

**Submission to the Legislative Council inquiry into
the protections within the Victorian Planning
Framework**

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Summary

We welcome the opportunity to make a submission to the Victorian Legislative Council's inquiry into the protections within the Victorian Planning Framework.

Within living memory, Victoria was a place where housing costs were manageable, and people of all ages and incomes had a reasonable chance to own a home with good access to jobs. But housing in Victoria has become increasingly expensive, and public anxiety about housing affordability is rising.

Home ownership rates are falling, especially among the young and the poor. Without change, many more young Victorians will be locked out of the housing market. Owning a home increasingly depends on who your parents are, a big change from 35 years ago. House prices have risen as interest rates have hit record lows, while tax and welfare settings and rapid migration fed demand. But housing costs would have risen less if more housing had been built.

We have not built enough housing to meet the needs of Victoria's growing population. Australia has among the least housing stock per adult in the developed world, and is one of only a handful of developed countries in which housing stock per capita has been stagnant over the past 20 years. Planning rules that constrain development in Melbourne have led to a shortage of medium- and high-density housing compared to what Victorians actually want, while imposing additional costs on new purchasers and renters.

Housing will become more affordable for Victorians if more homes are built. Increasing housing supply will restore housing affordability only slowly, but without a concerted effort to boost housing supply, housing affordability will probably get worse.

Boosting housing supply would especially help low-income earners. Irrespective of its cost, each additional dwelling adds to total supply, which ultimately affects affordability for all home buyers. 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. Our research suggests that a 10 per cent fall in private market rents would reduce by 8 per cent the number of low-income households nationwide who are suffering housing stress.

Of course, land-use planning rules benefit other land users by preserving the views of existing residents or preventing increased congestion. But studies conclude that the local benefits of restricting building are generally outweighed by the broader costs.

The benefits of population growth accrue to society as a whole, whereas decisions about development approvals largely sit with local councils. Existing residents usually prefer their suburb to stay the same, whereas prospective residents who don't already live in those suburbs cannot vote in council elections, and their interests are largely unrepresented.

The Victorian Government has a key role here. The state government sets the overall framework for land and housing supply, governs the local councils that assess most development applications, and sets building regulations that affect building costs. This inquiry should acknowledge that Victoria's current planning framework puts too many restrictions on development, and change is needed to boost housing supply.

The Victorian Government should change planning processes to allow more medium-density housing in established suburbs that are

close to jobs and transport. Fewer small-scale urban infill projects should require development approvals, and more should instead be code-assessed. More dense development should be allowed ‘as of right’ along key transport corridors, with height limits set up-front.

The Victorian State Government should also consider nominating high-quality designs for medium-density dwellings that would be permitted automatically in middle-ring suburbs, with a variety of designs might be approved for different lot sizes.

The Victorian Government should also set housing targets and make sure local councils meet the targets. When local councils fail to meet housing targets, the Government should transfer responsibility for assessing development applications to independent planning panels, as has already occurred, with some success, in Sydney.

Heritage protection is a particular form of planning regulation that slows or stops development. Protecting certain sites under heritage restrictions may be important to the extent that they enrich our understanding of history. But it is often done with little acknowledgement of the costs of conserving heritage sites, which includes stymieing the supply of housing in areas where people most want to live.

The politics of land-use planning reform are fraught because most voters own a home (and many own investment properties), and mistrust any change that might dent the price of their assets. But unless governments make changes, housing affordability will only get worse.

Beyond planning reforms, there is also a powerful case for more government support to reduce homelessness and help house vulnerable Victorians. The Victorian Government should consider expanding its Social Housing Growth Fund to boost the supply of social housing, along the lines of Grattan’s recent proposal for a Federal Social Housing Future Fund.

The Victorian Government should steer clear of schemes to build more affordable housing, because 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 would be a fairer and more cost-effective way to help the much larger number of lower-income earners struggling with housing costs. But housing will become substantially more affordable for most low-income Victorians only if we build more of it.

The Grattan Institute has produced a large volume of work on housing affordability and land-use planning reform that is relevant to this inquiry. Attached are:

- Our 2018 [report](#) *Housing affordability: Re-imagining the Australian Dream*;
- Our 2018 [paper](#) *Most new housing is not high-end housing*;
- Our 2019 [paper](#) *Learning from past mistakes: Lessons from the National Rental Affordability Scheme*;
- Our 2020 [submission](#) to the Legislative Council inquiry into homelessness in Victoria;
- Our 2021 [submission](#) to the federal parliamentary inquiry into housing affordability and supply in Australia;
- Our 2021 [proposal](#) for a Social Housing Future Fund.

We would also welcome an opportunity to appear before the Committee. For further information please contact Brendan Coates, Program Director, Economic Policy, Grattan Institute: brendan.coates@grattaninstitute.edu.au.