



LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON ECONOMY AND GENDER AND ECONOMIC EQUALITY
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Submission Cover sheet

Inquiry into Housing and Rental Affordability

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Submission to the Inquiry into Housing and Rental Affordability

Standing Committee on Economy and Gender and Economic Equality

ACT Legislative Assembly

Greater Canberra, 8 August 2022



Introduction

Greater Canberra welcomes the opportunity to make a submission to this inquiry.

Greater Canberra is an organisation that advocates for changes to ACT planning and housing policy to make Canberra more affordable, liveable, and sustainable. Given our interest in increasing ACT housing supply, we were encouraged to see the ACT Government's recent 2022-23 Budget commitment to build 30,000 new homes in the ACT over the next 5 years.¹ However, as we outline in this submission, we strongly believe planning policy reforms will be necessary if the ACT is to achieve this ambitious housing supply target while also increasing the range of 'missing middle' housing options available to Canberrans.

Our submission outlines the most recent data on the current state of Canberra's housing market, reviews the literature on the relationship between housing supply and housing affordability, and makes the case for the need to reform planning laws to improve rental affordability and economic opportunity in the ACT. While we are concerned that the inquiry's terms of reference are too narrowly focused on residential vacancy, we are nonetheless encouraged to see the Committee taking seriously the role of rental supply as a key factor in ACT rental costs.

¹ See our blog post on this topic [here](#).

Key findings and recommendations

- The Committee should broaden the focus of this inquiry beyond residential vacancies, and consider the elements of our planning system that represent more significant barriers to housing supply in the ACT
 - ◆ While ACT rents are higher than many Australian cities, reducing off-market residential vacancies would only have a small impact on affordability
 - ◆ Rental market vacancies play an important role in providing renters with more choices, thus increasing their bargaining power
- A range of literature points to the importance of removing planning barriers to housing supply and housing affordability
 - ◆ Planning rules that prevent medium-density homes in inner-city areas have a particularly negative impact on affordability
- The ACT Government should pursue a range of planning reforms to increase the supply of market-rate and social housing in the ACT
 - ◆ ACAT merits review of planning decisions should be removed, in order to reduce the number of nuisance lawsuits that hold up new housing supply
 - ◆ RZ1 zoning rules should allow unit-titled duplexes, triplexes and terraced housing on larger blocks, and permit multi-unit projects where they fit within existing building form restrictions
 - ◆ High-demand areas near to local commercial centres, the city centre, major employment hubs, and public transport routes should be rezoned to permit more mixed-use apartment buildings and townhouses
 - ◆ Minimum parking requirements in areas already well connected to public and active transport should be relaxed
- Additional policies to build more social housing, and improve the ACT Government's policy making capacity with regard to housing supply should be investigated
 - ◆ The ACT Government should work to remove existing regulatory and financial barriers to the construction of public and community housing in the ACT
 - ◆ The ACT Government should conduct and publish more detailed modelling of housing supply in the ACT, including the impact of current planning restrictions

1 Housing affordability in the ACT

1.1 Canberra's rents are among Australia's highest

Several data sources indicate that rents in the ACT are among the highest in Australia and are continuing to grow rapidly.

As Chart 1 shows, recently released ABS Consumer Price Index data shows that rents in the ACT have grown by around 16% over the past five years, even as rents in Melbourne and Sydney have remained relatively constant.² This is further supported by the recently released 2021 Census data, which indicates that Canberra's median weekly asking rent is \$450 per week, slightly lower than Sydney (\$470), but significantly higher than Melbourne (\$390) and Brisbane (\$380).³ The recent census data also shows that around 30% of Canberrans rent, which is about equal with the national average.

These high median rents are partly offset by Canberra's relatively high median income. For instance, despite the similarity in rental prices between Sydney and Canberra, 2019-20 Survey of Income and Housing data indicates that the ratio of median ratio of housing costs to gross household income for renters in the private market is significantly lower in the ACT (20.2%) than in Sydney (24.4%).⁴ However Canberra's high rents still have a significant negative impact on low-income earners. Low-income households in the ACT (defined roughly as those in the bottom 40% of the income distribution) on average pay 19.5% of their gross household income in housing costs, above the capital city average of 18.1%, and just below Sydney at 19.9%.

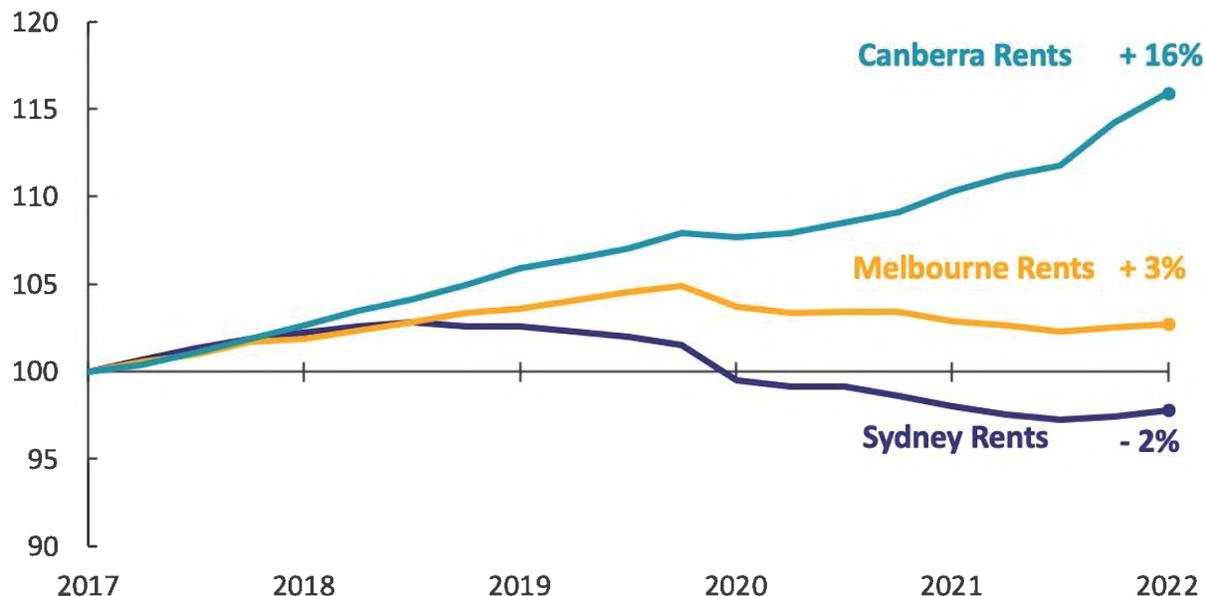
² ABS, [Consumer Price Index](#), March 2022.

³ ABS, Census Quickstats, 2021. All data for Greater Capital City Statistical Areas.

⁴ ABS, [Housing Occupancy and Costs](#), 2022.

Chart 1: Canberra CPI Rents compared to Melbourne and Sydney

Index (June 2017 = 100)



Data: ABS, [Consumer Price Index](#), June 2022.

Finally, while data on asking rents is more volatile, and is not necessarily reflective of overall affordability in the ACT, several recent reports by private data providers indicate that asking rents in the ACT are currently among the highest in the nation. Most notably, CoreLogic's June Quarterly Rent Review found that median asking rents in the ACT had increased by 9.3% in the past 12 months, and now stood at \$690 per week, much higher than Sydney (\$643) and Melbourne (\$480).⁵

There are two key stories evident from this data. Firstly, it is clear that rents in Canberra are among the highest in the nation, even if this impact is somewhat offset by our relatively high incomes. But more importantly, the relatively large variability between rents in the ACT and other parts of Australia strongly indicates the potential for ACT to lower our housing costs by building more homes. Even if ACT rents were merely to stabilise such that they became similar to those in Melbourne or Adelaide, that would represent a significant improvement in the financial stress experienced by many ACT renters.

These difficult rental conditions are unlikely to be offset by decreases in house prices. Because current falls in house prices are principally due to increases in interest rates, they are likely to be accompanied by a worsening, rather than an improvement, in housing affordability for Canberra families who are in a position to purchase a home. This, along with the broader inflationary environment, may in fact further increase demand for rental properties in the near term.

⁵ CoreLogic, [Quarterly Rental Review](#), June Quarter 2022.

1.2 Affordability is not the only housing issue facing Canberrans

We also wish to note that while housing and rental affordability is a crucial issue for many Canberrans and for Canberra's economy, it is not the only problem facing our current housing system. Solely focusing on affordability as a metric of the functioning of our housing market ignores the additional impacts of:

- **Location** - many lower-priced rentals in the ACT are located in suburbs further away from amenities and jobs, which reduces employment opportunities, increases geographic wealth inequality, and adds to the daily travel costs incurred by these renters.
- **Housing quality** - many lower-priced rentals in Canberra are older houses with poor energy efficiency that provide poor quality of life for occupants, and increase the energy costs they incur.
- **Security of tenancy** - rental indices do not reflect the monetary and non-monetary costs that accrue to tenants who cannot be assured that their tenancy is secure, who face imminent eviction, or who have to jump through significant hoops to apply for new accommodation.
- **Sustainability** - our current system of limiting medium-density development in many high-demand suburbs increases the ACT's carbon emissions by increasing the distances travelled by car (rather than by active or public transport), and pushing new development into previously untouched grasslands on the urban fringe.

We would encourage the Committee to keep these additional factors in mind as they assess the state of Canberra's housing market.

2 Vacancies in the ACT housing market

It is important to first distinguish between two potential types of property vacancies, which are often used interchangeably in debates around the property market:

- **Market vacancies** - properties (here generally meaning homes for rent) that are on the market and not yet leased or purchased.
- **Off-market vacancies** - properties that are not occupied and which are held off the market for extended periods. These are generally the types of vacancies targeted by vacancy taxes, and which are sometimes hypothesised to be a source of housing market dysfunction in Australia.

As we argue below, market vacancies generally have a positive impact on housing affordability, while off-market vacancies, which potentially decrease housing supply, are likely to represent only a very small proportion of all dwellings.

2.1 The role of vacancies in the property market

Residential market vacancies serve an important function in the housing market. When vacancy rates are low, renters are competing for a small set of available homes and landlords are able to increase asking rents while still easily finding a tenant. Low vacancy rates cause the following hardships for renters:

- **Upward pressure on prices** - low vacancy rates are one of the primary determinants of rental prices.⁶
- **Length of time finding a property** - prospective tenants must attend many house inspections, where each one may be attended by 20-30 people. They face a significant time burden filling out dozens of rental application forms.
- **Lack of suitable choices** - renters who have specific needs in rental accommodation - such as with regard to amenities, location, or accessibility - are often unable to find a property that suits their needs within a limited timeframe.
- **Unstable co-housing situations** - renters who aren't easily able to find suitable rental properties might be forced to opt into or remain in unstable co-housing situations with friends or family.

For all these reasons, moderate rates of property vacancy are generally a sign of a well-functioning housing market that is more likely to be accommodating for all Canberrans.

2.2 Vacancy rates in Canberra

⁶ Saunders and Tulip, [A Model of the Australian Housing Market](#), 2019.

The rental market vacancy rate in Canberra was 0.8% as of June 2022, and has hovered at or just under 1% since early 2021⁷. Since 2020, of the capital cities in Australia, Melbourne has had the highest rental vacancy rate, followed by Sydney. Market vacancy rates in both cities are significantly higher than Canberra's at 1.5% and 1.4% respectively.

The 2021 Census provides a broader definition of "unoccupied private dwellings", which refers to all private dwellings not occupied on census night. In addition to truly vacant dwellings that are on or off the market, this measure includes houses which were simply unoccupied because the residents were temporarily away from home on Census night, or because the house was under renovation. The 2021 Census shows around 12,000 dwellings in the ACT as unoccupied, or around 6.6% of dwellings, which is a lower rate than Sydney (8.3%), Melbourne (10%), and the national rate (10.1%). In the ACT the share of unoccupied dwellings in 2021 is lower than in 2016 (8.1%), 2011 (7.3%), and similar to 2006 (6.5%).

While the reason why a dwelling was unoccupied on Census night is no longer collected as part of the Census, we can roughly picture some possible reasons. Table 1 breaks down unoccupied dwellings in the 2016 Census by category, using estimates from a model developed by SGS Economics and Planning. These estimates strongly suggest that a large number of unoccupied dwellings would not be fit for immediate occupancy by a tenant, because the reason for the lack of occupancy is related to the dwelling already being on the market, being newly completed or under renovation, or the owner-occupier being temporarily away on Census night.

Table 1: Unoccupied dwellings by category at the 2016 Census, Australia

Category	Share of unoccupied private dwellings 2016 census
For sale	5.0%
Rental (short and long term)	10.6%
Newly completed	5.3%
Repairs or alterations	4.5%
Holiday home	22.8%
Awaiting demolition	1.5%
Resident absent	43.6%
Other	6.7%

Source: SGS Economics and Planning, [SOLVED: Why no one was home on Census night](#), 2017

⁷ Domain, [Vacancy Rates June 2022](#)

2.3 Policy interventions would only have a small impact on vacancies

As discussed above, moderate rates of vacant properties on the rental market are likely to be helpful for improving housing affordability. However, it may still be the case that there are some properties which are held empty by their owners off the market. As such, measures that encourage bringing these properties to market would have a positive impact on affordability. This is the principal logic behind taxing vacant properties: because doing so is thought to improve the supply of homes. On this basis, we are supportive of the Committee exploring potential options to reduce vacancies in the ACT, as part of a battery of measures to improve housing affordability.

Despite this, the impact of additional vacancy taxes in the ACT on affordability would almost certainly be very small, for three key reasons:

- Canberra already has an additional tax on vacant properties (as compared with properties that are owner-occupied), because land tax is already levied on all properties that are held vacant for over 6 months.
 - As the ACT Chief Minister, Treasury and Economic Development Directorate note in their submission to this inquiry, non-Australian property owners who leave properties vacant are also liable for additional Commonwealth taxation.
- The empirical literature on land taxes suggests that while vacancies are likely to decrease in response to vacancy taxes, this decrease is likely to be small as a share of total vacancies. For instance, a study of vacancy taxes in France found that they reduced vacant properties by around 13%.⁸
- There are unlikely to be nearly enough vacant properties in the ACT to accommodate housing demand at a price point which suits all Canberrans. For instance, the total number of unoccupied homes on Census night in the ACT (noting that the vast majority of these homes would not be subject to any potential vacancy tax), is roughly equivalent to two years worth of ACT housing supply.

For these reasons, we strongly encourage the Committee to consider tools other than vacancy taxes to increase the supply of housing available in the ACT.

⁸ Segú, [The impact of taxing vacancy on housing markets: Evidence from France](#), 2020.

3 ACT planning rules and housing affordability

3.1 Research shows more supply decreases rents

As we argued in our 2022-23 ACT Budget submission, a wide range of economic literature indicates that housing supply decreases house prices, and that reforming planning rules to permit more mid-density or 'infill' housing can lead to sustained reductions in housing costs. To highlight four recent economic papers in this area:

- [Tulip and Saunders \(2019\)](#) develop an empirical model of the Australian housing market, and estimate that in aggregate, every 1% increase in the housing supply leads to a 2.5% reduction in housing costs, consistent with a range of international estimates.
- [Li \(2020\)](#) analyses the local impacts of new market-rate high-rise apartment buildings in New York, and finds that a 10% increase in housing stock reduces rents by 1% and has a downward impact on property prices within a 500 foot radius. New construction also has a positive impact on local restaurant openings.
- [Greenaway-McGrevy and Phillips \(2021\)](#) analyse reforms to the Auckland planning system that allowed more mid-density developments in inner urban areas, and find that they doubled the rate of new housing construction in the city in the four years after implementation.
- [Phillips, Manville, and Lens \(2021\)](#) review five papers (including Li, 2020) that find that local market rate developments decrease neighbourhood rents, and conclude that increased market-rate and social housing supply has an important role to play in improving housing affordability.

These findings strongly suggest that increasing housing supply, through both increased private and social housing development, is key to improving the long term housing affordability issues faced by the ACT.

3.2 ACT planning laws are ripe for reform

The planning system has a vital role to play in ensuring adequate housing supply and moderating rent levels. As such, the ACT Government's ongoing Planning System Review and Reform Project represents a golden opportunity to implement much-needed planning reforms.

As we have expanded upon some of our recommended changes to the planning system as part of our [submission on the draft Planning Bill](#) and the [2022-23 ACT Budget](#), we will here try to focus on some of the high-level challenges of our current planning system, and recommend several policy changes to improve the supply of affordable housing in the ACT.

Some of the core issues with our current planning system can be illustrated with the planning pathways required for two different developments in the ACT:

- A property owner who wants to knock down their existing home and build a new two-story five bedroom house in an RZ1-zoned neighbourhood faces the following pathway:
 - They will often not be required to submit a development application.
 - They will only have to provide two off-street car spaces.
- A housing developer next door who wants to build a four-unit townhouse development of exactly the same size and footprint as their neighbour's two-story house, in an RZ1 zone faces the following challenges:
 - This type of housing is generally banned in the RZ1 zone in ACT.⁹
 - Even if this development was to be built in an RZ3 zone where it would be permitted, it would be required to go through a development application.
 - While both development processes could be impacted by a number of referral entities, such as the Conservator of Fauna and Flora or the Heritage Council, who can unilaterally act to slow down or prevent a development application. These processes appear to be more difficult for multi-unit developments than single family dwellings.
 - Once the development application is approved, it can be subject to ACAT appeals from other residents.
 - The development would in most cases have to provide at least 6 off-street car parking spaces, even if the block was right next to a rapid bus route or other public transport.

This disconnect between two different developments of the same silhouette and floor plan, despite the second providing four times the number of homes, shows the challenges the ACT faces in providing sufficient supply of housing both in the private market and in the context of social housing. If the ACT is serious in confronting the affordability crisis, then reforming the planning system must be a central aim.

3.3 Recommended planning reforms

For these reasons we recommend that the ACT Government pursue a range of planning reforms to increase the supply of market-rate and social housing in the ACT. The highest priority of these are the following:

- ACAT merits review of planning decisions should be removed, in order to reduce the number of nuisance lawsuits that hold up new housing supply.

⁹ While social housing developers may be permitted to build such a building due to exceptions specific to supportive housing, they are still limited by a number of RZ1 requirements with regard to built form, such as building setbacks, basement works, and height.

- Merits review is already limited in town centres and Kingston Foreshore.
- These processes are currently being used by wealthy residents to hold up new public housing projects in the Inner South.
- Even if a review application is completely unsuccessful, the Planning and Land Authority - that is, ACT ratepayers - and the development proponents must incur legal costs that can sometimes reach the hundreds of thousands of dollars. Construction can be delayed by many months.
- Planning decisions are inherently political and remanding them to an unelected quasi-judicial body allows a few wealthy, established residents to undermine planning decisions made by the democratically elected government.
- RZ1 zoning rules should allow unit-titled duplexes, triplexes and terraced housing on larger blocks, and permit multi-unit projects where they fit within existing building form restrictions.
 - This would unlock a significant amount of new potential housing in the ACT - for instance, expanding existing rules that apply to 'Mr Fluffy' blocks to all blocks would make duplexes easier to build on around 60,000 properties, in a manner that promotes gentle urbanism while preserving and improving the character of established suburbs.
 - We note that the ACT Government has previously committed to allowing unit-titled duplexes in the RZ1 zone as part of the [2018 Housing Collaboration Hub](#) report.
- High-demand areas near to local commercial centres, the city centre, major employment hubs, and public transport should be upzoned to permit more mixed-use apartment buildings and townhouses.
 - Indicative analysis conducted by Markus Mannheim for the ABC suggests that enacting reforms similar to those recently adopted in New Zealand in Canberra's inner north and south would allow for up to 50,000 homes.¹⁰
 - There is further potential to increase height limits on many of the mixed-use zones that apply in many of Canberra's suburban town centres, to allow for more mid-sized apartment buildings above local businesses.
- Minimum parking requirements in areas already well connected to public and active transport should be relaxed.

More broadly, as we have argued in our submission on the draft Planning Bill, the ACT should enshrine affordability and sufficient housing supply as a primary objective of the ACT Planning Act. Including this objective will be particularly important in the ACT's new outcomes-based planning system, to ensure that Canberra planners are able to consider affordability as an outcome worth pursuing in planning decisions.

¹⁰ ABC, [Could a simple change to zoning laws solve Canberra's housing affordability crisis?](#), April 2022.

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Our submission on the draft Planning Bill also recommended a number of ways that consultation processes on new housing projects and planning changes could be improved. Many current consultation processes are run purely on an opt-in basis, meaning that they only amplify the voices of those residents with the time and resources to engage in the debate. This results in a tendency for consultation to be biased toward older and wealthier home-owners, while younger, lower income residents such as renters are not heard. Consultation processes should aim to accurately represent the diversity of Canberra's population by making the effort to survey a representative sample of residents, including renters, recent immigrants, younger and older Canberrans, and Canberrans working in a range of professions.

4 Additional policy interventions

In addition to the above policy interventions to improve housing supply, we believe there is potential to improve policymaking with regard to housing affordability in a number of other ways.

4.1 Increasing social housing supply

First, given the ACT's sustained high rental costs there is clearly a need for the ACT Government to speed up investment in public housing, and to improve the ability for community housing providers to fill the current social housing gap. On this issue, we would refer the Committee to submissions made by organisations such as ACT Shelter, ACTCOSS, and YWCA Canberra as part of the recent 2022-23 ACT Budget consultation, and the consultation on the draft ACT Planning Bill (along with their submissions to this inquiry). These organisations have identified a number of barriers in current planning, taxation, and land release policies which impede community housing development, and identified a range of high-impact areas for further ACT Government investment in social housing.

We further note that several of the planning reforms outlined above would improve the ability for both the ACT Government and community housing providers to increase the scale and rate of new social housing construction. In particular, we believe that there are substantial opportunities to increase the rate of new social housing supply by investing in more medium density or infill social housing projects in inner city suburbs.

4.2 Improved modelling of housing supply and demand

Given the ongoing impact of high housing costs on the ACT economy, we further believe there is a strong case for the ACT Government to invest in greater data and modelling capacity with regard to housing and rents. For instance, our analysis of the Environment, Planning and Sustainable Development Directorate (EPSDD) [Residential Supply and Demand Model](#) (which we obtained through FOI), indicates that current land release and planning decisions are entirely informed by ACT-wide population growth projections, and do not involve direct modelling of infill housing supply at a local level. This strongly suggests such planning decisions are being made without adequate modelling of the impacts on housing affordability.

We note that the [2018 ACT Housing Strategy](#) (p. 18) included a commitment to publish modelling on ACT housing supply and demand, in addition to publishing regular reports on regional trends in ACT housing costs as part of the ACT Land and Property Report. As far as we can tell, this type of detailed analysis is still not consistently published as part of this report.

We would also encourage higher levels of coordination between EPSDD and TCCS to ensure that planning laws align closer with active travel and public transport goals, particularly around local shops and town centres.

4.3 Improving ACT Government oversight of the housing market

In addition, there is scope for the ACT Government to improve visibility of rents in the ACT by requiring details of occupancy and weekly rents to be recorded when rental bonds are lodged. This type of data is already published on a regular basis by the NSW Government, allowing researchers, community organisations, and the Government to more closely monitor trends in rents at a local level.¹¹ Collecting this data would have the added benefit of enabling better enforcement of the ACT's existing legal limits on rent increases.¹² This data collection would have a relatively low regulatory impact and expense.

Finally, we note that there is a role for better tenant protections in improving many of the elements of the housing experience that are not related directly to affordability. We are encouraged to see the recent proposals by the ACT Government in this space, but as argued above, we believe that these protections will not be sufficient in providing tenants with the flexibility and bargaining power they deserve unless they are accompanied by a sustained increase in the supply of rental homes.

¹¹ See [NSW Fair Trading: Rental bond data](#).

¹² We note that any limits on market rents should be designed so as to limit unintended negative consequences with relation to housing supply or secure tenancies. For instance, where rental stabilisation policies are applied only to existing tenancies, this may create an incentive for landlords to 'cycle through' tenants so as to enable rents to be increased more rapidly.