Submission to the Inquiry into the Rental and Housing Affordability Crisis in Victoria – July 2023

YARRA RANGES COUNCIL

Introduction

Across the housing spectrum there is not enough affordable supply to meet the needs of the community. The below table demonstrates how much stock in Yarra Ranges was affordable for households in each income range, over a twelve-month period (up to December 2022 quarter), compared to the same period in 2019 (pre COVID).

RENT				HOUSEHOLD INCOME	BUY			
DEC 2022 QTR		DEC 2019 QTR			DEC 2022 QTR		DEC 2019 QTR	
32	2.8%	50	3.0%	Very Low	3	0%	15	0.6%
644	57.1%	1095	64.9%	Low	33	1%	113	4.6%
1077	95.5%	1643	97.4%	Moderate	379	15%	861	34.7%
count	% rentals	count	% rentals		count	% sales	count	% sales

Source: Adapted from [Affordability Monitor | Yarra Ranges Council | housing monitor (id.com.au)]

In the December 2022 quarter, there were only 32 rental properties available in Yarra Ranges that were affordable to households on very low incomes. To put this in context there were over 10,000 low-income households. It is likely that even these affordable properties would not be available to low-income households, and instead taken up by the moderate-income households which are also seeking rentals.

The figures above provided by.id housing monitor relate to availability over twelve-month periods across an expansive municipality that covers 2468km2. When discussing the affordability of our municipality it is important to note that many households do not have the flexibility to move across this vast region and must seek affordable housing within their local area or surrounds. A recent realestate.com search in one 'hills' area showed only 5 homes available for rent under $500 – four of them were over $399 (See attachment). The factors impacting the supply and affordability of housing, in a context of very low unemployment, are complex and wide-ranging, and are discussed in the sections to follow.

PART ONE: Factors leading to low availability and high costs of rental properties

Mass loss of stock during COVID

During and following the pandemic, Yarra Ranges saw a much lower level of rentals coming on to the market for lease. Quarterly listings of new rentals dropped by 22% between December 2019 and March 2023. This was the largest decline for any local government area in Eastern Metropolitan Melbourne, and the fifth-largest drop across all Greater Melbourne.

The total number of rental dwellings in Yarra Ranges dropped by 4.9% between March 2020 and March 2023 (as measured by the number of active bonds and has been steadily declining since the start of the pandemic – a turnaround from the previous twelve years of steady growth. High demand and low supply create competition. Local agents report that for every rental there are at least 15 *good* applicants - some will offer more rent, making the current rental market increasingly inaccessible to those on lower incomes.

Misapplied rental regulation

The well-intentioned Residential Tenancies Regulations 2021 has inadvertently reduced the pool of available rental housing. In a municipality characterised by 'character homes'; older dwellings with fireplaces and stain glass windows, untraversable sloping blocks and tank water, these new minimums standard regulations do not reconcile with our unique landscape and dwellings – Upgrades required to these properties under these regulations average approximately $8000 per rental property; a cost that landlords – already struggling with rising interest repayments – just can't justify. Local estate agents report a loss of approximately 15% to their rental portfolios when this legislation came into effect, and it is expected there will be another net loss to rental stock in the coming months as the two-year grace-period ends, particularly in these 'character areas'. One local real estate agent stated, *"*When choosing whether to rent out or sell their home, 4/5 are now choosing to sell". With most new purchases being owner-occupiers, these dwellings are now lost from the rental pool.

If planning legislation is able to recognise and protect neighbourhood character, appeal and heritage significance, it should be able to recognise and protect the rentals within these neighbourhoods by applying leniency when assessing against the minimum rental standards.

Other landlords are choosing to hold their investment property but are side-stepping these requirements by managing the property without a lease agreement or agent, privately renting rooms to avoid having to comply with the minimum standards. This means a growing number of people are in unmonitored 'tenancies' where they have no rights or standards. Aside from saving on outlays, the returns on this model of rental are greater for the landlord - much like the issue with short term rental accommodation vs long term tenancies. There is great risk that these new regulations will have the unintended consequence of reducing the availability of decent, long-term rentals and increasing the number of sub-standard, unsafe, unregulated, and insecure accommodations.

Interest Rate Rises & State Taxation

Due to the interest rate rises over the last 12 months, many homeowners are now struggling to cover the mortgage plus the cost of living, placing them into housing stress. With recent interest rate rises, home purchase affordability for first home buyers is very low, as is borrowing capacity. Only 15.2% of all sales in the past year would have been affordable to a first home buyer on a moderate income with a 20% deposit (assuming they can spend 30% of gross income without going into housing stress).

Rentals are also now far more expensive to provide and manage and many landlords are selling off or moving back in. This leads to further loss of rental stock and an associated increase in rent costs due to supply and demand. Interest rates also cause rental increases, which is likely to become more common over the next 6-12 months as tenancies hit the 12-month period since the last rate rise enabling landlords to pass on the financial impact of rate rises to tenants.

The new COVID Debt Levy is further adding pressure to already struggling landlords by adding around $1200 per annum to outgoings. This will push some landlords to dispose of their investment - and thus a net loss to rental availability - or pass costs on to tenants.

New State windfall gains tax could be a barrier for developers, as some rezonings would trigger the payment of the tax than may be a disincentive to pursue a rezoning of land for housing.

Stock vs Demand miss-match

Over 2016 – 2021 the highest growth in household-type was in the 1-2 person households, however the highest growth in dwelling-type was 3 and 4 bedrooms. So far, Yarra Ranges housing stock has not adjusted to these changes. Over the next twenty years, there is projected to be high growth in smaller household types (such as older couples without children, single parent households, and lone person households. The Yarra Ranges Housing Strategy will address these issues by providing direction for more diverse housing options. Increasing stock of smaller dwellings will provide diversity and increase the options of cheaper housing, particularly if they are made available to rent. However, planning scheme amendments are a lengthy process requiring State Government support.

Lack of investment in Social Housing

State Government investment in Social Housing in Yarra Ranges is pivotal to addressing the housing affordability crisis. For the reasons outlined above the private rental market is unable to meet demand and current stock is priced out of reach for households on very-low to low incomes – these households require social housing and other affordable housing programs. As of June 2022, only 1.2% of the total housing stock in Yarra Ranges was social housing. This is below the Victorian average of 3.0%. Lack of social housing leads to an increase in Homelessness. The combined rate of those experiencing ‘homelessness’ and in ‘other marginal housing’ (as defined by the Census) in Yarra Ranges rose by 19% between 2016 and 2021.

The University of NSW (UNSW) City Future Research Centre found that Yarra Ranges has a current estimated social housing shortfall of 2500 homes, growing to 3600 by 2041 if no action is taken.

State Government have access to funds via the Big Build, the Social Housing Growth Fund, a portion of the $2b new federal money for Social Housing, The Housing Accord and potentially the Housing Australia Future Fund. State also has land in Yarra Ranges that could be release for social housing development. Yarra Ranges requires targeted investment by State Government to be able to address community need for affordable housing and reduce the risk of further growth in homelessness.

Planning legislation that doesn’t provide clear guidance or enable solutions.

Clearer definitions and guidance from State Government would help to speed up the zoning changes required to increase density and diversify stock as well as assist with voluntary contribution negotiations.

- The Planning and Environment Act currently only allows for local government as the responsible authority to negotiate voluntary affordable housing contributions with landowners of new developments. The ministerial matters that provide definitions to support this process fall short of providing the clarity needed to negotiate these agreements effectively and efficiently. This puts undue pressure on both sides, creates delays to planning applications and can damage relationships and the ability to achieve maximum outcomes.

- There is a lack of direction from state government around planning in outer urban areas, and amendments driven by local government can get bogged-down in local politics. Generally, State level guidance on housing consolidation areas and diversity has been focussed on inner-urban areas and is not always easily transferrable to an outer-urban context, making it difficult to make the zoning changes required to make stock meet demand. For example, what expectations should outer-suburban areas have to increase housing diversity, not just through densification around activity centres, but though diversification of low-density dwelling stock (which make up most Yarra Ranges' residential land)? Is it reasonable to expect anyone seeking housing options other than detached dwellings to move to a location near an activity centre where this is provided for, or can more diversity of options be accommodated in established suburban areas?

- Secondary dwellings are not supported in current planning legislation. Secondary Dwellings could be used to support intergenerational housing supply, with the ability to install a modest second dwelling onto a lot, which cannot be subdivided, through a streamlined planning assessment process. A second dwelling could be rented out but not subdivided from the main land parcel. As was set out in Amendment VC186, subdivision is not allowed unless done through a separate planning permit process.

- Alternative housing options, such as tiny homes, are not easily defined in the current state planning scheme and as such become assessed as an additional dwelling where they will not meet Rescode, or on larger lots for multiples, they become a camping and caravan park.

Short-stay and key worker accommodation

There are indications that the prevalence of short-term rental (STR) accommodation like AirBnB, particularly in tourist areas, are also having an impact on the availability, and subsequently the affordability of private rental housing, in those locations. This is impacting the ability for locals and workers of key industries to gain affordable housing. A recent snapshot of STR accommodation in Yarra Ranges indicated that there were 961 active listings, with a clear concentration in Warburton and Healesville, of which 93.8% were for entire dwellings.

As these STR models are not regulated like their long-term counterparts, they do not require the costly upgrades, routine inspections or other overheads properties leased under the residential tenancies act do. Additionally, they can return a much higher income for the owner, making this a more appealing model. Although these models cater well to holiday makers and thus support tourism, they are also taking homes away from local workers, having a devastating effect on key industries. There is great risk that if not regulated STR will continue erode rental availability and adversely impact the local economy.

There has been no change in planning scheme provisions at the State level to manage the impact of short-term rentals or to facilitate worker accommodation in zones other than the farming zone. The local planning system is not an efficient mechanism to control or deter short term rental accommodation as a solution. Individual regulation by Councils is inefficient, unlikely to be effective and further burdens an already stretched compliance and enforcement sector. In addition, Councils do not have access to information which would be needed to determine the nature of the rental (long term versus short term) and creating a 'permit' trigger through either a local law or planning/ building would not be an easy or quick solution. This is more appropriately regulated through state government planning and regulatory mechanisms such as tax incentives.

PART TWO: Options to address insecurity, availability and affordability issues facing Victorian renters

To mitigate to impact of the above factors on housing supply and affordability, we urge State Government to consider the following options:

Support private rental market to provide supply

- Recognise that the new 'minimum rental standards' cannot be applied as a one-size-fits-all to all areas. Consider exemptions in areas where the majority of properties are over a certain age, of a certain character or are semi-rural.
- Consider tax relief for landlords providing rental properties in areas where social and private rental stock is low, but demand is high.

Increase Supply of Social and Affordable Housing programs

- Provide targeted investment for social housing in Yarra Ranges via building new stock, investing in local projects and releasing state land.
- Consider Yarra Ranges as a location for new Homes Vic Affordable Housing Rental Scheme developments and invest in the provision of Housing Assistance programs.

Provide greater guidance and support through planning legislation

- Include mandatory inclusionary zoning/contributions for affordable housing in new developments and clarify the ways in which voluntary contributions can be negotiated.
- Fast track local planning scheme amendments that seek to increase housing through increased density to cater to the growing and urgent need for 1–2-bedroom properties.
- Reinvestigate the inclusion of a Secondary Dwelling Code to enable intergenerational and shared housing.
- Create a separate land-use definition for Tiny Homes and other alternate models to assist and streamline assessment and approval processes to allow these models to provide part of the solution to the current crisis.
- Provide regulations of short-term rental accommodation and explore mechanisms such as tax incentives to help regulate.
- Update planning scheme provisions to facilitate worker accommodation in zones other than the farming zone outside of Metropolitan Melbourne.

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Attachment: realestate.com search for homes under $500 per week – accessed 3.7.23