty concessions to first home buyers and we're making foreign investors stump up a lot more. In New South Wales there's an 8% stamp duty surcharge and also a land tax rate that applies even if you're an owner-occupier in your own place of residence which doesn't apply if you're a domestic resident. Then at the Commonwealth level, higher FIRB (Foreign Investment Review Board) application fees, which is the process you have to go through if you want to purchase a home as a foreign investor, and also removing some of the other tax concessions, so that's one.

We've seen a lot of talk about boosting supply and I'll be interested in, Nicki and Sally, your views, but on my reading it doesn't look like a lot of it's going to make a huge difference. I would carve out an exemption there for the New South Wales package that may make a difference depending on how it's done. The Commonwealth likes to talk about supply but can do very little because most of the rules that determine housing supply are done at the state level. The Victorian government mentions housing supply a lot in its Homes for Victorians package, apart from some of the affordable housing initiatives which are obviously important but not enough to boost supply themselves. In New South Wales there have been a couple of measures that could potentially work. The Greater Sydney Commission is going to provide housing targets for each council, they're talking about a new medium density housing code with fast approvals if your development falls within that, but again the devil is in the detail. There's lots of references in all of these packages, particularly the Victorian and New South Wales ones, to local character and preserving the character of neighbourhoods, which is code for be wary of the opposition of NIMBYism and of local councils that oppose development.

PAUL AUSTIN: Sally, what's the feedback from your members about, in particular, the Tim Pallas Victoria package? Good, bad, indifferent?

SALLY CAPP: Firstly, no consultation across any participant in the housing debate and solution, so very frustrating from that perspective. That aside, in terms of moving forward we have a package in Homes for Victorians which, as Brendan said, is completely obsessed with the demand side of the equation and particularly first home buyers. They're a really important part of the housing market and I know there's a lot of media attention, but they comprise about 8% of our market in total, so you've still got a large number of people grappling with housing affordability that aren't in the first home buyer market. I'm not saying it's not important, I'm just saying it's not the only part.

The really big element for us that was frustrating is that in trying to provide some solutions, and we acknowledge that about the package, for first home buyers, the way in which the government has paid for that stamp duty concession is to take away an element that's been really important for driving supply in Victoria and that is the stamp duty concession for investors. I know this is contentious because, as Brendan just intimated, everybody feels that that's something that benefits foreign investors. That's not the only part of that supply market. What's been really interesting in Victoria, which is a different phenomenon from other states, is that in New South Wales, for example, they don't have an off-the-plan stamp duty concession for investors. So when we look at the different supply equations, we've really had a market that's driven our supply because what happens is investors off-the-plan come in

early. That's the whole point, they're coming in when it's off-the-plan and those early purchasers drive the commercial feasibility of those projects. So if you don't have that early demand what happens is developers are less able or they have to delay those developments, which impacts the supply of the whole project. The buying behaviour of first home buyers is they generally wait until something is built, because we like to kick the tyres, we like to see it, we like to touch it, we like to imagine where the couch is going to go and the flat screen TV etc. So we've now significantly diminished that part of the market that was driving supply. Admittedly, that's a lot of the apartment market and we're starting to monitor the impact of apartments in inner and middle ring, but as we're seeing in terms of the marketing that happened - who saw all the marketing pre-30 June saying get in before 30 June so that you can take advantage of the stamp duty concession? It was a huge phenomenon and actually saw a spike in purchasing in June and then we're going to see a real drop away and it's going to impact supply.

The other thing I wanted to mention about government policies like Homes for Victorians and others is that we rarely address the cost of producing new homes in Australia. We rarely actually go back and have a look at what are those costs that go into making housing affordable and when you look at it, and we're doing some research at the moment, we're up to about a third of those costs relating to taxes, charges and levies to different government bodies and instrumentalities. So you've already got a third of what you're paying for going into taxes, charges and levies, and then we know we've got very high labour costs and we've got very high construction costs. So we need to consider all of those elements as well.

PAUL AUSTIN: What I'd like to now open up to the floor but also discuss here on the panel are the real solutions, the better solutions. We've seen the governments given what Brendan dismissively refers to as apparent solutions. Nicki, first of all, what are we talking about here? Are we talking about a supply problem, are we talking about a demand problem, or are we talking about both?

NICKI HUTLEY: I think we're essentially talking about a supply problem, because demand is there. If you suppress demand then yes, okay, you're going to have a similar effect so you're pushing back the prices, but you're actually quashing what people want, so they're not living where they want, they're staying at home longer, they're living in unsuitable places where they have to commute very, very long distances. So it is the least optimal solution to attack demand. What you want to do is build supply, but if you think about how long it has taken to come to this problem. In Sydney we currently have 1.7 million houses in the greater Sydney area that have been built over the last 200 years. We're now saying that in the next 20 years we will have another 700,000 people and there will be more coming to Melbourne because your rate of growth is going to overtake Sydney. Now, for us to get the number of houses that we need, we need another 700,000 for the 1.75 million people that are going to come, in that very short period of time the amount that you would need to build is just physically impossible. I mean, Sally was already saying you can't do it now. In Sydney we have fly-in/fly-out workers in the construction industry because some of them have been coming down from the Gold Coast where things are now starting to slow a little bit. That's how hard it is to find the right amount of workers.

So solving this problem in the next 20 or 30 years is actually not going to happen. We need to start acting on it now, we need to do more things, like inclusionary zoning, but we also need to deal with how we bring about more affordable housing more quickly into the market, because the market as a whole will be divided. We've already heard we're likely to entrench a little bit of that inequality for some time to come and we're not seeing incomes grow any faster at the moment, but you must start working on the supply issue now. And not just the supply issue, but supply in places where people can live and reasonably commute to where the jobs are. There's no point in building further and further away if you

don't have transport and some basic amenity that has people wanting to actually live there. In Sydney already there are a few places in our growth areas where land is being released but no-one wants to build there, or if they're building there the people aren't buying because you can't move from there unless you drive in a car on gridlocked roads for a very long way.

So starting off with some of the solutions, I mean, obviously the planning system. And I don't mean the time it takes to get things through planning, that's a bit of a red herring I think. It could be a lot faster, it could be a lot better, but in terms of the total cost of development your holding costs are relatively small. So if it takes 100 days or 150 days or 200 days it adds to the cost of development and it adds more in Sydney because you're starting off with a higher land cost in the first place, but the biggest cost is actually getting more supply out there that will reduce the cost of land, which is the critical component there. If we can do that by zoning that allows for greater density - and it's actually John Daley who says that if I wanted to downsize in my suburb - and I like this argument because I'm lucky enough that all my three children have left home and if you'd like tips I'll be around later to give them to you.

BRENDAN COATES: How much did you pay them?

NICKI HUTLEY: Not at all, we just insisted on them doing their own laundry and cooking their own meals. But if I do want to downsize I don't necessarily want to move from my neighbourhood because I've got lots of friends there that I've grown up with and lived with for the last 25 years, I've got great relationships, but because there are all these NIMBYs around, myself possibly included, I've actually got nowhere to downsize to.

PAUL AUSTIN: Yes.

NICKI HUTLEY: I think it's a great point that those of us that are now facing this issue actually are probably getting to the point where we'll go, "Hold on a minute, maybe it makes sense to allow more of this" and it's a lot more possible in Melbourne because Sydney has this horrible geography where we've got narrow streets everywhere, you can't get in and out, we've got rubbish public transport a lot of the time. So sometimes it's just not feasible because if you put a block of flats in where there are currently some houses, just getting the car traffic down the road is virtually impossible, but that doesn't mean that you can't do it. It's critical as well because we find places like Randwick, where there are four hospitals in one precinct plus the University of New South Wales, they cannot get nurses there for love nor money because nobody can afford to live anywhere near it, there's not enough keyworker housing. The solution to that is density. It's not just about density, some of that has to be affordable as well and that means inclusionary zoning, which means that you allow the developers to have a little bit more height, which means you have to get over your NIMBY hang-ups whatever they are and say, "This is what a city looks like". We have to have a narrative, we have to have our leaders saying, "This is what's happening". You can't just say, "We'll stop immigration" because then you're going to stop growth as well and I don't think any of us want that.

PAUL AUSTIN: Okay, let's write the narrative now. I want to open it up to questions from the floor, but first I'm going to ask a written question which I thought was terrific and does touch on the NIMBYism and the middle suburb supply question. Housing affordability is often described as a supply problem, but there is often opposition to new housing. If the panellists were to try their hand at property development with the express aim of adding quality supply, what tricks would you employ? I think that's for you, Sally.

SALLY CAPP: Well, I am trying to develop my home. I'm actually in the throes of dealing with objections at the moment and it's very frustrating. What are some of the lessons I've learnt? We're trying to put a bit of a toolkit together for our members at the moment. The number one issue when we surveyed - not me personally, sorry, this is something we did at the Property Council, we surveyed residents in middle ring suburbs and the number one issues is traffic management. It doesn't matter if you're going from one to two, the number one issue is traffic management which is amazing, because we're all clever people, we must be able to do something about traffic and if we're actually going to have vision, let's get excited about what the future looks like in terms of driverless cars and what does that mean and other transport options, and I won't go on about them. But the fact is these are fairly basic issues. So anyway, what did we do? We tried to engage early.

I'll give you a little bit of background really quickly. I live on a quiet street in Hawthorn called Glenferrie Road. It is close to trams, trains, schools, pools, tennis courts, libraries, shops, cinemas, doctors, everything. It's perfect. I'm in a residential growth zone so I'm in the 1% of middle ring Melbourne that's actually designated for four levels as of right now. 1%. That's all that's designated in the Melbourne middle ring. So I'm there. I'm in a big block and four people live in that home. I'm surrounded by blocks of flats on either side, so I'm thinking this is brilliant, the boys are older now, they're moving out and we want to put in five four bedroom townhouses and 15 three bedroom and two bedroom apartments. The majority of that development is for families. We've had 12 objections. One of them is from a home four doors down behind us that say they have been relying on the light that somehow filters through our block to their backyard. This brings me to the theme that Nicki was talking about. How many people in this auditorium are lucky enough to own their own home, even if you've got a mortgage? Right. All of us need to be YIMBYs for starters - "Yes in my backyard" - so we can engage in a conversation around that.

The next thing we need to get much better at, and I've lived in major cities overseas so maybe I got used to it, is sharing. We don't as a community - and, again, it's a generalisation - like to share amenities and that's why we all seem to want to hang on to that little bit of sunlight coming from four doors down across a backyard, when actually there are some beautiful parks around us - I didn't mention that earlier - where we can all enjoy the sunshine. So we really need to change our concept around sharing. There are lots of other policy levers and market drivers that we can talk about around solutions, but if we don't start to change our mindset and our culture around this it's going to be really difficult to implement any of those solutions. Even if they're put in place - one of them has been with the new rezoning Brandon was talking about which is a lift of the cap on dwellings on blocks and we're still finding that councils are rejecting multiple dwellings on blocks because that's what their councillors are rejecting and they're rejecting it because they believe they've been voted in on constituents that are anti-development. So you can put solutions in place, but unless we change that culture we're going to really struggle.

BRENDAN COATES: I'd like to add to that actually. I think it's worth really emphasising how the economy is driving the housing choices we want to make, which is essentially that almost all of the jobs growth in Sydney and Melbourne is in and around the city centre. You've got a services based economy and physical proximity matters. If you're a firm you're paying a much higher rent to be in and around the CBD, but firms are still choosing to do this because they get access to the widest possible pool of workers because that's where, particularly in Melbourne, the public transport network comes in. So if you're in the CBD a large proportion of Melburnians could conceivably commute in 50 minutes or less to your office. You're closer to your suppliers and you're closer to your customers because much more services based economy is face-to-face, even with technology. I think it's worth emphasising that because when we're talking about density in the inner and middle rings of our major cities - and in

Melbourne and Sydney there has not been that much density particularly compared to abroad and particularly relative to the population growth that we've had. Much more, particularly in Melbourne, has gone to the outer fringes because we've got developable land within 20km, 25km, 30km. In Sydney that problem is much more acute and you've seen the development of two urban cores, in a sense.

NICKI HUTLEY: Well, in fact, they're now specifically targeting three cities and the second Sydney airport is a critical part of their housing affordability plan. They've tried to get jobs to move west and they have been unsuccessful decade after decade. We recently had a major bank go lineball between moving to Parramatta and moving down to the south end of the city. In terms of where their workers came from, there was some detailed research, it was lineball in terms of costs and they chose to stay in the city. Now, if I had been the state government I would've said, "Here's something, go and move, be an anchor institution". Because it's those anchor institutions, they don't move; they put down their roots and they stay where they are and they don't move every five years. They might move once every 50 years, but they put down the roots. That's what we'll get from a second Sydney airport. If we get the full infrastructure of an aerotropolis around it, it will make a huge difference and that will actually spread the jobs out more, which obviously is not going to happen in Melbourne so quickly.

PAUL AUSTIN: Hands up please, we will get through as many questions as we can.

AUDIENCE: I'm an architect and I have four quick points to make. One is homelessness. I hope Brendan your report will address some of the issues. We have, I don't have the correct numbers, but about 80,000 people which are homeless in Victoria and the number is increasing. From state and federal levels there are no indications of implementation of solutions that have been successful elsewhere, like in Finland, the Housing First policy. It needs to be implemented here. The second point is about inclusionary zoning. If in Victoria we are following the example of the Carlton housing development we are going to fail. That was started as an inclusionary zoning intervention which had salt and pepper solutions and ended up with exclusion of public housing from basically 80% of the area in favour of developers' profit. That model I hear is going to be implemented on another nine sites. To me, the issue of supply can be solved if there is the will to mandate that affordable housing should be a fixed percentage of all the building activity that happens.

PAUL AUSTIN: Sir, I'm going to ask you to stop there. I'll just get the panel to respond to those two points if I may. Homelessness is an increasingly evident problem in not just our inner city streets, but in the suburbs as well. How does this fit into this issue, Brendan?

BRENDAN COATES: For our particular work, homelessness is not within the scope of what we're currently considering and I would observe the reason for that is it's not so much a question about how housing markets function at the aggregate, but much more about how you provide services to a very particular group of people and you need public subsidy to do that. So our work is focused on the operation of housing markets, but I completely accept that you need public subsidies in order to provide the support for people that are in that situation and that housing is certainly a key part of that and it can be the difference between life or death. Do you have anything else on homelessness or the exclusionary zoning?

NICKI HUTLEY: Well, I think on the homelessness issue, it's a much broader problem than housing affordability. It goes down to issues of mental health, there are certainly parts of the population who are much more prone to being homeless and that involves wraparound services, it involves a whole load of social services, but it is a social service issue, rather than a housing market issue. So I agree on that.

With the inclusionary zoning, I think one of the things we've got to have is targets and, along with a carrot, there needs to be some sort of stick as well. At the moment there is no penalty for not reaching the target, so I agree that you'll get a much better outcome if you say, "This has to be achieved" and working out what's feasible before you start the development and get an agreement on that. It shouldn't be hard to do.

PAUL AUSTIN: Sally, you talked about the need for YIMBYs and not NIMBYs. How is exclusionary zoning going to work? How will politicians be able to tiptoe through this difficult -

SALLY CAPP: The inclusionary zoning?

PAUL AUSTIN: Yes.

SALLY CAPP: It is really difficult. The NIMBY to YIMBY has become almost a personal campaign of the Property Council and anyone else that wants to pile in on that one, because it's just so hard for politicians and particularly since a lot of it occurs at local council level. State government won't go anywhere near that, so that makes it even more difficult. The inclusionary zoning, well we'd rather have three carrots and no stick than one carrot and one stick. I guess part of that is as a community agreeing what reflects our values in terms of how we want to incorporate affordable housing into the projects and I know everybody's jumping on the Carlton example in terms of we don't want to go there. I think that everybody involved in that project, there are lessons learned and what we need to keep doing is acknowledging those mistakes and instead of just saying, "We don't even want to look at it" use is as a good example. All of these things are experiments of some sort because we don't have all of the answers and even if we had all of the answers, we don't have all of the resources to make it happen. We need to keep moving these issues forward and so using those examples and looking at them as, if you like, a continuous improvement program is really important when we look at the nine new projects that we are unfolding.

AUDIENCE: Picking up on a couple of comments, particularly from Nicki and Sally. I'm just wondering if you can comment on where housing type fits into the supply question, because it seems anecdotally that the real challenge around affordability is when people are looking for three or four bedroom homes and are starting a family and want that security. I'm just wondering how you can encourage developers to provide, as you're doing Sally, those kind of homes particularly in the inner and middle suburbs so that people aren't forced into the way, way out suburbs?

PAUL AUSTIN: Nicki, diversity of offering?

NICKI HUTLEY: I think it's very hard in the infill areas because of the costs that are involved. Once you purchase the land you've got to get enough of a product involved to be able to make commercial returns, so being able to provide less density and bigger housing is an issue. To be honest, when you look at the way a lot of other countries work, you look at major cities around the world, they do live much more in apartments, but they have communal space, they have more open space generally and they're shared spaces that you can use. You don't necessarily need everybody to be on the quarter acre or even an eighth of an acre block, to be honest. I think Australians have grown up with this idea that this is what the Australian dream looks like and in actual fact we're finding that a lot of developers in some of the newer areas are saying that not everybody wants that anymore.

If you have a look at what our population looks like now, the cultural mix, and we're just starting to hear some things from the Census come out about how that cultural mix is changing, that's actually influencing increased demand for smaller housing, that not everybody actually wants to have that bigger. So that will change over time, but it's interesting that a 22 square metre flat just sold in North Bondi the other day for over \$600,000. This is a shoebox and you are finding quite a lot of those around Sydney and you really can't swing a live cat let alone a dead one in it - of course, I would never do that. What we're expecting people to live in, I mean, you're absolutely right, we do need to provide quality of living as well as affordable living. You can't just keep squashing people into smaller and smaller properties and say, "Well, that's how we deal with the affordability problem".

PAUL AUSTIN: Sally, do your members want to deliver a bigger and better range of housing?

SALLY CAPP: Absolutely. I think that's an exciting part. Again, if we look at these challenges as opportunities to actually demonstrate what's possible, then that's exciting. I'm sure that 22 square metre apartment in North Bondi had ocean glimpses.

One of things we were really pleased about in terms of, again, and here are some solutions, what the Victorian Government did with the Better Apartment Guidelines is that they resisted the push to have minimum size. We supported that because in terms of diversity of housing stock, I'm not sure 22 square metres, but the smaller one bedroom apartments around the 40 square metres, some of them in terms of compact and tiny are even going to 35, where there are big communal spaces. We're seeing some great innovations around these spaces. I'm sure you've all seen the examples where you might pull the bed down or the bed is inside a cupboard, all sorts of things. I think some of the student housing examples that our universities are building on campus to help solve some of the housing issues there for students are seeing some really nice shared apartments just with kitchenette, but there's a large communal kitchen area, which means students are also forced to socialise and create relationships as well as cooking, and lots of communal leisure spaces to compensate for the fact that the space they're actually living in is quite a small space for study and sleeping and everything else is don't in another part of the building, which is terrific.

Another part of innovation I really wanted to touch on, and it goes to costs, in the forum tonight is really around different ways in which we can deliver these projects as well because it really does impact affordability. One of the things in particular that we want to champion is around pre-fab, because we can get huge efficiencies in what we're building in terms of the precision and the quality and bringing the cost down. I also think it's a great transition from automotive into pre-fab, and we can talk about that in another forum, but one of the other terrific things in terms of cost is that the more pre-fab elements you have then the quicker the construction time. That reduces costs and it also reduces disturbance to other elements around you, which helps with the NIMBY to YIMBY stuff as well. So there's a lot of innovation we can bring in in terms of types of housing and also ways in which we are building the housing and the dwellings that can positively impact housing affordability.

PAUL AUSTIN: Thanks Sally.

AUDIENCE: My question to the panel is about creating a more competitive market in the economic term of a purely competitive market structure and the effect that the prevalence of estate housing, which entails large parcels of land, often large houses for one developer or perhaps more than one, on the market structure compared to in the past when it was more prevalent that a single builder would build perhaps one or a couple of houses in a new estate in which there was more variability in the type of

house and the consumer could have more impact on the size of the house, but also there were more builders as well and more small builders. I'd be interested to hear some comments on whether the panel thinks that change in market structure has had an effect on price and, I guess, adaptability of housing to what people can afford and want?

PAUL AUSTIN: Brendan, first the phenomenon of the one developer new estate?

BRENDAN COATES: If you think about the housing that we are building now, it's split across three rather distinct markets. There is housing on the urban fringe or in the countryside, which tends to be more greenfield, single dwelling, larger dwelling and fully detached or some more semidetached now, it's often done by the large developers and Sally can certainly talk to that; the inner city apartment market, again, you've got big players because they're high-rise buildings; and then you've got the market in the middle, which is often smaller developers developing urban infill, so this is where you take one house and you turn it into five townhouses. As I understand it, a lot of those players are actually quite distinct from one another; it's not necessarily always the same doing each of them.

SALLY CAPP: Very much, yes, and we're seeing a growth actually in the middle ring developers and a lot of family companies and individuals.

PAUL AUSTIN: So Sally, is the issue slightly mis-described there?

SALLY CAPP: I think maybe if you're thinking particularly around the growth areas in terms of those big development blocks, we have seen a consolidation over time and I think what's really driven that actually is cost. It's actually helped bring prices down by having single developers dealing with large precincts, so that has actually been a driver. It may seem more homogenous, but actually in terms of the efficiency in delivering the services, making sure the development happens and getting as many people into their homes as quickly as possible, the consolidation of those projects into single developers has actually been helpful.

AUDIENCE: First, I was quite surprised to not hear negative gearing brought up in a discussion about housing affordability. Talking about supply, if supply is increased without an effect to pricing then isn't there a chance we'll see similar situations here as to what's happened in the United States where you have a lot of empty houses, or in the UK like the tulip craze where you basically end up having a lot of houses that are being bought by investors that nobody can afford to live in?

BRENDAN COATES: I'm very happy to talk about negative gearing and Grattan has done a lot of work in this space. I suppose the reason it hasn't come up quite so much tonight is negative gearing will help in solving the problem of housing affordability, but it's only a fairly small part of the story. I think it's important to emphasise that the drivers of rising house prices that are affected by policy are on both the demand and the supply side. On the demand side the tax incentives and the tax breaks do make a difference because they get capitalised into property values. Our estimate though is that if you got rid of negative gearing so that you could no longer offset your rental losses against your other income and you dropped the capital gains tax discount from 50% to 25%, house prices would be about 2% lower than otherwise. So that would help, but not compared to the multiples of price increases that you've seen. The reason we think it's a good idea is largely because it removes a couple of distortions in the tax system that do favour investment property over other asset classes - it's easier to negatively gear a home because it's easier to gain access to leverage - and also it would make quite a difference to the

budget. You would save \$5 billion a year and when you've got a \$40 billion budget deficit that would go quite a long way.

SALLY CAPP: But they do provide a lot of the rental market as well. You only do negative gearing when you've got income, so it means you've got somebody living in that house paying rent. So it does create the rental market and actually the majority of negative gearers are mums and dads, which is a good thing as well. We're not talking about big institutional developers here holding a whole lot of empty property and gaining wealth as a result of that. Having said that, we actually are really in favour of supporting "build to rent" in Australia, it's a big part of the market that we don't have that exists in the US and UK that creates affordable rental accommodation. One of the things about negative gearing is it distorts the market to favour mum and dad buyers over institutional buyers wanting to rent, so on that basis, again, it's really worthwhile having the debate around negative gearing. Just remember, negative gearing doesn't apply just to property; it is a whole policy that applies to any business.

PAUL AUSTIN: Nicki, you get the casting vote: negative gearing reform?

NICKI HUTLEY: I think it's highly overblown what it will solve. I agree entirely that it's a good budget remedy because I don't think it's necessary to have the capital gains tax concessions there. I do think it's legitimate if you are renting it out to offset the income, as you do in any other business. I think it's incredibly difficult though to remove it. There will be a solution. Do you sunset it now so that if you've got it you can still have it, but from here you can't? That creates distortions in the property market. If you don't take it off other asset classes - and I know equities are a more sophisticated investment and a smaller part of the market, but nevertheless you've got to take it off there as well. So it's not a simple solution and it's not going to solve housing affordability. It's a good solution for the budget but very difficult to implement, so I wouldn't look to that as the solution. That's not to say that it shouldn't or couldn't happen, but a lot more needs to happen I think.

BRENDAN COATES: Just to jump in on that, I think you need solutions on both sides because supply is going to take so long to influence the market and it's the right solution to the problem. So if you're adding 200,000 dwellings a year nationwide and you jump that up to 250,000, it's going to take a long time to capture - we didn't talk much about population growth and how supply has responded, but population jumped from 200,000 a year in the 1990s to close to 400,000 a year over the last decade and supply only picked up in 2014. So you've got a backlog there and if you slowly wipe that out it's going to take a number of years of supply above population growth to get there. We've acknowledged that there are big problems in trying to get that supply online both in the regulatory side, around land use planning, and then in terms of capacity constraints, where we'll have fly-in/fly-out workers from New Zealand coming into the Sydney housing market to build properties.

NICKI HUTLEY: Yes, but if negatively geared properties are on the market providing affordable rent, there's not necessarily a problem with that.

BRENDAN COATES: We don't think rents would change if you got rid of negative gearing. It's built into the house price itself not into the rental return.

NICKI HUTLEY: No, but it's just saying that it's not necessarily a problem in the supply side of the market if it's owned by an investor if somebody would be renting anyway.

BRENDAN COATES: Yes, but the price of the property is increased because that value of the tax break is capitalised into the property value.

PAUL AUSTIN: I want to squeeze in just one or two more questions.

AUDIENCE: On the topic of housing affordability through the lens of home ownership, the solution from the panel appears to be one of supply, but bringing more volume of stock onto the market only actually helps that problem if investors aren't the ones buying it and all the data seems to suggest that it's the investors that are increasing their share of ownership as opposed to first home buyers. How does a solution of supply work in that environment?

NICKI HUTLEY: Well actually, if you have a look at the latest stats in recent months, APRA's new macroprudential regulations on bank lending, we actually are seeing a slowdown in the number of investors coming into the market and a slight pickup in the non-investor, particularly the first home buyer sector, so there is a definite downturn already. I think what people often find difficult is the economic concept is there's always a cycle. We're in a particular part of the cycle at the moment and just because we're dealing with a difficult part of the cycle does not mean that you should extrapolate that this is what is going to happen forever. There's a kind of problem at the moment that's a self-fulfilling prophecy of everyone's made a lot of money out of houses, therefore I should buy a house, therefore I make more until you get to the point where something turns in the cycle. But we are actually already seeing regulations that are pulling back from the market. It's possible that the taxes on foreign buyers are having an impact as well, plus we know also that financing is becoming more of an issue. So there are a number of factors that are already seeing that investor equation, if you like, come back from the market.

So it's one part of the issue, but it's only a small part. We also know at the moment there are a lot of people that, even if they wanted to, can't get into the market as a first home buyer because they don't have the deposit and we actually want to make sure that there investors there who provide rental housing for that portion of the market. If we're talking about the impact of getting rid of negative gearing as being a 3% hit on property prices, I mean, I know every bit helps, but that's not going to solve the affordability crisis overnight. The best thing would be to get a great jump in wages, but that's probably not very good for the economy either.

SALLY CAPP: Sounds good.

BRENDAN COATES: Well, if we had a great jump in wages and supply remains where it is, it will just be capitalised on the house price.

PAUL AUSTIN: Then it just gets capitalised, yes.

SALLY CAPP: Becomes more expensive. There are some schemes that the government is trying, for example the shared equity model which is really to help get over some of the deposit issues and it's a scheme that we're just starting in Victoria, they're trying to do a hundred homes by Christmas I think in terms of the government sharing or paying for 25% of the deposit and also taking on 25% of the mortgage repayments, then when the property is sold they get their equity back as a way of getting over that hurdle that seems to be around deposits. They've been using that scheme in Western Australia and South Australia for some time and in Western Australia it seems to have worked really well. So

there are some of those solutions. If you've got some other ideas in terms of that hurdle around deposits I think everybody would be really open to knowing about them.

NICKI HUTLEY: I think one thing that we need to acknowledge here, particularly when we're talking about the affordable part of the market, whether it's social housing or equity schemes, is that there is some level of government involvement needed and it comes at a huge cost. I mean, we've already seen Victoria, New South Wales and the federal government putting aside huge amounts of funding as seed funding, over \$1 billion in each of those jurisdictions. So for that money to be put aside and the revenue on that money will go towards helping finance social housing - they're not spending \$1 billion - but there is always something that needs to happen because the cost of housing is just so high. Why don't we build more social housing? Because it just doesn't add up unless you get government support. Many governments are facing obviously fiscal constraints and their budgets are not where they need to be, so we've got to work out what we want to pay for, what we can pay for, and how on earth we pay for them. So trying to come up with new models, we're all trying to work in this space and work out what's the best option for everyone, but there's no silver bullet and there's no quick fix solution to this. Yes, we need to do lots of different pieces of the puzzle, but don't think this is something that we can solve quickly.

PAUL AUSTIN: I want to squeeze in one last question.

AUDIENCE: I have some experience working in the UK through the noughties with medium-sized property developers and having repatriated back to Melbourne, and I guess observing the NIMBYism that we're talking about quite a bit tonight, it seems to me, and I feel like I personally have a little bit of this even though I very much want to be a YIMBY, that we're building rubbish. We're building medium density rubbish in the inner rings, rather than quality housing. They're shoeboxes that people can barely fit a double bed into as opposed to something that's liveable, and that's very different to what I've experienced working in the UK. I know that if you try and make the rules around planning forcing people to build things a little bit more that way you'll probably start to affect supply issues that we're all talking about here as the solution. Nonetheless, if you want to try and stop people who don't want to be a NIMBY but are then you've got to build things that actually are worth building and that aren't going to fall apart in 10 or 15 years. I myself live in a townhouse that was built in the noughties, I'm just renting, and it's just a joke. It's hollow cement sheeting, terrible design, and it's got a nice stone worktop and some nice fittings in the bathroom, but that's about the end of it. It's not sustainable housing.

PAUL AUSTIN: Sally, I hear this a lot, that we're building rubbish. You've lived and worked in London. Do they do it better over there?

SALLY CAPP: I think we've got to be careful about making generalisations because I agree, there is some rubbish that's built, but I would also say there's a lot of good product that's built. One of the things about the conundrum that we find ourselves in around NIMBYism is that if you remember I said 1% of our middle ring is designated as residential growth zone, which is where we're allowed to build those apartments of shoeboxes, so that's what we do because that's the only place at the moment where we're able to find some density and developers are getting the most out of those blocks, so they're building as many apartments into those as possible. Of course, one of the responses to that is don't buy them, but that's a tough one if they're the only things available. I'm not saying there isn't bad quality. There is. I wouldn't say that's every project that's happening. But one of the frustrating things from the developers' point of view is that when they want to build quality and smaller projects in that middle ring outside the residential growth zone, because that growth zone actually inspires the towers, so in the

general zones where you're allowed to have more than one dwelling per block that is where the NIMBYism actually stops. So that's not happening, which means that we don't have that choice. We're left with the choice of where we're trying to fit as much density into 1% of the space.

It's not an excuse; that is an explanation. We need to actually create more opportunities for quality and then we're going to have more choices to buy it, we won't have to buy the crap, and then those builders will find they need to do something different to that. I know we've got some builders in the audience, whether they want to respond to that as well, but we'd like to get rid of the crap too. The issue with the cladding is an example of where we've got some completely unacceptable responses to trying to create cheaper product in terms of housing product and using compliant material in the wrong way. We can't have it, so we do need to stand up for it. I'm happy to do that.

PAUL AUSTIN: Ladies and gentlemen, we're out of time. I have one last proposition or proposal: I reckon we should rebook this room for about ten years' time, same panel, perhaps the same audience. Apart from anything else, I want to know whether Sally is able to get her medium density development in Glenferrie Road through.

SALLY CAPP: Fingers crossed. One family/20 families; it makes sense to me.

PAUL AUSTIN: I want to know whether Nicki's children have come back home because it's cheaper with mum and dad. But seriously, clearly, as I think Nicki said earlier, this is a problem that's been a long time in the making and it's a problem that won't be solved anytime soon. We're going to keep talking about it. I want to thank very briefly a couple of people. Megan French, the Grattan Institute's Event Co-Ordinator and guru has done a lot of work to make this event happen tonight. I particularly want to thank the State Library staff. Obviously this is a wonderful institution, the State Library of Victoria, it's one of the things that makes Melbourne such a great city and we at the Grattan Institute are certainly privileged and delighted to have such a productive and close partnership with the State Library. I would like to thank you all for coming out on a cold Melbourne night for your attendance, your interest and your questions, and I wonder whether in closing you'd please join me in thanking our stellar panel.

END OF RECORDING