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SELECT COMMITTEE ON HOUSING AFFORDABILITY IN
AUSTRALIA

Reference: Barriers to homeownership in Australia

THURSDAY, 24 APRIL 2008

NARRE WARREN

BY AUTHORITY OF THE SENATE

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**SENATE SELECT COMMITTEE ON
HOUSING AFFORDABILITY IN AUSTRALIA**

Thursday, 24 April 2008

Members: Senator Payne (*Chair*), Senators Bartlett, Colbeck, Fifield, Lundy and Moore

Senators in attendance: Senators Bartlett, Colbeck, Fifield, Moore, Payne and Siewert

Participating members: Senators Abetz, Adams, Barnett, Bernardi, Birmingham, Bishop, Boswell, Brandis, Bob Brown, Carol Brown, Bushby, Campbell, Chapman, Coonan, Cormann, Crossin, Eggleston, Ellison, Fielding, Fierravanti-Wells, Fisher, Forshaw, Heffernan, Hogg, Hurley, Hutchins, Johnston, Joyce, Kemp, Kirk, Lightfoot, Ian Macdonald, Sandy Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Nash, Nettle, O'Brien, Parry, Patterson, Polley, Ray, Ronaldson, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Watson, Webber and Wortley

Terms of reference for the inquiry:

To inquire into and report on:

The barriers to home ownership in Australia, including:

- a. the taxes and levies imposed by state and territory governments;
- b. the rate of release of new land by state and territory governments;
- c. proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
- d. the role of all levels of government in facilitating affordable home ownership;
- e. the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
- f. the role of financial institutions in home lending; and
- g. the contribution of home ownership to retirement incomes.

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Committee met at 9.01 am

CHAIR (Senator Payne)—I declare open this meeting of the Senate Select Committee on Housing Affordability in Australia. The Senate established this select committee on 14 February 2008 and it is due to report on 16 June 2008. The terms of reference for the inquiry are as follows:

The barriers to home ownership in Australia, including:

- a. the taxes and levies imposed by state and territory governments;
- b. the rate of release of new land by state and territory governments;
- c. proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
- d. the role of all levels of government in facilitating affordable home ownership;
- e. the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
- f. the role of financial institutions in home lending; and
- g. the contribution of home ownership to retirement incomes.

To date the committee has held public hearings in Canberra, Sydney, Campbelltown, Karratha, Perth, Brisbane, the Gold Coast, Ballina and Geelong. This hearing has been convened to receive evidence on housing affordability issues as they affect Melbourne and the city of Casey area in particular.

These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, also be made at any other time.

[9.03 am]

HODGETTS, Mr Liam Anthony, Manager, Strategic Development, City of Casey

CHAIR—I welcome our first witness this morning, from the Casey City Council. I invite you to make an opening statement, and we will go to questions after that.

Mr Hodgetts—Firstly, I had prepared a presentation for today. I am unfortunately unable to give that, but I have printed out copies of that presentation, which you have in front of you. There is also going to be circulated an A3 colour aerial photograph that I will try to speak to. The presentation is going to be reasonably short to allow for questions; it will effectively try to characterise the City of Casey in terms of its facts and figures, demographic profile and working profile.

Casey has been consistently one of Victoria's fastest-growing municipalities over the last 15 years. It is the most populous in Victoria at, currently, 230,000. We are expected to reach a population of 350,000 by 2030. We have approximately 146 people moving into the city every day, with the equivalent of 8,000 a year. 77 per cent of our population is under 50 years of age. The development continues; we have large areas of land still to be allocated for urban development.

I understand that the senators went to Fountain Gate last night and are familiar with the terminology of Fountain Lakes. Often, if Australians are informed about the city of Casey and they hear the name 'Fountain Gate', they tend to reflect on *Kath & Kim* and that concept of middle suburban Australia. I suppose the important message here, from the City of Casey's point of view, is that we are very much not that. We are quite diverse in our communities. Almost a third of our population was born overseas. The top 10 countries of origin include the UK, Sri Lanka, New Zealand, Mauritius, the Philippines, Afghanistan, Italy, China and the Netherlands.

I have also circulated an article by Professor Peel from Monash University. Professor Peel is a historian who recently published an article in the *Age*, I believe on 16 September last year, which explained his experiences in terms of life on the fringe—he was from Berwick, to the north of the city. Professor Peel generally comes from a high percentile of our income bandings, but it is a very insightful social commentary on the life in the suburbs as it is for city of Casey residents in the new growth areas.

Touching quickly on our workforce profile, 100,000 of our residents are currently employed: 30 per cent are part time and 63 per cent full time. We are primarily focused on the manufacturing, retail and construction industries. There is a lot of service industry—approximately 43 per cent of our workforce.

The next sheet looks quickly at a journey-to-work diagram and explains that half of our residents are working within a 10 kilometre radius of the city and the other half are commuting back toward the Melbourne CBD. You will see that, in Melbourne itself, nearly 13 per cent of our residents work in the CBD; the rest taper through what they call the Monash corridor, mostly concentrated in the city of Greater Dandenong, which is a very industrialised area of Melbourne where a lot of our residents work. You may have experienced in your trip out this morning—given, no doubt, that some of the senators were caught in traffic—some of the construction happening on the highway and the one-way flow that appeared on the highway with all the residents travelling north-west out of the city during the day. We have this emptying effect that puts a lot of strain on our local infrastructure with respect to car use.

I will explain the housing sectors very quickly. We see three housing sectors that affect housing affordability. Public housing, being one of them, is generally controlled by the state government. Social housing is generally provided by housing associations, not many of which are operating in Victoria—and the committee will be familiar with the city of Port Phillip. This area needs strong leadership from local government and at the moment social housing is a fledgling opportunity. Private housing is where we will concentrate, particularly in terms of what local government can do to influence the private housing supply—this is of course regulated by the planning system.

The next sheet explains the land price changes in the city. It is common across Australia. In metropolitan Melbourne, in fact, if you correlate the lines accordingly, you will see similar trends appearing throughout the Melbourne general databank. As you can see, in the early 1990s it flattened out toward the 1995 period and started to rise at about 1998. Currently, our land package runs about \$150,000 for a normal suburban lot. That is slightly higher than the metropolitan average, which I will touch on later, and house construction costs are of the order of \$250,000.

The next sheet looks at rental stress. This is a key issue in housing affordability, and many of the primary recommendations from a lot of the submissions to the inquiry that I have read are regarding reducing rental stress. We have a couple agencies that will be speaking today on that very matter, but it is certainly something our officers experience from a community services point of view regarding its impact on the local community. Clearly, the data there, based on the two census blocks, show that we have lost a substantial amount of rental properties in the city of Casey.

Of course, the primary goal of housing affordability for local government is to achieve the reduction or avoidance of this housing stress. A common indicator used in housing affordability is the 30/40 rule, where households below the 40th percentile of the population income range spend more than 30 per cent of their gross income. This sends households into what they call 'housing stress'. It is categorised as missing out on life's necessities. It is understood that local government plays an important role in providing our growing population, and that will make a large contribution to the economic prosperity of the state by fuelling residential construction, but our interests from the local government's point of view are very much introverted; we are focused on the people we are entrusted with protecting and safeguarding. I think it is appropriate to acknowledge that, when we discuss the wider community, the housing affordability issue is understood to be about investigating how housing can be made more affordable where people want to own a home. While this is an important wider macrosocioeconomic issue, local government itself is obviously more concerned with the downstream social impacts of housing stress on our existing, established residents and also, in particular, our newly highly geared residents who are arriving, as I have already described, daily.

So what is happening in Casey? Well, from 2001 to 2006 we have seen the number of dwellings that were classified as affordable rental houses drop from 2,300 to just 100. From 1996 to 2006 the median house price rose from \$137,000 to \$265,000, a 93 per cent rise. Tenure, to some extent, provides insights into the socioeconomic status of an overall area, as well as the role that area plays in the housing market, and it is fair to say that we are part of that mortgage belt. It is a predominant characteristic of our population. So we see, from the City of Casey's perspective, two broad target groups: the homeowners in the mortgage belt and, of course, the renters.

I have shown and walked through a couple of slides which give an impression and interpretation of where that housing stress is coming from, and clearly it is based on the cost of construction of the housing and the land itself. Also, there has been some reduction in the rental product that is out there for our renters. In a planning policy context, in the subsequent pages you will see that Casey entered into a substantial strategic planning exercise, producing the C21 strategy. That was a holistic planning document that looked at social, economic and environmental issues for the city in its current state and towards future generations. That set a framework or blueprint for the city to work strategically to start addressing some of those TBL issues.

With regard to what our Casey Housing Strategy produced, I understand you have a copy of it in your package of material. That really was a cascading waterfall policy document that came out of the C21 strategy and the blueprint. Part of the production of the Casey Housing Strategy was the release of the Melbourne 2030 state government legislation. That legislation was clearly focused on setting urban growth limits and consolidating development within those boundaries. The Casey Housing Strategy was generally consistent, obviously, in support of that state legislation.

Through policy development we can influence land supply. That is clear, and it is often an issue raised in the general public realm. Residential estate design is also something we can control; it is the construction, coordination and implementation of infrastructure. From a policy initiative, through the housing strategy and through local planning policy we can also introduce higher densities. We can mandate those densities and we can also provide the capacity and provision, with those densities, of a more affordable product, with the basic premise that the smaller the block the cheaper the land. That is something that we do exercise via the housing strategy in the City of Casey. I will talk to that in detail shortly but, as Peter Newman says in his submission, it is really the case, from a local government perspective, that we can influence housing affordability by using density controls. Of course, as Peter Newman goes on to say, this 'includes the critical transport dimension'. I will also speak to the A3 sheet in front of you and explain where that sits on the ground.

The generalised commentary on the issue of housing affordability often focuses on blaming state and local governments, citing the slow and complex planning systems, the increased government infrastructure charges and the slow and scarce land release. Touching on a few of those issues just quickly, I note Nicole Gurran's submission to the inquiry, citing research that indicated that developer contributions have a 'marginal if any impact on house prices', which are determined more by market forces that will fluctuate from being buyer

friendly to seller friendly, and when these forces are at play the percentage of developer contribution costs is often immaterial. She noted that if developer contributions were clear and transparent and known up front, the developer would invariably factor this cost into the business plan when acquiring the land and bid and negotiate accordingly, 'transferring the financial burden to the seller rather than the developer or the house buyer'. I have anecdotally seen this as a pretty strong determinant in business cases for residential land developers operating in this city, some of which are the largest in Australia.

Land supply, of course, is a crucial ingredient to help address the housing affordability issue, but just as crucial is that the land must be well located and well serviced with supporting jobs, public transport and social and community infrastructure. In most cases on the urban fringe this infrastructure is provided by developer contributions. In this context, well-located, high-density infill development in the inner suburbs of our city is just as crucial an ingredient to housing affordability. This component is a clear policy direction of Melbourne 2030. However, it suffers from substantial community resistance. You will be familiar with the term 'nimby' and community organisations such as SOS. In addition to the above, there are some other factors that contributed to the problem, all of which I am sure we are very clear on—that is, the scarcity of land, the labour shortages, cost of materials and labour, the unprecedented level of migration, the deregulation and strong competition in the mortgage market, cheaper and more accessible housing finance, the first home owners grant, tax incentives for property investors and change in household types, et cetera. So it is a very complicated field.

In terms of improving the planning systems, which local government can have control over, this is very much within the powers of both state and local governments. Growth area planning from a Casey perspective is a unique and specialised area that requires, I believe, special treatment. Casey has acknowledged this for some time. We have resourced our strategic development department accordingly, being one of the largest in local government in Victoria. Over the years Casey has created a mosaic of growth area plans and development contribution charges which seek to synergise the development fronts with the required infrastructure. Casey has also recently pioneered a comprehensive greenfield master planning model that leverages earlier developer contributions to bring forward residential land in record times and to coordinate an optimal way that is cost neutral to council and ensures savings for the developers on holding costs associated with the acquisition of the land in the first place.

From an operational point of view, my experience suggests that the blanket metropolitan planning controls applied to growth areas are often not able to cater for the pace of change that occurs in city councils like Casey. In the last 10 to 15 years the rising cost of land and construction, as I indicated earlier in the graphs, have created the inability of the planning system to keep up with these infrastructure charges and to be indexed accordingly. This has resulted, in some instances, in some funding shortfalls for infrastructure.

The Victorian government recently announced initiatives to address the issue of land supply by streamlining planning in growth areas with the introduction of an urban growth zone. A proposed standard infrastructure charge rate has also been suggested, as has the establishment of the Growth Areas Authority, which has been running for over a year, to coordinate these initiatives focusing on land release, infrastructure delivery and, most importantly, helping local government make these communities liveable and sustainable.

As per the PowerPoint presentation, there are not a lot of images but there are a couple that I would firstly like to draw your attention to—the A3 sheet and the aerial diagram. In discussing local government planning mechanisms and looking at a new growth area—and outside the presentation timing you can see these pop-up words—this shows the Cranbourne East growth area. To the left of the aerial photograph, the denser area is Cranbourne town centre. It is a principal activity centre in the Melbourne 2030 hierarchy, and there are only a dozen or so of these across Melbourne. The principal activity centre is supposed to be a high-density mixed-use development where people can live, work and play in a very defined area. Supporting that will be a diversity of housing stock, whether that exists or is planned.

I will quickly touch on the planned component and how we look at new residential growth supported by local policies such as the housing strategy, and the importance of this optimisation of infrastructure delivery. Although the local government can plan and do all the master planning you like—with the various diagrams and public consultation processes—and show a lot of intent and control through its regulatory means, it obviously needs to be supported at a multitude of levels as well.

The Cranbourne East growth area includes an activity centre. The activity centre is going to support what will probably be a catchment of about 3,000 people. It currently has about four or five hectares zoned for business use. Adjoining the site a retirement village has already been constructed. That is a housing strategy

outcome. Again, there is a diversity of housing products and style. South of that and close to the activity centre hub and we have also banked—or the developer has had to bank because there is no market for it at the moment—high-density housing sites close to and adjoining the community centre.

South of that you will notice the proposed metropolitan train station. That is land banked for a transit oriented type of development. We are currently leaving households there in the order of \$500 per household but we have had no commitment on the delivery date of that train station. The concept from a local government point of view, when we have residential land available, is to provide for the construction of those suburbs in accordance with the demand. In doing so we need to protect the future capacity of that site, whether it be the conventional density lots or the high density lots that would come with a transit oriented development. South of the train station is the Cranbourne leisure precinct. Council is investigating significant infrastructure for supporting sporting facilities and community facilities in that complex. We are currently constructing a \$37 million pool and aquatic centre in that area.

I am raising this issue because it is very important that when you look at trying to provide for housing affordability through local government planning tools you look at the three-dimensional level of governance. One of those is what the Hornery Institute tabled in their presentation to the Victorian Planning and Environmental Law Association last week—the concept of magnet infrastructure. That is infrastructure that will really make the community last and survive in sustainable terms and for generational change.

As Cranbourne—it was previously a very small rural town—is swallowed up by the suburbs, we have seen that this infrastructure needs to be reaffirmed, reinforced and imprinted on the character of the community for the longer term for them to be able to hang onto that character for their generation and their children's generation. Obviously, a train station is a very important component of that. Having a train station that they can associate with often creates an identity for a community. In addition to that, there are the sporting facilities and community facilities that surround the station.

Without going on any further that was really a quick snapshot of the complexities of mandating those types of housing affordability initiatives and also the provision of the infrastructure required to service that community in the longer term. In terms of the demand on Casey's community services, that is another dimension of the concept of affordability and harks back to some of the images I showed you before about some of the housing stress problems with our rental shortage and the higher cost of housing, certainly in the corridor.

We have had some anecdotal evidence that has started to emerge from our officers that has possible correlations with the problems of housing affordability. I think you will hear some of that anecdotal evidence from the community groups which will be speaking but from an officer point of view there have been some suggestions anecdotally that we have seen some crisis in correlations with family violence. We have had some landlord tenancy law disputes increasing tenfold and we have had a proliferation in unregulated roaming houses—which is the unusual concept of renting out your garage to provide accommodation. That causes, of course, health inspector issues when people are billeted by friends but pay an indirect rent to them. We have had increased rate defaults. There has been a suggestion—not markedly—of people asking whether they can pay in instalments as opposed to the quarterly requirements. There has been rent bidding, which is very common across Australia. We have had anecdotal evidence of a proliferation of notices to vacate so landlords can renegotiate rents and get into the rent bidding market. This is in Cranbourne, mind you, and it is the fourth most affordable suburb in Victoria currently. We have also had increased requests for loan refinancing advice, and requests for food stamps are also becoming a little bit more active, certainly over the last two to three years.

Besides the planning policy practice initiatives I have touched on in that anecdotal evidence from our officers in community services provision, council has taken some steps to address the issue. I will quickly outline some of those. We are providing funding for a further two financial counsellor positions to a community information support service group. That is merely to meet demand for the current financial counsellors there. We have also initiated a Casey housing affordability and homeless forum. That was held about a month ago and was very well attended. He got a couple of speakers to speak to community groups and interested parties of the public who had seen housing stress start to impact on the community wellbeing. In addition to that we have now established a Casey housing affordability task force, which the strategic development department, in association with community services groups, will be running, to try to define some local government initiatives at the grassroots to try to address some of these issues that we are experiencing—anecdotally of course.

Sponsored research has also occurred. I was one of a series of growth area managers who allocated some funding to look at community infrastructure standards and benchmarking for growth area communities—acknowledging that we use a very different part of local governance in dealing with growth issues, and there was a need to understand the demand components of community infrastructure going forward, in the longer term. Thank you for the opportunity to present. I am happy to answer any questions now.

CHAIR—Thank you very much, Mr Hodgetts, for that very comprehensive presentation and for the material you have provided to the committee. We will start with questions.

Senator FIFIELD—Mr Hodgetts, we have heard from you and many local government witnesses around Australia about the housing affordability issues in your particular local council areas, and we have heard from federal government witnesses what the government's plan is—their four-point plan. What in your view would be the two or three things government could do which would most quickly and readily address housing affordability in the city of Casey?

Mr Hodgetts—In my view?

Senator FIFIELD—Yes.

Mr Hodgetts—In my view, from my experience and my knowledge of the housing affordability issue, it would be to provide rental accommodation for renters. We could class them in a number of ways: it could be the working poor; it could be people who have aspired to getting into housing in the last generation and will have no chance of getting into housing in future generations. To my mind, rental accommodation for residents like those in the city of Casey who cannot afford home tenure would be the first core issue that state and federal governments could look at providing. Obviously, there would have to be a housing organisation set up or, in fact, an increase in state housing funding to offset that, and there are other mechanisms and ways of doing that. But rental accommodation for residents, centralised and led properly, perhaps by the state and federal governments, is probably a key issue.

The second point I would make is that I think Melbourne 2030 is a very good policy document and its intent is well founded, I believe. I do not believe it is acceptable to continue to expand the urban fringes of cities without addressing the potential to provide high-density living in and around existing infrastructure. I think the economics are quite simple there. And the financial burden, certainly on governments at all levels, would be less if there were more focused attention on intensifying urban consolidation. In my submission I have touched on some issues with regard to how difficult that is. I think there is a danger in continuing to develop on the fringe of cities. There are a couple of images there in my presentation. There is a very interesting one of an elderly couple just across from where I was describing Cranbourne East railway station should be, waiting for a bus that links with a rail bus. He is sitting in a ditch and she is waiting under a very sad looking sign. But the delivery of infrastructure on the fringe is always later and after the community arrives. That is no doubt because of the cost involved.

Senator FIFIELD—One of the recurring themes as we have been travelling around Australia is whether state governments should bear the responsibility for providing basic infrastructure as a result of the public having paid their taxes, or whether developers should have to develop those basic services, the costs of which are then passed on to the first home owners who buy that particular package. What is your view on where the cost burden for providing that basic infrastructure should rest? Should it rest with the state government, through the general taxpayer, or should it rest with the developer and be passed on to the land and home owner?

Mr Hodgetts—I mentioned in my submission that one of the more common or generalised problems is this issue of local government and developer contribution. Referring to slide 14, I included a developer cost breakdown for one residential lot in Victoria. I am sorry that I have not numbered those slides clearly; it was going to be a visual presentation. This breakdown was provided by Charter Keck Cramer in a presentation to the Victorian Planning and Environmental Law Association in one of their Development on the Fringe seminars. They have had a series of seminars—three in the last half of this year—which looked at this issue of development on the fringe. It was a very interesting breakdown in looking at federal taxes, state charges and levies, other expenses—which I am afraid I cannot categorise—local charges, lot construction costs and site purchase and then of course the net profit at the end of that. You will see that local charges amount to about three per cent. To answer your question, and referring to Nicole Gurrán's submission to the panel earlier, this concept of optimising delivery on all levels is the key. I think there is a place for developer contributions at the local level and I think there is a place for state funding and for federal funding. This optimisation and

coordination of funding at all levels can solve the problem. To point the finger at one or the other probably is not a suitable outcome, in my opinion.

Senator BARTLETT—Could I clarify that statement? Do the federal taxes include the GST or is that counted as state?

Mr Hodgetts—I am assuming it includes the GST.

Senator BARTLETT—That is okay; I was just asking in case you knew. One of the points that is also argued backwards and forwards a bit is how much of this is just an issue of supply. The details you have provided here are of zoned supply currently available and those rezoned within three-plus years. Might I suggest that you have a fair bit of space there still available.

Mr Hodgetts—I can speak to that. The aerial photo was regarding our existing growth areas. We look at two areas of growth: existing and future. I mentioned we had a comprehensive master planning exercise currently underway that is funded by the development community and offset by developer contributions in the longer term. So they are bringing forward their money to try to deliver that land earlier. The current state government requirements are for a 10-year supply of residential zoned land and a 25-year supply of unzoned residential land. The diagrams you have in front of you indicate that in three years we will have provided the 20-year supply of developed land, but the other land will take approximately 10 years—at the current rate of development we are developing about 2,300 lots per annum and we have done so for the last six years. So, basically, we are running out of land at our current rate of demand. That is not taking into consideration the market upheaval that is occurring at the moment. That would relate to the per annum lots being developed in this city, based on 2007 data. I think it would be fair to say that it has not considered the recent market movements with regard to the subprime issues and the finance and banking sector profits.

Senator BARTLETT—I appreciate that you cannot separate out the market from supply and demand, because they are intertwined, but in crude terms we are being told that there is a need for 180,000 houses every year; so, with 150,000 being built, or whatever the figures are, there is a disparity there. Would that be the case locally? Given the amount of money you have got available and coming on line, have you got a local supply problem here and now?

Mr Hodgetts—I think in this particular corridor, yes, there is a concern that the forward supply of zoned residential land—because there is clearly a lot of lead-up to get the houses on the ground—is in short supply. That is why we are working with the Growth Areas Authority recently established by the state government, who are co-partnering us in one of those development areas, which is the land east of the existing area I described in the aerial photograph, for approximately 8,000 to 10,000 people. That has been effectively fast-tracked, along with land on the western side of Cranbourne, for residential zoning.

Senator BARTLETT—There are two issues I want to explore there. You have given us a house and land price graph, starting from around 1990 to about now. It looks like prices went from about \$170,000 to maybe \$260,000. I do not want to do the maths about the percentages of growth each year, but it does not look too steep compared to a lot of places.

Mr Hodgetts—That would be fair to say. Interestingly with the south-east corridor, we only have one growth corridor and that is part of the shire of Cardinia in the city of Casey. When you think about a market, the north-west of Melbourne has a lot more options. A lot of the people who come to live in Casey originate from the south-east. They are sons and daughters of the middle inner ring of Melbourne—the more affluent ring. They generally tend to come here to stay in the core for convenience reasons. Lately we have seen a trend where their parents are then downsizing and moving to the city as well. So we are getting an interesting mix of housing diversity.

Just to comment on the most recent data from 2006, there has been some anecdotal evidence from developers in the corridor—interestingly, one from the largest developer, an Australian land developer. In the first two estates they have developed in a new release area, this time in Cranbourne North—there is a lot happening in Cranbourne—demand for lots at the rate of \$150,000 per lot and in the order of \$250,000 for houses is dropping, and people are opting for a more affordable product. In growth areas that means a smaller lot typology—smart blocks, with less of a building footprint. So it does appear, certainly from my observations, that the market may have now reached a point where they are not willing to pay those 2006 prices. That poses a really interesting question for us. We are very interested in housing diversity, and that is the key to any sustainable community—allowing for all types of housing and all types of people in those houses to downscale or upscale housing locally so that you have some integrity and continuity of the

community. If we were to suggest from that anecdotal evidence that the residential development market is starting to sell these 300 square metre blocks with smaller houses on it, what does that mean for densities? It means that their population forecasts will become a lot higher than recently predicted if they continue to sell that way. Then you have questions that you need to answer about more cars on the roads and less public infrastructure to support those people.

Senator BARTLETT—The graph—both house and land—is pretty much flat from 2004. That seems consistent with what we have just said about the market basically reaching the ceiling of what people are able or prepared to pay. How does that fit with that issue of what you were saying about a supply problem, a supply shortage?

Mr Hodgetts—Just to clarify the supply shortage, there has always been a very steady demand for land in Casey, and that is what I was trying to explain. It is less common in the north-west and west of Melbourne where the other four or five growth corridors are located. Because of that, when you look at Melbourne geographically it has a very long tail to it. It is all to the south-east, so there is a very defined market. So to compare it with the fluctuations would be difficult. It has its own microeconomic market that is happening.

Senator BARTLETT—Can I just ask about the train station, which is in the photo as well. The land is reserved, the corridor is reserved and there is a \$500 levy: is that just a one-off per household or is that an annual levy?

Mr Hodgetts—The levy is paid by the developer. It is an infrastructure levy. The Cranbourne town centre has a train station and that is where the Leongatha line is. So the line you are looking at, that we have land-banked for a possible transit orientated development, is in fact a discontinued railway line. There is no commitment on the delivery date from the state government, so they would have to reopen that railway line and then of course build the station.

Senator BARTLETT—So it is not actually guaranteed that it is ever going to—

Mr Hodgetts—In fact it was committed, I believe, by a previous government, but it is no longer committed by the current government.

Senator BARTLETT—I can think of a suburb to the north of Brisbane that had a train line first promised in about 1906, and it still has not appeared, so good luck with that.

CHAIR—Apparently there is also something in Camberwell which had not been built for 14 years either, we found out after yesterday's hearing.

Senator BARTLETT—I am sure it has not been 102 years!

CHAIR—No.

Senator COLBECK—I want to continue with the supply discussion you were just having, Mr Hodgetts. You talked, with respect to your strategy, about the different block sizes and density types, and you were just discussing with Senator Bartlett the 300 square metre blocks. I was interested in what the level of supply of those is. You have already indicated to Senator Bartlett that there seems to be a growing demand for that, but what about market offerings, particularly for different classes of housing product? We have heard from developers in a lot of states that the demand is still for the three- or four-bedroom, two-bathroom, two-garage properties, but it appears that you are starting to see a change in demand. Is that actually driving supply?

Mr Hodgetts—I would expect that that is a very current observation—a very recent one. It would be unfair to say that is a generalisation, I think, but you would really need to look at the type of people moving into Casey. They are the three- to four-bedroom people, who are looking at a larger block and a larger house. If you refer to the article by Professor Peel of Monash University that I have just handed to you, you will see that he paints a very interesting picture of the reason why they came to the city of Casey in terms of where their sociodemographic quartile was and why they actually moved to the suburbs. It was clearly for a three- or four-bedroom house, a large backyard and the McMansion type of lifestyle. Supply is still very much in that quartile, for sure. What I am suggesting is that certainly for Casey and for the level of gearing that some of these families, groups and couples, are moving into, it has reached a point—a price point, perhaps—which suggests that they might be opting for a more affordable product.

Senator COLBECK—So you have not actually seen any specific change in the product offering that is here; it is still the McMansion style product?

Mr Hodgetts—I should clarify. Our housing strategy—which is cascaded down into our structure planning documents—does actually specify 30 per cent integrated housing, so we expect that a developer needs to

provide a diversity of lot styles. I would comment that, probably in 2002-03, I often came across, from developers in particular, some lack of cooperation in providing that type of diversity because they could not sell it—it was not the market that was asking for it at the time—but over the last two or three years I would suggest that, certainly in Cranbourne East, developers have started providing the 10 by 30 metre block size and small, single-storey, three-bedroom, single-garage dwellings with tandem car parking and a very generous backyard compared to the larger buildings on larger lots. They were selling very well. On the point I made earlier regarding another land developer just opening up their estates, they are also saying that those smaller lot typologies are selling and they have indicated to me anecdotally that they believe it relates to the price point that the market may have reached in terms of the cost of the land, the cost of the house and, therefore, the smaller blocks requested.

Senator COLBECK—What sort of price point are those other properties coming in at? The indication from the figures that you have is that you are talking about \$400,000-plus for the traditional product, or the product that people were traditionally coming here for. What is the price differential in the smaller lot size and the smaller house?

Mr Hodgetts—Generalising, without all the bells and whistles, with the Cranbourne East product—which was close to the railway station, and we encouraged the density there given that we hoped the railway would arrive—those 10 by 30 blocks with single-storey dwellings were selling for \$220,000 to \$250,000. I cannot speak for the more recent developer I have spoken to in the corridor in terms of what that product is—I do not have that, but I can provide the committee with that information.

CHAIR—That would be very helpful, Mr Hodgetts, thank you.

Senator SIEWERT—Are there any community housing organisations operating in Casey?

Mr Hodgetts—No, not that I am aware of. The next presenters may have some advice on that. From recollection, we had an approach by one or two and I think the housing association has approached us—not me personally, but other departments within the council.

Senator SIEWERT—You said one of the issues we most needed to be looking at was rental housing. In your opinion, how should we be tackling that issue? If I interpret what you said properly, what we need to do is look at providing lower cost rental accommodation.

Mr Hodgetts—Certainly in this corridor, I would suggest that is our No. 1 priority.

Senator SIEWERT—And that is probably the same message we have had everywhere. The next question is: how do we start tackling that issue?

Mr Hodgetts—I think the earlier question from Senator Fifield had a similar response: it requires very strong leadership. Local government can do things in a statutory planning capacity. I have already talked about increasing diversity within private residential developments, but when it comes to getting developers to actually provide models for rental accommodation, that is when it runs into problems. There are a number of reasons—and no doubt it has been explained to you a number of times—why that occurs, but a lot of it is price point, market differentiation et cetera. I think marketing is probably the key for any estate in relation to the negative connotations of rental housing and social housing within estates. I think South Australia is taking a leading role in that, basing their initiatives on international examples including Canada and the UK, where rental and social housing is mandated. I think that is the only way you can get the private sector to provide that type of housing if neither housing associations nor government agencies are providing it.

Senator SIEWERT—What percentage of accommodation in the city is rental at the moment?

Mr Hodgetts—I do not have that number available. I can provide it to the committee, and perhaps some of the subsequent speakers might be able to touch on that.

Senator SIEWERT—It would be useful if you could. What percentage of accommodation in the city is public housing?

Mr Hodgetts—I do not have that figure either. We do have public housing, and it is very old stock. I do not believe anything has happened with public housing since at least the 1980s or 1990s; in fact, I think the stock we have dates back to a public housing initiative to provide labour for Dandenong. The area I speak of is Doveton. It is a 1950s public housing estate, but I do not believe we have had any substantial public housing since.

Senator MOORE—Do you have any idea how much repossession is going on in your shire?

Mr Hodgetts—No, I do not. I have no quantifiable amount, but my submission earlier did touch on some anecdotal stuff that is occurring. But again, I think the community groups might be a little more—

Senator MOORE—On the ground? In terms of the council, you mentioned in your evidence that you had provided extra funding for financial support workers. Does the council itself take a role in giving support to people who are finding themselves in distress? Do you have a unit in the council that has that role?

Mr Hodgetts—We have the HACC services unit. Its head, May Hassan, I believe is in the audience today. May can speak about that in detail, more than likely, but yes, I believe there are services available on all spectrums.

Senator MOORE—Yesterday we heard evidence that is intriguing me. Someone from local government gave evidence about the cost of betterment—a proposal about the land usage which comes up consistently in this committee inquiry—about the way land is zoned when land changes from being nonresidential to possibly residential and the enormous cost that that brings to the person. We had a very detailed and passionate submission from someone yesterday about who should bear the cost of betterment and how that would be able to be spread. I do not trust myself to explain that.

CHAIR—It is fair to say that he suggested that the vendor of the land should bear the cost. We were in Geelong, so he was largely talking about rural landholders.

Senator MOORE—Do you have rural land? Looking at that aerial photograph, I thought you might have.

Mr Hodgetts—Absolutely. We are a peri-urban council, so, yes, we do have some very good rural land. That issue often comes up.

Senator MOORE—This gentleman also said that he had taken that to the state government in some open debates that were held. I am wondering whether your council has views on this issue or whether it has come up in debate. The proposition put to us and to the state government in Victoria was that this could be a significant issue in changing the cost impost—he was very careful not to call it a tax—on people and the way that the betterment would be valued. The person who would least benefit from the whole thing would be the person who currently owns the land, funnily enough. It was a very interesting proposal. It was looking at the age-old issue of when you are expanding into rural land. It is hitting in every state. I am wondering whether your council had had those discussions or thought about it.

Mr Hodgetts—I do not believe council has had discussions with the state government. I think it is an issue, from an officer point of view, when you use planning mechanisms and tools. When you plan for a growth area you invariably rezone the land to an urban purpose, and that is where the betterment tax suggestions are coming from. From a local government point of view it is almost ironic at times that by rezoning the land to the developer or to the rural landowner we then have to go at a later date to collect the developer contributions off the development community—

Senator MOORE—That was his argument: that you are double-dipping.

Mr Hodgetts—to go and buy land at the new rate. We reflect that in our charges. We have to. The indexing is very difficult, certainly in Victoria, because of the way the regulations are structured. I raised three points earlier about the generalised commentary on the problems with local government development contributions tax. I cannot speak for New South Wales and the order of magnitude of their taxes but Victoria's are certainly nothing like that. But it is an issue with the development community here in Victoria. Obviously that reflects the cost of land that will be rezoned. The irony does not escape us either in that regard.

CHAIR—Mr Hodgetts, you referred in some of your remarks and your facts and figures to an observation about 146 people—that is, 56 new households—coming in every week. I think you called them 'newly highly geared residents' arriving daily.

Mr Hodgetts—I apologise for the emotive description.

CHAIR—No, not in the least. What is the exit rate? Are people just coming or are they leaving as well?

Mr Hodgetts—I cannot give you the figures on the exit rate. There was an interesting commentary, again from the Hornery Institute, and we can provide that to the inquiry. We engaged the Hornery to do some community profiling for residents. We did this because there is a socially disadvantaged component of the Cranbourne community and we were really tacking a new community onto the existing one. We knew the new community was going to be vastly different from the existing one, so we did some profiling about what type of people would be coming into the city and what their aspirations would be and how we would blend those two communities together.

Interestingly, the Hornery information pointed out that in Casey there was, in some instances, about a two-year turnaround. There was a significant proportion of turnaround after people bought into the new estates and those master plan communities. I think the Hornery Institute called it ‘commuter stress’: once people had been commuting by car for 24 months or so, that was a trigger point for a substantial number of departures from those estates that was significant enough to be a statistical difference. From the Hornery community profiling and focus groups, that was put down to having to travel long distances to work. So there is some evidence, I believe, from that body of work that would suggest there is a honeymoon period for these new estates and new communities. After that, where some are able to get out, they often exercise that right, but the ones who stay there longer are the ones that are surrounded by what the CEO of the Hornery Institute, Kate Meyrick, described as ‘magnet infrastructure’. I mentioned that in my submission. That is the concept of creating communities around three components that she generalised and simplified it down to: cafes, schools and shopping centres—places for the community to meet. If those services are there from day one, then the longevity of that community from a master planning point of view tends to be a lot greater.

CHAIR—That is very interesting. Thank you very much. As there are no further questions, Mr Hodgetts, thank you very much on behalf of the committee for all of the information that you provided us with this morning and for your presentation. It has been very interesting.

[9.58 am]

NADEN-MAGEE, Ms Susan, Manager, Casey North Community Information and Support Service Inc.

PETRIDES, Ms Leanne, Manager, Cranbourne Information and Support Service Inc.

O'CALLAGHAN, Mr Mark, Manager, Housing Services, WAYSS Ltd

PETERSON, Ms Janice, General Manager, Support Services, WAYSS Ltd

CHAIR—I welcome our next witnesses. If you would like to make opening statements, we will go to questions from members of the committee after that. I am not sure how you wish to divide the time, but if we can have brief statements, that gives us more time for questions.

Ms Peterson—As an opening statement, WAYSS is a transitional housing provider and has recently applied for registration as a housing provider to the state government. We operate offices in Dandenong, Narre Warren, Cranbourne and Frankston, so we try to cover the area and thereby make our services a bit more accessible to the diverse communities there. We also have a range of support services which are funded by SAAP, but basically our core support services are around family violence and young people. There is also some social housing support that is under Mark's umbrella.

Broadly speaking, across that area we also provide service support to police around Fax-Back arrangements for family violence. We provide support to victims after they have had an attendance by police. In terms of our housing I think we have around 360 properties under management across Dandenong, Greater Dandenong, Casey, Cardinia, Frankston and the Mornington Peninsula, and we have two rooming houses. So, broadly, that is the picture of the organisation.

CHAIR—Who would like to go next?

Ms Naden-Magee—We were requested to provide comment on housing affordability from the perspective of a counselling crisis centre. Casey North Community Information and Support Service and Cranbourne Information and Support Service are not-for-profit community organisations funded by our local government to provide support programs, crisis intervention and community information to residents across the city of Casey. Both are organisations that have a range of support programs and resources that have been developed to respond to this local community need. While we will attempt today to address some of the terms of reference, others are well outside our area of expertise or experience. Housing affordability has been identified as a major issue for some time now by both our agencies; however, for our services, access to any affordable housing, particularly private rental, is an issue.

For homeowners it is the ability to afford the maintenance of home loans and ongoing costs that is presenting a problem and often leads to financial stress. We are finding this group to be a growing client group for both of our agencies. The growth of housing in this area has attracted many young families in search of the great Australian dream of owning one's home. Mortgages are often obtained on little or no deposit and repayments can often stretch the family budget to a maximum. Many families are finding it increasingly difficult to keep up with the loan payments and day-to-day expenses with the increases to interest rates and the costs of living in general. This problem is compounded when the family income is reduced, often as a result of the birth of a new baby, at the same time as expenses relating to raising children increase the family's outgoings. For example, our agencies this year have assisted more than 220 families with school expenses, 75 per cent of which had never accessed our agencies before. Most of these families were experiencing housing stress.

The demographic composition of our local community provides us with high numbers of young families paying off large mortgage debts, and the loss of the family home, or the threat of such loss, causes great distress. This factor, coupled with the ease with which credit can be obtained, provides us with many families presenting in severe financial hardship. Statistics collected by our agencies indicate that an increasingly high percentage of people accessing our services are suffering financial hardship. Traditionally our services have been accessed by low-income households in financial stress; however, over the last 12 months an increasing number of clients in receipt of above-average salaries have approached us for advice and assistance. The cause of their financial problems is often the large amount of personal debt—either through credit cards or personal loans—that they have accumulated, coupled with mortgage payments that are increasingly difficult for them to service.

In the current economic climate we have seen a lot more families that are experiencing financial hardship. Increased mortgage costs, higher rental costs due to the limited private rental market, increased fuel costs and the general increase in the cost of living are severely affecting families in this growth corridor. As previously mentioned, our organisations offer a range of support services; however, from our experience the program that is most useful to homebuyers in financial stress is the financial counselling program. This program works with clients to inform, advise, advocate and, most often, negotiate on the client's behalf. Contracts that were not fully understood, poor lending practices, particularly with loan brokers, and other accumulated debt can sometimes be negotiated into a manageable repayment plan.

Unfortunately, many clients are not aware of where to go to access assistance, and the issue of denial or embarrassment is very common among people who would generally be considered middle-income earners in our local community. These are the clients who borrow more, take out further credit and dig themselves deeper into debt. Frequently, clients who do present for assistance would have been much better off if they had made an appointment earlier. Having said that, the funding of these programs has been an issue for our organisations as we have seen no increase to the state or federal programs in the last 10 years, despite the incredible population growth, and often the financial counselling programs find it necessary to close their books due to an overload of casework.

At Casey North, a qualified financial counsellor has been volunteering on a part-time basis for the past three years to assist clients who are in crisis and are unable to access other services. In the last financial year, this program assisted 239 clients, 22 per cent of whom had a mortgage. This figure is much higher than one would expect to see at Cranbourne, where a state-funded financial counsellor delivers a service four days a week. The annual target for that worker is 192 clients, and she would see at least that many every year. Approximately 40 per cent of her clients have mortgages and she often operates on a six-week waiting list. Six weeks is too long for someone who is desperate.

More alarmingly, clients who present for assistance come with particularly complex issues that require a great deal of case management and support work. A high number of clients have or are experiencing family relationship breakdown as a result of their financial stress. Further to this, at both agencies it is evident that an increasing number of clients dealing with issues of financial stress are also suffering mental health problems. In the last six months, statistics show that almost 20 per cent of clients presenting to that program had relationship issues, and more than 25 per cent had mental health issues, in particular depression and anxiety. It is also noted by both of our organisations that people experiencing financial pressure are often not able to address health issues due to lack of affordability. Poor diet due to lack of funds also leads to poor health. Emergency relief services are often utilised to pay for health needs for our client group. These clients with multiple issues are more complex and take longer and more effort to stabilise. The needs of these clients are extremely high and often require the integrated support of our social work, counselling and emergency relief programs. The issue of family breakdown has far greater implications, and the effect on families, particularly children, cannot be overestimated.

In considering the problems experienced by our client group, it is necessary to look at the housing market as a whole. This community has a severe shortage of private rental stock, and this has contributed to a rapid escalation in rental costs. This has a variety of implications. Higher rental costs mean that the ability of families to save a deposit for a new home is severely compromised, and families are often forced to remain in long-term private rental or commit to home loans that are more accessible, with no deposit, often leading to problems later.

Selling the family home, utilising equity—if any—and moving to private rental can be an option for some, particularly if it means their income will increase with a government-assisted private rental subsidy. It would be more appropriate, from our point of view, if eligible families received increased income as, say, housing assistance to enable them to stay in their own homes and their own communities. Families who have suffered loss of their homes are forced into the private rental market and may need to move away from their local community to access private rental, and this has further implications, including the loss of social networks and children being forced to change schools. This has long-term implications not just on individuals and families but also on communities. Communities are strengthened when people can invest energy and resources in engaging and participating.

In closing, we recognise that the issue of housing affordability is a complex one and that this committee has been charged with focusing on homeownership. We believe it is important to acknowledge that while many

people in the city of Casey are experiencing mortgage stress, many others who are renting are suffering housing stress. We look forward to this issue also being examined in more depth.

CHAIR—We will go to questions. Who would like to start? Senator Siewert.

Senator SIEWERT—This question is for either Mr O'Callaghan or Ms Peterson and is in relation to the type of accommodation you provide. You said that you are a transitional housing provider, so presumably that means shorter-term accommodation?

Mr O'Callaghan—Yes. To clarify the transitional process, the 360 properties that we have scattered through the outer south catchment, as we call it, provides an opportunity for people who are in a homeless condition to get to a transitional point for further, long-term housing. They move into that property, get a support worker attached, plus the bricks and mortar, and hopefully, eventually, they move into some form of long-term housing. This is where the transitional program is falling down a little because the time that people actually spend in transitional properties is not really transitional; it becomes long term.

Senator SIEWERT—That is my next question. How long, traditionally, have people tended to stay and has that time increased?

Ms Peterson—People enter the properties on a three-month lease. We are now seeing that those leases are extending, some up to 12 months. It is particularly concerning for young people because, as Susan said, with the stress around the rental markets, young people are at the bottom of the list in being able to access that. We have had young people in for about 18 months. That is putting pressure on our support services, because they have to go hand in hand. So a young person may have, for all intents and purposes, sorted out a lot of their own support needs but be stuck. Also, it is taking longer to get maintenance done through the Office of Housing, so, if people have been accepted into the early housing list, they cannot get into the property. Basically, it is clogging up. The exit options for people are fewer and fewer and are much more difficult with the rental stress. I do not think that the Office of Housing have had a great deal of new purchases, although I know that that is in the pipeline.

So, for us at the moment, some of those figures of Mark's are increasing at a rapid rate. We presented the figures that we presented to you today to Minister Wynne about a fortnight ago to indicate that we need some help now. While we understand and appreciate the federal and state government recognition that there is a housing crisis, it is difficult for all of our support services—and you hear of the growth that is happening in this municipality in particular—and we need help now in terms of how we can support people better in order to stop them circulating and coming around to the door again.

Senator SIEWERT—Do you accommodate people purely in the houses and the properties—as you said, you have 360 properties plus two rooming houses—or do you seek accommodation elsewhere as well?

Mr O'Callaghan—That probably sits in my basket. I will go over the statistics for you now. A lot of our client group are homeowners who are traditionally looking at the private rental market, and lot of our assistance goes towards clients that are in private rental or some form of social housing. I thank the committee for giving us the opportunity to talk about that. I have some statistics here about the people who present for our services who are in mortgage stress or who have failed mortgages.

Most of my figures there are actually related to the private rental market. I suppose the trend that we are seeing is coming through at the front end—because I take care of the three different portfolios: the crisis of homelessness, housing information referral and the social housing advocacy component. What we are seeing at the front end, I suppose, is what the speaker before us was identifying, and also what Susan and Leanne were identifying: people are experiencing not only mortgage stress but rental stress as well. We have got a bit of a crisis out there with regard to the prices of property, the accessibility of the properties and people's ability to maintain themselves—especially in these outer suburbs that we have with Casey and Cardinia—in the face of the cost of living and the price of petrol. They have usually got two cars, and these cars are not running too well; they drink a lot of petrol. That then has a subsequent effect on, I suppose, the numbers that we are seeing as well.

Most of the stuff that I can talk about is the primary rental market. I will give you a bit of a snapshot of what we have seen over the last three months for people experiencing mortgage stress. It is usually when people are pretty low that they come to us. They normally hit financial counsellors first and try and sort it out at that level. Normally it gets sorted out at that level, but in the last eight months it seems to have really ramped up. A prime example is that we have seen five times as many people suffering mortgage stress in the first three months of this year as we saw all last year. So in three months we have seen five times as many

people suffering mortgage stress in this catchment as we would in a year's work. Of the people who are actually accessing our services, out of 21 possible vulnerabilities, for want of a better word, such as mental health, drug and alcohol or gambling issues, just under 40 per cent of them had financial difficulties—that is, failing mortgages or failing rents due to the price. So almost half our clientele are suffering these employment or financial burdens out there. Sorry, I have gone a little bit off track from your question.

Senator SIEWERT—That is okay.

Mr O'Callaghan—Can you repeat that question for me.

Senator SIEWERT—As I understand it, you have housing stock that you accommodate people in. Do you also access other properties beyond the 360 that you have? Do you source properties from the market?

Ms Peterson—We use caravan parks and motels. We fund motels, really. Mark has got some figures there on the amount of money that is spent on crisis housing. We use caravan parks where we can.

Mr O'Callaghan—So there was a reason why I was covering the three areas! I can put you into the three areas. At the front end, we try and put people up in some form of accommodation, whether that be a motel or some form of crisis accommodation, which is normally city bound. So we are asking people to travel into the city—and for less desirable conditions a lot of the time. I have got the top three outcomes there if you want to have a look at them, for that front end. A lot of the time we use family and friends. As the speaker before us said, we have a lot of families that are living in garages, sheds, caravans and other overcrowded environments on friends' properties. That obviously leads to other issues. That can normally last about one or two months, we notice, and then the family fabric seems to break down and they present back to us and are presented back through the crisis information services. That is a bit of—I was going to call it an epidemic—a pandemic out this way. We see a lot of people living in garages and sheds.

For the HIR stream—that is the middle one—we encourage clients to access the private rental market. That is really all we have got out here. Caravan parks are pretty much full up. I will give you a bit of anecdotal feedback from the workers. I do not know if you have heard that private landlords and real estate agents engage in an auctioning process. You might have heard that. We are now seeing a bizarre phenomenon of caravan park owners doing that. So caravan park owners actually have waiting lists now, and the clients are engaging in more of an auctioning process to get a caravan. It is sort of sad, really. A lot of the time these places do not have access to toilet facilities. We have large families coming into these little caravans.

That is the bit on housing information. We do attempt to support them into early housing through public housing, but that has quite a long waiting list. I apologise for not looking at what the waiting list was prior to coming in here, but the feedback from the Office of Housing is that, for a family, you are looking at around three to five years waiting at a good stretch. I am only talking about early housing; I am not talking about real support. I have heard that the wait for single people in this area, because there is not a great amount of single stock, is indefinite. That is longer than the actual general wait. I suppose that is our biggest move from the middle of the housing information referral, and the advocacy side of it is attempting to keep their rental property with the Office of Housing. We do have associations who have come out this way as we try to muddle our way through how the associations are all going to look. How that is going to present itself with regard to access for clients is something that is still fairly new. We have to wait and see what the fallout is from that, but they are just starting to have a look out this way.

One of the other big phenomena we are seeing is private rental investors coming into this area, purchasing the property rather cheaply and converting the rooms into rooming houses.

Senator SIEWERT—That is exactly what we heard yesterday when we were in Geelong, as well.

Mr O'Callaghan—I don't know if the City of Casey have a firm policy on rooming houses. I know Frankston City Council and Dandenong were fairly happy with their rooming houses because they have so many of them, but this is a rather new phenomenon we are seeing out here because the properties are cheap. There is the development of rooming houses for families as well. Leanne's service and my service were talking just recently about three families living in one property at \$300 per week per family. A couple that we worked with had four children, were living in one room and were paying \$300 a week. There were two other families paying that same amount in a standard three-bedroom house. It is very sad because it is not far from my house.

Senator COLBECK—To go back to the comments being made with respect to the counselling services: what is the funding source for the counselling services that you are operating?

Ms Naden-Magee—The service that we provide is non-funded and volunteer. The state funded service that is provided for this area is located at the community health centre and the federal one is back in Dandenong.

Senator COLBECK—Is there much evidence of that sort of service being provided by the lending institutions themselves? We heard yesterday from Bendigo Bank, who say they have a very active interaction with their clients and attempt to have discussions with them early so they can try to prevent severe stress occurring with their clients. Is there any evidence of that occurring with the other lending institutions, or are you seeing people wanting to come to something completely independent of lending institutions so that they can discuss their problems without fear of causing themselves further issues?

Ms Naden-Magee—I am aware that the Commonwealth Bank has an initiative to assist people in mortgage stress, but in saying that, that assistance would be directed toward assisting them with their home loan, whereas what happens is that, as people enter into financial stress, they are behind in their home loan, they have some personal loans that they might have accumulated from elsewhere, they have credit cards all over the place and they collect a few PERIN court fines which manage to accumulate to thousands of dollars because they cannot service them. They have an enormous amount of accumulated debt that a bank would not look at. They need a paralegal to actually look at what is going on, look at their income, look at their outgoings, look at their debt and look at their whole picture. Often it results in bankruptcy. A bank is not going to oversee a bankruptcy application, I would not imagine.

Senator COLBECK—You mentioned assisting people with payment of school fees and things of that nature. The banks have told us that their arrears rates are at very low levels. In fact it has been pretty much common across the sector that they have told us that. Are you finding that people are attempting to maintain their mortgage payments but are then dropping other things like school fees, and whatever else it might be, so that they can maintain their property?

Ms Naden-Magee—Most likely. It was common for someone to come in and say, 'I've paid all the bills but I have no money for the food.' That used to be the case, and that was easy; we could help them if they had done that. But now they cannot even pay all the bills. They say, 'I've paid some of the bills.' They prioritise whoever is barking at their door the loudest.

Ms Petrides—It is a constant juggling act, and certainly our agencies are primary needs agencies, so we are often the first port of call for people who come in with a range of bills and papers. They are just in utter confusion and despair. Sometimes they might come in with a request for assistance with food, and then all of the other issues start to come up as well. When I spoke about juggling, I meant that people were actually making choices about whether to put food on the table, pay the electricity bill or replace little Johnny's shoes because he has grown out of them and is in detention because he is out of uniform.

Ms Peterson—I think people in the outer areas, if they move, are moving to totally different areas. So they disconnect kids from schools and all of those sorts of things. So we end up, in all of our services I think, helping with schoolbooks, school uniforms and those sorts of things because they cannot geographically or physically maintain their children in that area—get them to school and whatever. So distance becomes an issue for people. They put everything into maintaining their house because that is in their community of interest and that is where they have their children connected. Once they move they have to move to totally different environments. They are often reliant on cars, so petrol prices affect them. As aid agencies, at various levels, we try to support those other things around them to keep them going, because they have prioritised keeping their house.

Mr O'Callaghan—I would just like to make a comment too, to follow up on that point. A lot of the time we see the need for affordable rental properties. Most people are moving further out. So in this corridor you would be looking at going out towards Morwell or Moe for a cheaper property. The phenomenon that we are seeing, for those coming through our services with their budgeting and their cost of living, is of landlords moving to 60-day notices to vacate. They have investment properties. We all understand that they have to try to keep up with their mortgage payments. Subsequently, they issue a 60-day notice to vacate, to move the people out and try to put the property on the market at a higher rate. So those on lower incomes—the pointy end of what we are seeing—are therefore not competitive in the private rental market. As we know, the vacancy rates for private rental are dwindling. We are seeing a really ugly trend of things going that way, especially out through the Casey and Cranbourne areas, where we find landlords issuing a 60-day notice to vacate and getting rid of tenants so that they can get in a low-risk tenant who can pay a higher rent. They usually put the rent up by about \$30 or \$40.

Senator COLBECK—\$30 to \$40 is what percentage? What percentage increase would that be of the previous rental? Is it a 10, 20 or 30 per cent increase? What is the percentage rate of increase in the rentals?

Mr O'Callaghan—That would be about—

Ms Naden-Magee—Twenty.

Mr O'Callaghan—a 20 per cent increase.

Senator COLBECK—This is probably hard to answer, but you would have a better feel for it, obviously, than we would: are these people who are looking to keep their rentals with the market, or are you aware of a cost stress in the people who actually own the properties as well?

Mr O'Callaghan—From what we have seen, the notices to vacate that are coming through are for fixing up the property, for renovation reasons. Not many of them say they are moving the family back in. It is for renovation purposes, to improve their investment.

Ms Peterson—We would not have that much experience with the developers or owners of rental properties. We are at the other end. We are at that pointy end and our clients are the tenants and whatever.

Senator COLBECK—But you would have some interaction with property owners and people renting out properties.

Ms Peterson—In the context of advocating for a client, where our staff need to advocate for a client to try and hold off that eviction or whatever and put in place supports around the client, trying to get them to hang in there—we have interaction at that level.

Senator COLBECK—I am just trying to get a sense of what the drivers are for the rental increases now. There are a range of possible reasons. There could be somebody who thinks, 'There's an opportunity for an extra quid, so I'll go for that.' But there may also be some cost drivers within the economics of actually owning and managing rental properties. So I am just trying to get a sense of where they might be, whether you have any experience in what they might be.

Ms Peterson—I had a conversation with a real estate agent recently, just asking them generally if they could give me some feedback on what was happening with the rental market. This was with the tenancy manager, and she did agree that landlords are recognising that, because of the dearth of stock in this area, they can attract greater rents, and that is what is happening. In that instance, the real estate agent was trying to keep a lid on it and not let it get too out of hand, not let the landlords become too greedy. But if they can see that their property is worth more then they are going to want more for that.

When I was getting ready for this hearing, I did an exercise and looked on the internet, and I was shocked by how many rental properties were available in our local area. In Hallam, which we would consider one of the lower cost areas, there were 11 rental properties. In Endeavour Hills, which is huge, there were 16. There were hundreds of properties for sale, but there were very few for rent. So those landlords recognise that the stock is limited and that, if people want to stay close to schools, to their networks, they are going to pay that extra money.

Mr O'Callaghan—We deal a lot with the real estate agencies as well in the course of advocacy for a client, and they are never really willing to express why increases are occurring—unless you get a good relationship with a real estate agent or a landlord. Then they will tell you that it is a competitive market and they are just trying to get what they can out of the market.

CHAIR—Thank you very much. I thank each of you for presenting today and for the information you have provided to us. It gives us a useful perspective on some of the issues that the inquiry has been considering. Thank you very much for your time.

Proceedings suspended from 10.33 am to 10.46 am

BURKE, Prof. Terry, Australian Housing and Urban Research Institute

WINTER, Dr Ian, Executive Director, Australian Housing and Urban Research Institute

CHAIR—Welcome. Thank you for attending here this morning. Would you like to make an opening statement, and after that we will go to questions from members of the committee.

Dr Winter—The submission from the Australian Housing and Urban Research Institute was made on the understanding that a number of AHURI research centres and AHURI researchers were making detailed submissions. I think you have heard evidence from a number of researchers providing you with a lot of detailed information about the research that we have conducted. All of that research is available freely from our website too. Our submission keeps things brief; it is in the context of that detailed information available. I thought I would give you a brief overview of who we are and the sorts of things we have been doing and then move on to some of the key messages that I think are arising from some of the research.

AHURI is a fairly unique model for producing high-quality, policy relevant research. It is a partnership between the federal government, each state and territory government and 12 universities across the country. It is a co-investment model. Each of those partners contributes financially and each of those partners is involved in negotiating the research program and indeed in the dissemination of the research to finetune its policy relevance to key policy issues. It appears to be a model that is working well. It has been going in its current guise since 2000 and has enjoyed two funding agreements and is about to have its next funding agreement approved.

The submission makes clear that a considerable evidence base has been developed on issues of housing affordability in Australia. We have done detailed work on some of the macroeconomic concerns about the relationship between housing affordability and labour supply. There is a lot of detailed work on new vehicles for the management of affordable housing supply, such as housing associations and why they work. There is detailed work now on the role of the planning system in assisting with the supply of affordable housing and also a detailed evidence base about some of the difficulties in the private rental market.

We have continuing work on the dynamics of housing markets in boom towns and the difficulties being experienced there, as well as ongoing work about learning from the international best practice in planning systems assisting with the delivery of affordable housing. As you will have seen from our submission as well, there is a suite of new projects going on, particularly with a focus on homeownership. There is work going on about how successful homeownership will be for lower and moderate income earners into the future. There are evaluations of government homeownership programs underway. We have work looking at reverse mortgages and who they are appropriate for, as well as the gentrification processes underway in the city and whether or not that will cause further problems with affordable housing supply. They are all listed on page 7 of the submission. The key messages that we have tried to draw out in our submission are, firstly, that housing affordability in Australia is both a structural and a cyclical problem. We argue that it is a structural problem because of the long-term nature of the problem.

You can find, certainly since the 1990s, an ever-increasing number of households experiencing housing stress. Those numbers are not going down with different cycles in the property market, hence we are defining it as a structural problem. With each cycle of the market, as well, it gets worse. It is ramping up and it is not going to ease and our projections, using the Treasury's intergenerational reports into the future, predict that this problem will get worse. By 2045 we are going to see both more households and a greater incidence of households experiencing housing stress, unless of course appropriate policy actions are taken in the interim.

Secondly—and this point is important given that the terms of reference of the committee focuses on home ownership—the greatest number of households facing affordability stress problems are in the private rental market. That has been well documented. We believe a key focus of policy attention needs to be around the private rental market.

Thirdly, the impacts of housing affordability are not just experienced by individuals and households but are going to have impacts at a macro level—at a macroeconomic level and at a macrosocial level. You will find increasing areas of spatial segregation, where some parts of the city are becoming concentrations of richer households and other parts of the city are becoming concentrations of poorer households. One of the dramatic changes in Australian society over the past 25 or 30 years is that the great Australian dream used to be a vehicle for producing greater equality in Australian society. It was a vehicle by which you did not have to be on a high income to get into home ownership and, therefore, over time, with an asset value increasing over

time, you could actually improve your position in society. Today the housing market is acting in the same way as the labour market to actually reinforce social inequalities. The great Australian dream is reinforcing the inequalities that come out of the labour market, and that will take on board a spatial manifestation. There will be a geography associated with that as well which will be reflected in the structure of our cities. These are things that we believe could be avoided with appropriate policy interventions.

Finally, there are dimensions of intergenerational equality that we need to be concerned about. As I have said before, on the basis of projections, using the *Intergenerational report*—assumptions that the Treasurer from the previous government put out—we think that these things will worsen into the future unless appropriate policy actions are taken.

CHAIR—Thank you, Dr Winter. Professor Burke, did you wish to add anything at this point?

Prof. Burke—No, not at the moment.

Senator FIFIELD—Dr Winter, in conclusion you mentioned that the great Australian dream is changing, is out of reach, that some of the manifestations of the labour market are being reinforced by difficulties in home ownership and that that would have a spatial implication or expression. Could you explain a little more what you mean by the spatial differentiation between those who are doing better and those who are not?

Dr Winter—We are going to find that certain parts of our cities are going to have housing markets that perform less well compared to other parts of our cities. They will typically have people in those houses who are in occupations that are lower paid and who are perhaps more vulnerable—that is, they could be in casual employment, trying to hold down two or three jobs. South-west Sydney is perhaps a good example of this, where we know that house prices are coming off, rates of mortgage stress are high and occupational categories that people are working in are towards the lower paid end of the spectrum. So it is a conjunction of poorer outcomes, greater vulnerability in the labour market, greater vulnerability in the housing market and the reinforcing of those things happening for the same households in particular parts of cities.

Senator FIFIELD—Are you also suggesting that there might be a greater concentration of people of a similar economic status geographically? Already clearly there are significant differences, suburb by suburb. Are you suggesting that that will intensify?

Dr Winter—I think the housing market will start sorting people into those sorts of categories more and more over time. I think it is inevitable. If the barriers to entry are such that you have to be on a very high income to get into particular parts of the city then you have got fewer and fewer choices about where you live. We know, when we look at the private rental market, that households in the private rental market are generally being pushed further and further out in our cities over time. Basically they are chasing, I guess, more affordable housing over time. Certainly if you look at longer-term renters—those who have been in the private rental market for 10 years or more—they are typically going to be on lower incomes and they are going to be found to be clustered in those parts of the city where there are fewer housing opportunities and also, potentially, fewer labour market opportunities.

Senator FIFIELD—Historically—say, in the inner city—you have had what you might call stronger suburbs and less desirable suburbs. In the outer suburbs you have had the same thing. Are you suggesting that you will have a situation whereby the further you are into the city—Sydney or Melbourne—the stronger the household wealth would be, and the further out the worse off? Are you saying it is going to change in that sense, so that—rather than having good and bad suburbs, for want of a better phrase, in the inner city, the outer suburbs and the middle suburbs, and a choice of suburbs in those bands—you will have a situation where you have got high-income households, who are doing okay, close in and it will be getting worse as you go further out?

Dr Winter—I do not think it will be just monocentric. I do not think it will just be about orientation towards what is going on in the centre. We certainly know that for Melbourne there is what is referred to as quite strong ‘regional self-containment’—that is the jargon—whereby people are living and working in the same regions. Quite high proportions of households do that both in the Melbourne metropolitan area and in the Sydney metropolitan context. So I think it is not going to be a straightforward geography like that. It is going to be far more uneven. There may well be parts of inner areas—perhaps the inner west of Melbourne—where you will still find pockets of more poorly performing housing markets and concentrations of lower-paid working households.

Senator MOORE—As you have said, we have had evidence from a number of research areas. The range of research topics seems to be increasing all the time, which is impressive when you look back from today to

10 years ago. One of the issues, though, is what happens with the research after it is done. In terms of the way that AHURI operates, is there any particular focus on what happens to your work after it is completed? I see your website and I see how you fund it, but I am fascinated with the range of things which all seem to be topical issues now and on which people are searching for answers. There seems to be at least five years of in-depth, evidence based research there that we could be using.

Dr Winter—We hope that the development of the evidence base is part of the reason why these things are topical today. We refer a lot to a strategy that we call ‘engagement’. One of the key ways that we try and ensure there is an effective knowledge transfer from the research into policy development is through setting up a whole series of different opportunities for a constructive engagement between the research and the policy and practice communities. That works all the way through from the way in which we set the research priorities. So we work very closely with the policy community to identify the key issues they are concerned about and how they could be approached. We then set up what we call ‘project user groups’ that live through the life of every project to ensure, again, that we are getting good advice from the policy community about what the real, finetuned issues from a policy point of view are and also how we can maximise the benefit of the research we are undertaking so it is of the greatest benefit possible.

We hold a number of seminars around the country—we will hold seminars in every capital city this year. We also undertake what we call roundtables, which are typically behind closed doors, where we, under the Chatham House rules, have a conversation with senior policy officials and often ministers as well to ensure that they understand the implications of the research for policy development. Whenever we hold conferences around the country—we recently co-hosted the National Housing Conference in New South Wales—the presentation of AHURI research is typically undertaken conjunctly with a policy person. So we prefer to have a senior policy person stand up at the start of a presentation and say, ‘Look, here is the policy concern and here is the policy context for the research.’ A researcher will then stand up and present the key findings, and then the policy person will draw out the implications of the research for policy development again. So that knowledge transfer is a fundamental part of our brief. We think we have been fairly innovative in the way in which we try and undertake that.

We have also developed a wide range of products to make it easier to access the findings. You will find the standard lengthy reports on the website. You will also find our four-page summary research and policy bulletins, which try to distil out the key findings and what they mean for policy development. Most recently we have started doing audio briefings, whereby we distil out again the key findings and what they mean for policy into a two- to three-minute audio briefing which people can download onto their MP3 and listen whilst they are in a taxi or in the car. Again, we are trying to use the technology to develop as many opportunities as possible for ensuring that people understand what has been found out and what it means for policy development.

Senator MOORE—What happens next in these seminars and roundtables? My understanding is that the seminars are very popular and that sometimes you have very large groups wanting to attend them. I also understand that there is a focus on the future as well.

Dr Winter—The line at which our responsibility for the ‘what’s next’ and the policy department’s responsibility varies by jurisdiction. I think the smaller jurisdictions welcome our assistance in terms of framing policy options and what they might look like. The larger jurisdictions have that capacity in-house and tend to take things on from there.

Senator MOORE—We had evidence yesterday via Dr Butterworth about his linking of healthy communities. He said that housing is but one—though a very important one—of the elements that make up a healthy community. He has been doing particular research in that area. Has he linked into AHURI? I was reading his CV and I did not see that in it.

Dr Winter—The name is not familiar. Do you know which university he is with?

Senator MOORE—Deakin University.

Dr Winter—They are not part of AHURI.

Senator MOORE—They are not part of your group, but you do sometimes take people as consultants or professors on rove or something. In terms of process it was really interesting, because that was an area that I had not seen in your research topics. If we are looking at better communities, which I know is one of the things that AHURI has done work on, the concept that he brought in—that the World Health Organisation

determinants linked with housing—is very important. Even though they are not particularly spelt out in this inquiry, I do not think you can look at one thing in isolation.

Dr Winter—We have articulated for a number of years now that, whilst we have been able to provide a high-quality, policy relevant evidence base on housing issues, we believe that that evidence base would be of greater value if we could contextualise it within broader urban development and community development processes. We are funded through housing departments. They, quite appropriately, have a focus on housing policy issues; hence our research program has focused to a very large extent upon those housing policy issues. We have tried to attract funding through urban planning and urban policy departments to develop a similar urban research program that would be of national import and would provide those links between the housing understandings and these broader community and urban development concerns. We understand the limits intellectually of having a housing specific research program. It is a reflection of the divisions between housing policy and urban policy that are made within governments. I think we would all benefit as a nation if we could narrow that gap and properly situate the housing knowledge that we have developed within this broader urban development context, which you need to have to properly understand the pressures that are being placed upon housing markets.

Senator COLBECK—I think I heard you say that at an intervention level we needed to concentrate on the rental market as one of the key ways to relieve housing stress. Can you just expand on that and perhaps talk about some of the key intervention areas that you see long term to start resolving what is obviously, under current settings, going to be a long-term problem?

Dr Winter—The evidence of the households who are experiencing housing stress tells us that the greatest concentration of households experiencing housing affordability problems is in the private rental market. That is why I would suggest that it should be a starting point for policy focus, though I do not think it can be exclusively, because we know that it is a system—we know that what is going on in the private rental market relates to and impacts upon what is going on in the homeownership sector and similarly has an impact upon what is going on in the public housing sector. So any sort of policy reform approach is going to have to look across the breadth of the housing system to understand why households move in and out of different tenures over time—what enables that to happen and what prevents that happening.

I think the government's emphasis on supply is important and appropriate. The National Rental Affordability Scheme is, I think, a promising start. We will find out how effective it is. Ultimately, if we can get 50,000 extra dwellings into the affordable private rental market or managed through housing associations, that will be an important contribution, but I think we will need more. I think ongoing demand-side subsidies, as long as they are appropriately targeted—as Commonwealth rent assistance is—are going to be an important thing to help those groups who are on lower incomes too.

Senator COLBECK—We heard this morning, for the first time during the inquiry, I think, of a change in the demand for certain property types. We heard in Campbelltown, for example, that there had been some medium-density properties built close to a railway station, but they could not get people to take up that type of property. But we heard here today that smaller block sizes and smaller house sizes have started to come into demand on the market, even though they have been on offer for two or three years. Previously, what we had heard from the property developers was that three-bedroom, two-bathroom, double-garage properties were the type in demand. Have you done any work on the psychology of the demand types and what actually drives that? It appears to me that the key driver in this particular area here would be the price point, what people can actually afford. So, instead of a \$400,000 traditional package, if you like, or the McMansion package, they are coming back to a 300 square metre block with a three-bedroom house and a single garage. Have you done any work on that?

Dr Winter—I cannot recall anything that we have done there. Are you aware of any work on demand at different price points?

Prof. Burke—No, Ian, no.

Dr Winter—We do not have evidence of that. It is the sort of marketing intelligence that developers tend to have, but it is not something that we have focused on to date.

Senator COLBECK—It is obviously something that happens as the market develops and, over the last 15 years or so, as the population has become a little more affluent, people have been able to aspire to a type of property that has a higher value, and that has been the driver of the market. Obviously, there are price points in the market, and they vary in different communities and across different states. Yesterday we heard of a 30 or

40 square metre apartment in the heart of Melbourne being a reasonably priced property at \$270,000, yet in my community I can buy a very comfortable three- or four-bedroom dwelling for the same sort of price. So there are natural price points in the varying markets. I just wondered if there was any work that underpinned those particular markets, apart from where the property developers are coming from, so we can understand why these things are occurring.

Prof. Burke—Can I make a brief comment on that. I have done quite a few local government housing studies, including ones for outer municipalities like this, and you have really pinpointed one of the most challenging problems that I think we confront around housing in Australia, which is the lack of diversity in housing forms in many of the outer urban suburbs. The dilemma there is what happens in 30 or 40 years time if there is not an adequate mix of stock. If all these suburbs like Casey just have three- to four-bedroom detached houses but the population ages, like they have in the inner-city areas of all the cities around Australia, and then they want to move into a housing form that is more appropriate for their age but want to retain the connections with their local community, where do they go? Historically, I do not think we have really built suburbs as lacking in diversity as those we are building at the moment. We face the problem that, if you ask the development industry about building a greater diversity of housing, they say there is no demand for it.

Senator COLBECK—As we have.

Prof. Burke—Yes. Part of the reason for no demand is that the demand in most areas has not actually been tested. If you keep building the same product and do not offer the consumer a diversity of products so that you can find out whether there is demand, you actually do not know. It is a very tricky issue but one which, as you have rightly identified, we do not have much information about. There is a real dilemma in having on-the-ground discussions with municipalities like this, and indeed with the state government, about what should be the content of their municipal planning strategies.

Senator COLBECK—A little bit of evidence started to come out yesterday in Geelong about that, as part of our discussions there, and it started filtering through again today.

Senator SIEWERT—I was making that very point at the hearing yesterday. They said there was no demand and my question was: ‘How do you know?’ You go around and look at show homes and, if they do not have what you want, you are forced into taking what is there. I have a number of questions, so I will see how far I get through them before I get stopped. My first one is about your recommendations on the form of negative gearing. We have had a deal of evidence about the impact of negative gearing. I cannot recall that anybody said, ‘Get rid of negative gearing completely.’ Like you, they have said, ‘Change it.’ Could you outline how you think it should be changed and how you think it should be changed to avoid what happened when they changed it in the eighties?

Prof. Burke—They did not get rid of it in the 1980s either; they just quarantined it, which is different. That recommendation is put up as an indicative example only of what you could do with the tax provisions that we have to get better outcomes. I agree with everybody who has already presented that we should not be getting rid of it or abandoning it, but we can modify it. Our recommendation is that, to deal with the politics of the issue, the existing provisions remain for all existing investors, but for future investors you have a modified system, which is basically to send signals about increasing supply. That, I think, is our real issue in Australia. We just do not have enough supply of housing generally but, more specifically, we have not got enough supply of properties at the lower end of the market, particularly in the rental market that Ian was referring to.

How do you deal with that? One of the obvious instruments that we have is the negative gearing one. You just restructure that in a way which encourages greater investment in new supply and lesser investment in existing stock, which only puts investors in competition with first home buyers. The way we have suggested that that could be done—and again I emphasise it is only indicative—is to restructure the rates of deduction. Instead of having 100 per cent allowable for all expenses, you have a higher deductibility—we recommend up to 125 per cent—for investment in new construction and the purchase of the new rental property. It reduces to only 75 per cent deductibility for investment in an established property. That 125 per cent deduction only applies for a benchmark affordability property—in other words one that is probably around \$300,000, which could be indexed annually. But then the 125 per cent reduces as prices go up. So over some cut-off point like \$500,000 or \$600,000 you are back to the 75 per cent. We want not only supply but supply at the lower end. That is, in very simple terms, an outline of that idea.

Senator SIEWERT—I note that you link that in with changing capital gains. That is your next recommendation.

Prof. Burke—The capital gains recommendation is basically to restore the capital gains provisions to the way they were before 2001.

Senator SIEWERT—That is also consistent with what other submitters have said—that is, that you need to be altering both.

Prof. Burke—That is right. Ideally, you do not just do your tax reforms alone and rely on them. As our paper suggested, the problems that Ian was referring to are really the function of a particular institutional environment which has emerged over the last 50 years and which I think has served Australian housing very well historically but, through a whole range of events, is no longer doing so. Therefore, you have to go back and take apart the elements of that institutional environment—the finance system, the taxation system and the regulatory environment—and say, ‘How can we rework it to get much more effective and equitable housing out there?’

Senator SIEWERT—My next question relates to some of your evidence but also to evidence we received yesterday. Our last witness yesterday said that the way to solve this problem is simply to release land. You just release heaps and heaps of land and that will fix the problem.

Prof. Burke—We do briefly allude to that in the paper. That is not the solution. You cannot resolve complex problems with simple, one-dimensional solutions. We just have to look at where we are at the moment. Releasing land in these outer urban areas is not the problem. The problem now is the attraction of land in the inner and middle suburbs of our cities because of the high amenity that they offer vis-a-vis the outer urban areas and, I think, a growing perception of the long-term problems of petrol prices and the lack of public transport in these areas. Releasing land in these areas is going to do nothing to alleviate the intensity of demand in those areas where the house prices are the greatest. You can release another 10,000 allotments out here and I would guarantee that it would not make a bit of difference to the bulk of house prices anywhere in the middle and inner ring of Melbourne. And it would not solve problems about the lack of amenity, public transport and the impending issues around petrol prices—in other words, the liveability of these areas. That is why in our paper we suggested that another way of tackling the affordability problem is to improve the quality of amenity in affordable areas. So we have to have a two-pronged strategy. One, increase the stock of affordable housing in high-cost areas but, two, improve the amenity in low-cost areas so that more people want to move into these areas. In that case, releasing land would be effective if people wanted to move into those areas, because they would have the amenity that people believe attaches to a quality of life in contemporary Australia.

My view is that governments and the private sector have, for various reasons, been reluctant to invest in outer urban areas and in regional areas in the last 20 years or so. If you think of a new museum, a new gallery, a new exhibition centre or a new sports centre: where do they go? The inner city. If you think in terms of improving the public transport system, it is about making the inner city transport system better. We have got to actually get more investment into the regional areas and outer suburbs to make those areas more attractive. In that respect we will return to the element of affordability that we had in the 1950s, 1960s and 1970s, when people could choose right across a metropolitan area or they could choose between a metropolitan area and regional areas, rather than opting due to budget constraints for an area which they actually do not want to live in because it has not got the amenity that they want.

Senator SIEWERT—We were also told yesterday that the provision of public transport does not really matter because the long trips into the city are only a certain percentage of the trips that people make. But this morning, one of the people from the information centre was saying that in some instances you are getting a churn of people from some of the areas around here. They get transport fatigue after about two years and then they want to sell their houses. I found it interesting to be told yesterday that public transport does not matter.

Going to the community housing concept, we have had a lot of particularly positive evidence about community housing associations around Australia and the role that they are picking up and playing now, particularly filling that gap where governments stopped investing in public housing. We have had a lot of evidence that investment in public housing has significantly decreased and also that public housing is now being used more for people with special needs. In New South Wales, it is being used to provide accommodation for people who have been deinstitutionalised. We have heard that, while it has traditionally been used as a starting place for people on low incomes, it is no longer providing that and community housing is doing that. What is your opinion on the increasing role of community housing, and how does that fit into the policy mix?

Dr Winter—This is very important. The policy settings we have got at the moment lead us to affordable housing associations or community housing associations as part of the solution. They are part of the solution because their tenants can get access to Commonwealth rent assistance. Public tenants do not get access to Commonwealth rent assistance. We need those tenants to have access to Commonwealth rent assistance so that the organisations are financially viable. That is the fundamental thing. They are not-for-profits; they get GST exemptions and they have other tax advantages too. So there is a cluster of policy logic that we have ended up in, over a period of time, that means that they are part of the solution.

More broadly, even if you were starting from scratch, having multiple providers of social housing is a good idea. Enabling choice amongst tenants from different sorts of providers is a good idea. Having different sorts of providers with slightly different policies, different offerings, stock in different parts of cities or even in different states is, I think, a good idea. It enables tenants to have greater choice about who they want to rent from—rather than having a single government provider with a single set of policies. So I think we need to provide more support to the sector to enable it to grow. We need to help them.

Senator SIEWERT—How do you suggest we do that?

Dr Winter—Some of the planks are already being talked about—having national sector capacity building, skills training, and common sorts of policies across the country in terms of the sorts of standards that we expect from them rather than having them vary from state to state. They are also well placed to be able to negotiate joint ventures with the private sector, perhaps more readily than some of the government bodies, because they can focus perhaps on smaller blocks of land, small developments and those sorts of things. So I think there are going to be an increasing number of opportunities for them into the future, and they are going to be very important. I think the National Rental Affordability Scheme is also going to support them. If we are going to grow the stock of affordable private rental accommodation, we need somebody managing those tenancies and those tenants, and that is an opportunity for the affordable housing associations too.

Senator SIEWERT—Thanks.

Senator COLBECK—You just mentioned the National Rental Affordability Scheme and you mentioned it before. That provides assistance for a period of 10 years. Obviously, in the overall longer term context, it is only a short-term intervention. What do you see needs to happen there so that another crisis does not occur when things like that scheme hit the end of their life cycle?

Dr Winter—I think you are right that longer term certainty needs to be put in place for these programs. These are long-term commitments, given the nature of the stock. So we do need to think about the continuity of something like the National Rental Affordability Scheme beyond five years, and beyond 10 years too. We need to be thinking about this as an ongoing commitment. I think we need to look at housing intervention, simply because of the nature of the stock, because of the long lifespan of these things and because people are going to be occupying and needing these types of premises for a long period of time, as an ongoing investment in providing affordable housing.

Senator COLBECK—Thanks.

CHAIR—Professor Burke, you mentioned in your last comments, when you were answering questions from Senator Siewert, I think, a keenness to promote more investment in the outer urban and regional areas, particularly in relation to infrastructure, for example. I imagine that is what the recommendation about additional funding obtained from the issue of infrastructure bonds would go to, to some degree. Is that what you are thinking?

Prof. Burke—To some degree, yes. One of the dilemmas, I think, that we confront in Australia at the moment is that there is no readily identifiable fund for that investment in infrastructure in regional and outer urban Australia, so we have to come up with ideas as to how to develop that fund. You could have a specific residential infrastructure fund or you could actually—something we have recommended the states potentially consider—hypothecate a percentage of, say, stamp duty explicitly for an affordable housing fund or an infrastructure fund that was actually designated with that particular function. We recommend using stamp duty because we do sense that there is a lot of resentment around stamp duty—

CHAIR—You could say that!

Prof. Burke—and one way of dealing with that resentment would be to hypothecate a percentage of it so that people feel there is some money coming back into the broad housing area for a housing outlay. But more generally at the moment we have no real funding base for such infrastructure spending; it takes place just on an ad hoc basis as the idea for a museum, an exhibition centre or whatever comes up. But there is no

mechanism to encourage local governments or state governments to think cohesively about what sort of infrastructure should be going into outer-urban and regional areas.

CHAIR—I think you also said that it would be good to get back to the position of the seventies and eighties, where consumers had a choice across a range of dwelling stock, a range of areas and so on. Do you really think that is possible?

Prof. Burke—In the short term, absolutely not, but in the long term—I mean 15 or 20 years, which is the period you have to be thinking about when you are talking about bricks and mortar, because you cannot have rapid changes—we should be thinking about how we bring back choice into our housing system so that we do not end up with the situation that Ian alluded to earlier where we have quite divided cities in terms of areas of high concentrations of wealth in some areas and low concentrations in others.

CHAIR—The spatial segregation that Dr Winter was talking about.

Prof. Burke—In a sense, we are a market capitalist society where choice is a fundamental element. We should not be able to have a choice of plasma screen televisions but no choice of houses.

CHAIR—Indeed, logically speaking; it is just that the practicalities are stumping us at some levels. In terms of the approach of state governments, and whether they would ever agree to hypothecate stamp duty revenues let alone anything else, they would have had to turn up to this inquiry for us to even be able to ask them that question.

Prof. Burke—I think that is a fair point.

Senator BARTLETT—They did turn up to one committee hearing, didn't they? I think it was Western Australia.

Senator SIEWERT—Do we get a star?

Senator BARTLETT—Indeed! Dr Winter, some of this will be going over what you have said but I just want to clarify it. You really singled out the private rental market as where the biggest problem is with housing affordability at the moment. Is that right? So any time we look at housing affordability in any broad sense—even if it is wider than that—we could not address that without looking at the private rental market. You have not touched on negative gearing et cetera and I will not revisit that. Putting what is politically feasible aside for the moment, what about the current capital gains tax exemption on the family home? Do you think that has played a role in that structural problem? If it were politically feasible through grandfathering—or through whatever it is—should that be something we should be looking at?

Dr Winter—Yes, there is no doubt that the capital gains tax exemption leads us, as a society, to invest more in housing than we would otherwise. I think it is well known that politically it would be a very courageous minister who advocated implementing a capital gains tax on the family home. The fundamental question is whether or not we want to focus on housing in Australia as being about shelter or being about an asset. We have got away, for a long period of time, with having a foot on both the stools. Fundamentally, the weight is now balanced on the asset side of housing. So despite the introduction of superannuation, which is now obviously providing savings for many people into retirement, overwhelmingly the population is still investing heavily in housing as part of their superannuation or retirement plans. That is leading to overinvestment in housing, which bids up the price of housing, over time. Could you contemplate a capital gains tax on homes over a certain value, that was introduced over a 15- to 20-year period? That is a political judgement that I am not in a position to call. From the point of view of the logic of a housing system I think there is a logic in approaching that sort of an issue.

Senator BARTLETT—Following on from that broader point you made—you said that we have a dual or quite contradictory, in some respects, approach to housing—is it possible to undo that now, given that so many people have so much locked up in housing as an investment and an asset? Obviously anything that led to a drop in the value of housing—apart from the political consequences—would cause a horrendous outcome for a lot of people. Is it possible to taper it off? How do we shift, or should we even try to shift that mentality away from housing just being another version of the stock market where people expect an eight per cent return every year?

Dr Winter—I think there is a logic to trying to address this, but you would need very long lead times. For the past 40 or 50 years we have had these sorts of policies in place and this sort of logic in place, encouraging people to put money into homeownership and investment in housing more broadly. I cannot see a

circumstance in which it would be fair to start introducing a capital gains tax on the family home without very, very long lead times—and then over a very high threshold.

Senator BARTLETT—One of your submissions, I think it was Professor Burke's, talks about the private rental sector being structured in a way that discourages long-term residency. Have you looked at things like the tenancy laws, and do you think there is a role to play in re-examining those?

Prof. Burke—It was picking up Ian's broader argument about the importance of private rental. It is not that private rental is not important per se; it is, but it is also a fundamental impediment to good outcomes in the homeownership sector. One impediment is the one you just mentioned, Senator. If people feel that they are pressured to leave the private rental sector, it places greater demand on the homeownership sector. One of the reasons that people are discouraged from long-term residency in the private rental sector is a complete lack of security. People do not feel that they can have the same quality of life as they can in owner occupation. We actually feel it would take some of the pressure off the owner-occupier sector if the private rental sector could be restructured around tenancy laws which offered greater tenure. But we also need to recognise, as various AHURI research shows, that a sizeable proportion of renters are never going to be homeowners. Probably 30 to 40 per cent these days are never going to be homeowners and therefore, in recognition of that, we need to think about what would be desirable to bring some longer term security to the sector.

We have done various pieces of research, some with AHURI, some independent, which do suggest there is a growing awareness of that problem and even recognition by the real estate industry itself. Indeed, I think the Real Estate Institute of Victoria have actually said that under certain conditions they would like long-term security of tenure. Whatever that is, whether it is a five-year, seven-year or 10-year lease, you can see why they would: it brings certainty for both investors and tenants. But I think, to a great degree, there are still too many of us trapped in thinking that it is a very short-term sector and that security of tenure and residential tenancy legislation generally should still reflect that short-term role. So I think it is an important thing that we have to be looking at.

Senator BARTLETT—Can I just ask about supply. It is a term that is used continually, but I think people mean different things with it. You have made the statement that you could open up a huge number of blocks in an area like this without much effect on the housing affordability problem in general, with probably some big effects on infrastructure provision. At the same time we are still hearing—and I get that sense from some of the other things you have said here—that there is a supply problem. Is that in the very basic sense that we just do not have enough dwellings or is it that we do not have enough affordable dwellings—there are more houses than there are people, but the houses are too expensive for a big proportion of the population? Is this a problem of affordability rather than the supply of houses? How relevant is population growth? We have had people occasionally saying things like, 'Migration's too high; that's causing the problem.' If that is the demand in its crudest sense, do we need to be looking at that? Or is it simply that the structural problems mean that there is not an affordable supply rather than just not enough roofs?

Prof. Burke—I think, at a general level even the housing industry is now saying that we have probably got a shortfall of one year's supply of construction—of about 100,000—and other AHURI research done by Judy Yates, Maryann Wulff, and, in its earlier stages, by me, has illustrated that we have an absolute shortage of low-end private rental of around 30,000.

Senator BARTLETT—That is low-end private rental?

Prof. Burke—That is low-end private rental where there is an absolute shortage of 30,000. So we have a national shortage of 100,000 but in the specific area of most intense demand we have a shortage of around 30,000 in private rental. Now, what are the drivers of that shortage? Well, of course, it is the lack of construction at one level, and at the other level it is the intensity of demand—some of which comes from rapid rates of household formation. A good percentage of that is driven by migration. It is a political decision whether a person thinks migration is a good or bad thing, but we cannot deny that migration is having a major effect on household growth and is therefore feeding through to housing demand. Some would say that that is not necessarily a problem if it is met by appropriate supply-side responses—and that would be my position—but it has not been met by appropriate supply-side responses in the last 10 or 15 years, so we find ourselves in this situation where our institutional framework of taxation regimes, regulatory environment and financial environment have meant that the supply is not matching that demand that we have identified.

Senator BARTLETT—How crucial in that supply side is it that we try to tie that to its being affordable? There are differing views, I think, about putting in place all these constraints or regulations for housing to be a

certain price and sort of trying to shape the market, as opposed to just increasing the number and letting the market sort it out.

Prof. Burke—The latter is called the filtering theory and I think that has now been discredited. It does not actually filter right down to provide adequate supply at the bottom end of the market. So you do have to explicitly recognise, in various forms of policy instruments, that you have to get properties on the ground at an affordable level. Amongst the countries that we would compare ourselves with, Australia is a laggard in dealing with that sort of issue. The United States has inclusionary zoning, the United Kingdom has inclusionary zoning, and much of Europe has other programs explicitly to make certain that a percentage of the housing that is constructed each year is of an affordable nature. That need not be all private rental; some of it could be—as it is in the United States—home ownership. And it does not necessarily require a complex regulatory environment. In my discussion with much of the development and building industry they have said that they are happy to wear regulation provided it is equal for all and provides certainty over time.

Dr Winter—Could I just follow up on this. With regard to the allocation, the last time we measured it—in Sydney—we found that only 11 per cent of low-income households could access the low-rent stock that was available. That means that the bulk of that low-rent stock that we have is occupied by middle- and higher-income households which are making rational decisions to get into low-rent stock to maximise their savings capacity to try to get into homeownership. They cannot get into homeownership, they get stuck in the private rental market and they squeeze people on lower incomes out of the low-rent stock that we have. So the allocation of the low-rent stock is not favouring those people on low incomes; hence they end up putting greater pressure on the public housing waiting lists. But, because the public housing waiting lists are heavily targeted towards those with the greatest needs, they cannot get into public housing either.

CHAIR—That will bring us to an end for this session. I thank you both very much for attending today and assisting the committee, and for the material you have provided to the committee—not just in the context of today's hearing but the material that AHURI has supported the committee with over the process of these hearings. We are very grateful for it. We have met a number of your members—I suppose that is what they are—and it has all been very helpful to us. Thank you.

[11.41 am]

BIRRELL, Dr Bob, Director, Centre for Population and Urban Research, Monash University

HEALY, Dr Ernest John, Research Fellow, Centre for Population and Urban Research, Monash University

CHAIR—I invite you to make an opening statement, after which we will go to questions.

Dr Birrell—Thank you for the opportunity to speak to you. It has been a fascinating morning—in listening to all these submissions I have changed my presentation several times! Unfortunately, the previous witnesses have left, so I will have to contest some of their points in their absence. We have put together recently an article entitled ‘Melbourne’s population surge’, which you may have had a chance to have a look at, which does address some of the issues that you are exploring. What it does initially is provide some new population and household projections for Melbourne which indicate where the city would be in 30 years time if the current demographic parameters were to be sustained. We are not saying that we are actually predicting these outcomes; we are just saying that this is where we would be in 30 years if the current demographic parameters remained intact.

Under the Melbourne 2030 planning scheme the expectation was that over the 30-year period of the scheme Melbourne would add about a million extra people and about 620,000 households. Under the current demographic parameters, Melbourne would increase by about 1.6 million over the next 30 years and by 780,000 households, so it is a very considerable extra burden, you might say, in terms of supplying the accommodation for all those extra people and households.

The normal response from people discussing these issues, when confronted by those kinds of figures, is to say, ‘The main focus is going to be to increase supply.’ We addressed that issue initially in our article on Melbourne’s population surge. In the normal course of events, people grow up, enter the housing market and then eventually move on: they die or go to old people’s homes. So, in the housing market that young people move into, they can replace those who previously occupied much of the housing that is already there. But that is not really going to happen over the next 30 years in established suburbia in Melbourne. The reason is that most housing is occupied by baby boomers, those born in the fifties and early sixties. Most of them own their own homes. On past record they show a very high propensity to stay in their houses. The older you get the less likely you are to move. So we are getting a situation where there will not be many vacancies over the next 30 years in the established high-amenity suburbs of Melbourne, and the same applies to Sydney, Perth and Brisbane, which have the same demographic phenomena.

Of course, we have a substantial number of young people, particularly in the professions and managerial ranks, who would like to move into better quality housing close to good jobs, transport, high-performing schools and so on. In addition, we have a substantial migration program and some of the professionals and managers within that program are adding to that demand. So we have a situation at the moment where there is high demand for entry, not too many households vacating and, as a consequence, prices have gone up substantially. You cannot get a detached house across the more salubrious middle suburbs—Camberwell, Malvern, Bayside—for less than a million dollars. As you move out a little further into Glen Waverley and Mt Waverley, for example, you are now paying \$600,000 for a detached house. Essentially, access to those suburbs is out of bounds for most aspiring first home owners.

We are seeing some development in established suburbia. It is not the way Melbourne 2030 proposed. That planning scheme designated some 115 activity centres close to public transport nodes and gave developers the green light to develop four- and five-storey blocks of flats. That was the vision behind Melbourne 2030. It was said that in the process we would provide affordable housing. That has not happened. Developers who were interested in that market have found that there is not much demand for apartments in four- and five-storey housing blocks and, to the extent that they build them, the costs are so high that only people of fairly substantial resources can actually afford them.

So, apart from a few areas like Docklands and Southbank, what is actually happening in middle suburbia in Melbourne is that we are getting what we call opportunistic infill. There is a substantial market for people who want to sell their houses—small-scale developers or sometimes the householder himself or herself—and who will demolish their houses and put in two, three or four units, depending on what they can get through the local council. That is occurring but, again, the price of these units is typically around about the \$500,000 mark and out of reach of the average family aspiring to a modest first home. So we do not think there is really much

chance of the surge in demand that we are seeing being met in established suburban areas, with a couple of exceptions.

Developments in the fifties and early sixties were relatively dowdy brick veneer type houses, as in Dandenong or Springvale, where you came through this morning, or out in Sunshine and Preston. What we are seeing there is something like the Sydney solution so-called, which is the development of apartment blocks, six-packs, low-end unit accommodation, which is providing, say, the \$200,000 purchase or rental. So that is happening and it is part of the solution, you might say. We have not yet seen the other part of the Sydney solution, which is that people simply leave the city. They cannot afford to stay. Sydney is losing 20,000 or so a year. That is not happening in Melbourne, but as this crisis unfolds it is quite likely to occur.

Let me turn now to the outer suburban area, which in Melbourne is a much more significant market and potentially will remain so. You no doubt know that outer suburban housing in Sydney is beyond the bounds of most aspiring homeowners, because you have to pay \$300,000 or \$400,000 just to get into the market. So the modest \$200,000 to \$250,000 detached home is simply unavailable in Sydney. But it is still available in Melbourne.

What we have seen over the past five or six years, notwithstanding Melbourne's 2030 aspiration to pack people into the existing city more intensively, is that 60 per cent or so of the growth in households has been locating in outer suburbia. The great Australian dream is in a sense still alive in Melbourne. The Victorian government is very anxious to facilitate this process because it understands that Melbourne's big comparative advantage relative to Sydney—at least in keeping the city building process going—is to maintain that competitive advantage. So the government is facilitating this process. It has a big advantage in that we have literally boundless plains to spare. There are no geographical constraints out to the west, to the north, or out to the south-east corridor. It is not high-value land.

The government has decided essentially to ditch the core idea of Melbourne 2030, which was to create a compact city. Initially they established an urban growth boundary, which they hinted was going to be a tough urban growth boundary, but they have now made it very clear that they have given up on that, and we now have a flexible growth boundary. And they will extend it when the available designated land for urban growth is exhausted or inadequate. In late 2005 we saw an additional 4,500 hectares rezoned for urban development within the urban growth boundary. I am sure they will do it again should there be shortages.

The other way in which the Victorian government is facilitating this process is by requiring very low developer levies. As you will know, in Sydney the levies for social and physical infrastructure are of the order of \$50,000 to \$100,000 a block. In Melbourne it goes up or down but it is about \$5,000, and there has been a reluctance to go beyond that. That helps to keep the cost of developed land in the \$100,000 to \$150,000 range—way below Sydney levels.

More recently the government has decided to expedite the release of zoned land. As you know, councils have to develop structured plans before land that is zoned within the urban growth boundary can actually be used for development purposes. They are trying to increase the rapidity of that process—because there are problems, as in this corridor, as was indicated earlier. The last thing they are doing is promoting the idea of small blocks. They are trying to pack more people into outer suburbia. This is the smart-block or smart-growth perspective, and it is heavily advocated by urban policy specialists like Professor Burke and many others. There is some move towards the take-up of smaller blocks in the outer suburban housing market—at least from the developers that I have spoken to—and the reason for that is that as interest rates have gone up the people who would aspire, ideally, to get a 500-plus square metre block are being forced to lower their sights. Developers can actually sell smaller blocks under these circumstances. It is not something people want to do but they have been forced to accommodate this situation.

I would like to finish with some comments about whether this so-called Victorian solution is the one that you ought to be advocating when you are writing your report. We think there are a lot of problems with this approach. Let us start with the aesthetics of what happens with the tiny plot. You mentioned, Senator, 300 square metres. Heaven forbid that that should be the case! I wish we had time to take you to see some of the estates in Casey that have been built around 400 to 450 square metres.

What you find, 10 years later, are narrow pavements with cars parked on both sides of the road or on nature strips which verge into front yards. So when you look down the streetscape all you see are the cars. You do not see canopy trees or shrubs because there is no room for them. In other words, what you see is a dishevelled, unkempt suburbia. It is basically brick with very little greenery. It is nowhere near what most Australians aspire to when they think about the great Australian dream. What they think about is tree-lined streets with

bungalows nestling within canopy trees, front and back. That is what we have in much of Melbourne, although it is being eroded by infill. But in these kinds of estates we are getting a second-class suburbia that is not really satisfactory. A number of the councils, including the City of Casey have tried to stop it because they understand what they are going to deliver if that kind of development does go ahead.

The other outcome we are getting, because of the low development levies, is poor quality infrastructure. Developers do not have to contribute to arterial roads in Melbourne and as a consequence we get an enormous backlog of arterial roads. Country tracks which served for country purposes are used for arterial roads. They are cluttered and highly unsatisfactory. Social, sporting and other infrastructure is way behind because the councils responsible for providing it have very little money.

We have problems with public transport. It is not so much a problem out here in Casey because people can access the arc of jobs through Dandenong, Kingston and Monash relatively easily but once you go to the other side of Melbourne—out to Werribee, which is where the state government is anxious to push people—job growth is falling behind population growth. About 18 per cent of all those who live in Werribee and Melton actually travel into the city. Very few do so from Casey—only four or five per cent, and it is unlikely that they ever will. The public transport system in Melbourne is already overloaded. People cannot even get onto the trains in peak hour from the west. It is going to get much, much worse in the future because the solution is major infrastructure, and it is only a glint in the eye at the present time.

So there are real problems with this situation. What are the alternatives? There are probably not many but one I would like to mention relates to Senator Moore's question this morning about betterment tax. We have a situation that where land is rezoned, as the urban frontier is extended, the windfall goes to the vendor. For 30 to 40 years, as long as I have been studying this issue, people have said, 'What a crazy situation that the benefits of this should go to the vendor rather than to help pay for the costs of the infrastructure!' I think the case is as strong now as it has always been; it has just never been acted on. Obviously if someone has 100 hectares just outside the urban growth boundary, and the price they can get for it is about \$500,000 a hectare, they could sell that for \$50 million, so that they are making a \$40 million profit. At least half of that—maybe \$20,000 a block—should be going back to the council to help provide the infrastructure for the community. I strongly recommend you raise that issue in your report.

Secondly, we need to use the trunk services that are placed in outer suburbia more efficiently. Developers do land bank. It is in their interest to do so. They want to eke blocks out onto the market at the highest price they can. If they bought the land years and years ago it does not cost them much and they can do so. So you may have a situation where the trunk water and sewerage lines are there, but there is not a strong incentive to do so—we just eke it out. If we could have a carrot and stick to ensure that that land is developed quickly and efficiently, that would be a good thing.

Thirdly, if we are going to have small blocks, we need a much more creative way of ensuring that these small blocks and the houses on them have some access to public open space so that they are not like the estates I could take you to around here. Finally, if we cannot do all these things, we should be slowing down the immigration intake until we can actually accommodate all these extra people in ways that are more consistent with the Australian ideal of how we accommodate people.

CHAIR—Thank you, Dr Birrell. Dr Healy, did you wish to add anything at this point or shall we go to questions and work it that way?

Dr Healy—Yes, go straight to questions and we will do it that way.

CHAIR—Thank you.

Senator BARTLETT—I want to ask you about your very last point on immigration, which I know you have got a lot of background in as well. Given the totality of the situation at the moment, do you think that is something we need to consider? I think the Housing Industry Association said that immigrants are a real problem, alongside the fact that we also need to import more skilled people to build all the houses that we need to build, which was an interesting mixed message. Given your knowledge of the capacity constraints at the moment with skilled labour and indeed unskilled labour in some areas—quite a few—how much focus should we put on the immigration intake? How much awareness is there even of what the actual figures are? I know that the paper you have referred to indicates that the 2030 population projections are probably out by a good half a million, which is a big chunk. Do we really have an awareness of that? Alongside that, it seems like the assumed projections of fertility rates are ending up higher than what people were assuming they were going to be as well.

Dr Birrell—I am pleased to hear you ask me this question, since I thought you and I would be right at the opposite end of the spectrum on this issue. It is too big an issue for us to go into great depth.

Senator BARTLETT—In simple terms. You said, ‘If we can’t do all these things, should we drop the intake?’

Dr Birrell—I can give you the current figures. About half the growth in households in Melbourne is attributable to overseas migration. When you push out the 30-year projection, as you get near the end of it, about 80 per cent of the growth is attributable to migration. That is because births and deaths equalise in 20 or 30 years time. In Sydney, all the growth in households is attributable to overseas migration. That is because Sydney is losing 20,000 or 30,000 of its residents each year. Perth has a very similar sort of situation.

I should acknowledge though that a very substantial amount of the household growth in Melbourne, Sydney and elsewhere is actually attributable to the baby boomer phenomenon that I indicated. About 73 per cent of the total growth in households in Melbourne over the next 30 years is going to occur amongst households headed by persons 55-plus. That may sound extraordinary, but the reason is that when this great bulge of baby boomers move into retirement and we look 30 years hence and see them still flourishing and we compare those numbers with how many are in the 65-plus household headed group today, the increase is massive. But that just goes back to my original point. That is the reason we have such a problem in established suburbia, because these people are going to be around in 30 years time. So immigration, in a sense, is coming in on top of that. In Melbourne, Sydney and Perth it is a major factor and somebody is going to have to make the judgement. We have problems accommodating these people.

How much benefit are we getting out of the immigration program in terms of delivering the kinds of scarce skills needed for the construction workforce? We will be publishing a paper next week on this. Our argument is that we are getting a very limited benefit out of the overseas migration program from the point of view of scarce construction workers. If we focussed on the 457 visa program, which requires that a job be here and that the employer designates that job and it is in construction type field, then it is a plus. But 55 per cent of the settler program in Australia is going into Sydney and Melbourne and very few of those people have construction skills.

Senator BARTLETT—So you are saying that we need to bring in more who are specifically tied to construction and building—it is not the only skill shortage in the economy, of course.

Dr Birrell—Yes. At this point in the business cycle, when we have a serious inflationary problem, the migration program should be focusing on those skills that are seriously in shortage and that are constraining production in Australia, particularly in the construction area. But most of the migration program does not do that. It is not targeted.

Senator BARTLETT—I probably should not sidetrack into migration too much, although—

Senator COLBECK—It is an interesting point given what the Housing Industry Association said. With respect to the comment you have just made on bringing them in, the industry also says that, for a range of reasons—including their understanding of our occupational health and safety and things of that nature—they are not necessarily suitable for bringing into the Australian industry. So there is quite a quandary there for us to deal with in respect of that particular matter.

CHAIR—We do not have a lot of time, ladies and gentlemen, so we need to do this quickly. Dr Birrell, do you want to respond to that point at the end there?

Dr Birrell—I was going to make the comment that we are quite surprised that the building industry are starting to say that there is a problem with migration, because they have been the most active advocate for the past 30 years in promoting the migration program. So it is very interesting that they should be making this point.

CHAIR—Okay. Senator Colbeck, do you want to continue?

Senator COLBECK—I was interested in your comments with respect to small blocks, particularly the clustering of them. Perhaps I think differently to a lot of others. I would have thought that, if you were going to provide a genuine mix and a genuine spread of that sort of product through a subdivision or through a community, you would genuinely do that and not cluster them. I can understand very clearly what you are saying—I think we used the term before ‘little boxes on the hillside’, so you have groups of little boxes and then groups of bigger boxes and it is not necessarily going to provide you with the type mix that you would desire as part of a reasonably balanced community. How do you see a change in the current promotion of the

small blocks? Do you have to ensure that in a planning sense it is better mixed into the general provision of the supply product?

Dr Birrell—Ideally, I hope we do not get to the point where outer suburbia is providing 300 square metre blocks. This is not what people want.

Senator COLBECK—So the developers are right—that is not what the market is looking for.

Dr Birrell—No. Understandably, if you move out to Casey, you are looking for a sense of open space. You do not want to be cheek by jowl with neighbours—that is what people are trying to avoid, and they will avoid it wherever possible. What I was suggesting was that it is possible to have a reasonably good design of estates with small blocks if you use the open space available creatively so that people are not caught in a situation that we see in some of the earlier estates here, where all they can see in their immediate environs are more small houses with cars everywhere and no canopy trees. It requires more centralised control over the development process in order to encourage large-scale estates, so that developers can integrate open space with small allotments. In those terms I think it can be done in a more acceptable way. But at the present time there is no requirement that this be put in place.

Dr Healy—Can I just add a little to what Bob has said? It has been part of what I see as the mythology of urban planning intellectuals, over the past 10 or 15 years if not more, that they look upon outer suburbia as somehow impoverished. I disagree to some extent with Professor Burke's comments earlier, where he spoke about the local amenity in outer suburbia. In some respects that is no doubt true. In terms of sporting facilities, and community facilities of that sort, that could well be true but, to build on what Dr Birrell has just said, there seems to be little doubt that many people move to outer suburbia because they see the relative open space as a dimension of amenity. They are buying the type of amenity they seek—the open space, the lack of density—withstanding a shortfall, perhaps, in other areas regarding sporting and educational facilities and that sort of thing. They make a trade-off in their decision to move to outer suburbia, apart from issues of affordability, and very often see the open space in outer suburban areas as a form of amenity that they desire and that they buy.

Senator COLBECK—Just go back to the discussion we had earlier on betterment value. In a circumstance where a property developer had a property for a long period of time—provided it was not pre-1983; and there would not be too much of that floating around, I would have thought—wouldn't that betterment value be captured by capital gains tax? I know that it then becomes an argument about who provides assistance to the local communities for the infrastructure that is needed. That is a separate question that needs to be part of this. When you are looking at this whole issue in the context of taxation, which has been mentioned a couple of times, perhaps that is part of the equation.

Dr Birrell—Are you referring to a situation where a developer purchases, from an existing landowner, land that it is within the urban growth boundary—and presumably purchases it with the idea of developing it at some point—but for some reason decides not to develop it and then on-sells it? That developer may be subject to capital gains tax if he can sell for a profit but that may not be so because we know that when they created the urban growth boundary in 2002 the typical price for outer-suburban land here in Casey was \$500,000 a hectare. Developers are struggling to make a profit now at that price because they are carrying holding charges. That is roughly \$50,000 a block and if you add another \$50,000 for the development costs and the holding costs and all the rest of it, they tell me that the margin is not that high. The big money is made in the initial sale by the landowner who, by good luck or design—and frequently by design, in Melbourne, in the expectation of making a killing—has purchased the land.

Senator COLBECK—Again, that capital gain would be on that piece of land, provided it was not a residential or farm block, I suppose. Even if it were a farm you would have an initial value but the capital gain on that would be taxable.

Dr Birrell—Yes, by the federal government, but I am talking about ensuring that the benefit of that transaction goes to the provision of infrastructure in the subsequent development. That is my point.

Senator COLBECK—It then becomes an argument between the different levels of government about where the benefit of that revenue comes from or goes to.

Dr Birrell—I think there is a very strong argument for additional tax that is associated with the state's rezoning creating extra value, for which the original landowner has contributed nothing. Given the fact that in Victoria we charge very low development levies—as I indicated, we do not levy at all for arterial roads—there is a serious long-term problem in providing services in a new community.

Senator BARTLETT—You are talking a lot about behaviours of people based on lifestyle choices and opportunities available to them. One issue I am interested in is the economics of the housing markets around the place. We heard earlier about private rental in particular. Given the stage that we are at with housing affordability and the entrenched nature of the structural problem, do we need to be reconsidering our approach to the great Australian dream and reshaping our debate about this to recognise that a significant proportion of the population will be in long-term private rental? Do we need to look at policy changes and law changes to make that more suitable for those people?

Dr Birrell—Yes, I think that is inevitable. We are already seeing that in Sydney. There is a dramatic difference between the housing markets in Sydney and Melbourne now. The proportion of people that are renting in Sydney is much higher than it is in Melbourne and the proportion that are moving into apartment type accommodation is much higher than it is in Melbourne. So we do need to accept that the great Australian dream in Sydney is a thing of the past, especially for the modest- to low-income population. That has not happened yet in Melbourne or Adelaide or even in Perth, where you have relatively low costs of development. It seems that it is creeping up pretty quickly in Brisbane and south-east Queensland. Personally, I would like to see the opportunity for the great Australian dream to be maintained, but it is going to be harder in Melbourne, especially should the numbers that we are projecting come to pass. So I think the answer is yes, we do need to think about establishing long-term rental markets which will accommodate the needs of people who wish to live in the big metropolises.

Senator BARTLETT—Is part of that I guess shifting away from what is implicit and to some extent explicit even in the terminology of the great Australian dream, which is that people who are not part of it—who are in private rental and public housing—are in a regrettably and unavoidably lower, less desirable scenario? In many European countries it is a conscious lifestyle choice of people to go into private rental or to rent perpetually and not see it as a negative. Do we need to shape our mindset and say that it is actually not a bad thing and see it much more as just another one of the choices to be made rather than as a residual option for the poor buggers that can't manage the dream?

Dr Birrell—I agree with that. There is one other alternative which I did not mention. We are a big country. Certainly in Victoria, as I indicated earlier, there is scope to expand the locations where people settle. I think we should be thinking far more creatively about a more decentralised form of settlement. There is a real lack of vision in the Victorian government's urban planning. It is essentially all about extending the frontier all the way to the urban growth boundary. There is no conception of building discrete communities in which civic, recreational, employment and housing facilities are integrated so that people do not have to do the long commute and so that people have a sense that they are living in a discrete community rather than just an extended spread all the way from Berwick to Pakenham, which is the situation in this corridor. Given the numbers, if they do come to pass, we should be thinking more creatively and even, dare I mention it, restoring some of the ideas about decentralised communities. We could probably accommodate people far better than just in the shapeless spread that now characterises Melbourne's outer-suburban growth.

Senator BARTLETT—Are you talking about the Whitlam world?

Dr Birrell—Well, I am old enough to remember those days and to participate in those debates. We did not share the Whitlam vision at the time because of where they located their new cities. They wanted to put one in the Bellarine Peninsula. We would like to preserve holiday recreation areas. They wanted to put another one in Albury-Wodonga, which really was not a smart idea in light of the situation with the Murray-Darling. But there are plenty of regional cities in Australia that would like to have the impetus of additional people, and these are fine communities—there is a strong sense of boundedness, lots of civic resources.

Senator BARTLETT—I know that this is a crude simplification, but even in terms of the comments you were making earlier about the Victorian government's plan of infill versus what you think is more likely and perhaps more desirable than boundless plains—

Dr Birrell—Sorry to interrupt you, but the Melbourne 2030 plan does not mention infill at all. Infill is just happening. It is not part of the vision. The Melbourne 2030 vision is to put people in activity centres—

Senator BARTLETT—But it was about increasing density within the urban bounds.

Dr Birrell—But not everywhere. It is all about activity centres near public transport nodes. In fact what is happening is that infill is occurring in a dispersed fashion through suburbs with no relationship to proximity to public transport at all.

Senator BARTLETT—Whether it is through infill or some other way, there is the notion of increasing density within a defined area versus spreading out, which I think was what you were saying is happening and is not necessarily a bad thing anyway. But the majority of people come into the greater Melbourne area or the greater south-east Queensland area, Sydney or Perth. From memory, it was Julian Disney, at our hearings in Sydney, who talked about how we have three or four whopping great huge metropolitan conglomerations and no mid-sized cities at all, compared with the US and Europe, where you have a whole lot strung out. Is that the sort of thing we should be aiming for—those mid-sized, half-million cities—and, if that is the case, how do you do that? You cannot force people. You have got to have the incentive there.

Dr Birrell—No, we cannot indenture people to go to Ballarat and Bendigo and Bathurst, but I think that many people will be attracted to those locations because of the accessibility of housing in those areas. Helping those cities to provide the infrastructure necessary to attract employers will require some creative thinking. It would require quite a new vision. I think the current government is obligated to think in those terms, because it is bringing all these people in. It has an obligation to ask the questions about how we are going to accommodate them in a creative way.

CHAIR—Thank you very much, Dr Birrell and Dr Healy. We are out of time for this session, but I would like to thank you both very much for attending today, for the material that you have provided to the committee and for the engagement and conversation that we have been able to have today.

Committee adjourned at 12.23 pm