

Tackling homelessness in Victoria

Submission to the Legislative Council inquiry into homelessness in Victoria

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1 Summary

We welcome the opportunity to make a submission to the Legislative Council's inquiry into homelessness in Victoria. This submission summarises recent work by the Grattan Institute that is relevant to the inquiry, focusing specifically on the provision of secure long-term housing for those most in need.

Housing is of paramount importance. Yet a growing number of Victorians are homeless. Homelessness arises from a combination of personal, economic, and social factors. But poverty, scarce and increasingly costly housing, as well as reduced access to social housing, all play a part.

There is a powerful case for more government support to reduce homelessness and help house vulnerable Australians. But housing subsidies are expensive. Nor will all policies be equally effective. The Victorian Government should give priority to reforms that are well targeted to those most in need, and deliver the best bang for Victorian taxpayers' buck.

In particular, the Government should give priority to constructing new social housing for people at serious risk of homelessness, replicating the success of 'housing first' programs abroad. But boosting social housing will be expensive. Given its costs, social housing should be reserved for those most in need, and at significant risk of becoming homeless for the long term.

The Government should steer clear of schemes to build more affordable housing. The most recent major affordable housing initiative, the National Rental Affordability Scheme (NRAS) was deeply flawed. It was expensive, poorly-targeted, and it didn't materially increase housing supply. Future affordable housing schemes are likely to suffer from similar problems. Such schemes aren't well targeted at people at

high risk of homelessness. Inevitably, many more people will be eligible than there are places available, making such schemes a lottery that provide more assistance to some people than others – and generally not the most needy.

Boosting Commonwealth Rent Assistance by 40 per cent would be a fairer and more cost-effective way to help the much larger number of lower-income earners struggling with housing costs. Rents won't increase much, because only some of the extra income will be spent on housing, but it would substantially reduce financial stress and poverty among poorer renters.

Housing will become substantially more affordable for most low-income Australians only if we build more of it. The Victorian Government should fix planning rules that prevent more homes being built in inner and middle-ring suburbs of Melbourne. And Victoria should continue to push the Commonwealth Government to reform tax policies that inflate the demand for housing.

Housing vulnerable Australians poses substantial policy challenges. Past governments have refused to face up to the size of the problem because they feared doing so would fuel demands for massive new expenditures on housing. But the challenge is not insurmountable. Policy can make a difference, but only if we make the right choices.

2 Who is homeless in Victoria?

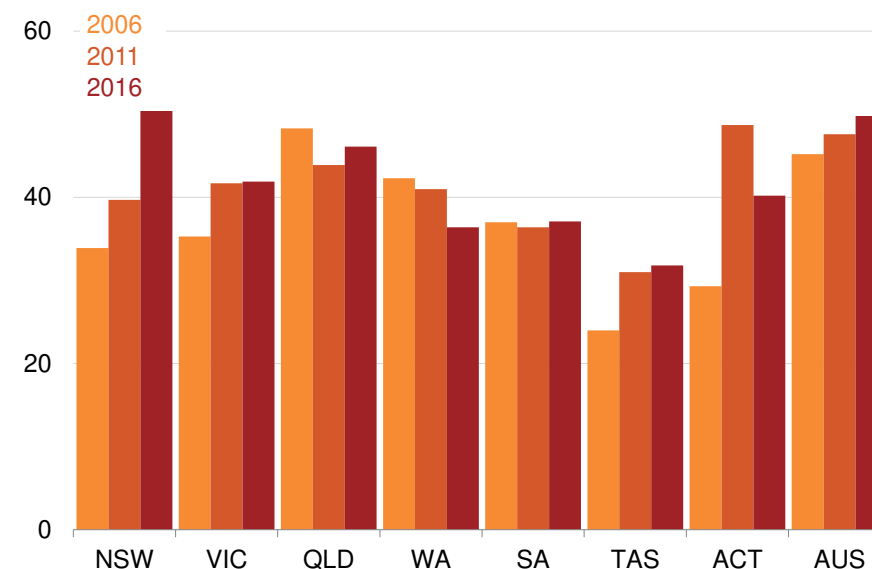
Housing is of paramount importance to almost all Australians. Housing fulfils many objectives, from basic shelter, to the emotional security of a refuge where a family can be nurtured. For these reasons, housing is considered a fundamental human right under the Universal Declaration on Human Rights.¹

Yet a growing number of Victorians don't have safe and secure housing. About 42 in every 10,000 Victorians were homeless on Census night in 2016. Rough sleepers are the most visible homeless, but they account for only 5 per cent of Victoria's homeless.² More often, homeless people are living in homeless shelters or staying temporarily with friends or family. Almost 36 per cent of all Victorians classified as homeless by the Australian Bureau of Statistics are living in 'severely crowded' dwellings (places that would need to have four or more extra bedrooms to properly accommodate the people who usually live there).

While homelessness remains lower in Victoria than in NSW or Queensland, the rate of homelessness in Victoria still rose by almost 19 per cent between 2006 and 2016 (Figure 2.1). The largest increase came from a larger number of people living in severely crowded dwellings. The number of rough sleepers in Victoria also increased, by nearly 43 per cent, over this period.³

Figure 2.1: Homelessness is increasing in Australia, especially in states with expensive housing

Number of homeless per 10,000 of population, by state



Notes: For readability, the NT is excluded. The number of homeless in the NT per 10,000 of population was 791.7 in 2006, 723.3 in 2011, and 599.4 in 2016.

Source: ABS (2018).

1. United Nations (1948).

2. ABS (2018).

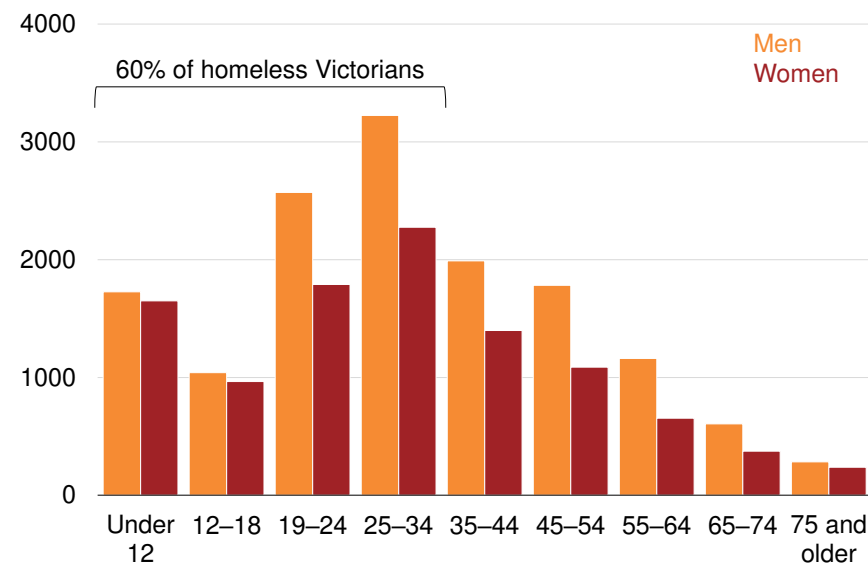
3. Ibid.

There has been much attention on the emerging homelessness crisis among the elderly. But most homeless Victorians are young: about 60 per cent are younger than 35 (Figure 2.2). About 89 in every 10,000 Victorians aged 19-24 are homeless, falling to 27 in every 10,000 among Victorians aged 55-64. In fact people aged 19-34 account for 70 per cent of the increase in homelessness in Victoria over the five years to 2016, and men account for 68 per cent of the increase.⁴

In contrast, relatively few older women are homeless. But the risk is rising: nationally, rates of homelessness increased fastest over the five years to 2016 among single women entering retirement age.⁵ Declining rates of home ownership among younger poorer Australians, together with the lower retirement savings of many women, increase the risks that more older women will suffer poverty and homelessness as they approach retirement.⁶

Figure 2.2: Most homeless Victorians are young

Number of homeless, by gender and age



Note: The definition of homelessness includes people who are sleeping rough, and people in supported accommodation for the homeless, temporary accommodation, boarding houses, and 'severely overcrowded' dwellings.

Source: ABS (2018).

4. Ibid.

5. The number of homeless women aged 65-74 increased by about 50 per cent in the five years to 2016. The number of homeless men in the same age group increased by nearly 30 per cent over the same period. Coates and Chivers (2019a).

6. Coates and Nolan (2020).

3 Why do Victorians become homeless?

3.1 Homelessness arises from a combination of social and personal circumstances

A person who becomes homeless is likely to have faced a difficult combination of economic, social, and personal circumstances.⁷

People are vulnerable to homelessness if they suffer from health problems or violence in the home, or if they have a history of incarceration, substance abuse, or unemployment.⁸ People on very low incomes are less likely to be able to respond to a shock to their employment or housing situation.⁹ For example, Johnson et al (2018) estimate that the probability of an already-vulnerable person becoming homeless increases by 4 per cent if they've never been employed, and by a further 3.7 per cent if they have previously slept rough.

An absence of low-cost housing also increases the risk that vulnerable people will become homeless – a phenomenon O'Flaherty (2004) calls being the 'wrong person' in the 'wrong place'. Australian evidence shows that the risk of a disadvantaged person becoming homeless increases from 2 per cent in areas with plentiful cheap housing, to 17 per cent in areas with high rents.¹⁰

7. As described by Bramley and Fitzpatrick (2017), 'there is unlikely to be a straight either/or between structural and individual causes of homelessness, but rather a complex interplay between the two'.
8. Early (1998), Curtis et al (2013), McVicar et al (2015), Diette and Ribar (2018) and Moschion and Johnson (2019).
9. Johnson et al (2018).
10. Johnson et al (ibid). In areas where the 20th percentile of rents is \$100 per week, the probability of a disadvantaged person becoming homeless is 2.4 per cent. In areas where the 20th percentile of rents is \$550 per week, this rises to 17 per cent.

3.2 Housing has become more expensive, especially for the poor

Housing costs are rising for Victorians, particularly for low-income earners. Households that were already doing it tough are now spending more of their money on rent, which is contributing to high rates of financial stress. Increased financial stress at the bottom of the income distribution is likely to have played a role in the recent growth in homelessness.

The bottom 20 per cent of Victorian households by income now spend 26.3 per cent of their income on housing on average, up from 21.5 per cent in 1995 (Figure 3.1). Many low-income Victorian renters are struggling: almost 44 per cent of them are suffering rental stress.¹¹ The share of low-income Victorian renters in rental stress has increased, up from 34.5 per cent in 2007-08 to 43.9 per cent in 2017-18.¹² Rates of financial stress are higher in Victorian than in all other states except NSW and Western Australia.¹³

These trends largely reflect higher housing costs, rather than slow growth in incomes. The rents paid by low-income earners have grown significantly faster than average rents.¹⁴ Incomes for the poorest fifth of households increased by about 27 per cent between 2003-04 and

11. Rental stress is defined as spending more than 30 per cent of gross income on housing costs.
12. ABS (2019).
13. Daley et al (2018c, Table 5.1).
14. Rents for cheaper dwellings in capital cities have grown faster than rents for more expensive dwellings. Rents for cheaper (privately leased) units and apartments, often the cheapest option, increased in price by more than more expensive options. Daley et al (2018a, Figure 2.15).

2015-16. But their incomes after housing costs increased by only about 16 per cent.¹⁵

Home ownership is also falling sharply among younger, poorer Australians.¹⁶ If current trends continue, a greater proportion of low-income Australians will be renting – and more of them will depend on the private rental market rather than social and public housing.

3.3 Income support for vulnerable Australians is increasingly inadequate

People living in poverty are at particularly high risk of becoming homeless. The income support system plays an important role in alleviating financial stress and poverty for low-income Australians. Yet while the Age Pension, Parenting Payment, Carer Payment, and Disability Support Pension are indexed to wages, Newstart only increases with inflation.¹⁷ Newstart has therefore become woefully inadequate as a safety net for unemployed Australians. Unlike wages or pensions, Newstart has not increased in real terms in more than 20 years.

This has ‘squeezed’ the living standards of people living on Newstart relative to the rest of the population. Households of working age receiving Newstart are under much more financial stress than households receiving other welfare payments.¹⁸

15. Incomes for the middle quintile grew by about 27 per cent, while after-housing incomes grew by 20 per cent. In contrast, incomes for the highest fifth of households increased by 36 per cent, and their after-housing incomes by 33 per cent. Coates and Chivers (2019b).

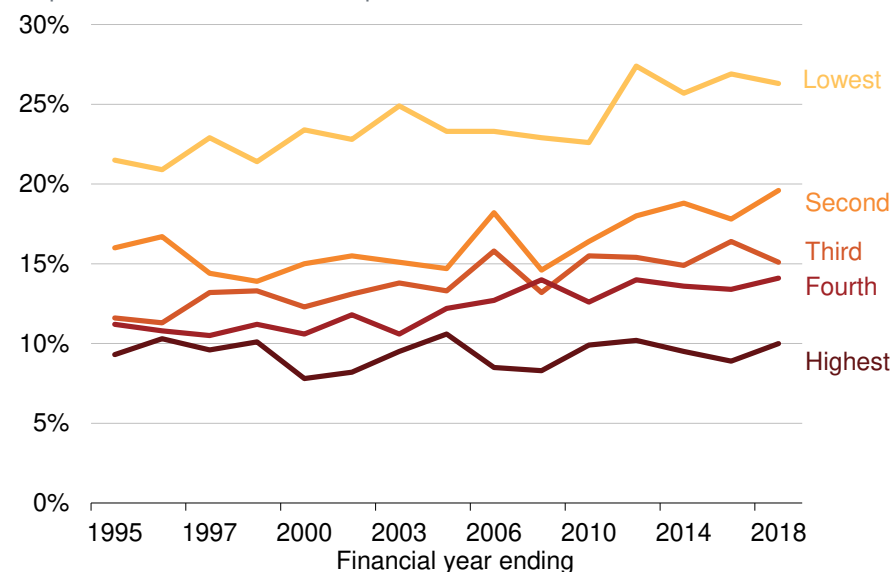
16. Daley et al (2018a, Figure 4.3).

17. Wages typically increase faster than prices. So the Age Pension has grown more rapidly than Newstart over the past two decades. And several one-off changes have increased the Age Pension even more (Daley et al (2013a, p. 20)).

18. Daley et al (2018b, p. 27); and Daley et al (2013b, p. 19).

Figure 3.1: Low-income Victorians have increased their spending on housing the most

Housing costs as a proportion of gross household income, by equivalised disposable household income quintile, for Victoria



Notes: Housing costs include rent, mortgage payments, and rates (general and water). Data interpolated for missing years.

Source: ABS (2019).

Eligibility for the Parenting Payment and the Disability Support Pension has also been tightened in recent years. Changes in assessment rules for the Disability Support Pension in 2012 have especially hit Australians approaching retirement age who have musculoskeletal health problems. The changes coincide with an increase in the number of older people on Newstart.¹⁹

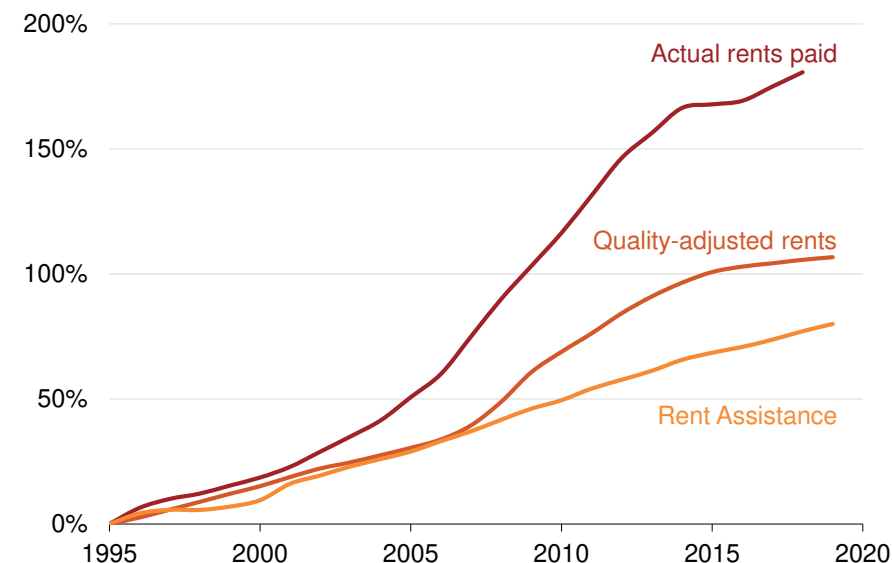
3.4 Rent Assistance has not kept up with rising housing costs

Similarly, Commonwealth Rent Assistance materially reduces housing stress among low-income Australians.²⁰ Rent Assistance is a non-taxable income supplement, payable fortnightly to income support recipients in the private rental market. Rent Assistance is paid at 75 cents for every dollar above a minimum rental threshold, until a maximum rate (or ceiling) is reached. The minimum threshold and maximum rates vary according to the household or family situation, including the number of children.

The maximum Rent Assistance payment is indexed in line with CPI, but rents have been growing faster than CPI over the long term. Between June 2003 and June 2019, CPI increased by about 46 per cent, while average (quality-adjusted) rents increased by about 65 per cent (Figure 3.2).²¹ The actual rents paid by Australians, including improvements in the quality or quantity of housing, rose even faster.

Figure 3.2: Rents have risen faster than Rent Assistance

Increase in actual rents paid, quality-adjusted rents, and Rent Assistance since 1995



Notes: Actual rents paid refers to actual rents paid according to the Survey of Income and Housing. Quality-adjusted rents refers to the ABS's quality-consistent measure of rent increases.

Source: Coates and Nolan (2020, Figure 2.7).

19. The eligibility requirements for the Disability Support Pension were tightened in 2012. In 2009, about 12 per cent of 55-64 year-olds were on the Disability Support Pension. By 2017 that number had fallen to 9 per cent. Coates and Nolan (2020, p. 14)

20. In June 2016, 68 per cent of Rent Assistance recipients would have paid more than 30 per cent of their income on rent if Rent Assistance were not provided. With Rent Assistance provided, this proportion was reduced to 41 per cent (Daley et al (2018b, p. 76)).

21. Coates and Nolan (2020, Figure 2.6).

3.5 Social housing has become less accessible

Social housing can make a big difference to the lives of vulnerable Victorians. People in social housing receive a much greater average level of assistance – at much greater cost to government – than private renters receive from Rent Assistance.²² Yet growth in the stock of social housing has not kept pace with population.

The best Australian evidence shows that social housing substantially reduces tenants' risk of becoming homeless. Prentice and Scutella (2018) found that placing those at high-risk of homelessness in social housing reduced their risk of homelessness by 65 per cent.²³ Similarly, Johnson et al (2018) found that being in public housing lowers a tenant's risk of becoming homeless by 6 percentage points.²⁴ And while many landlords rent to low-income households, some may be prepared to leave their property vacant if the only person seeking tenancy has problems associated with homelessness.

Many homelessness programs now adopt a 'housing first' strategy, in which the priority is getting homeless people, or people at risk of homelessness, into social housing.²⁵ Once vulnerable people are housed, it's easier for community workers to help them with any other social issues.

Despite its importance to vulnerable Australians, Australian governments have invested little in social housing over the past two

decades. The number of social housing dwellings has barely grown over that period, while Australia's population has increased by 33 per cent (Figure 3.3).

Tenants generally take a long time to leave social housing: most have stayed for more than five years.²⁶ And when people do leave public housing, it is rarely by their own choice. In 2012, only 18 per cent of people leaving social housing voluntarily entered the private rental market or bought their own home.²⁷

Victoria's experience is no different to the rest of Australia. Social housing made up 3.3 per cent of the Victorian housing stock in 2006, but this number fell to 2.8 per cent by 2016.²⁸ In fact Victoria had the *lowest* stock of social housing as a share of the total housing stock nationwide in 2016 (Figure 3.4). As a consequence, there is little 'flow' of social housing available for people whose lives take a big turn for the worse, and many people who are in greatest need are not assisted. The result is that fewer Victorians are living in social housing than in the past, and every year proportionally fewer social housing units become available for new tenants.

22. Productivity Commission (2018).

23. The authors use data from the Journeys Home survey, which is a longitudinal study of Australians who were identified in Centrelink data as being homeless or at risk of homelessness. The survey tracked people over a two-and-a-half year period, starting in 2011.

24. Other explanatory variables in the authors' model of homelessness entry include demographic variables, tenure history, and socio-economic factors.

25. For example, see Conroy et al (2014). Mares (2018) argues that Finland's Housing First strategy has all but eradicated homelessness through the provision of social and affordable housing to at-risk groups.

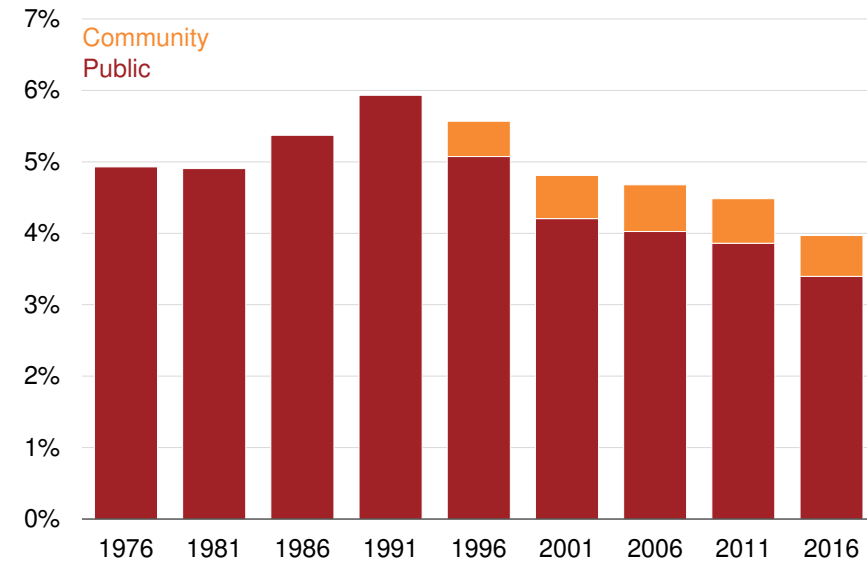
26. AIHW (2019).

27. Wiesel et al (2014).

28. ABS (2006) and ABS (2016). Housing stock is defined as total occupied private dwellings.

Figure 3.3: Australia's social housing stock has not kept pace with population growth since 1991

Share of Australian households in public or community housing

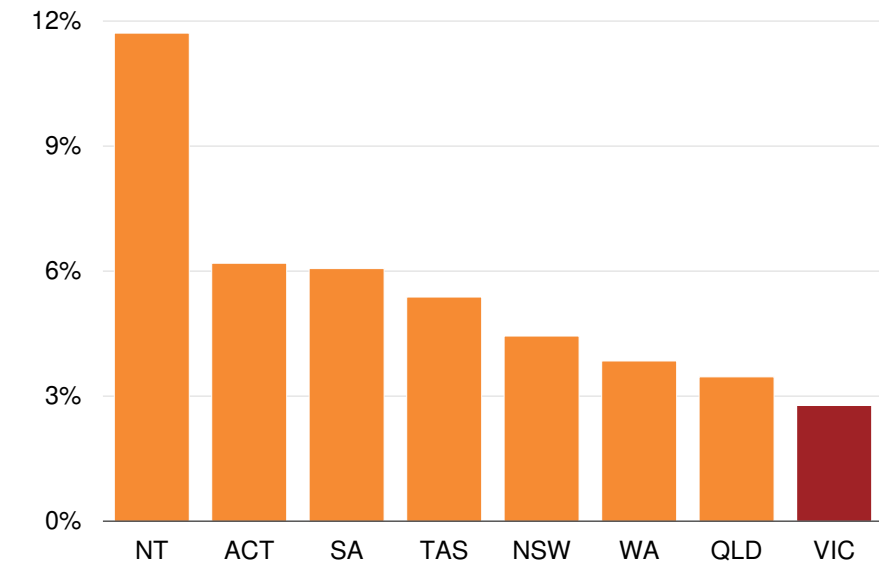


Note: Before 1996 community housing was not recorded in the Census, but it is likely to have accounted for a small amount of the total social housing stock.

Sources: Grattan analysis of ABS (1978), ABS (1983), ABS (1988), ABS (1993), ABS (1997), ABS (2001), ABS (2006), ABS (2011) and ABS (2016).

Figure 3.4: Victoria's social housing stock lags behind other states

Social housing share of total housing stock, 2016



Notes: Social housing dwellings are those dwellings rented from a 'state or territory housing authority' or a 'housing co-operative, community or church group'. The total housing stock is defined as the number of occupied private dwellings.

Source: Grattan analysis of ABS (2016).

4 How can we address homelessness in Victoria?

There is a powerful case for more government support to house the most needy Australians. But housing subsidies are expensive. Nor will all policies be equally effective.

Since government resources are finite, governments should prioritise to do the most-good with the funding they have. But prioritisation inevitably means hard choices: it involves choosing to help some groups first before others. Governments should therefore give priority to reforms that are well targeted to people most in need, and deliver the best bang for the taxpayers' buck.

4.1 The Victorian Government should boost the supply of public housing

The Victorian Government should increase funding for social housing. But boosting social housing will be expensive. At the national level, Grattan Institute has previously estimated that 100,000 new social housing dwellings would be required to return the total social housing stock to its historical share of the total housing stock. Developing such a large number of dwellings would require additional *ongoing* public funding of about \$900 million a year, or an upfront capital cost of \$10-to-\$15 billion.²⁹

The Victorian Government should be wary of proposed schemes to provide private sector financing for social housing. No amount of innovative *financing* can paper over the need for extra *funding* to boost the supply of social housing. Social housing provides heavily discounted rents to tenants, to assist them with their housing costs. And therefore government funding will be required to make up the shortfall between what tenants can afford to pay and the cost of

acquiring land, building housing, and maintaining it over the life of the asset.

Given its costs, social housing should be reserved for people most in need, and at significant risk of becoming homeless for the long term.³⁰ In the meantime, the existing social housing stock needs to be better managed: it could be better allocated to meet the needs of tenants;³¹ it is often not well-suited to their needs;³² and it is often of poor quality.³³

While a substantial boost to the social housing stock – such as increasing its share by 2 per cent of all housing – would make a big difference to people who are homeless, if it were tightly targeted towards them, more than two thirds of low-income Australians would still remain in the private rental market.

Therefore, beyond ensuring a flow of additional social housing for people most at risk of long-term homelessness, further support for low-income housing should be focused on direct financial assistance for low-income renters, and improving housing affordability more broadly by increasing the number of homes constructed.

30. New allocations of social housing are better targeted to people most in need. Of all social housing allocations in 2018, almost 90 per cent went to 'greatest needs' applicants – that is, low-income households which at the time of allocation were either homeless, had their life or safety at risk in their current accommodation, had housing inappropriate to their needs, or had very high rental housing costs: Productivity Commission (2020).

31. Potter (2017).

32. Tenants have little choice over the home they are offered; the type of housing available can be incompatible with their needs. For example, the public housing stock is dominated by three-bedroom houses, yet most recipients are singles or couples without children.

33. In 2018 almost one-in-five Victorian social housing dwellings did not meet minimum acceptable standards (Productivity Commission 2020).

29. Daley et al (2018c).

4.2 The Victorian Government should push the Commonwealth to raise Rent Assistance

Beyond building more social housing for people at risk of homeless, support for low-income Victorians struggling with high housing costs should focus on lifting Commonwealth Rent Assistance. Rent Assistance materially reduces housing stress among low-income Australians. But as Section 3.4 showed, the value of Rent Assistance has not kept pace with rent increases.

Grattan's 2020 working paper, *Balancing Act*, recommended a 40 per cent increase in the maximum rate of Rent Assistance. This would cost about \$1.3 billion a year.³⁴ Rent Assistance would then provide the same level of assistance to low-income earners as it did 15 years ago, taking into account the rising cost of their rent. In future, Rent Assistance should be indexed to changes in rents typically paid by people receiving income support, so that its value is maintained, as recommended by the Henry Tax Review.³⁵ Increasing Rent Assistance would do more to alleviate poverty per government dollar spent than any other housing policy.

Some worry that boosting Rent Assistance would lead to higher rents, eroding much of the gains in living standards for low-income renters.³⁶ But an increase in Rent Assistance is unlikely to substantially increase rents. Households are unlikely to spend all of the extra income on housing. And only half of low-income renters actually receive Rent Assistance, since eligibility is linked to receiving an income support payment.³⁷

34. Coates and Nolan (2020).

35. Henry (2009, p. 595). While the rental component of the CPI is a readily available and transparent measure, an index of rents paid by Rent Assistance recipients would provide a more accurate assessment of their rental costs.

36. Senate Economics References Committee (2015, chapter 22).

37. Daley et al (2018b, p. 77).

4.3 The Victorian Government should steer clear of schemes to build more affordable housing

Several commentators have called for governments to fund the construction of more affordable housing to help those on low-to-moderate incomes.³⁸ Others have explicitly called for a repeat of the National Rental Affordability Scheme (NRAS),³⁹ a 2007 election promise from the Rudd Government which aimed to reduce rental costs for people on low-to-moderate incomes.

Yet past affordable housing schemes, such as NRAS, have not been effective.

Affordable housing, such as that constructed under NRAS, is typically not targeted at people most in need, including those at greatest risk of homelessness. Eligibility thresholds for NRAS were set far too high: \$50,000 for a single adult, or nearly \$70,000 for a couple – much higher than the equivalent eligibility thresholds for Commonwealth Rent Assistance.⁴⁰ As a result, a substantial proportion of people actually allocated NRAS housing were on moderate-to-higher incomes.⁴¹

NRAS was also expensive: the scheme offered investors a subsidy of \$8,000 a year (about \$11,000 in today's money) in exchange for providing new dwellings for rent for at least 20 per cent below market rents. The average private renter pays rent of \$19,240 a year.⁴²

38. These calls are often made under the banner of supporting a specific 'build to rent' affordable housing sector in Australia. For example, see: Palm (2017), PwC (2017) and Pawson et al (2019).

39. Burke (2018) and Bleby (2018).

40. Department of Social Services (2018). For example, the income cut-off for a single receiving Newstart is \$27,959 a year (Services Australia 2020).

41. Department of Social Services (2016). Only one third of tenants had gross household incomes less than \$30,000, and one third had incomes greater than \$50,000 a year.

42. Median rents varied from \$22,412 a year in NSW to \$13,520 a year in Tasmania in 2017-18. Therefore the cost of providing a dwelling at 20 per cent below market

Providing a 20 per cent discount to market rents for the median private renter should therefore cost less than \$4,000 a year – much less than the \$11,000 subsidy offered per dwelling.⁴³ Any extra subsidy beyond the cost of providing affordable housing flowed to NRAS property developers.

The subsidies offered to developers through NRAS were not tied to the type and location of any new affordable dwelling constructed. As a result, the same subsidy was offered for a new one-bedroom apartment or a three-bedroom home in the same location, and for dwellings in central Sydney and rural NSW.⁴⁴

Nor was NRAS an effective way to boost the *overall* supply of housing. New housing construction in Australian cities is relatively unresponsive to demand,⁴⁵ largely because land-use planning rules prevent greater density. Since even affordable homes are subject to those planning rules, many homes constructed under the scheme were likely to have been built anyway.⁴⁶

Given these issues, the bulk of extra support for housing costs for low-income earners should be provided via Commonwealth Rent Assistance, along with funding for more social housing targeted at the

rent will vary from \$4,500 a year in NSW to \$2,700 a year in Tasmania. ABS (Table 12.2 2019).

43. While the market rent on a new dwelling built under the scheme may be higher than the median, the rents paid by low-income earners are likely to be lower than the median since they have lower incomes.
44. Participants in NRAS receive a subsidy of \$8,000 per year for 10 years (indexed) for new dwellings that were rented out for 20 per cent below market value rent to eligible tenants. Department of Social Services (2018). Studios and one- and two-bedroom dwellings accounted for two-thirds of all homes constructed under NRAS (Department of Social Services (2019, p. 4)).
45. The best estimate of the 'price elasticity of supply' in Australia is that a 10 per cent increase in dwelling prices leads to an increase in the stock of new housing of between 3 per cent and 5 per cent. See: Daley et al (2018a, p. 46).
46. Senate Economics References Committee (2015, p. 362).

long-term homeless. If affordable housing schemes are pursued, they should be focused on providing pathways for people already in social housing to transition out of social housing.

4.4 The Victorian Government should adopt reforms to improve housing affordability generally

The Victorian Government should also pursue reforms that will improve housing affordability more generally.

Grattan Institute's 2018 report *Housing affordability: re-imagining the Australian Dream* evaluated a wide range of potential measures to improve housing affordability. These are summarised in Figure 4.1.

Governments should focus on the policies in the top right of Figure 4.1: policies that will materially improve affordability without substantially dragging on the economy or the budget. Almost all of them are measures that would boost the supply of housing. They include planning changes to facilitate subdivision in the inner and middle rings of our largest cities; boosting density along major transport corridors; and increasing greenfield land supply.

A number of tax reforms to remove distortions in housing investment would have large budgetary and economic benefits, but more modest impacts on housing supply. These include reducing the 50 per cent capital gains tax discount, limiting negative gearing, including owner-occupied housing in state land taxes, and including more of the value of owner-occupied housing in the Age Pension assets test.

None of these reforms are politically easy. But housing won't become more affordable, including for many low-income Australians at risk of homelessness, unless Australian governments make tough choices.

4.4.1 The Victorian Government should reform planning rules to boost housing supply

Housing affordability will only get a lot better if governments ensure more homes are built. This is primarily a problem for state governments: they set the overall framework for land and housing supply, and they govern the local councils that assess most development applications.

While housing construction has picked up in recent years, recent record rates of housing construction are the bare minimum needed to meet record levels of population growth driven by rapid migration; and the backlog of under-supply remains. The Victorian Government should reform land-use planning rules to allow more housing to be built close to the centres of our major cities. Planning systems play an important role in managing the growth of cities. Land-use planning rules set out how competing land uses should be managed to coordinate the provision of infrastructure and to minimise the costs that some land users impose on their neighbours – such as pollution, noise, congestion, or poor design.

Yet current rules and community opposition make it very difficult to create extra residences in the inner and middle-ring suburbs of the capital cities.⁴⁷ As a result, the density of Melbourne has barely changed in the inner- and middle-ring suburbs over the past 35 years.⁴⁸

A new Small Redevelopment Housing Code could protect neighbours, reduce planning uncertainty, and improve the quality of new

developments.⁴⁹ The Code should include the things that worry neighbours most, such as privacy, height, and overshadowing of their outdoor areas, and the appearance of new developments from the street.

State governments should also ensure that appropriate developments are allowed ‘as of right’ on major transport corridors and around train stations, within specified height limits.⁵⁰

Making existing private housing cheaper overall will help low-income earners struggling with rising housing costs. New housing doesn’t need to be specifically targeted at lower price points to improve overall housing affordability. More housing supply – even at the top end – will ultimately free-up less expensive housing stock. The people who move into the newly constructed housing are either existing residents who move out of less expensive housing, or new residents who would otherwise have added to the demand for less expensive housing. Irrespective of its cost, each additional dwelling adds to total supply, which ultimately affects affordability for all home buyers.⁵¹

This is not merely theory: international evidence suggests that ‘filtering’ occurs in practice. Initially expensive homes gradually become cheaper as they age, and are sold or rented to people with more modest incomes, and this is a strong source of more affordable housing, especially in the private rental market.⁵²

And by reducing the cost of housing overall, such steps would also reduce the size of the public subsidies needed to bridge the gap between the market cost of housing and what low-income earners can afford to pay.

47. Daley et al (2018a, pp. 56–58), Kendall and Tulip (2018) and Lees (2017). Shoory and Rosewall (2017) note evidence that the complexity of the planning system has made redevelopment in established areas less attractive compared to development on the fringes of major cities. For international evidence see Hilber and Vermeulen (2015), Gyourko and Molloy (2015) and Glaeser and Gyourko (2018)

48. Daley et al (2018a).

49. Kelly et al (2011, pp. 26–27); and Daley et al (2018a, p. 115).

50. Daley et al (2018a, p. 118).

51. While gentrification can push up prices in a particular area, constructing more housing in total should lead to overall prices being lower than otherwise.

52. For a detailed discussion of ‘filtering’ see: Daley et al (2018a, pp. 64–66).

4.4.2 Demand-side reforms would also help, but are largely Commonwealth responsibilities

Given the allocation of federal responsibilities, it is the Commonwealth Government, rather than Victoria, that can primarily intervene to reform policies that inflate housing demand.

As recommended in our 2018 report, *Housing affordability: re-imagining the Australian Dream*, the capital gains tax discount should be reduced from 50 per cent to 25 per cent, and negatively geared investors should no longer be allowed to deduct losses on their investments from labour income.⁵³ The effect on property prices would be modest – they would be roughly 2 per cent lower than otherwise – and the change would primarily advantage would-be home owners at the expense of investors. The dominant rationale for these reforms is their economic and budgetary benefits: they would boost the budget bottom line by about \$5 billion a year.

Including more of the value of owner-occupied housing in the Age Pension assets test would improve the allocation of housing assets a little, make pension arrangements fairer, and contribute up to \$7 billion a year to the budget. Under the current rules, only the first \$210,500 of home equity is counted in the Age Pension assets test, and the remainder is ignored. Inverting this so that all of the value of a home is counted above some threshold – such as \$500,000 – would be fairer, and contribute to budget repair.

Other tax and transfer settings that affect housing include the (non) taxation of imputed rent, the corresponding (non) deductibility of mortgage costs, and the (non) taxation of capital gains and imputed rents on owner-occupied housing. But the policy merits of changes to

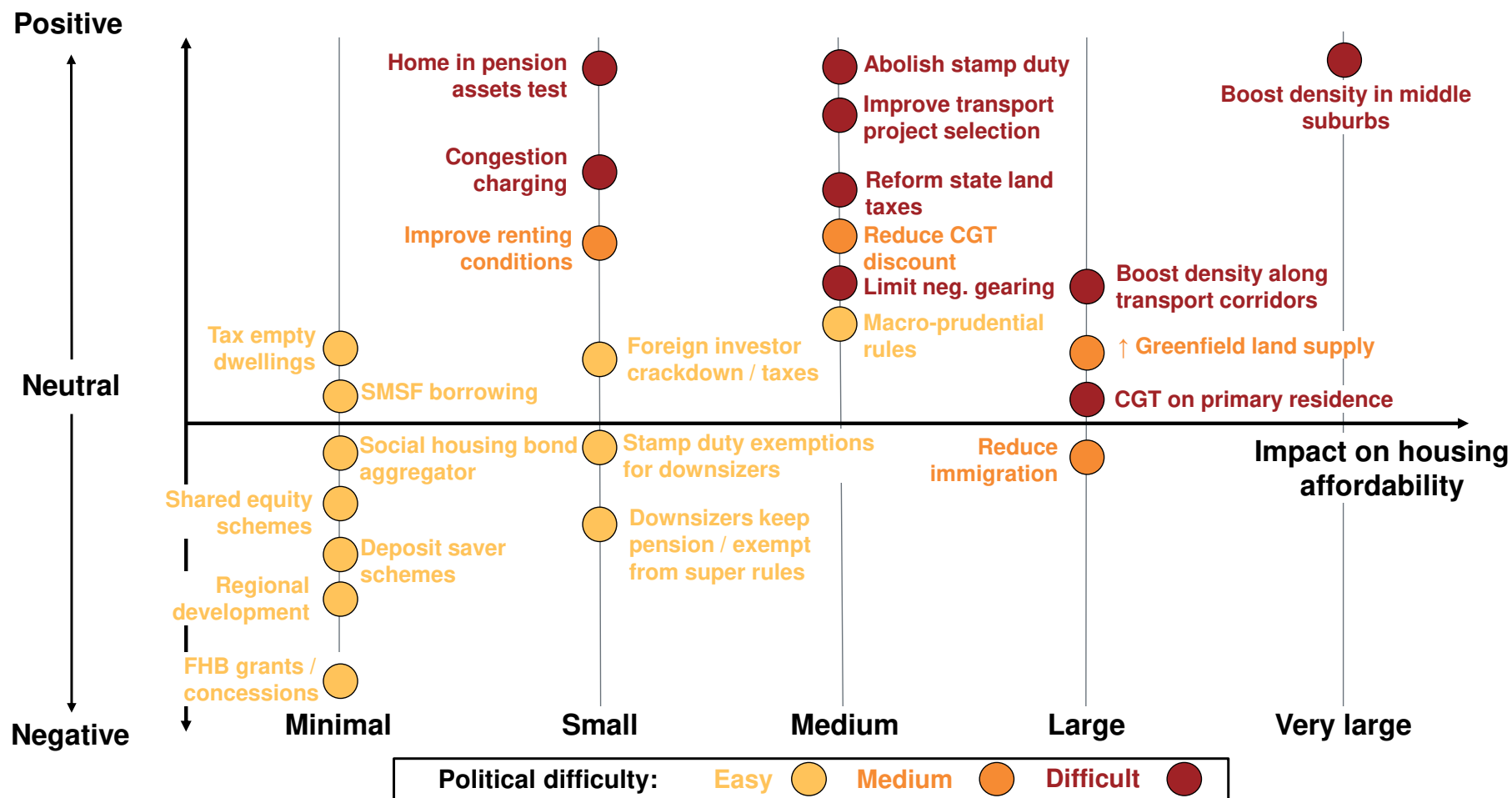
these settings are debatable, especially when the politics is likely to be intractable.⁵⁴

53. Daley et al (2018a).

54. Investment would be less biased towards housing, where any capital gains and imputed rents – the value of owning the home that you live in – are untaxed, compared to investing in other more productive assets. But it would be difficult to resist calls to allow deduction of interest payments and the cost of any capital improvements made to the home such as renovations, which could wipe out most or all of the benefit to the budget. Taxing imputed rents in particular presents a number of practical policy design and implementation challenges, which is why only five OECD countries – the Netherlands, Iceland, Slovenia, Luxembourg, and Switzerland – tax imputed rents, and they often substantially under-estimate the rental value. Daley et al (ibid, pp. 101–102)

Figure 4.1: Only some policies will actually improve housing affordability, and these are politically difficult

Summary of economic, budgetary, and social impacts



Notes: FHB = first homebuyers. Prospective policies are evaluated on whether they would improve access to more-affordable housing for the community overall, assuming no other policy changes. Assessment of measures that boost households' purchasing power includes impact on overall house prices. Our estimates of the economic, budgetary, or social impacts should not be treated with spurious precision. Our assessments are generally directional and aim to foster a more informed discussion.

Source: Figure 5.2 from Daley et al (2018a).

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