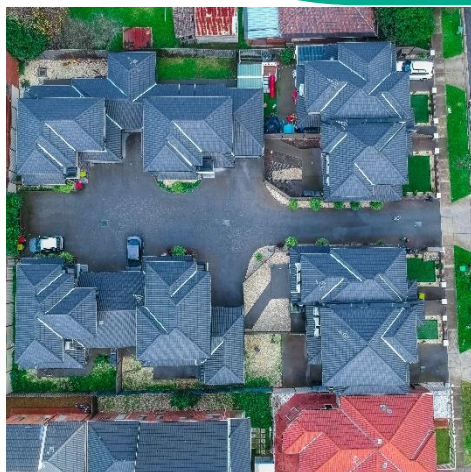




March 2023

# Our home choices

How more housing options can make better use of Victoria's infrastructure





## About us

Infrastructure Victoria is an independent advisory body with 3 functions:

- preparing a 30-year infrastructure strategy for Victoria, which we review and update every 3 to 5 years
- advising the government on specific infrastructure matters
- publishing research on infrastructure-related issues.

Infrastructure Victoria also helps government departments and agencies develop sectoral infrastructure plans.

Infrastructure Victoria aims to take a long-term, evidence-based view of infrastructure planning, and we inform community discussion about infrastructure provision.

Infrastructure Victoria does not directly oversee or fund infrastructure projects.

## Acknowledgement

Infrastructure Victoria acknowledges the Traditional Owners of Country in Victoria and pays respect to their Elders past and present, as well as Elders of other First Peoples' communities. We recognise that Victoria's infrastructure is built on land that has been managed by Aboriginal people for millennia.





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# Summary

People from around the world have chosen to make Victoria home, most of them in Melbourne. By 2051, Victoria will be home to around 3.7 million more people than today, with over 3.1 million more people in Melbourne alone.<sup>1</sup> Melbourne is expected to overtake Sydney as Australia's biggest city in 2031 or 2032.<sup>2</sup>

Population growth has fuelled Victoria's economic prosperity and created the vibrant, diverse community enjoyed today. But with more people Victoria also needs more homes. Melbourne will need about 1.3 million new homes between 2021 and 2051, or around 44,000 new homes every year.<sup>3</sup> The supply challenge is large, especially if new homes are to meet the needs and aspirations of Victoria's diverse and growing population at prices they can afford.

Understanding why homebuyers and renters choose to live where they do helps to plan for population growth and to shape Victoria's cities. In June 2022, we asked over 6,000 Victorian households about the type of home they would choose in Melbourne, Geelong or Ballarat if they had to move, factoring in current house prices and their household budget – the largest survey of its kind ever conducted in Australia.

Many people we spoke to share a similar vision of their ideal home: a detached 3-bedroom house in an established suburb, close to family and friends.<sup>4</sup> But this ideal is well out of reach for moderate income households in most Melbourne suburbs. People's preference for a large, detached home combined with household budget constraints is driving demand for homes in Victoria's new growth suburbs, or greenfield areas, where the median household income among new homebuyers is just over \$90,000.<sup>5</sup>

Of the households we surveyed, 25% told us they would choose to live in a detached house in one of Melbourne's growth areas if they had to move.<sup>6</sup> Many people buying in greenfield areas are households with children, or who are planning for children. Greenfield suburbs, on average, attract higher numbers of first home buyers, households with young children and those intending to have children in future. They are also more likely to be moderate income earners. Most greenfield residents say that living in these new suburbs is their preferred choice. Greenfield homes offer the features these households want at a price they can afford, in a community where they feel connected and safe.<sup>7</sup>

The 7 local government areas home to Melbourne's greenfield suburbs accounted for 50% of Victoria's total population growth over the last 10 years.<sup>8</sup> Greenfield suburbs in Ballarat and Geelong also grew rapidly in this time.<sup>9</sup> Greenfield homes are built in areas with little existing infrastructure, and residents often move in before schools, public transport, community centres and hospitals are in place. Our survey shows that Victorians who choose a new home in a new suburb are usually very happy with their choice,<sup>10</sup> but they acknowledge it can take many years before their community has all the infrastructure it needs.<sup>11</sup>

Building new infrastructure in these areas can be up to 4 times more expensive than adapting existing infrastructure in established suburbs that have the capacity to support growth.<sup>12</sup> Paying for Victoria's growing infrastructure needs comes at a time when governments are dealing with multiple challenges, such as escalating construction costs and shortages of skilled labour and materials.<sup>13</sup> And as Victoria grows, so does the pipeline of new infrastructure needed to meet the needs of rapidly growing communities. With competing interests and budget constraints, governments must make difficult choices on how and where to invest.

Encouraging more people to live in established suburbs closer to existing infrastructure creates a more compact city with higher population density. Melbourne is one of the lowest population density cities in the world, even lower than Los Angeles and around half that of Paris, despite being roughly the same geographic size.<sup>14</sup> Compact cities offer good access to jobs, services, cultural and sports activities and public transport. They can support better health outcomes by encouraging more walking and cycling. They can improve the viability of infrastructure delivery and promote better use of existing infrastructure. They can also offer diverse housing options for many different sizes and types of households.

But our research shows that Melbourne's existing suburbs do not offer a choice of homes at a price that many households can afford. A household with a stable income of \$88,000 a year and a deposit saved can currently buy a 3-bedroom house if they want one. But it will only be possible in a small number of growth



suburbs on Melbourne's fringe, some 30 kilometres or more from the city centre. And suitable options in many growth areas are already out of financial reach for a homebuyer with this income.<sup>15</sup>

The Victorian Government's metropolitan planning strategy, *Plan Melbourne 2017–2050*, aims to promote a more compact city. It includes an aspirational scenario for 70% of new homes to be built in established suburbs by 2051. The remaining 30% would be in greenfield areas.<sup>16</sup> This is a major undertaking, equivalent to 932,000 new homes in Melbourne's existing suburbs, or 8 times the number of homes in the whole of Geelong today.<sup>17</sup> But Victoria's capital city is falling short of these aspirations. The share of new homes built in established suburbs is declining, and in 2021 fewer than half were in Melbourne.<sup>18</sup>

Encouraging more people to buy and live in homes in higher density established suburbs will be a challenging task. Our research has found that high-rise apartments are not attractive to many people buying in greenfield areas, so increased density must come in many different forms including townhouses, villas and both low-rise and high-rise apartments.<sup>19</sup> Building more homes in established suburbs comes with its own challenges including high urban land and construction costs, some community opposition and uncertainty around the timeframe and outcome of development assessment decisions.<sup>20</sup> These and other factors influence which homes are built where, and the prices people must pay for them.

If the Victorian Government wants to increase the share of new homes built in established suburbs, it needs to understand what people are looking for when they buy a home and how these needs can be met in established suburbs. Our work aims to clarify these requirements and to propose policy options for government to help achieve them.

Many households told us they would choose to live in greenfield areas even if established suburbs were more affordable. The greenfield areas will continue to play an important role in Melbourne's future for the many people who prefer the features offered by these areas. However, we found that 1 in 5 would trade house and land size to live in an established suburb in a medium density home, such as an apartment or townhouse, if it was available at a more comparable price. These are the buyers and renters the Victorian Government must provide more choices for if it wants to rebalance the distribution of new homes between existing suburbs and new growth areas.<sup>21</sup>

But focusing on household demand will not be enough. The government can also facilitate private sector investment to build more homes that meet the needs and preferences of people who would otherwise choose a greenfield home. Established suburbs must accommodate many more new homes to create the scale of change aspired to in *Plan Melbourne*, including homes affordable to moderate income households who have, or are planning for children. Apartments make up most new homes in Melbourne's existing suburbs, and most of these are not designed to meet the needs of households with children (see **Option 10**).<sup>22</sup> More diverse new homes in all areas can give people more choices to suit their needs (see **Options 7 and 8**).

The Victorian Government has identified several urban renewal precincts in established suburbs to accommodate some of Melbourne's population growth, including in Fishermans Bend, Sunshine and Arden. These can be part of the solution and there are opportunities to streamline planning approvals for development in these areas (see **Option 6**). However, urban renewal precincts alone will not generate enough homes to meet projected population growth. For example, the 12 precincts connected by the Suburban Rail Loop will deliver around 15% of the homes needed to support an aspiration of 932,000 new homes in existing suburbs.<sup>23</sup>

Our policy options outline reforms for the Victorian Government to consider. They aim to give moderate income households more housing choices in established suburbs that are genuine substitutes for greenfield area homes. They include changes to existing financial incentives that distort home choices and favour greenfield development (see **Options 2, 3 and 4**), and planning reforms that can encourage more affordable homes in established suburbs (for example, **Options 5, 8, 9 and 10**). We also suggest reforming infrastructure contribution schemes to better reflect the costs of building infrastructure in different areas (see **Option 1**). Collectively, the options we propose can give communities more certainty about what to expect and developers more clarity in how to deliver well-designed, higher density homes in established suburbs.

# Options for government

Established suburbs can accommodate more new homes in many different ways. This report presents a suite of policy options for the Victorian Government to consider. The options can give people more choices to buy homes in established suburbs rather than greenfield areas and promote better use of existing infrastructure by helping create more compact cities. The Victorian Government can make decisions on the policies it pursues.

Our research demonstrates the size of the challenge ahead will require many different approaches to resolve. We have identified 3 outcomes that the proposed options seek to address:

- Reduce price disincentives to buying in established suburbs.
- Build more homes in established suburbs near transport and services.
- Increase diversity and choice of homes in established suburbs.

The 10 options collectively suggest ways the government can offer more choice for moderate income households who might prefer to live in established suburbs. No single policy option will cause enough new homes to be built in established suburbs in Melbourne, Geelong and Ballarat. Instead, many of the options can be combined to achieve more impact and will need to work together to be effective in expanding the choice and diversity of homes available to Victorians now and in the years ahead.

We provide options for the Victorian Government to implement now and keep pursuing over the next decade. We outline our view of how to sequence them in Figure 1. The government should monitor progress and consider whether it needs more policy reforms to deliver the change required in the future.

## Reduce price disincentives to buying in established suburbs

### 1: Reform infrastructure contributions to send the right price signals

Develop a clear, efficient and transparent infrastructure contribution system that better reflects the true cost of infrastructure in different development settings and supports better use of existing infrastructure.

### 2: Reform stamp duties that distort home choices

Remove the distortions created by stamp duty concessions and ultimately abolish stamp duties altogether, potentially by replacing them with a broad-based land tax.

### 3: Remove home subsidies that encourage greenfield choices without improving affordability

Avoid subsidies that inflate house prices and remove the First Home Owner Grant.

### 4: Use government 'shared equity' schemes to encourage established suburb home ownership

Over time, change the locations eligible for the Victorian Homebuyer Fund, to encourage people to buy homes in established suburbs.

## Build more homes in established suburbs near transport and services

### 5: Measure and incentivise progress towards new local housing targets

Set targets for the number, type and size of new homes in each Melbourne local government area, in collaboration with local governments. Offer local governments incentives to meet the targets. Measure progress by closely monitoring new housing supply and publishing detailed statistics at least every year, including by home type and characteristics.

### 6: Prioritise and streamline approvals for urban renewal precincts

Prioritise urban renewal precincts for development, with streamlined planning approvals. Set targets in each precinct for the number, type and size of new homes. Develop suitable housing demonstration projects that specifically include 3-bedroom homes.

### 7: Develop better standards for low-rise apartments, then increase their supply by expanding use of the Residential Growth Zone

Develop better standards for low-rise apartments (4 or fewer storeys) in the Victoria Planning Provisions. Introduce more low-rise apartments by supporting local governments to rezone more residential areas near public transport and services to the Residential Growth Zone.

## Increase diversity and choice of homes in established suburbs

### 8: Develop a dual occupancy and townhouse code

Give property owners as-of-right permission to bypass red tape and supply more diverse homes when they comply with the new dual occupancy and townhouse code. Give better visual guidance for well-designed dual occupancies and townhouses.

### 9: Allow homebuyers more parking options

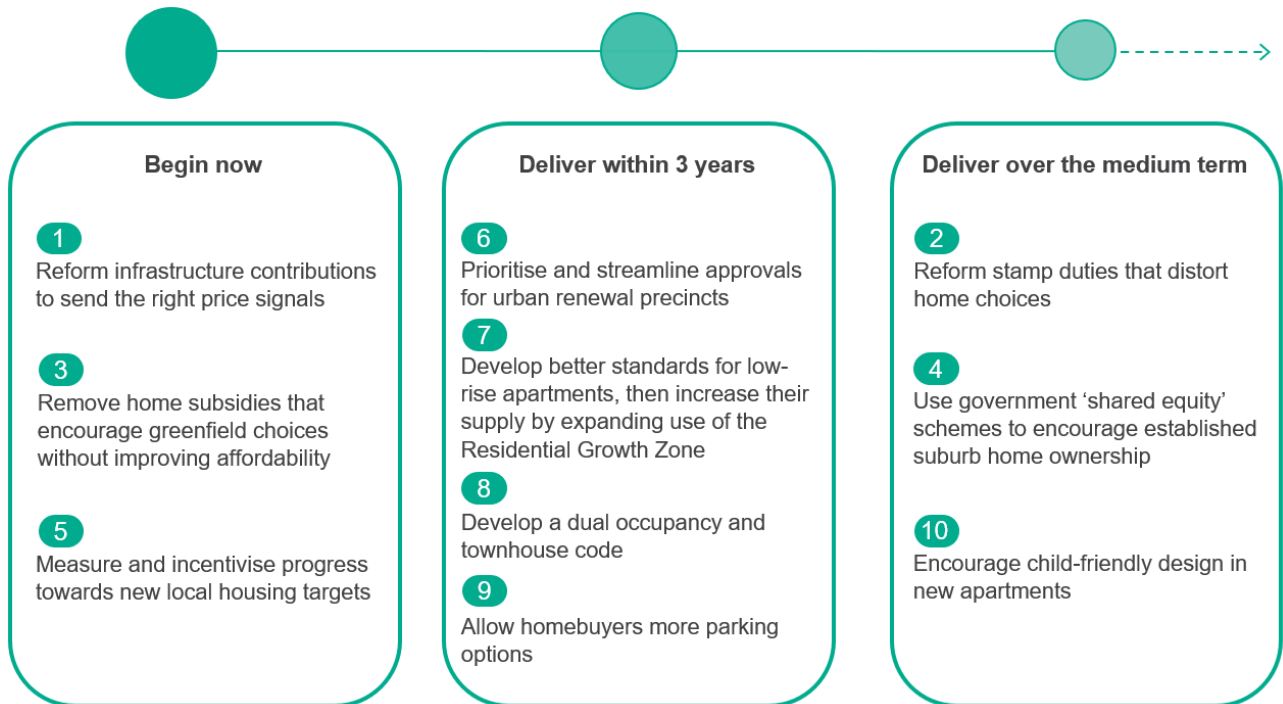
Reduce or remove compulsory minimum parking requirements to improve choice and affordability of new established area homes, close to good public transport. Allow homebuyers to choose how much onsite parking they want to pay for above minimum requirements.

### 10: Encourage child-friendly design in new apartments

Update the Better Apartments Design Standards to specify better access, versatility and safety features so apartments are more attractive for households with children. Introduce voluntary design guidelines for best practice child-friendly apartment design.



**Figure 1 Timelines for delivery**



# Guiding Victoria's future housing growth

Victoria grew rapidly in the decade to 2020, welcoming more than 1 million new residents to reach a population of 6.7 million.<sup>24</sup> This growth placed considerable demands on infrastructure as more people used Victoria's roads, trains, hospitals and schools.<sup>25</sup> It also increased the demand for housing.

Historically, Victoria accommodated population growth in new suburbs at the edges of Melbourne, contributing to the city's large urban footprint.<sup>26</sup> Melbourne has around 5 million people, making it the 102nd largest global city by population, but it has the 33rd largest built-up land area in the world.<sup>27</sup>

The COVID-19 pandemic interrupted Victoria's population growth. The population dropped by almost 45,000 people in the year to June 2021, and by over 80,000 in Melbourne. Despite this, more people kept moving to Melbourne's growth areas. The cities of Cardinia, Casey, Hume, Melton, Whittlesea, Wyndham and the shire of Mitchell, home to Melbourne's greenfield suburbs, all experienced population growth in 2021.

Some Victorians also moved to the regions during this time. Regional Victoria added 23,000 new residents in 2021.<sup>28</sup> Like Melbourne, regional cities face pressure to expand outwards into new suburban estates to meet rising demand for new homes.<sup>29</sup>

The pandemic changed the way Victorians live and work. For much of 2020 and 2021, anyone who could work from home did so. While its longer-term effects are unclear, a shift towards remote working might keep reinforcing strong population growth in outer suburbs as it becomes less important for people to live near their workplace.<sup>30</sup> Workers can save time and travel costs if they no longer need to travel to work every day.

## More new suburbs put extra pressure on infrastructure

Planning decisions made now will affect the shape of Victoria's cities for decades to come. The places where new homes are built affects the amount and location of infrastructure Victoria needs.

People living in new homes in urban growth areas, or greenfield developments, require new infrastructure for their daily lives. This includes transport, utilities and social infrastructure such as schools, hospitals and childcare facilities. In rapidly growing new suburbs, people move in before much of the supporting infrastructure is in place.<sup>31</sup> Their access to services and infrastructure will improve over time, but in the interim new residents must rely on cars to access the services they need.<sup>32</sup>

Infrastructure can also be expensive to deliver. Labour shortages are contributing to delays in infrastructure delivery, and the costs of construction are rising.<sup>33</sup>

**Our previous analysis shows that infrastructure to support new homes can cost up to 4 times more in greenfield areas than in established suburbs that have the capacity to support growth.<sup>34</sup>**

A larger urban footprint affects the environment. More expansion can lead to new homes being built in areas that are more vulnerable to the effects of climate change, which can expose residents to higher bushfire or flood risks.<sup>35</sup> It can also contribute to biodiversity, ecosystem and species loss, as homes and other development use up more habitat.<sup>36</sup>

Comparing Melbourne's low housing density with other global cities shows that many established suburbs can accommodate more people and homes while offering good access to existing infrastructure.<sup>37</sup> *Victoria's infrastructure strategy 2021–2051* explores ways to better use and manage existing infrastructure, and to plan the timing and delivery of new infrastructure where necessary. It recommends building more homes in

established suburbs with good access to jobs, services and transport, by integrating land use and infrastructure planning to deliver a denser urban form.<sup>38</sup>

Greenfield areas will continue play an important role in Victoria's future growth. But balancing their role with that of established suburbs is important to continue to provide a good quality of life with access to jobs, education, social and leisure opportunities for everyone in Victoria.

## More compact cities offer social, economic and environmental benefits

Compact cities help slow down urban expansion by consolidating land use inside the existing city boundaries. They prioritise building new homes in established suburbs, near to jobs and activity centres.<sup>39</sup> Cities that are more compact promote public transport use by focusing population growth in places that already have good access, and encourage walking and cycling by reducing the distances people need to travel.<sup>40</sup>

More compact cities can provide opportunities for positive social interaction, and improve access to community services.<sup>41</sup> They can create vibrant and diverse suburbs while supporting shops and services, stimulating local economic development and job opportunities.<sup>42</sup> Higher density neighbourhoods can improve the viability of infrastructure delivery and promote better use of existing infrastructure.<sup>43</sup> Denser suburbs tend to have economic and productivity benefits due to higher concentrations of jobs.<sup>44</sup>

More compact cities can offer more transport options, including more public transport, walking and cycling, and can reduce trip lengths and travel times. A more active lifestyle can improve health outcomes.<sup>45</sup> People using more sustainable transport options can also reduce vehicle emissions.<sup>46</sup> Other environmental benefits include less land taken up by homes, meaning less development pressure on valuable agricultural and environmental resources.<sup>47</sup>

Other urban forms are possible, and each has its own benefits and drawbacks. The Victorian Government's land use and infrastructure planning decisions will help determine whether Victoria realises the benefits more compact cities can offer.

## What we mean by low, medium and high density

We use the terms low, medium and high density often in this report to refer to different types of homes and developments. There are many definitions for these terms, but we generally mean the following:

- Low density – detached homes of any size.
- Medium density – townhouse and terrace homes, as well as low-rise apartments (up to 4 storeys).
- High density – apartment developments of 5 storeys and above.

Melbourne is a low density city by global standards. The city centre includes many high density homes, and some established suburbs have high density along major transport routes. These are interspersed with low density suburbs, many of which are dependent on cars because of sparse public transport. Growth area suburbs are, in general, low density and not as well served by infrastructure and transport as established suburbs.

Melbourne can increase its population density, with all the benefits that can bring, while remaining a relatively low density city. But it will need more diversity and choice in home types to achieve this.

Each density category has many different forms. Building higher density, more compact cities does not mean all new homes will be high-rise apartments. And apartments can be designed in different ways to incorporate open space and communal areas while offering good access to transport and services.

Victoria can build more well-designed, medium and high density homes, including townhouses and low-rise apartments, in established suburbs to offer an affordable substitute for greenfield homes. Figure 2 gives existing examples of these home types in Victoria.

**Figure 2 Medium and high density homes in Ballarat, Doncaster and Richmond**



Nightingale, *Nightingale Ballarat*, Mirvac, *Tullamore*, SJB, 8 Burnley Street



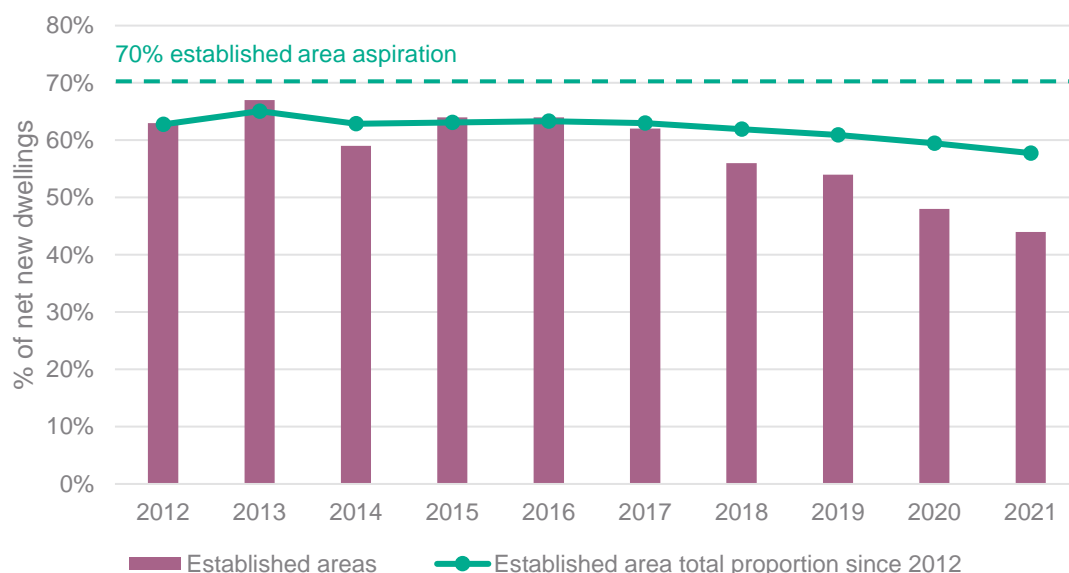
## Planning strategies aim to build more homes in established suburbs

*Plan Melbourne 2017–2050*, the Victorian Government's metropolitan planning strategy, aims to increase the proportion of new homes in established suburbs. It includes an aspirational scenario for 70% of new homes to be built in Melbourne's established suburbs by 2051, compared with 30% in greenfield areas.<sup>48</sup>

Some regional cities also aim to increase the share of new homes built in established suburbs. The City of Greater Geelong has an aspirational target of 50% of new homes in established suburbs by 2047.<sup>49</sup> Likewise, the City of Ballarat is encouraging the housing market to move towards 50% of new homes in established suburbs between 2020 and 2040.<sup>50</sup>

However, current trajectories show that greenfield development increasingly delivers more of Victoria's new homes. Just 44% of new homes in Melbourne were built in established suburbs in 2021. This compares with over 60% in 2016 (see Figure 3).<sup>51</sup> In Geelong, 21% of new homes were built in existing suburbs in 2021, down from 32% in 2020.<sup>52</sup>

**Figure 3: Share of net new dwellings in Melbourne's established suburbs, 2012 to 2021**



Department of Transport and Planning, *Urban development program*

## Building more homes in existing suburbs will be challenging

Melbourne will need an estimated 1.3 million new homes between 2021 and 2051 to accommodate expected population growth.<sup>53</sup> Reaching the 70/30 aspiration in *Plan Melbourne* by 2051 would therefore require around 399,000 new homes in greenfield areas and 932,000 in Melbourne's established suburbs. This is equivalent to building 8 times the total current number of homes in Geelong within Melbourne's established suburbs.<sup>54</sup>

Accommodating this growth in Melbourne's established suburbs means increasing housing density in suitable places. *Plan Melbourne* identifies over 130 metropolitan and major activity centres that can support higher density development.<sup>55</sup> However, challenges associated with building higher density homes in established suburbs include high land prices and construction costs, planning system risks, some community opposition, and uncertainty around the timing and outcome of development assessment decisions.<sup>56</sup> These and other factors influence which homes are built where, and the prices people must pay for them.

If the Victorian Government wants to increase the share of new homes built in established suburbs, it must understand what people are looking for in new growth areas, and how it can deliver this in established suburbs. This study aims to clarify these requirements and propose reforms to give people more home choices in more areas.

# Gathering new evidence on housing preferences

Infrastructure Victoria undertook new research to gather reliable and up-to-date information about Victorians' home choices and preferences. Our findings can help decide which set of policy options can successfully influence the location of people's home choices.

In 2011, the Grattan Institute conducted the last major study into Victoria's housing preferences, summarised in their report *The housing we'd choose*.<sup>57</sup> Victoria's population grew by more than a million people after that research. The type and location of new homes being built also changed. Developers built many inner-city apartment buildings and produced more large homes in new growth suburbs. Melbourne's middle suburbs had less development.<sup>58</sup> At the same time, more new housing estates were built at the edges of Ballarat, Geelong and smaller regional towns near Melbourne.

Our research builds on the Grattan Institute's findings and gives new insights into the homes and choices available to Victorians today. We surveyed many more people, included Geelong and Ballarat in our research, and considered a greater variety of choices in more specific areas of Melbourne. We talked with people directly so they could tell us about the home choices they made. We also developed new models to explore how people value different types of homes and infrastructure. Our research highlights how people's housing preferences are different more than a decade later. It also gives us new insights into home choices as Victoria emerges from the COVID-19 pandemic.

We focused on people who choose to live in new growth areas as our starting point – people who live in greenfield estates or might choose to move there. Our research focused on better understanding their available home options, the choices they made, and what might influence them to live in established suburbs instead. We considered this question from the perspective of both housing demand (what and where people want to buy) and supply (what is being built where), as well as the choices and trade-offs people face when they buy their home. We also included many people who decided not to live in greenfield areas to understand how their preferences and choices differ from those who do.

We used our findings to help develop a wide suite of policy options for the Victorian Government to consider. If the government wants to offer more home options in established suburbs, it should consider substantial changes to many of its planning and financial policies. No single, isolated reform can deliver the massive scale of change required. This report outlines some options for the Victorian Government that can give people more attractive options to buy homes in established suburbs. By pursuing them, Victoria can maximise people's use of existing infrastructure and services in established suburbs, and integrate land use and infrastructure planning to guide urban development in good locations. Some of our proposals can be done quickly, but others might take longer.

## Our research explores factors influencing home choices

We investigated the reasons people chose to buy homes in growth areas, and what might help change their mind. Our research objectives were to:

- identify the most important home, location or community attributes for households when deciding to live in Victoria's greenfield locations, and the trade-off decisions they make
- test whether they can meet these housing preferences in other places
- elevate the voice of households who feel they have few home choices outside of greenfield locations but would prefer a different location if their housing needs can be met elsewhere.

Our research explored whether households in new suburbs would accept a smaller house and land size to live in an established suburb in a medium density home, if it were available at a comparable price. Our primary research question in considering this choice was:

**What would be the necessary pre-conditions for a proportion of households living in new suburbs to have chosen a different residential location?**

We focused on moderate income households in Melbourne, Geelong and Ballarat, defined under the *Planning and Environment Act 1987* (Vic) as households with an annual income range between \$88,021 and \$132,030.<sup>59</sup> These households are more likely to live in outer suburbs and growth areas where homes tend to be more affordable.<sup>60</sup> The median household income for new homebuyers in Victoria's greenfield suburbs between 1996 and 2021 was \$90,977 a year.<sup>61</sup>

We analysed housing affordability for moderate income households to identify homes that might be a suitable alternative to growth area homes. Households buying in growth areas are more likely to have children or be planning for children in the near future.<sup>62</sup> They are unlikely to choose homes with fewer than 3 bedrooms.

Our research focused on moderate income households' available home choices. This means we did not attempt to solve the urgent wider housing affordability issues in Victoria, or explore issues related to overall housing supply shortages.

Our policy research focused on households seeking to buy rather than rent. Few homes are purpose-built for the private rental market,<sup>63</sup> and the Victorian Government has limited policy levers to increase the supply of rental homes, outside of providing more social housing. But we included renters within the scope of our qualitative research and choice modelling as they are a significant part of the overall housing market, and a source of future demand for homes.

The critical issue of social housing for low and very low income households was out of scope for this work. The Victorian Government released its *10-year strategy for social and affordable housing* in 2022.<sup>64</sup> In *Victoria's infrastructure strategy 2021–2051* we recommended that the Victorian Government set statewide targets to grow social housing, to reach at least the national average of 4.5 social housing dwellings for every 100 households by 2031.<sup>65</sup>

## Our approach combined different methods to uncover new evidence

We took a robust, mixed methods approach to study greenfield housing preferences. We conducted new quantitative and qualitative research, stakeholder consultation, and policy research and analysis.

During our research we spoke to over 100 Victorians about their home choices and surveyed over 6,000 households living in greenfield and established areas of Melbourne, Geelong and Ballarat. They told us about the homes they live in, the homes they would choose and the factors that influence their decision.

This chapter summarises the different research components and the following chapters outline core research findings. We published technical reports containing full details of the research, including methodologies and findings, on our [website](#).

### Research into home and location choices

We commissioned Wallis Social Research to talk to 122 Victorians about their home choices and the trade-offs they made.<sup>66</sup> Wallis led 22 focus groups during June and July 2022, and captured perspectives from owner-occupiers and renters in greenfield suburbs in Melbourne, Ballarat, Geelong and Bacchus Marsh. We



contrasted these perspectives by talking to other groups, such as medium density home owner-occupiers in established suburbs, and residents in established suburbs who had decided not to live in greenfield areas.

We focused on young couples and households with young children in our focus groups, because this is the main household type buying in greenfield areas. But we also included some households with older children and people living in other types of households. We talked with them about their experience of making home and location decisions, and of accessing jobs, services, amenities, social and cultural connections, and infrastructure from their location.

## Modelling relative prices for different homes

We built a hedonic price model to investigate how home features, location and access to infrastructure affect property prices in Melbourne.<sup>67</sup> We developed 3 different versions of the model for houses, townhouses and apartments, and used them to examine how people valued different home features (such as parking spaces and extra bedrooms) based on the prices of different homes.

Our analysis was based on real-world price data on homes sold in Melbourne. The model included more than 340,000 home sales over a 5-year period (January 2017 to June 2022). We combined this with data on transport, services and infrastructure, and with population and census data. We divided Melbourne into 13 geographic areas, which were broadly consistent with the areas used in our choice modelling, excluding regional Victoria (see Figure 4 for details).

This method allowed us to find how much people actually valued different types of homes by showing us how much they were willing to pay for them. We included infrastructure variables in the model to explore how much people would pay for homes located near different types of infrastructure, after controlling for other variables. We used the model to analyse housing affordability for moderate income households and find out the home types that might substitute for growth area homes at similar prices. We considered homes to be affordable if mortgage repayments were less than 30% of the household income (before tax). Repayments were estimated using an interest rate of 4.53%, offered in June 2022.

## Choice survey and modelling to understand housing trade-offs

We commissioned the Centre for International Economics to develop a model of housing preferences in Melbourne, Geelong and Ballarat.<sup>68</sup> We used an approach called choice modelling. The choice model lets us predict people's home choices, and how they respond to housing market changes.

We surveyed over 6,000 households in Melbourne, Geelong and Ballarat to get data to build the model. We asked people to imagine they had to leave their current home and choose another one to live in, whether by buying or renting. The survey asked them to choose between different homes based on dwelling features (including type of home, number of bedrooms and car parking), location, and the home price or weekly rent. We also collected data about their current home, family, living conditions and attitudes to housing.

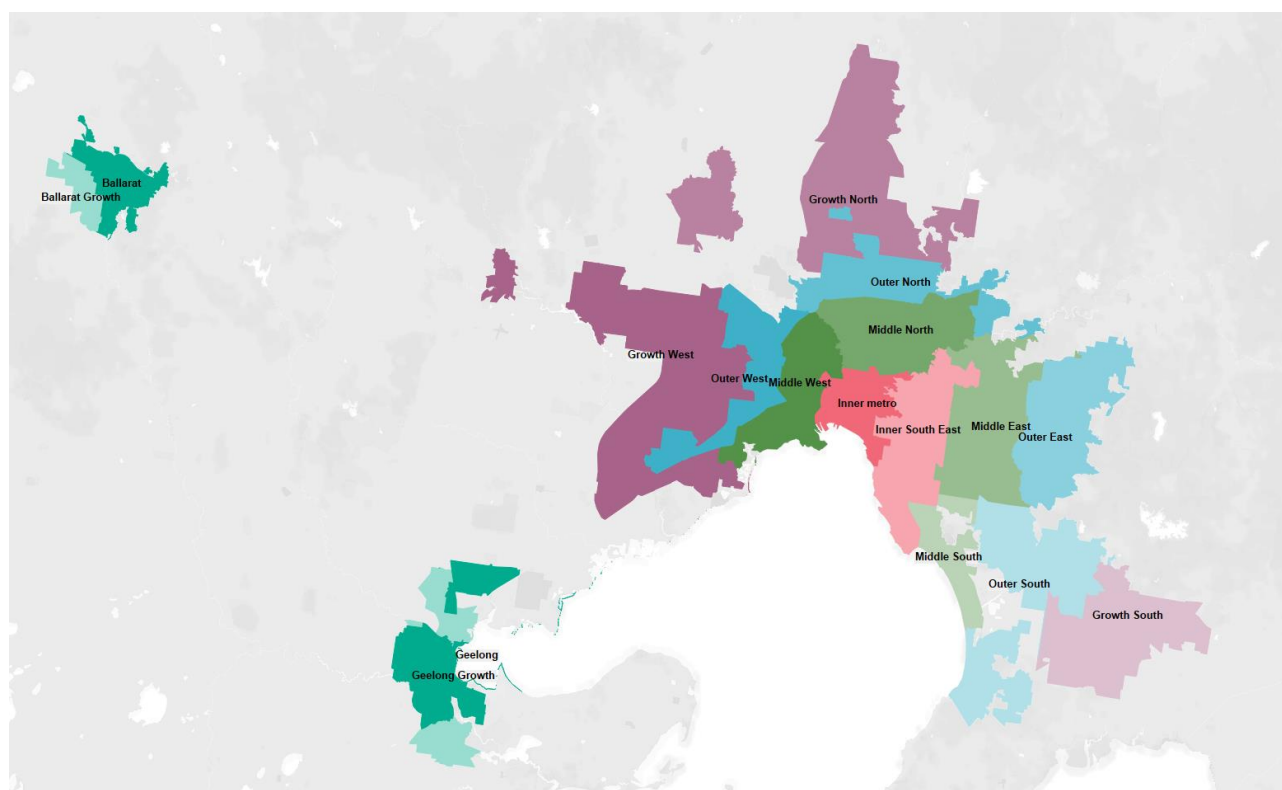
We used our choice model to:

- identify which housing features are most important in household decision-making
- determine under what circumstances households living in (or likely to live in) growth areas would choose to live in a different area
- identify the characteristics of households who are more likely to shift their home choice from growth to established areas.

We used 17 geographic areas in the choice model, focusing on inner, middle, outer and growth areas in Melbourne (including Bacchus Marsh), and established and growth areas in Ballarat and Geelong (see Figure 4). We did not include areas of environmental significance, such as the Mornington Peninsula or Yarra Ranges, as new residential developments are restricted.

Our survey sample was close to being representative, and we applied sampling weights to the data so our analysis can be generalised to the wider population in the cities we surveyed.

**Figure 4: Geographic areas used in choice modelling**



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## Analysing policy options that can influence home choices

Building on our findings from the focus groups and modelling, we reviewed reports and articles from academia, governments, industry and think tanks that explored ideas and barriers to delivering affordable, medium density homes in established suburbs. We also analysed Victorian housing and planning policies. This helped us identify potential policy options that can encourage more homes to be built in established suburbs, instead of building so many new homes in greenfield areas.<sup>69</sup>

We researched national and international case studies that encouraged more medium density homes in established suburbs. We also explored whether alternative housing models can offer more affordable larger-sized homes as part of a more diverse housing mix.

We evaluated possible policy options using a qualitative assessment framework. We used this to consider their effectiveness, ease of delivery, stakeholder acceptance and whether they can be scaled up to increase the supply of new homes over time. We used this to select the 10 options presented in this report from among the many potential policy levers available.

## Stakeholder views informed our findings

We consulted many stakeholders during our research. They represented a diversity of views from organisations and individuals working in the housing and infrastructure sectors, including developers, industry organisations and government. We also spoke to academics, researchers and other industry experts.

We talked to stakeholders to identify relevant research about the trade-off decisions that greenfield residents made when they made their home choices, to seek feedback and advice about our proposed research methodologies and to find high quality sources of data. We also asked for feedback and advice on how the Victorian Government can help develop alternatives to greenfield homes in established suburbs, as well as

any supporting evidence. This helped us to focus the scope of our policy research on the areas included in this report, which are necessarily selective.

We shared our preliminary research findings and asked for feedback on the potential policy options for government. These were used to further develop and test the options presented in this report.

The feedback we received from stakeholders during this project gave us valuable insights on their priority issues and concerns. Their input helped shape our research questions, build our evidence base, test our findings, and determine potential options for the Victorian Government to consider. We would like to thank everyone who contributed to this work.

# Factors affecting the choice of a greenfield home

The places in which new homes are built affects the amount and location of infrastructure that Victoria needs. Current trends suggest greenfield housing development rates will stay high in Melbourne, regional cities and peri-urban areas. If some of these homes can be built in established suburbs instead, it would create a different pattern of urban development and change the need and demand for infrastructure.

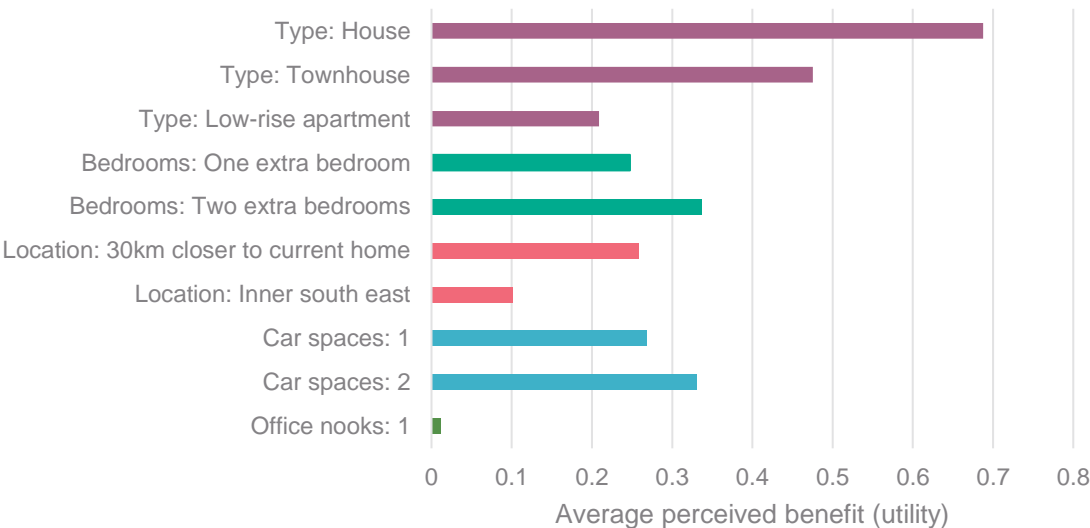
We explored the factors that influence households when choosing where to live, and the trade-off decisions they make. Victorians are giving us clear messages about what they want compared with what is available to them, given the prevailing home prices and their household budgets.

## Victorians prefer large, detached homes close to family and friends

We identified a ‘notional ideal home’ shared by many households in our qualitative research. This was a large (3 or 4 bedroom) detached house with secure parking, in an established suburb close to family and friends. This is consistent with previous studies.<sup>70</sup> This ideal home vision is shared by residents in greenfield and established suburbs, and by renters as well as owner-occupiers.<sup>71</sup>

Our choice modelling confirmed this finding of a notional ideal home. Dwelling type has the biggest influence on home choice, on average. Most households strongly prefer detached houses over apartments (see Figure 5), particularly those who are looking to buy a home. Location, the number of bedrooms, and the number of car spaces also factor into housing decisions, but tend to be less important than the type of home.

**Figure 5: Relative strength with which households value different housing features**



Note: Relative to a hypothetical high-rise apartment in growth west, minimum number of bedrooms respondents would consider, zero car spaces, zero office nooks.

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Sales data shows that since 2017, a typical home purchased in Melbourne’s growth areas is a detached house with 4 bedrooms, 2 bathrooms, 2 car spaces and about 600 square metres land size. This is larger



than the average size of a new greenfield block, as it includes re-sold properties in older estates. Its average price in growth areas was \$780,000 in June 2022.<sup>72</sup>

Faced with prevailing prices and budget constraints, over two-thirds of households (68%) would choose to live in a detached house if they had to move, compared with 14% for townhouses and 18% for apartments.<sup>73</sup> Over one-third of households (36%) would choose the notional ideal of a large, detached home (with parking) in an established suburb.

## Mindset and value for money drive housing decisions

Unsurprisingly, our focus groups showed that affordability and perceived value for money are the constant around which all housing decisions are made. Owner-occupiers and renters consistently seek homes that they believe offer them the best value for money, and this underpins their housing and location choices.<sup>74</sup>

But mindset also affects people's home choice, and this can be very different between households. Factors include the household's:

- needs and preferences, including those associated with their age and family size
- aspirations, such as home ownership
- values, for example, the strength of family ties
- preconceptions and open-mindedness, such as an openness to greenfield areas, or to new versus old homes.

This mindset helps us understand that, for a given budget, one household can prefer to buy in an established suburb, while another with similar demographic characteristics will choose a home in a new suburb. We found that some people felt a strong pull to either location or home features. We surveyed people in June 2022, noting that Melbourne was still recovering from the effects of the COVID-19 pandemic. We found that most households looking to buy favoured the type of home and would compromise on location (a total of 61%). Households looking to rent were more evenly split. About half of households looking to rent would choose location over home type.<sup>75</sup>

Greenfield areas attracted households that prioritised home features, especially for a large, detached house with a garage. Those prioritising location traded home features for a more modest home in an established suburb, close to family and friends and with access to existing infrastructure.<sup>76</sup>

*'I've got friends that sold up their massive ... Cranbourne East house, they lived behind us actually, and moved to Patterson Lakes into a tiny house. And they are so much happier. Yep, they've got 2 young kids as well. And she's just said that the lifestyle is – you just can't compare it. I mean, I'm very happy where we are. But I completely understand what she means when she says the lifestyle is very different.'*

- Greenfield owner-occupier, living with husband and 2 children in Clyde North<sup>77</sup>

Some greenfield homebuyers might have preferred an established suburb if their housing preferences had been met, but home prices and perceptions of value for money were strong factors in their decisions. Many people perceived greenfield homes as better value for money than homes in established suburbs.

Most greenfield residents told us that living in these new suburbs is their preferred choice. To choose a home in an established suburb, their preconditions (in many cases, a detached house, minimum of 3 bedrooms and a lock-up garage) would need to be met for a similar budget, close to family and friends.<sup>78</sup> Our research demonstrates just how challenging this is to achieve.

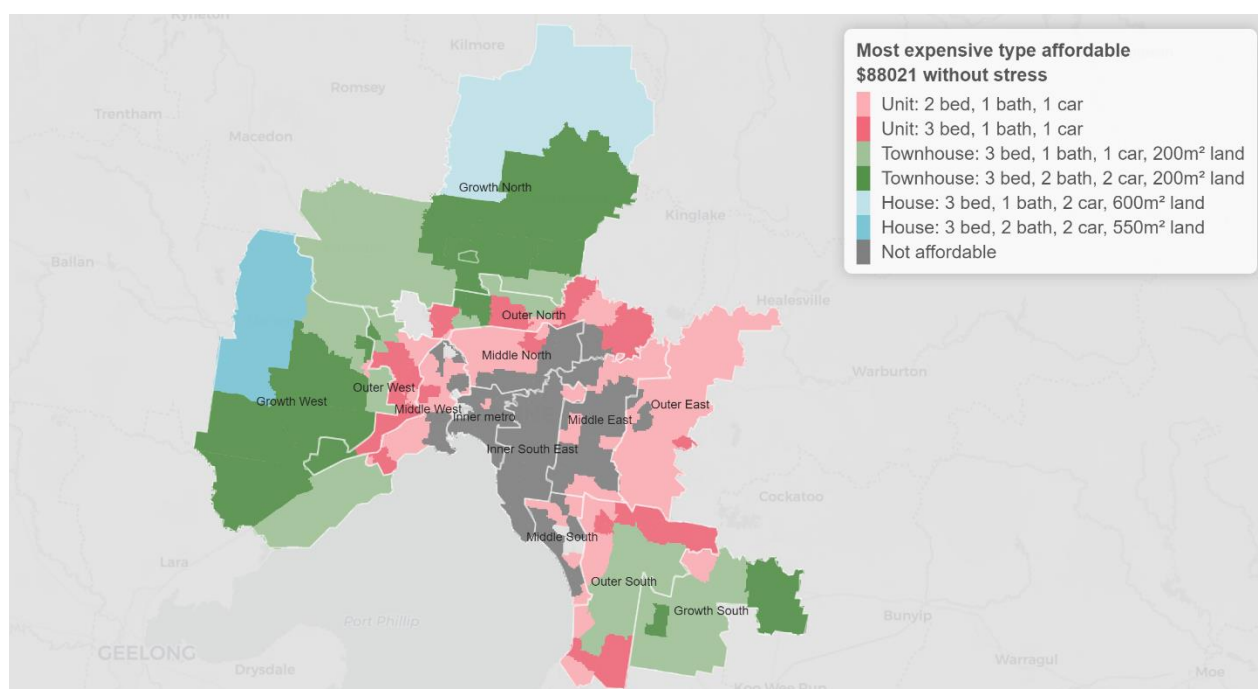
## Moderate income households have few home choices

We modelled housing affordability for moderate income households to buy homes in Melbourne, using mortgage repayments as a proportion of household income to measure affordability.<sup>79</sup> We looked at affordability for moderate income households, spanning from the lower (\$88,021 a year) to the upper end (\$132,030 a year) of their income range, as of June 2022.

We found that moderate income households in Melbourne had few affordable home options. Households earning \$88,021 a year and keeping their mortgage repayments to less than 30% of their income could afford to buy a detached house in certain new growth suburbs, a townhouse in growth areas or selected established outer suburbs, or an apartment in the outer suburbs or selected middle suburbs (see Figure 6).

These households could not afford to buy an average-priced home with 2 or more bedrooms almost anywhere in Melbourne's inner suburbs. Affordable options for a detached 3-bedroom house, the preferred type of home for many, are restricted to parts of Melbourne's north and west growth areas.<sup>80</sup> The notional ideal of a large, detached home in established suburbs is entirely out of reach.

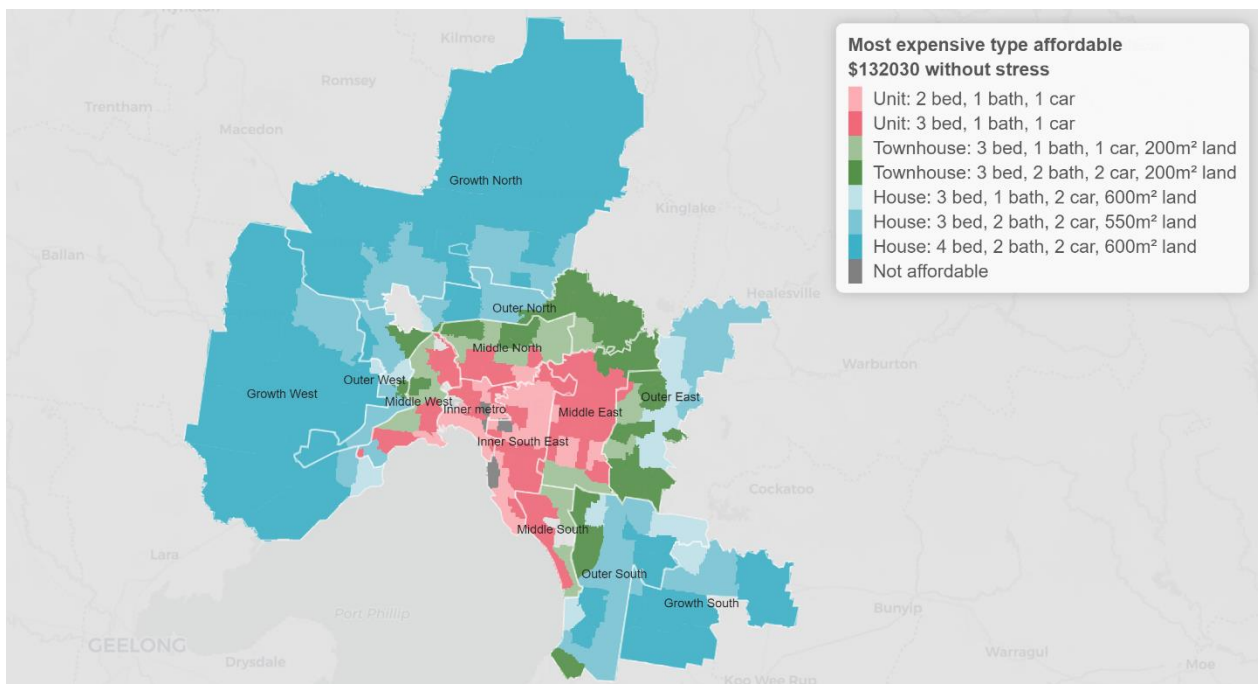
**Figure 6: Housing affordability for households earning \$88,021, June 2022 (spending less than 30% of income on mortgage repayments)**



Infrastructure Victoria, *Measuring home price differences: how features, location and infrastructure affect Melbourne's home prices*, 2023

Moderate income households at the upper income end have a few more affordable options. Households earning \$132,020 and keeping their mortgage repayments to less than 30% of their income could afford a larger detached house in most outer or growth suburbs, a townhouse in most middle suburbs, or an apartment in many of Melbourne's inner suburbs (see Figure 7).<sup>81</sup> The notional ideal home is affordable for households within this income group, but only in selected established outer suburbs.

**Figure 7: Housing affordability for households earning \$132,020, June 2022 (spending less than 30% of income on mortgage repayments)**



Infrastructure Victoria, *Measuring home price differences: how features, location and infrastructure affect Melbourne's home prices, 2023*

Households at both ends of the moderate income range have few affordable options outside of growth areas if they want to buy a detached 3-bedroom house. Households willing to consider 3-bedroom townhouses or apartments as an alternative have more options. The notional ideal home in an established suburb is almost entirely unaffordable to moderate income households, but townhouses and apartments can substitute for growth area houses for some, provided supply is available.

## Access to infrastructure influences where people live

People told us that the presence or promise of infrastructure played an important part in their decision making. Some greenfield residents accepted that they might need to wait for infrastructure to be delivered, and this was a part of their investment strategy. Some households chose places where available infrastructure, such as schools, matched their family's needs. Others were caught out, with facilities such as childcare lagging their immediate requirements.<sup>82</sup>

**'I was more interested in the size of the land, the block and price for the block, that's all I was concerned about... I had to give up my job when we moved for childcare.'**

- Point Cook, lives with husband and 2 primary school aged children<sup>83</sup>

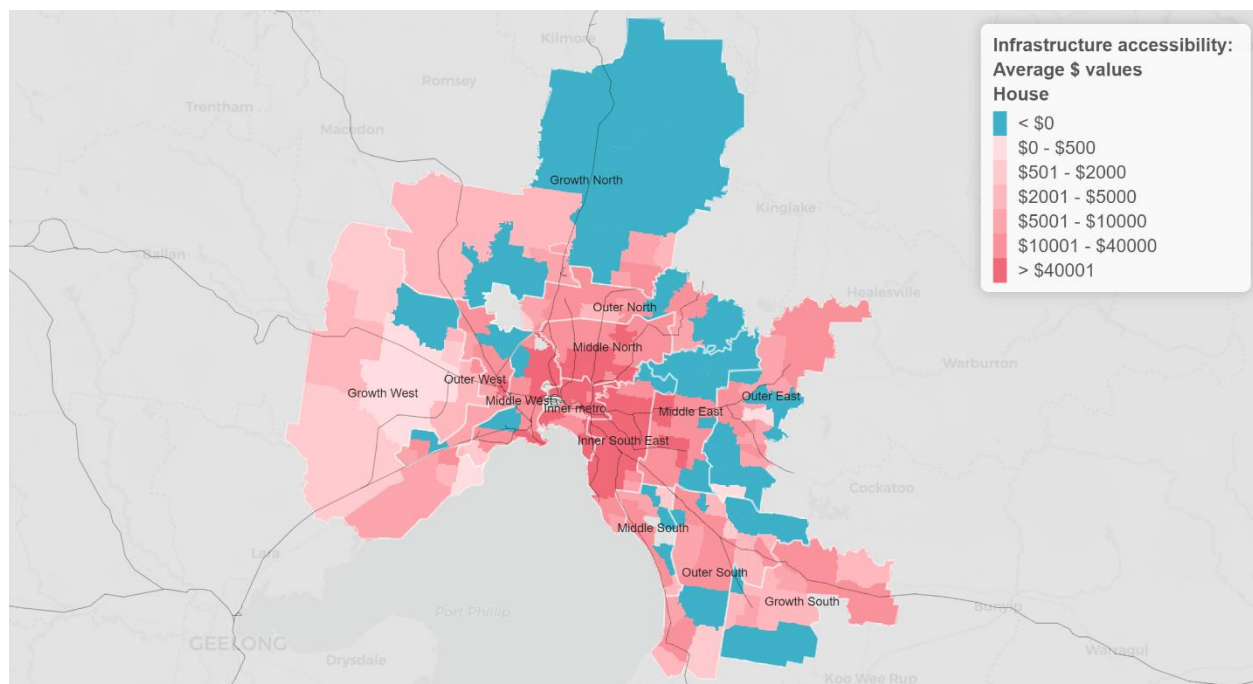
We investigated the influence that access to different types of infrastructure has on prices for homes in Melbourne. We looked at 10 different types of infrastructure, and assessed its relationship with prices for homes located near metro train stations, tram stops, arterial roads, major activity centres (suburban centres for jobs, services, homes and transport), metropolitan activity centres (larger hubs for public transport that offer access to jobs and activities for the surrounding suburbs), hospitals, secondary schools, police stations, cemeteries and landfill sites.<sup>84</sup>

Proximity to some types of infrastructure, such as train stations and activity centres, has a positive association with home sale prices while others, such as landfill, have a negative association. We used this analysis to estimate the combined economic value from all 10 infrastructure types for each property. We then

averaged this value over all houses in each area. We found much variation in the price effects for houses near to infrastructure in Melbourne (see Figure 8).

Most of Melbourne's inner suburbs have large price premiums associated with being close to infrastructure. Middle areas, including middle south, north and west also benefit to some degree from higher house prices due to infrastructure access, although price increases are lower than the inner suburbs. However, most established outer suburbs and new growth areas do not have access to some infrastructure, particularly public transport, and have low or negative infrastructure price premiums.

**Figure 8 Combined average house price effects from access to infrastructure, Melbourne**



Note: Data excludes townhouses and apartments.

Infrastructure Victoria, *Measuring home price differences: how features, location and infrastructure affect Melbourne's home prices*, 2023

Limited access to infrastructure is one reason established outer suburbs and new growth areas are more affordable than Melbourne's inner and middle suburbs, and greenfield households factor this into their decisions about where to live. Moderate income households looking for a more affordable home must trade off infrastructure access by choosing to live in outer suburbs or growth areas.

Greenfield developments need timely planning and delivery of essential infrastructure for residents to access the services they need. However, infrastructure is expensive to deliver, particularly in new suburbs when compared with established suburbs that have the capacity to support growth.<sup>85</sup> Early provision of infrastructure to new suburbs is more likely to meet the needs of residents but may also lead to increases in prices that can undermine housing affordability in these areas and further restrict the home choices available to moderate income households.

## Growth area houses have strong demand

Many households want to combine the best of home and location features to get their notional ideal home, but find their choices are restricted by their available budget. Most households need to compromise to find an affordable home.

We asked people which home they would choose to live in, if they had to move now and select from homes in Melbourne, Geelong and Ballarat at prevailing prices.<sup>86</sup> Households' willingness to trade off location in



favour of the type of home contributes to a strong preference for homes in Melbourne's established outer suburbs and new growth areas.

Nearly 1 in 3 people would choose a home in Melbourne's established outer suburbs if they had to move, factoring in prevailing house prices and the amount they are prepared to spend. A similar number would opt for Melbourne's growth areas. Preferred combinations of home type and location, summarised in Table 1, are large, detached houses in new growth and established outer areas (24% and 20% of total choices respectively), and in Ballarat or Geelong (12% of total choices).

**Table 1: The homes people would choose if they had to move in Melbourne, Geelong or Ballarat at prevailing prices, % total**

	Inner	Middle	Outer	Growth	Regional	TOTAL
<b>House (1-2 bed)</b>	0.1%	1.0%	2.1%	1.2%	1.4%	<b>5.8%</b>
<b>House (3+ bed)</b>	0.9%	5.1%	20.1%	24.2%	11.8%	<b>62.2%</b>
<b>Townhouse (1-2 bed)</b>	0.3%	2.0%	3.2%	1.1%	1.2%	<b>7.7%</b>
<b>Townhouse (3+ bed)</b>	0.5%	2.0%	1.9%	1.9%	0.5%	<b>6.7%</b>
<b>Apartment (1-2 bed)</b>	8.5%	5.6%	1.6%	0.3%	0.2%	<b>16.2%</b>
<b>Apartment (3+ bed)</b>	0.5%	0.4%	0.3%	0.1%	0.0%	<b>1.3%</b>
<b>TOTAL</b>	<b>10.8%</b>	<b>16.1%</b>	<b>29.3%</b>	<b>28.7%</b>	<b>15.1%</b>	<b>100.0%</b>

The Centre for International Economics, *Demand for housing in Victoria: stated preference research*, 2022

## People's life stage and background partly drive their choice for growth areas

We analysed characteristics and attitudes of people living in Melbourne's growth areas and those who would choose to live there if they had to move. People living in growth areas have diverse attitudes, preferences and behaviours,<sup>87</sup> but on average, they display some similar characteristics when contrasted with people who live in established suburbs.<sup>88</sup>

We found that the households most likely to choose a home in growth areas already live there.<sup>89</sup> These households already considered new versus established suburb options and are generally pleased with their choice of location and home.<sup>90</sup>

### Greenfield homes attract first home buyers and households with children

Greenfield suburbs, on average, attract higher numbers of first home buyers,<sup>91</sup> households with young children and those intending to have children in future.<sup>92</sup> This means new suburbs have large and growing numbers of young children living there. Households with children make up almost 60% of Melbourne's growth area households, compared with 40% in established suburbs.<sup>93</sup> Melbourne's 7 growth area councils are home to 38% of metropolitan Melbourne's 0 to 4 year olds, and this is projected to increase.<sup>94</sup>

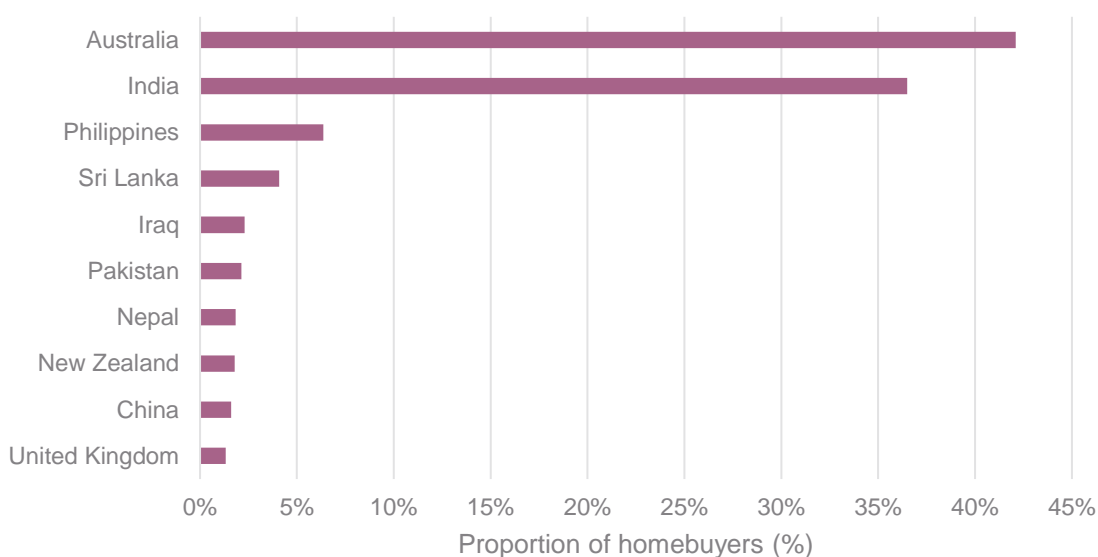
Greenfield developments in peri-urban and regional Victoria have a similar profile. Around two-thirds of households in Geelong and Ballarat's growth areas have children, for example, and young children make up a relatively high share of the population.<sup>95</sup>

This contributes to larger household size in greenfield suburbs relative to established suburbs.<sup>96</sup> It also influences the type of home greenfield households will choose. More than half of Melbourne's growth area homes have at least 4 bedrooms, compared with just one-fifth in established suburbs. Some growth area residents are prepared to consider a smaller house in an established suburb close to jobs, services and transport, and trade a bedroom to achieve this. But smaller homes in established suburbs will need to meet the needs of households with children to be a genuine alternative for many greenfield residents.

## Cultural connection is an important driver of greenfield choice

Melbourne's greenfield suburbs are very culturally diverse. More than half of the population in suburbs such as Clyde North, Point Cook and Wollert were born outside of Australia, and this share is growing.<sup>97</sup> Buyer survey data indicates that people born in India are the largest cultural group buying in Melbourne's greenfield suburbs, after those born in Australia (see Figure 9).

**Figure 9: Melbourne's greenfield homebuyers, top 10 countries of birth, %**



RPM Group, *Buyer survey data 2016–2021*

Greenfield suburbs in regional Victoria are less culturally diverse than those in Melbourne on average, but this might be starting to change. Around one-quarter of Lucas (Ballarat West) residents were born outside Australia at the time of the 2021 census, for example, compared with one-fifth 5 years previously.<sup>98</sup>

We found that community and cultural connections are a big influence on the choice for greenfield homes, particularly for households coming from culturally diverse backgrounds.<sup>99</sup>

**‘We wanted to live in [the] west because of one main reason... friends mostly live in the area, and plus our community centre is in the west.’**

- Greenfield renter, living with partner and young children<sup>100</sup>

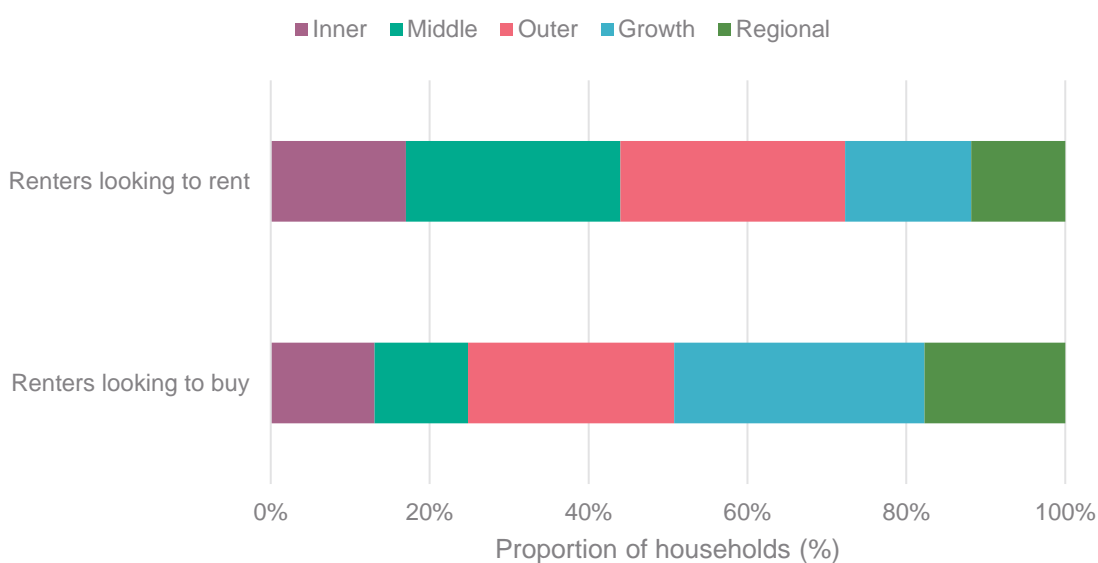
This sense of community was important for many greenfield residents to feel welcome and included. It meant their community shared their children's cultural background, and they could find culturally appropriate shops and restaurants. These factors are likely to keep influencing choices for greenfield homes. We included a representative sample of people born overseas in our focus groups and choice survey to help us understand how culture and cultural connection influence home choices.

## Renters are a source of future greenfield demand

Renters make up a relatively small proportion of current greenfield residents (around one-quarter, compared with one-third of households in established suburbs),<sup>101</sup> but they are an important source of future demand for greenfield homes.

Around half of renters in our survey would consider buying a home if they needed to move, if they could find a home they liked that was affordable. These households are much more likely to choose growth area homes than those who intend to keep renting (see Figure 10). Budget constraints and a strong preference for detached houses mean around half of renters looking to buy would select homes in growth and regional areas.

**Figure 10: Choice of home location by households currently renting, %**



The Centre for International Economics, *Demand for housing in Victoria: stated preference research, 2022*

The number of renters is growing faster than owner-occupiers, particularly in Melbourne's growth areas.<sup>102</sup> Home ownership rates are projected to keep falling.<sup>103</sup> The number of households renting in growth areas increased by 42% between 2016 and 2021, compared with 12% in established suburbs.<sup>104</sup> Renters will likely be a growing source of demand in greenfield suburbs, regardless of whether they plan to buy or keep renting.

# Policy options for the Victorian Government to consider

Our research highlights that Victorians value the size and features of their home highly, and that these factors can be more important than location for some households. But affordability has a large effect on people's housing choices, even when they are prepared to make trade-offs to get the home they want. Most 3-bedroom homes in Melbourne are unaffordable for moderate income households, outside of outer established suburbs and new growth areas.

If the Victorian Government wants to increase the proportion of new homes built in established suburbs, it will need make these homes affordable and appealing for the households who currently buy greenfield homes. This means generating more affordable options suitable for households with children.

We used our research findings as a starting point to explore policy options that can help increase housing supply and diversity in established suburbs, as a substitute for greenfield homes. We also considered ways to better use infrastructure, by making the most of what is already in place.

The scope of our research, on greenfield homes and households, and potential alternatives in established suburbs, means we considered affordability for moderate income households. This report does not seek to solve the issue of housing and rental affordability more broadly.

Our policy options explore ways the Victorian Government can influence the price, location and type of homes being built, to give more choice to moderate income households who might prefer to live in established suburbs. We identified 10 options for the government to consider which respond to one or more of these outcomes:

- Reduce price disincentives to buying in established suburbs.
- Build more homes in established suburbs near transport and services.
- Increase the diversity and choice of homes in established suburbs.

Increasing the supply of homes in established suburbs to meet Victoria's future population growth is a very large and complex challenge that will require several different policy solutions. Some of the reforms we propose are more straightforward to deliver than others. We are presenting these as options rather than recommendations, to offer government flexibility in its approach. In our view, all available tools will be needed.

We propose a combination of options, both to start now and to keep pursuing over the medium term as the impacts of any changes begin to be seen. We also suggest ways in which policy options can be packaged together for better results. We present these options alongside more findings from our housing research, to indicate how they can help deliver the type of homes Victorians told us they would choose.

In selecting our policy options we balance the need to achieve significant change against consideration of potential disruption to the housing market. We are suggesting policy options that are practical and proportionate to the challenge of increasing the supply of homes in established suburbs. There are a range of more drastic policies that can be delivered with more dramatic effect, such as the sweeping planning changes currently being considered in Auckland.<sup>105</sup> In our view, these 10 options present a good foundation for ongoing reforms to deliver the homes needed to support Victoria's future growth. However, government should closely monitor the success of any reforms implemented, and consider whether more significant reforms are needed in the future.

## Combine options for more impact

This report lays out different policy options for the Victorian Government to consider that help build more homes offering an affordable greenfield substitute in established suburbs. The Victorian Government ultimately decides its policy positions, but this report demonstrates the scale of the challenges and opportunities available.

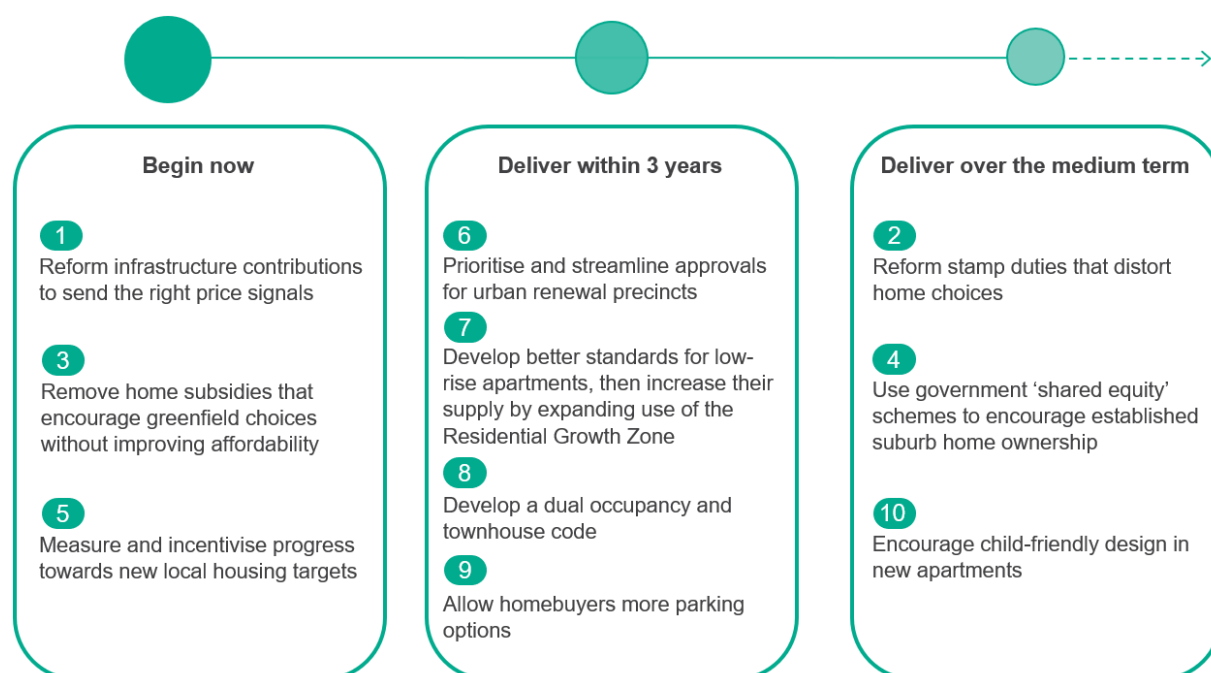
Our options outline interventions the Victorian Government can begin to deliver now, to prepare for further reforms in the decades ahead. We propose 3 combinations of reforms (see Figure 11), with policy options that will work together for larger effect.

Work on the first package of reforms (**Options 1, 3 and 5**) can begin immediately. These options are complementary and will lay the foundation for subsequent reforms. A consistent approach to infrastructure contributions (**Option 1**) can give funding certainty for any upgrades needed to support new homes. Timely provision of infrastructure can reduce community concerns about development and growth.<sup>106</sup> The Victorian Government can prioritise measuring local infrastructure capacity to inform the size and location of housing targets (**Option 5**) and the contributions needed to achieve them. Reforms to home subsidies (**Option 3**) will work with infrastructure contributions to send a price signal to the housing market.

The second package of policy options (**Options 6, 7, 8 and 9**) is likely to require some lead time to prepare, but we estimate they can be delivered within 3 years. These are opportunities to increase the supply of greenfield substitute homes and together they would create a variety of new planning pathways for these homes to be delivered. Planning for priority precincts (**Option 6**) can nominate residential zones suitable for new low-rise apartments (**Option 7**), for example, and recommend the dual occupancy and townhouse code to increase supply of greenfield substitute homes (**Option 8**). Plans can also identify areas suited to lower minimum parking requirements (**Option 9**).

Our third package of policy options (**Options 2, 4 and 10**) is important in the medium term once priority reforms are delivered. Changes to stamp duty (**Option 2**) will require a longer timeframe to plan and deliver. Work can begin in parallel with the second package of options, but delivery can be carefully phased to allow government to monitor any effects on the housing market and adjust the pace of reform as needed. The Victorian Government's shared equity scheme (**Option 4**) needs time to become established before changes are made to eligibility. More child-friendly apartment design (**Option 10**) will improve viability of apartments as greenfield substitute homes, but benefits are likely to be realised once other priority planning options are delivered due to current preferences of households with children to live in homes other than apartments.

**Figure 11 Timelines for delivery**





# Reduce price disincentives to buying in established suburbs

## Home choices respond to changes in price

We found that demand for new homes in greenfield areas is strong. One in 4 people we surveyed would choose a detached house in Melbourne's growth suburbs if they had to move, factoring in prevailing home prices and their household budget.<sup>107</sup>

Affordability is a major factor in people's home choices.<sup>108</sup> Our price modelling shows that few places in Melbourne are affordable for moderate income households looking for a detached house, outside the growth areas. We also found that homes located close to existing infrastructure are more expensive.<sup>109</sup> Faced with these trade-offs, more households are prioritising home features over location.

We modelled how price changes affected choices for different types of housing in different places, to test how this can change demand for greenfield homes. We looked at relative price drops for apartments and townhouses in established suburbs, and price rises for growth area homes.

Modelling changes to prices using the choice model we developed acts as a proxy to help us understand how peoples' decisions would change with different available options. We are not recommending that sales prices be increased or decreased directly for homes in either new growth or established areas.

## Fewer people choose growth areas when prices in other areas are more competitive

We found that demand for homes in growth areas is sensitive to price. A modelled price increase of 10% reduced the number of households choosing growth area homes by 11% (see Figure 12). Most of these households shifted their choice to Melbourne's established suburbs, where demand grew by 5%. The number of households choosing regional homes increased by 3%. A 20% price increase shifted demand away from Melbourne's growth areas by 33%.

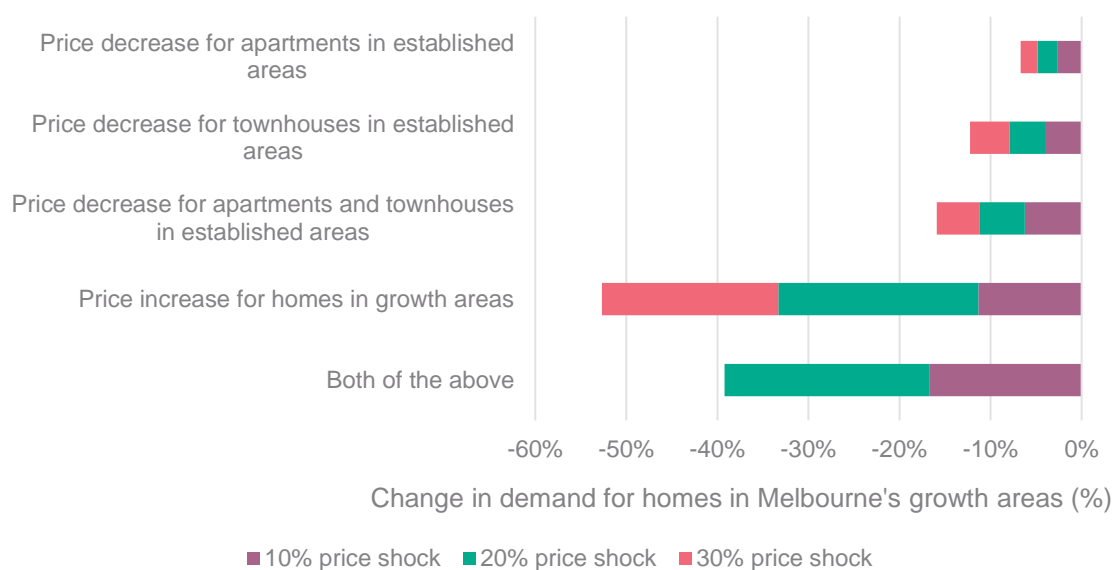
A 10% price drop for townhouses and apartments in established suburbs would lead to 6% fewer people choosing growth area homes, while increasing demand for established suburbs by 4%. If prices dropped 20%, 11% fewer would choose growth area homes.

**A combination of established area price drop and growth area price rise would affect demand for growth area homes the most. A 10% price drop for established area apartments and townhouses, combined with a 10% price rise for homes in growth areas would shift demand by around 17%.<sup>110</sup>**

Many households will keep choosing growth area homes even when prices change. These households value larger homes which are more affordable in new suburbs and will still favour home features over location when deciding where to live. Greenfield suburbs will continue to play an important role in Victoria's future to accommodate households with these preferences.

The households who are most likely to change their housing choices from new growth areas in response to changes in price tend to be younger, have lower incomes, or be recent migrants to Australia. They are more likely to say they prefer being able to walk easily to most destinations and they believe in making the most of savings from government grants and tax incentives.<sup>111</sup> Policy options that aim to encourage demand for homes in established suburbs should focus on the households most likely to shift preference. These households are more flexible and place a higher value on living in areas with good access to services and amenities.

**Figure 12: Effect of price shocks on home choices, % change**



Note: 30% price shock for 'Both of the above' was not modelled, as it would be outside the range of levels used in the survey. The Centre for International Economics, *Demand for housing in Victoria: stated preference research*, 2022

## House prices respond to government policy settings

The Victorian and Australian governments have introduced housing policies to promote home ownership and tackle issues of housing affordability and supply over several decades.<sup>112</sup> These include Victorian Government schemes targeting home ownership among first home buyers and the Australian Government's Housing Accord to increase the supply of affordable homes.<sup>113</sup> We found that many people consider the availability of government grants, subsidies and tax incentives when buying a home.<sup>114</sup>

However, home ownership is becoming more difficult to achieve. Declining affordability is a contributing factor, as house prices have grown faster than wages.<sup>115</sup> Australia has a low rate of outright home ownership (without a mortgage) compared with other developed countries, 13% below the Organisation for Economic Co-operation and Development average and lower than comparable countries such as the United Kingdom.<sup>116</sup> With or without a mortgage, Victoria's home ownership rate was 68% in 2021, down from 70% in 2011,<sup>117</sup> and home ownership rates for younger Victorians fell further. A total of 51% of those aged 30–34 owned their home in 2021 compared with 56% in 2011.<sup>118</sup>

Our modelling shows that housing affordability and relative prices for different types of homes in different areas can influence demand for greenfield homes.<sup>119</sup> Government policies, including tax settings, influence the location and types of homes being built, what and where people want to buy, and how much it costs.<sup>120</sup> They inform the choices people make between home features and location. The right policy settings can influence the speed at which Victoria's cities keep expanding outwards.

Our previous analysis of *Infrastructure provision in different development settings* found that infrastructure, excluding transport, can be 2 to 4 times more expensive in greenfield areas than in existing areas with capacity for growth.<sup>121</sup> This cost difference is not reflected in relative house prices in new growth and established areas.<sup>122</sup> Delivery of expensive infrastructure struggles to keep pace with rapid population growth in greenfield suburbs.<sup>123</sup> Our price modelling suggests that cheaper greenfield home prices partially reflect this absence of infrastructure, attracting more people to the greenfields and adding to pressures on the infrastructure that is there.<sup>124</sup>

We explored policy options for the Victorian Government to consider that can reduce some of the price disincentives for people to buy homes in established suburbs, so that moderate income households looking for homes with 3 or more bedrooms have more choice in where to live.

# Reform infrastructure contributions to send the right price signals

## Option 1

Develop a clear, efficient and transparent infrastructure contribution system that better reflects the true cost of infrastructure in different development settings and supports better use of existing infrastructure.

Growing suburbs create more demands on infrastructure. Governments might need to upgrade existing infrastructure, or build new infrastructure, to support larger populations. Infrastructure contributions are one way to fund infrastructure for new and growing communities.

Victoria has several infrastructure contribution schemes. The Growth Areas Infrastructure Contribution is a one-off payment by developers towards essential state infrastructure in most of Melbourne's greenfield suburbs.<sup>125</sup> Other developer contribution schemes, such as Infrastructure Contributions Plans and Development Contributions Plans, are mainly used to fund local government infrastructure and can be complex to design and deliver.<sup>126</sup> Outside Melbourne's new growth areas, the Victorian Government has no consistent mechanism to collect development contributions for state infrastructure such as public transport or government-owned schools and hospitals.

Development contributions can encourage developers to account for the costs of building essential infrastructure when land is developed, helping to reflect infrastructure costs in the prices of new homes and promote more efficient use of infrastructure.<sup>127</sup> Victoria's various schemes operate in isolation rather than as an overall system, curbing their potential to influence where new homes are built.<sup>128</sup>

Small scale housing development in established suburbs can often use existing infrastructure, but large scale urban renewal might require considerable infrastructure investment. Urban renewal precincts offer opportunities for major increases in housing supply in established suburbs but the transformation can be expensive if infrastructure needs to be upgraded, or if contaminated soil needs to be removed. Inadequate infrastructure is often the reason why sites remain undeveloped.<sup>129</sup>

We analysed greenfield developments and confirmed that state and local infrastructure costs are higher than in established suburbs, where capacity exists to support more homes.<sup>130</sup> The Growth Areas Infrastructure Contribution is estimated to recover just 15% of these costs, meaning that most infrastructure will be funded by taxpayers.<sup>131</sup>

The Victorian Auditor-General and Better Regulation Victoria have also found that Victoria's infrastructure contribution schemes are not delivering the infrastructure growing communities need.<sup>132</sup> The Auditor-General called for a development contributions framework that sets a strategic direction, states its desired outcomes, and clarifies accountability and governance arrangements.

In *Victoria's infrastructure strategy 2021–2051*, we recommended that the Victorian Government create a consistent and efficient infrastructure contribution system for Victorian and local government infrastructure in established suburbs, growth areas, peri-urban areas and regional cities.<sup>133</sup> The government can start work to reform infrastructure contributions now, to send a price signal that influences the location of new development.<sup>134</sup> A broad-based infrastructure contribution system that better reflects true development costs in different settings can give more certainty to developers and distribute infrastructure costs more equitably, helping to stimulate new home building in established and urban renewal areas.

New South Wales recently committed to reforming its development contribution system. The proposed reforms introduce a broad-based system to fund regional infrastructure through a levy on development. Proposals include a structure-based charge which is higher for detached houses and a variable charge designed to contribute to the cost of major transport projects.<sup>135</sup> An evaluation of the proposed reforms found

that they would increase supply of homes, ensure timely delivery of essential infrastructure and build community support for development.<sup>136</sup> A Victorian infrastructure charge can be structure-based, similar to the New South Wales draft reforms, or area-based.

Infrastructure contribution reforms can complement work to develop housing targets (see **Option 5**). A consistent approach to infrastructure contributions can give more certainty to local governments about funding for infrastructure upgrades and improvements to support new homes.

## Reform stamp duties that distort home choices

### Option 2

Remove the distortions created by stamp duty concessions and ultimately abolish stamp duties altogether, potentially by replacing them with a broad-based land tax.

Our research shows that housing affordability and relative prices for different types of homes are a major factor in many people's decision to buy in a greenfield development. House prices are influenced by many factors, including government taxes and levies such as land transfer duty (commonly known as stamp duty) and negative gearing tax concessions.<sup>137</sup>

Stamp duty is a state government tax on the transfer of land ownership. It is calculated based on the value of the property, on a sliding scale that starts at 1.4% for properties valued at \$25,000 and rises to a maximum of 6.5% for property values over \$2 million.<sup>138</sup> Stamp duty is the major source of property tax revenue for the Victorian Government. It raised over \$10 billion in the 2021-22 financial year, more than 10% of total state revenue.<sup>139</sup>

Stamp duty increases the cost of homes, particularly for households who buy multiple times. It can distort housing choices by incentivising households that plan to have children to buy a larger home earlier than they need, rather than upsizing gradually as their family grows.<sup>140</sup> This is likely to increase greenfield demand among moderate income households, as these suburbs offer more affordable 3-bedroom homes.<sup>141</sup> It can also discourage people from moving house, including those who might consider downsizing after children have left home.<sup>142</sup> Retirees can be further discouraged from downsizing by the Age Pension assets test, which excludes the family home from assessable assets.

The Victorian Government has introduced stamp duty concessions to reduce costs for some homebuyers. These include targeted measures for first home buyers, to remove stamp duty for homes that cost up to \$600,000 and give a concession for properties valued up to \$750,000.<sup>143</sup> These concessions favour greenfield areas, which are more likely to be below the price thresholds. Five of Melbourne's growth area councils recorded the highest number of waivers and concessions for first home buyers in the year to June 2020.<sup>144</sup> Our research shows that stamp duties and stamp duty concessions influence people's housing choices and decision-making.<sup>145</sup> People are more likely to choose a home that is eligible for a concession.

The Organisation for Economic Co-operation and Development and the Grattan Institute, among others, have advocated for a broad-based land tax to be used as an alternative to stamp duties.<sup>146</sup> Land tax is a yearly charge based on land value rather than a single upfront payment. It can offer a steadier income stream for governments, and does not discourage people from moving house.<sup>147</sup> Modelling suggests that replacing stamp duty with land tax can also increase home ownership rates, particularly among younger people.<sup>148</sup>

Land tax can influence growth patterns in different suburbs by incentivising higher density development.<sup>149</sup> Our research also suggests that a land tax can influence homebuyers' choices when it comes to deciding between a larger home in a growth area or a smaller home in an established suburb.<sup>150</sup> The Australian Capital Territory and New South Wales have already begun to switch from stamp duty to land tax systems.<sup>151</sup>

Sudden changes to property taxes risk causing instability in the housing market. Removing stamp duty can cause a significant increase in housing market activity and further reduce affordability if it is not replaced with an alternative.<sup>152</sup> The Organisation for Economic Co-operation and Development recommends a slow transition away from stamp duties towards land taxes to avoid making homes even less affordable.

The Victorian Government can phase out stamp duties and associated concessions over time to help encourage turnover and mobility in the housing market.<sup>153</sup> As a first step, the government can remove stamp duty concessions that encourage people to choose greenfield developments, while keeping those that encourage mobility in established suburbs such as the pensioner duty concession.<sup>154</sup>

The government can then consider an opt-in land tax model, similar to the approach adopted in New South Wales, to allow homebuyers to choose between upfront stamp duty or a yearly land tax. A phased approach over the long term will allow the government to monitor the effect on housing choices between new and established suburbs, and adjust the pace of reform as needed to avoid making housing affordability for moderate income households worse.

Full transition from stamp duty to a broad-based land tax would need careful phasing, and ongoing monitoring and adjustment to keep pace with property prices. Similar reforms in New South Wales and the Australian Capital Territory are expected to take several decades to fully deliver. This option can be packaged with other medium-term policy reforms, such as **Option 4: Use government 'shared equity' schemes to encourage established suburb home ownership.**

Experience in other jurisdictions indicates that replacing stamp duty with land tax can be revenue neutral, but that the transition can reduce government income in the short term.<sup>155</sup> The Australian Government could support the transition by making up some of the initial revenue shortfall, similar to payments made in exchange for economic reforms under the National Competition Policy.<sup>156</sup> The Victorian Parliament's 2023 inquiry into land transfer duties will consider the tax's impact on housing supply and development and government revenue predictability, as well as potential alternative mechanisms.<sup>157</sup>

## Remove home subsidies that encourage greenfield choices without improving affordability

### Option 3

Avoid subsidies that inflate house prices and remove the First Home Owner Grant.

People who attended our greenfield focus groups told us that government grants, including first home owner grants, can be a strong motivator in buying a home. For some, the availability of grants meant they could bring forward buying a home as it helped them qualify for a mortgage.<sup>158</sup> This was also reflected in the data we collected on attitudes to housing as part of our choice survey.<sup>159</sup>

The Victorian Government's First Home Owner Grant aims to tackle affordability for first home buyers. It grants \$10,000 to people buying a first home for newly built dwellings valued up to \$750,000.<sup>160</sup> Many people use the scheme. Around 17,000 Victorians benefited from the grant in 2021–22. The Victorian Government contributed over \$213 million.<sup>161</sup>

While on face value this seems to be a good outcome, research suggests that first home owner schemes do not increase home ownership or improve housing affordability.<sup>162</sup> Home ownership rates have stagnated despite periodic government first home owner schemes, while rates among young Victorians are declining.<sup>163</sup>

Grants can drive up property prices in areas where first home buyers can afford to buy.<sup>164</sup> Sellers typically benefit from homebuyer schemes, by receiving higher sale prices that factor in the grant.<sup>165</sup> First home owner grants can make homes less affordable, particularly for those who are not eligible for assistance.<sup>166</sup>



Victoria's First Home Owner Grant is mainly used to buy homes in growth areas. The top 10 postcodes for grant applications in the year to 30 June 2021 were all located in growth areas in Melbourne or Geelong.<sup>167</sup> This is driven in part by the relative affordability of growth area homes, which are lower than the grant's \$750,000 price cap.

Our modelling confirms that few Melbourne homes large enough for households with children are affordable for moderate income households outside of new growth areas.<sup>168</sup> However, high use of the First Home Owner Grant in growth suburbs is adding to demand for greenfield homes and can contribute to higher house prices in those areas.

The Victorian Government can end Victoria's First Home Owner Grant to remove any upward pressure on house prices in greenfield areas and more accurately reflect home preferences. The Productivity Commission agrees. It recommended that assistance to first home buyers should be removed, unless targeted towards people who are excluded from the housing market.<sup>169</sup>

Governments have previously moved to reduce or remove first home buyer grants quickly, to reduce speculation and disruption to the housing market.<sup>170</sup> Changes to the First Home Owner Grant can be announced with immediate effect. Victorian Government investment can instead be diverted to measures that encourage demand for homes in established suburbs (see **Option 4: Use government 'shared equity' schemes to encourage established suburb home ownership**). Australian Government initiatives such as the Home Guarantee Scheme, which supports eligible homebuyers to buy a home sooner, will keep supporting Victorians who are working towards a deposit for their first home.<sup>171</sup>

This option can be introduced alongside changes to infrastructure contributions (**Option 1**) and work to develop housing targets (see **Option 5**). A short lead time for delivery can help to reduce any sudden increase in homebuyer demand, if people try to buy homes before the grant is removed.

## Use government 'shared equity' schemes to encourage established suburb home ownership

### Option 4

Over time, change the locations eligible for the Victorian Homebuyer Fund, to encourage people to buy homes in established suburbs.

We explored how changes in house prices can shift home choices from greenfield towards established suburbs, and the attitudes of people who are more likely to shift. We found that people who change their choice from greenfield to established area homes are more likely to agree with the statement "My home choice must save on stamp duty and maximise government grants and other tax incentives".<sup>172</sup> These households are seeking value for money and are more responsive to financial incentives that aim to shift homebuyer preferences towards established suburbs.

Shared equity schemes can help improve access to home ownership for people who cannot afford it otherwise. The Victorian Homebuyer Fund helps people buy a home by contributing up to 25% of the buying price. It reduces the required deposit to 5% and removes the need for lender's mortgage insurance.<sup>173</sup> Participants in the scheme can buy back the government's share in the property over time. Applicants can earn up to \$128,000 or \$204,000 as a couple, while the maximum buying price is \$950,000 in Melbourne and Geelong and \$600,000 in other parts of regional Victoria.<sup>174</sup> More than 2,500 Victorians accessed the fund after it was launched in 2021, and there is capacity to support up to 10,000.<sup>175</sup>

Shared equity schemes can be an effective way of encouraging first home ownership.<sup>176</sup> They can help younger people get into the housing market, enable them to borrow less for their first home, or allow them to buy a larger home to accommodate children.<sup>177</sup> However, like the First Home Owner Grant, this program

likely stimulates demand for greenfield homes. Homebuyers who want to buy a larger home to accommodate children are most likely to find homes that meet their needs in greenfield developments under the current price cap of \$950,000.<sup>178</sup> Four out of the top 5 postcodes in the scheme to date are in Melbourne's growth areas.<sup>179</sup>

The Victorian Homebuyer Fund currently has very few restrictions to its eligibility to encourage broad uptake. The scheme can be more tightly targeted. The Victorian Government can limit the locations eligible for the fund to established suburbs to encourage more people to buy in existing suburbs, while maintaining price caps to preserve equitable use of the fund. Shared equity schemes can incentivise more housing development in the places they apply.<sup>180</sup> A more targeted eligibility criteria can help stimulate the supply of homes in established suburbs and contribute to developing more compact cities.

The Victorian Homebuyer Fund is a relatively new initiative. Changes can be delivered over time, to allow the fund to first become established. This can also allow time for other policy options aimed at increasing supply to take effect, so that new homes will be available to meet higher demand. This option can be packaged alongside **Option 2: Reform stamp duties that distort home choices** and **Option 10: Encourage child-friendly design in new apartments**, as they have a medium-term timeframe for delivery and likely impact. The fund can in time help direct demand for better designed, child-friendly apartments in existing suburbs.

If the Victorian Government opts to remove the First Home Owner Grant (see **Option 3**), this policy option can become the primary mechanism to support home ownership in Victoria. Funding saved from phasing out the grant can be allocated instead to the Victorian Homebuyer Fund to increase capacity. The Victorian Government can recover its investment over time, as home owners buy back the government's share, meaning funding can be recycled to help many more people.

# Build more homes in established suburbs near transport and services

## Established suburbs can accommodate more new homes

Planning for new homes in the right places can offer more choice, improve affordability and ensure more efficient use of infrastructure. Plan Melbourne emphasises housing growth in established parts of the city, particularly in places with good access to jobs and services.<sup>181</sup>

Melbourne is a low density city by global standards. It has a bigger footprint than cities with much larger populations, such as London.<sup>182</sup> Average population density is less than half of Sydney's urban areas.<sup>183</sup> Melbourne's population is projected to grow by almost 3 million people by 2050 to reach more than 8 million people.<sup>184</sup> But even with this growth most Melburnians are likely to be living at densities lower than most Londoners today.<sup>185</sup> Melbourne can increase population densities while remaining a relatively low density city.

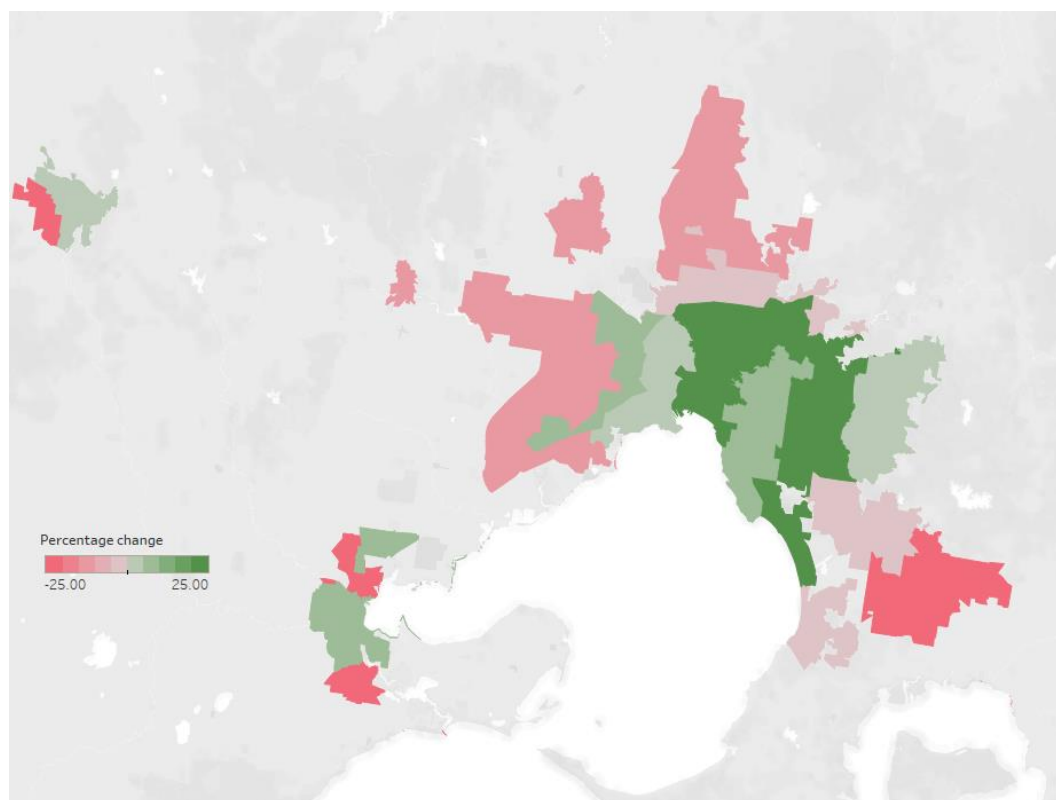
Melbourne will need more housing supply and variety in established suburbs to generate enough new homes to meet the diverse needs of renters and owner-occupiers. An increase in the supply of higher density homes, including townhouses, terrace homes, low-rise and high-rise apartments, can give households more choices.

## More people choose established suburbs when house prices change

We found that changes in the price of homes will shift some demand for homes away from greenfield areas. Households shift their home choices to different areas in Melbourne or regional cities, depending on the nature and extent of the price change. For example, our research found that a 10% price drop for apartments and townhouses in established suburbs combined with a 10% price rise in growth area homes can reduce demand for growth areas homes by 17%. Many more people would choose homes in Melbourne's middle suburbs and the inner metropolitan area (see Figure 13).<sup>186</sup>

However, our modelling demonstrates that moderate income households have few affordable home choices, particularly in Melbourne's inner and middle suburbs.<sup>187</sup> Australia has fewer homes per person than most other countries in the Organisation for Economic Co-operation and Development. Inadequate housing supply and diversity affects affordability and reduces peoples' options for where to live.<sup>188</sup> Housing policies that aim to influence demand away from greenfield areas will need to be accompanied by measures to increase supply of affordable homes in good locations.

**Figure 13: Change in demand due to a 10% price drop for townhouses and apartments in established suburbs and a 10% price rise for homes in growth areas**



The Centre for International Economics, *Demand for housing in Victoria: stated preference research, 2022*

## Homes will be needed in all established suburbs

The aspirational 'ideal home' for both greenfield and established area residents is in suburbs close to existing friends and family. New homes will be needed in established suburbs in Melbourne and Victoria's regional cities to meet this preference, and to motivate households to consider medium density homes instead of greenfield houses.<sup>189</sup>

Melbourne has places with good access to existing infrastructure and services that are not accommodating population and housing growth.<sup>190</sup> Plan Melbourne identifies over 130 metropolitan and major activity centres that can support higher density development and deliver more homes closer to jobs and public transport.<sup>191</sup> However, these activity centres accommodated only one-fifth of Melbourne's new homes in the decade to 2018.<sup>192</sup>

Urban renewal projects are an important opportunity to increase the supply of homes in Melbourne's established suburbs. The Suburban Rail Loop project, for example, will invest in station precincts along the new train line to boost jobs and housing options. But precinct development alone will not be enough to deliver the homes in established suburbs that Melbourne's growing population needs. The 12 precincts in the eastern and northern sections of the Suburban Rail Loop are collectively expected to accommodate around 139,500 new households by 2056.<sup>193</sup> Fishermans Bend, Australia's largest urban renewal project, is expected to provide homes for around 37,000 households by 2050.<sup>194</sup> Population projections indicate Melbourne will need an estimated 1.3 million new homes between 2021 and 2051. Over 932,000 of these homes will need to be in existing suburbs to achieve the aspirational scenario in Plan Melbourne for 70% of new homes to be in established areas.<sup>195</sup>

Some areas are accommodating more new homes than others. Around 40% of Melbourne's residential building approvals were in 5 growth area councils in the 5 years to 2022 (Casey, Hume, Melton, Whittlesea and Wyndham). Some established area councils accounted for less than 2% of residential building approvals in Melbourne over the same period,<sup>196</sup> and many of the homes being built in established suburbs are not substitutes for greenfield homes. The proportion of 3-bedroom homes in Melbourne is falling, but this is the

preferred size for many greenfield residents who have, on average, larger households. New homes in Melbourne, Ballarat and Geelong's growth areas are more likely to have 3 or more bedrooms, and are more affordable than those in established suburbs.<sup>197</sup>

Progress towards denser housing has been slow.<sup>198</sup> Victoria will need a more coordinated approach to long-term urban planning and development, if it is to increase the supply of well-designed homes in established suburbs that can substitute for greenfield houses. Governments will need to reform existing policies, standards and regulations. Our policy options outline approaches for the Victorian Government to increase the supply of homes in good locations in established suburbs.

## Measure and incentivise progress towards new local housing targets

### Option 5

Set targets for the number, type and size of new homes in each Melbourne local government area, in collaboration with local governments. Offer local governments incentives to meet the targets. Measure progress by closely monitoring new housing supply and publishing detailed statistics at least every year, including by home type and characteristics.

In *Victoria's infrastructure strategy 2021–2051*, we recommended that the Victorian Government support more homes in priority established places, to increase housing density and better use existing infrastructure (recommendation 35).<sup>199</sup> Higher density areas can typically sustain greater levels of infrastructure and service provision as the costs can be shared by more people.<sup>200</sup> Encouraging housing growth in established suburbs can help reduce government spending on new infrastructure, and deliver social and environmental benefits.<sup>201</sup>

The Victorian Government currently has no mechanism to coordinate local housing strategies so that they will collectively deliver enough new homes to support Melbourne's growing population, in places that will deliver good outcomes.<sup>202</sup> The Productivity Commission recommends that state and territory governments set targets for new homes in major cities so that supply will meet future demand for homes, and work with local governments to achieve them.<sup>203</sup> Other cities, including Sydney and Vancouver, set housing targets that direct new development towards identified areas or specify the type of homes to be built.<sup>204</sup>

The Victorian Government can work with local governments to develop local area housing targets to increase the supply and diversity of new homes in good locations. Targets can help direct new homes to the most suitable areas and increase housing density in places with good infrastructure access, such as near activity centres. They can encourage a variety of home types and sizes, including larger homes that are suitable for households with children (see **Option 10: Encourage child-friendly design in new apartments**). Targets can give clarity to the housing sector, giving developers confidence that local governments will support more homes in their area.<sup>205</sup>

The government can support targets by assessing infrastructure capacity in places targeted for housing growth.<sup>206</sup> This work can start now, to inform the size and location of housing targets and any infrastructure investment needed to achieve them. Local government input can ensure that targets for each area reflect local context, existing housing stock and ideal densities. The Victorian Government's priority urban renewal precincts can also include housing targets and can pilot this approach (see **Option 6: Prioritise and streamline approvals for urban renewal precincts**).

The government is already developing *Land use framework plans* to guide land use and infrastructure development in Melbourne. They include housing distribution scenarios for each metropolitan region that can inform more detailed housing targets for local government areas.<sup>207</sup> The final plans can include targets, which can also be considered in any future updates to Plan Melbourne. The Victorian Government can



consider extending the approach to regional cities by including them in updated *Regional growth plans*, which guide land use and development in regional Victoria.<sup>208</sup> The Victoria Planning Provisions, the framework for Victoria's planning schemes, can also include the targets.

Local area planning for dwelling targets can be achieved by updating local government housing strategies to measure capacity, infrastructure needs, and preferred locations for medium and high density homes.<sup>209</sup> Local governments can be incentivised to meet housing targets and complete the necessary strategic and statutory planning,<sup>210</sup> for example by funding them to analyse existing infrastructure capacity and to develop strategies to achieve housing targets. The Victorian Government can also provide targeted access for programs such as the Growing Suburbs Fund, for local governments who meet their housing targets.<sup>211</sup>

The government must monitor the supply of new homes to accurately measure progress towards meeting targets and inform future target adjustments to reflect changes in supply and demand.<sup>212</sup> Current approaches to data collection do not support this. The Victorian Government can develop a housing supply monitoring system to assess progress in meeting targets, which includes collecting data on housing attributes such as type of home and number of bedrooms. A Victorian system can inform development of a national housing supply monitoring framework in the longer term.<sup>213</sup>

This policy option will complement **Option 1: Reform infrastructure contributions to send the right price signals**. A consistent approach to infrastructure contributions in established suburbs can give more funding certainty to local governments for infrastructure upgrades to support new homes. When infrastructure is delivered as more homes are built, communities are more likely to accept changes in density.<sup>214</sup> The Victorian Government can start work with local government on both options immediately.

Housing targets will only be effective if accompanied by other policies to stimulate the supply and diversity of new homes. A dual occupancy and townhouse code which streamlines planning approvals can help increase townhouse supply (see **Option 8**). Better standards and expanding zoning for low-rise apartments can result in more homes in established suburbs (see **Option 7**). These options can work together to support local government progress in meeting targets and increase home choices for moderate income households in established suburbs. They can form part of a second group of policy interventions once housing targets and reforms to infrastructure contributions and home subsidies are underway.

## Prioritise and streamline approvals for urban renewal precincts

### Option 6

Prioritise urban renewal precincts for development, with streamlined planning approvals. Set targets in each precinct for the number, type and size of new homes. Develop suitable housing demonstration projects that specifically include 3-bedroom homes.

Most households told us they prefer to live in a detached 3-bedroom house, but one in 5 households would choose to live in an apartment if they had to move house now. A majority of those would prefer to live in Melbourne's inner suburbs.<sup>215</sup> But only 1 in 10 Melbourne apartments have 3 bedrooms, meaning they do not offer a substitute for growth area homes.<sup>216</sup> We also heard that people who had lived in apartments with children before moving to greenfield areas felt that current noise and amenity standards did not provide a comfortable living environment for their needs.<sup>217</sup>

Precincts are areas in Melbourne that can accommodate more jobs and population growth. They typically have a mix of activities, businesses, good public transport and land suitable for redevelopment.<sup>218</sup> They are an important opportunity to deliver new homes in established suburbs. Precincts are well suited to more housing development, and can accommodate a range of home types and densities.<sup>219</sup> For example, high density developments can be located next to high frequency public transport, low-rise and medium-rise

apartments within 400 to 800 metres, and townhouses between 800 and 1,200 metres of train and tram stops. Plan Melbourne identifies more than 130 areas to be the focus of growth and development, but it does not prioritise precincts for Victorian Government action or specify the amount and type of new homes they can be expected to deliver.<sup>220</sup>

Precinct planning and delivery are challenging. They require ongoing monitoring and re-appraisal to measure whether long-term growth is producing desired outcomes for Victorians. Planning processes can be slow and complex. Reviews of previous urban renewal projects point to opportunities to improve performance monitoring, governance arrangements and cross-government coordination, and to clarify roles and responsibilities.<sup>221</sup>

Residential projects that require large capital investment and development financing are rare in established suburbs.<sup>222</sup> Developers want to be certain of the return on their investment, and they balance this against a project's risk and uncertainty. Projects in established suburbs can have more timing and cost uncertainties than greenfield development. Approval processes vary in length and can be subject to third party objections, and the timeline and cost of utility connections can be unclear.<sup>223</sup> Established suburb developments are more commonly small-scale projects built by small developers, but these do not deliver many new homes.<sup>224</sup> Precinct-scale renewal can build many more new homes than is possible in small projects.

The Victorian Government can establish a prioritisation framework and clear governance for precincts, to focus government investment and clarify the planning and decision-making mechanisms for these places. Identifying a pipeline of priority precincts can help streamline strategic planning and improve the timing of infrastructure delivery to support precinct development.<sup>225</sup> Streamlined planning and approval processes can give more certainty to developers and help catalyse housing development. The Victorian *Major Transport Projects Facilitation Act 2009* and *Suburban Rail Loop Act 2021* are 2 examples of legislation that seek to introduce streamlined planning for areas close to future infrastructure projects, but other important precincts identified by the government do not have access to the same provisions.

Housing targets can clarify the role for each precinct in delivering new homes (see also **Option 5**). They can specify housing diversity and density, such as a minimum number of 3-bedroom apartments to help generate potential substitutes for greenfield homes. Targets should vary depending on the development context and the intended role of the precinct.

The Victorian Government can pilot innovative and best-practice medium and high density homes using housing demonstration projects. These can test the feasibility and marketability of high quality design and help to address community concerns about density.<sup>226</sup>

Ideally, identifying priority precincts comes with an ongoing Victorian Government commitment to infrastructure investment and precinct governance. In *Victoria's infrastructure strategy 2021–2051* we recommended that the Victorian Government should publish plans for priority infrastructure sectors, including sequencing and timelines for investment (recommendation 32).<sup>227</sup> We also recommended that the government identify an appropriate body to monitor infrastructure delivery, including in precincts, and advise on sequencing and funding (recommendation 72).<sup>228</sup> Delivering these recommendations can help improve private sector confidence and catalyse market housing development.

Work to develop a precinct prioritisation framework and governance approach can begin within the next 12 months, to help guide future planning and development. We think this policy option will have more effect if delivered alongside other options to increase homebuyer choice in established suburbs, including **Option 7: Develop better standards for low-rise apartments, then increase their supply by expanding use of the Residential Growth Zone** and **Option 9: Allow homebuyers more parking options**. This package of policy reforms can be delivered within 3 years, following reforms to infrastructure contributions, home subsidies and housing targets.

## Urban renewal in South Australia

Renewal SA, the South Australian Government's urban development agency, is responsible for managing the redevelopment of Bowden, a 16 hectare site located 2.5 kilometres from central Adelaide, into the state's first high density precinct.<sup>229</sup> In 2008 and 2010, the government bought 2 parcels of former industrial land next to existing public transport. One year later, Renewal SA began soil remediation, planning and infrastructure construction. The government invested over \$264 million in roads, open space and essential services.<sup>230</sup>

Private sector developers buy individual lots from Renewal SA. Design credentials are one of the buyer criteria. Renewal SA works closely with site owners by using the Bowden Design Review Panel and design guidelines to ensure high quality outcomes.<sup>231</sup> It aims to achieve a minimum of 160 homes per hectare by using a mix of medium and high density residential projects.<sup>232</sup> Bowden includes completed projects with 3-bedroom terraces, townhouses and apartments. It also has affordable apartments with "the much-loved attributes of a suburban home."<sup>233</sup>

Renewal SA uses strategic pathways and levers to partner with developers and builders to unlock innovative projects. It supported Nightingale Housing's entry into the South Australian market by committing to underwrite part of its Bowden development. To reduce Nightingale's risk in obtaining pre-sales, it provided certainty to the developer and secured the delivery of the state's first affordable zero-carbon apartment building. The project was ultimately so well received that all homes sold within 24 hours, and the underwrite was not necessary.<sup>234</sup>

**Figure 14 Bowden, South Australia**



Renewal SA, Bowden promotional photography.

## Develop better standards for low-rise apartments, then increase their supply by expanding use of the Residential Growth Zone

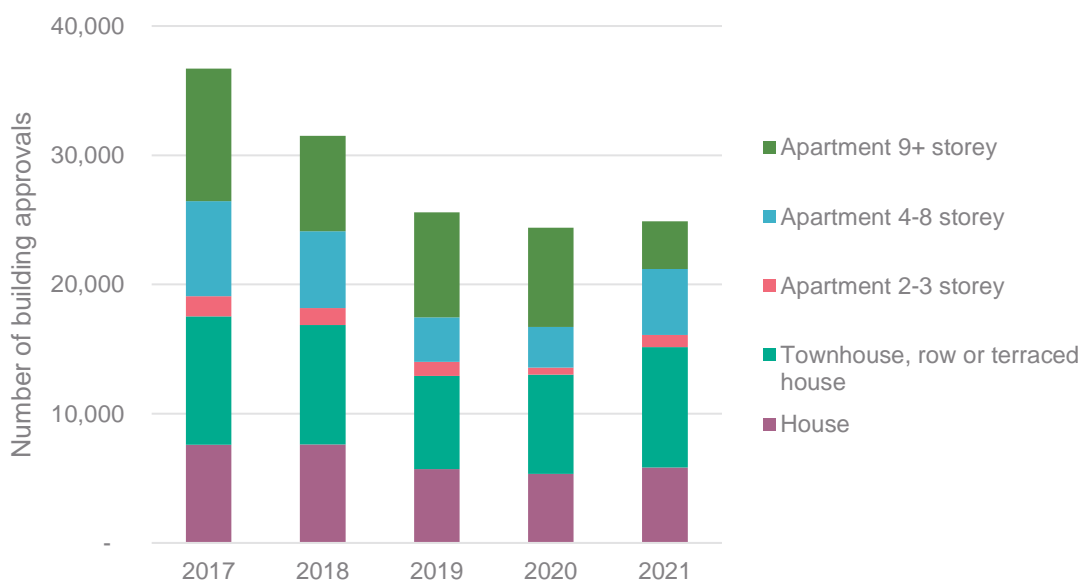
### Option 7

Develop better standards for low-rise apartments (4 or fewer storeys) in the Victoria Planning Provisions. Introduce more low-rise apartments by supporting local governments to rezone more residential areas near public transport and services to the Residential Growth Zone.

While many households do not consider the current supply of apartments suitable for their needs, households who would choose apartments if they had to move now have a strong preference for low-rise compared to high-rise apartments. Around 60% of people who chose an apartment preferred 2 or 3 storeys compared with 20% who preferred an apartment of 11 storeys or higher.<sup>235</sup>

Low-rise apartments make up a very small proportion of new homes in Melbourne's established suburbs (see Figure 15). Apartments of 2 to 3 storeys accounted for just 4% of new dwelling approvals in established suburbs in 2021.<sup>236</sup> Melbourne's middle suburbs are traditionally low density neighbourhoods containing few housing options other than detached homes and townhouses.<sup>237</sup> Many homes in these areas have good access to public transport, and better access to other infrastructure, shops and services than established outer or new growth areas. However, much of the housing stock is ageing, and requires upgrades to bring it up to date with contemporary energy efficiency and sustainability standards.<sup>238</sup> This presents an opportunity to develop medium density homes when existing stock becomes available for development.

**Figure 15: Building approvals by home type, established Melbourne, 2017–2021**



Australian Bureau of Statistics, *Building approvals, Australia*, 2022

Established suburbs have the capacity to support higher density homes, but development is restricted by limited application of residential planning zones that support higher densities. For example, the Residential Growth Zone allows building heights of up to 13.5 metres, or 4 storeys, and applies to places suitable for more new homes with good access to services and transport.<sup>239</sup> Its purpose is to encourage increased density,<sup>240</sup> but it is applied inconsistently in places that are well served by infrastructure. Just 1% of

residential areas in Melbourne's middle suburbs are currently zoned for residential growth.<sup>241</sup> This hinders housing diversity and curbs the supply of new homes in good locations.

Developers have difficulty securing planning approval from local governments using the current residential guidance for low-rise apartments in the Victoria Planning Provisions.<sup>242</sup> Residential planning proposals are regulated by the residential development standards (ResCode) in planning provision clauses 55 and 56.<sup>243</sup> Local governments assess low-rise apartments (4 or fewer storeys) using ResCode metrics that consider developments in the context of their surrounding neighbourhoods, which are typically low density.<sup>244</sup> Assessments typically focus on neighbourhood character and community concerns, which can lead to more uncertain outcomes and development delays.<sup>245</sup>

The Victorian Government introduced the Better Apartments Design Standards in 2017 to improve apartment design.<sup>246</sup> They provide guidance for apartment developments of 5 or more storeys. Some of this guidance is included in ResCode (clause 55.07), resolving some earlier limitations.<sup>247</sup> However, the standards focus on general development quality and internal design issues such as layout and private open space, rather than the effect on neighbourhood character.<sup>248</sup> Low-rise apartments are still assessed using the same development standards as lower density townhouses and terraces.<sup>249</sup>

Community objections create extra uncertainty and risk that discourages apartment development in established suburbs. Some residents and local governments are concerned that building higher density homes will negatively affect neighbourhood character and existing property values.<sup>250</sup> Planning objections can add major time delays and costs to new developments, but rarely produce substantial changes to the outcome. In 2021–22, over 60% of cases heard by the Victorian Civil and Administrative Tribunal that related to development of higher density homes such as apartments were eventually approved.<sup>251</sup>

The Victorian Government can create specific objectives and residential development standards for low-rise apartments and include them in the Victoria Planning Provisions. Changes can customise existing ResCode guidance (including site layout, building massing and amenity impacts) for 3 and 4 storey buildings. New standards can support local government review of proposed low-rise apartments, give clarity, help developers with project design and increase the likelihood of planning approvals for medium density homes. This may also contribute to the potential for use of modular construction techniques by developers, which could in turn improve the affordability of these homes.

Use of the Residential Growth Zone can be expanded in established suburbs, to allow development of more low-rise apartments in locations with good access to public transport and services. The Victorian Government can develop criteria to identify priority places for expanded zones. These can specify appropriate levels of access to public transport, infrastructure and services that can support more low-rise apartments as a substitute for greenfield homes. The government can work collaboratively with local governments to make the zoning changes. Councils can benefit from funding to assess and update their residential zones and schedules, and to identify any infrastructure upgrades that might be needed to support growing communities (see also **Option 1: Reform infrastructure contributions to send the right price signals** and **Option 5: Measure and incentivise progress towards new local housing targets**).

The benefits of this policy option are likely to be realised over the medium term. More apartments will be needed for Victoria's growing population, but it will take time for households to accept apartments as a substitute for greenfield homes. This option will have more effect when packaged with policies to improve the supply of well-designed townhouses as a more immediate greenfield substitute (see **Option 8**). It will also complement precinct planning and delivery (see **Option 6**), as strategic master plans for priority precincts can nominate suitable places for residential zoning. Collectively these options can help increase housing supply to meet targets for the number, type and size of new homes (see **Option 5**) and can be delivered once housing targets are set.



## Victoria's Future Homes program

Future Homes is a Victorian Government initiative to encourage high-quality 3 storey apartments in established suburbs. It sets high design standards in exchange for streamlined planning approvals. The program offers ready-made architectural designs of 3 storey apartment buildings for development in trial locations.<sup>252</sup>

Applications will be assessed by the Department of Transport and Planning in collaboration with the Office of the Victorian Government Architect. The approval process will have limited third-party notification and no appeal rights. The program is currently in a 2-year pilot phase with the City of Maribyrnong.

The Victorian Government can draw on its experience in Future Homes to collaborate with local government and the development industry to improve development standards for low-rise apartments.

**Figure 16 Future Homes designs**



Designed by (from left to right): McGregor Westlake Architecture, Spiral Architects Lab, Strategy Architecture with IncluDesign and LIAN Architects.  
Department of Transport and Planning, [\*Future Homes\*](#)

# Increase diversity and choice of homes in established suburbs

## Creating more housing options in established suburbs

Many Victorians would prefer to live in a large, detached home near family and friends.<sup>253</sup> Over two-thirds of households in Melbourne, Ballarat and Geelong (68%) would choose to live in a detached house if they had to move. This rises to over 80% for owner-occupiers.<sup>254</sup>

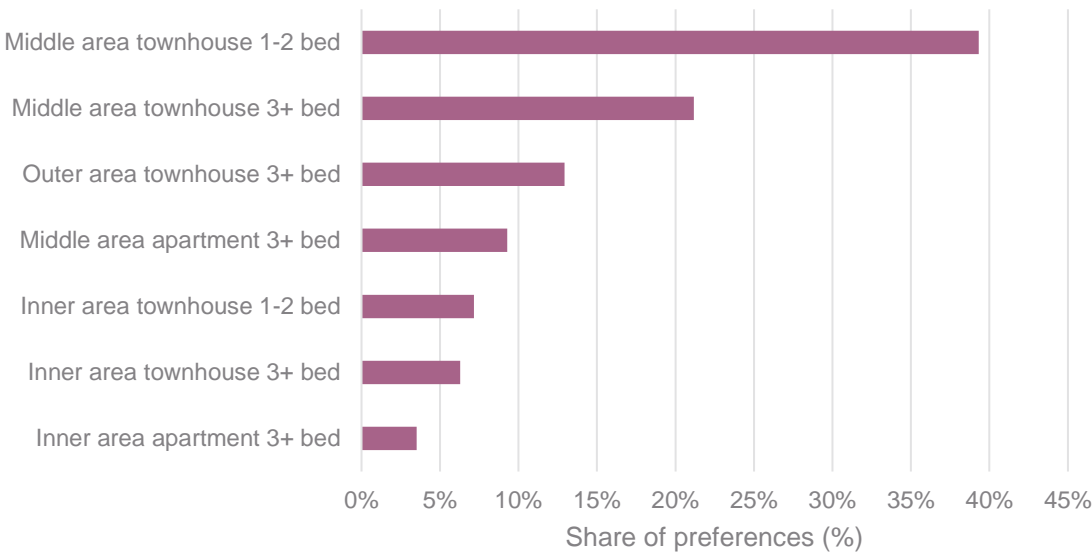
Some households are prepared to compromise on certain features of their future home to stay in their preferred location, particularly renters (50% compared with 39% of owner-occupiers).<sup>255</sup> But attributes such as the number of bedrooms and access to secure parking are important to many, particularly in greenfield areas where many households are planning for, raising or caring for children.<sup>256</sup>

We found that households perceive detached homes to be better quality, and better designed for raising children, compared with townhouses and apartments. This strengthens household preferences for detached houses. New homes in established suburbs must be able to meet peoples' expectations at an affordable price for households to consider them a substitute for greenfield houses.<sup>257</sup>

## Households will consider higher density homes for the right price

We found that the home choices people make are influenced by price, and that some households will consider different types of home in the right circumstances. Some households who initially chose detached houses in growth areas would substitute to townhouses in established suburbs if they were cheaper (see Figure 17). They will also consider centrally located apartments with 3 bedrooms, but they would not substitute to smaller apartments with 1 to 2 bedrooms.

**Figure 17: Share of preferences shifting from growth area houses when established area townhouse and apartment prices fall by 10%, by home type, %**

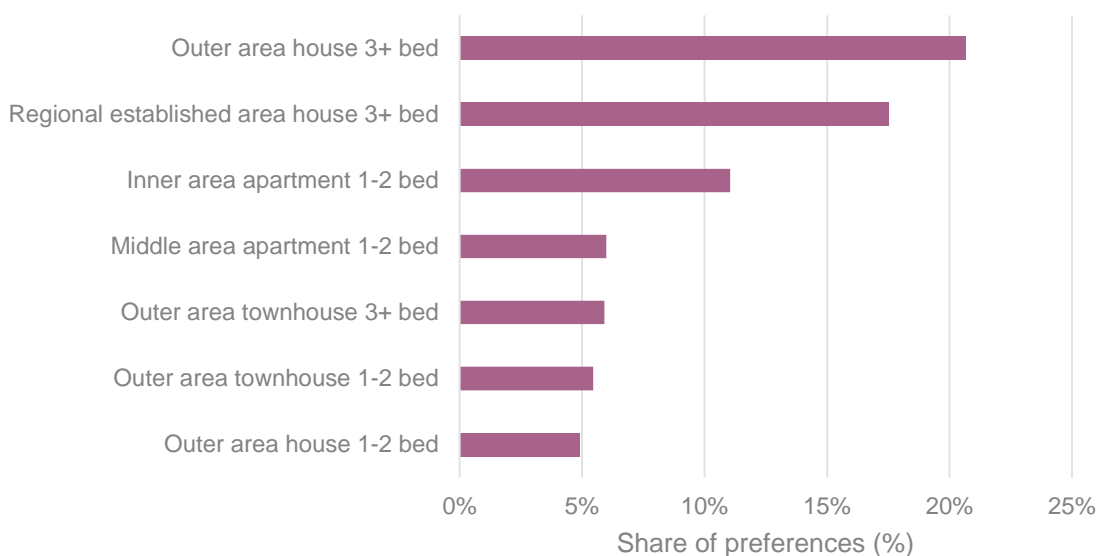


The Centre for International Economics, *Demand for housing in Victoria: stated preference research*, 2022

If homes in growth areas were to become more expensive, those who could afford it would switch their preference to Melbourne's outer suburbs, or to established suburbs in Geelong and Ballarat (see Figure 18).

Others would consider medium density homes instead of detached houses, including smaller apartments in Melbourne's inner and middle areas, and townhouses in outer areas.

**Figure 18: Share of preferences shifting from growth area houses when growth area prices increase by 10%, by home type, %**



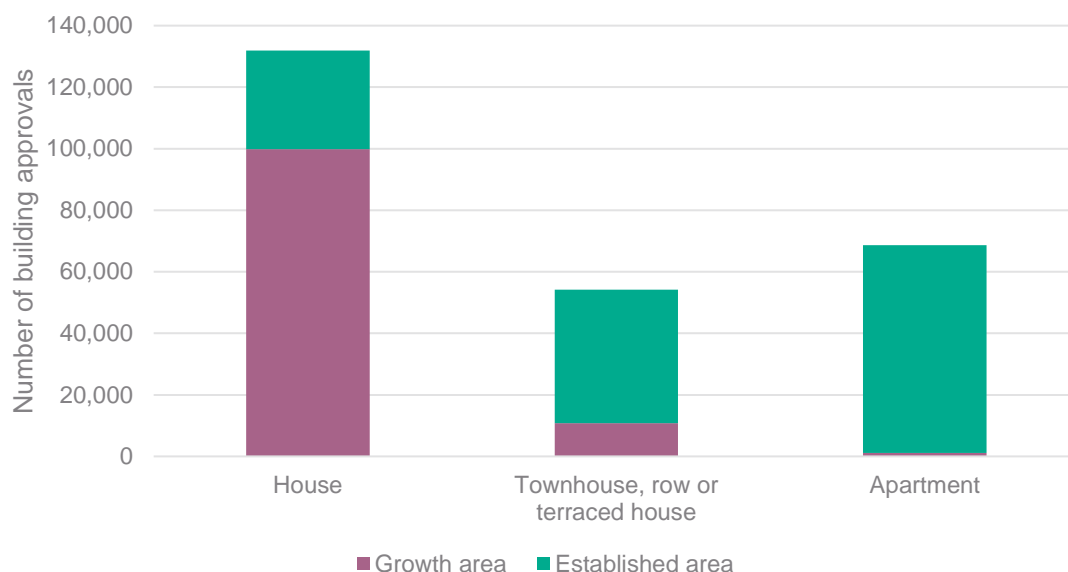
The Centre for International Economics, *Demand for housing in Victoria: stated preference research*, 2022

For households to make these alternative choices, medium density homes in established suburbs will need to be available at a price that is affordable for those on a moderate income.

### Homogenous housing restricts people's choices

While some growth area households would consider other places, few new homes in established suburbs meet their needs. Most new homes in Victoria's cities are delivered in the form of detached houses in greenfield areas and, to a lesser extent, high-rise apartments in established suburbs.<sup>258</sup> Detached houses accounted for just over half of all approvals for new homes in Melbourne between 2017 and 2021, and the majority (76%) were in Melbourne's 7 growth area councils (see Figure 19). New homes in regional areas have an even higher proportion of detached houses. Nine in 10 residential building approvals in Ballarat and Geelong were for detached houses over the same period.<sup>259</sup>

**Figure 19: Building approvals by home type, greater Melbourne, 2017–2021**



Australian Bureau of Statistics, *Building approvals, Australia, 2022*

More new homes are being built in Melbourne with 1, 2 or more than 4 bedrooms than 3-bedroom homes,<sup>260</sup> despite this being the preferred home type for many households. Increasing the supply of medium density, 3-bedroom homes in established suburbs can help to improve affordable options for households currently choosing greenfield homes, such as first home buyers and households with children. It can also offer an alternative to households looking to downsize.<sup>261</sup>

More housing diversity will help create affordable established area alternatives to greenfield homes. Our research indicates that townhouses are an immediate opportunity to substitute. They fulfil the requirements of many greenfield residents, such as number of bedrooms, secure parking and outdoor space,<sup>262</sup> and they are likely to be more affordable than detached houses in the same area.<sup>263</sup> Apartments can also be an alternative for some,<sup>264</sup> although most existing stock does not substitute for greenfield homes. For example, just 1 in 10 Melbourne apartments have 3 bedrooms.<sup>265</sup>

Limited flexibility in planning schemes can inhibit housing diversity and add to development costs, which are passed on to homebuyers.<sup>266</sup> Costly requirements such as compulsory minimum on-site parking influence developers' decisions about apartment size and bedroom mix. A one-size-fits-all approach can lead to homebuyers paying for dwelling features they do not value or need.

Offering people an affordable, established area alternative to greenfield homes will only be possible with many more well-designed, medium density homes that serve the needs of growth area households, including those with children. The diversity of homes available in established suburbs will also need to increase to achieve this goal.

We propose options for the Victorian Government that aim to increase the supply of townhouses in good locations as a priority, and that work towards improving the availability, diversity and design of apartments in established suburbs so that they become a more affordable substitute for greenfield homes.

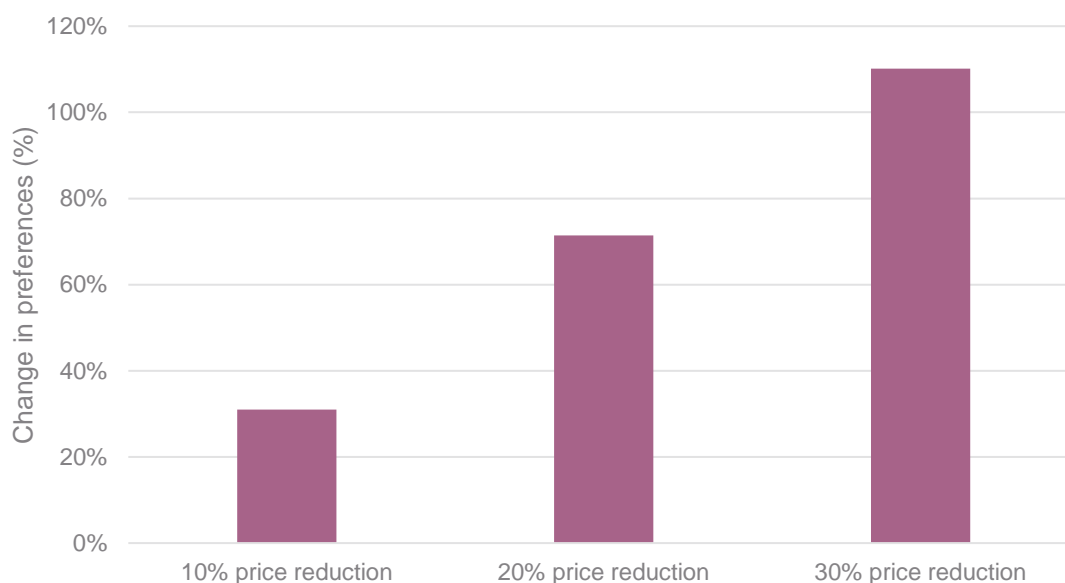
## Develop a dual occupancy and townhouse code

### Option 8

Give property owners as-of-right permission to bypass red tape and supply more diverse homes when they comply with the new dual occupancy and townhouse code. Give better visual guidance for well-designed dual occupancies and townhouses.

We found that medium density homes, particularly townhouses, can meet many of the requirements of households currently choosing to live in growth areas, particularly when they are more affordable. Our modelling indicated that a 10% price drop for townhouses in established suburbs would lead to an increase in demand of more than 30% (see Figure 21).<sup>267</sup> Some greenfield residents are reluctant to consider medium density homes due to concerns over noise, privacy, security and space.<sup>268</sup> Increasing the amenity, accessibility and design quality of medium density homes can increase their appeal as an immediate substitute for greenfield homes.

**Figure 20: Change in townhouse preferences in established suburbs when prices are reduced, %**



The Centre for International Economics, *Demand for housing in Victoria: stated preference research*, 2022

Poor townhouse design is restricting supply of greenfield substitute homes in established suburbs. Clause 55 of the Victoria Planning Provisions (ResCode) regulates developments of 2 homes (dual occupancy) or more on a single block, including townhouses.<sup>269</sup> It includes objectives and standards to address neighbourhood contexts, site layout, amenity and design. But while examples of good design exist, ResCode does not always produce high quality townhouses at an affordable price. Solar orientation, open space and environmental performance can all be inadequate.<sup>270</sup> Clause 55 includes some visual guidance to help developers meet the required standards, but more can be provided.

Delays and uncertainty in planning approvals add to development costs, which are ultimately passed on to home owners and renters.<sup>271</sup> Planning applications can take a long time to assess – over 10 months in some instances.<sup>272</sup> Community opposition adds to the assessment time. A 2018 review of planning permit applications by Merri-bek City Council found that 1 in 2 dual occupancy developments received objections from the community, even though most of them complied with planning requirements. Only 1 in 10 objections caused any change. Third party appeals added time, resources and cost to development approvals but had little effect on outcomes.<sup>273</sup>



In our community research to support *Victoria's infrastructure strategy 2021–2051*, we found that local communities are willing to support higher density homes under the right conditions.<sup>274</sup> Communities nominated quality urban design as the most important principle when considering density, including buildings that integrate well into the local neighbourhood. Better evidence of high quality townhouses can help to build community understanding and acceptance, and reduce concerns about potential effects on neighbourhood character.<sup>275</sup>

The Victorian Government can encourage well-designed small scale development by introducing a dual occupancy and townhouse code for established suburbs with good access to public transport. The code can first apply to dual occupancy and then expand to include 3 or more homes on a single block (townhouses). Use of the code can be incentivised by allowing compliant homes to choose a quicker assessment process than the standard planning permit system, offering developers faster approvals and more certainty. Evaluating proposed homes against a clear code supports a fast track approvals process and can improve choice, diversity and supply.<sup>276</sup> It can reduce housing costs by achieving planning process time savings, and by building homes on smaller lots that offer a greenfield substitute. It can also help improve townhouse design by incentivising well-designed homes,<sup>277</sup> and could provide opportunities for developers to use less expensive design and construction methods such as modular construction.

The code can consider how development accounts for neighbourhood character, amenity and infrastructure, for example, by minimising overshadowing and mitigating urban heat.<sup>278</sup> Site-specific heritage, environment and landscape controls play an important part in the planning system and should continue to trigger a planning permit application. The Victorian Government can invite local government and developer input in creating the code, to help build support for this approach.

New visual guidance can accompany the code to give clear direction to developers and the community on expected design, sustainability and accessibility outcomes, including environmentally sustainable design and universal access. Guidance can also specify functional layouts, based on the Better Apartments Design Standards and including new standards for dining areas and flexible spaces for home offices, storage and space to play.<sup>279</sup> The Victorian Government can also add visual guidance to ResCode to give clearer information about the desired outcomes for projects that do not take up the voluntary code, and discourage minimum compliance with ResCode standards.

Use of the code and eligibility for fast track approvals can be restricted to residential areas that present good opportunities for townhouse developments. The Office of the Victorian Government Architect identified suitable opportunities for medium density in middle suburbs (7 to 25 kilometres from central Melbourne) developed between 1950 and 1979, with good access to public transport.<sup>280</sup> The government can ensure that the code does not encourage underdevelopment close to public transport by introducing maximum lot sizes for each new home.

Some local governments, including Darebin, Glen Eira, Knox and Merri-bek, are already developing guidelines to improve townhouse development outcomes.<sup>281</sup> The Victorian Government's Future Homes program, which tested the development feasibility of its 4 design packages, can also offer useful insights.<sup>282</sup> The Victorian Government can build on these initiatives as a first step to increase the supply of well-designed townhouses that are affordable to moderate income households.

This option represents an immediate opportunity to increase the supply of greenfield substitute homes. It will require time to develop the code and pilot it with local governments, but this can occur within 3 years. The code can be developed and introduced alongside other policy options to increase home choice and diversity in established suburbs, including **Option 6: Prioritise and streamline approvals for urban renewal precincts**, **Option 7: Develop better standards for low-rise apartments, then increase their supply by expanding use of the Residential Growth Zone** and **Option 9: Allow homebuyers more parking options**.

## The NSW Government is encouraging housing diversity

New South Wales needs more housing diversity to meet its current and future housing needs.<sup>283</sup> The government introduced a Low Rise Housing Diversity Code in 2018 to encourage housing development in existing residential areas.<sup>284</sup> The code introduces fast track approvals for well-designed medium density developments such as townhouses, low-rise apartments and terraces. It is accompanied by a *Housing diversity design guide* to give consistent planning and design guidance for new development, including clear visual representation of the expected design outcomes.<sup>285</sup> Permits for compliant developments are issued within 20 days.

The code aims to increase housing diversity by encouraging more alternatives to greenfield detached houses and high-rise apartments. It has 4 main benefits: promoting choice and diversity, increasing supply, encouraging good quality design, and creating liveable communities.<sup>286</sup> It also has an affordability objective. The price of new attached dwellings is anticipated to be around 25% more affordable than a detached home in the same neighbourhood, by using more housing construction that is affordable by design.<sup>287</sup>

The code faced resistance when it was first introduced in 2018, including from some local councils. An independent review identified strong support for more housing diversity but found that the code was poorly understood.<sup>288</sup> Several amendments were made to clarify its intent and operation, and to give more certainty for councils, developers and the community. Following a staged introduction, the code was introduced in all local government areas in 2020.<sup>289</sup>

## Allow homebuyers more parking options

### Option 9

Reduce or remove compulsory minimum parking requirements to improve choice and affordability of new established area homes, close to good public transport. Allow homebuyers to choose how much onsite parking they want to pay for above minimum requirements.

Off-street parking provision adds to the cost of new homes. In central Melbourne, one parking space can add between \$40,000 and \$80,000 to the cost of development.<sup>290</sup> Our modelling confirms that more parking increases house prices, particularly for apartments. We found that apartments with 2 parking spaces were 34% more expensive than similar homes with no parking.<sup>291</sup> We also found that the number of car spaces is an important factor in home choices, and that some growth area households are open to trading off a parking space for a cheaper home in a more central location.<sup>292</sup>

Victoria's planning provisions require at least one on-site parking space for each 1-bedroom and 2-bedroom home, and 2 car spaces for homes with 3 or more bedrooms.<sup>293</sup> Developments that propose less parking require an extra planning permit. Changes to parking minimums can trigger community objections, particularly for apartment developments, due to concerns that parking will spill into surrounding streets.<sup>294</sup> However, research indicates that residents in detached homes are the greatest users of street parking. They generally have off-street parking but use it for storage or other purposes.<sup>295</sup> The City of Melbourne found apartments typically have too much on-site parking, and an average of 1 in 3 parking spaces sit empty overnight.<sup>296</sup>

Minimum parking requirements contribute to poor housing diversity in established suburbs,<sup>297</sup> by increasing construction costs and incentivising developers to build homes with fewer bedrooms to maximise their profits.<sup>298</sup> Planning permit requirements for parking exemptions add to assessment costs and introduce extra administration. Third party appeals can cause substantial delays, further adding to costs and uncertainty for developers.

Generous on-site parking provision combined with the widespread availability of street parking (that is often free) makes driving seem cheaper and easier.<sup>299</sup> The cost of providing parking is included in development costs and passed on in higher home prices, meaning households must still pay for car parking even if they do not need it.<sup>300</sup>

The Victorian Government can reduce or remove compulsory minimum parking requirements to increase certainty in development processes, improve affordability and boost the supply of homes in established suburbs. Reducing minimum parking rates can increase choice, by allowing households to pay for parking only if they need it (above any minimum requirements), and lower housing costs for households who choose other transport options. It can also increase development feasibility, lowering costs for developers by allocating space to homes rather than parking. This removes a disincentive to build 3-bedroom homes and can help improve home choices for greenfield households who are prepared to trade a parking space for a home with good access to public transport in an established suburb.

Research indicates that good public transport access can help reduce levels of car ownership, and that service quality and frequency affects ownership the most.<sup>301</sup> Minimum parking rates can be reduced or removed for new homes that are close to train and tram stops in the first instance. The government can also consider locations near good quality, frequent bus services, with ideal locations having a service frequency every 5 to 10 minutes.

Minimum parking requirements can be reduced in several ways. For example, parking requirements for 3-bedroom apartments can be reduced to one on-site car space, while compulsory parking minimums might be removed for smaller apartments located near good quality, frequent public transport services. Developers can provide more than the minimum requirements, or homebuyers can choose to pay for more parking if they need it. Changes can be phased in over a transition period, during which the government can support local governments to adopt better parking management practices to help manage any shifts in demand for street parking from new residential developments.

This policy option can be packaged with other planning options to increase the supply and range of homes available in established suburbs (see **Options 6, 7 and 8**), and delivered within 3 years.

## Encourage child-friendly design in new apartments

### Option 10

Update the Better Apartments Design Standards to specify better access, versatility and safety features so apartments are more attractive for households with children. Introduce voluntary design guidelines for best practice child-friendly apartment design.

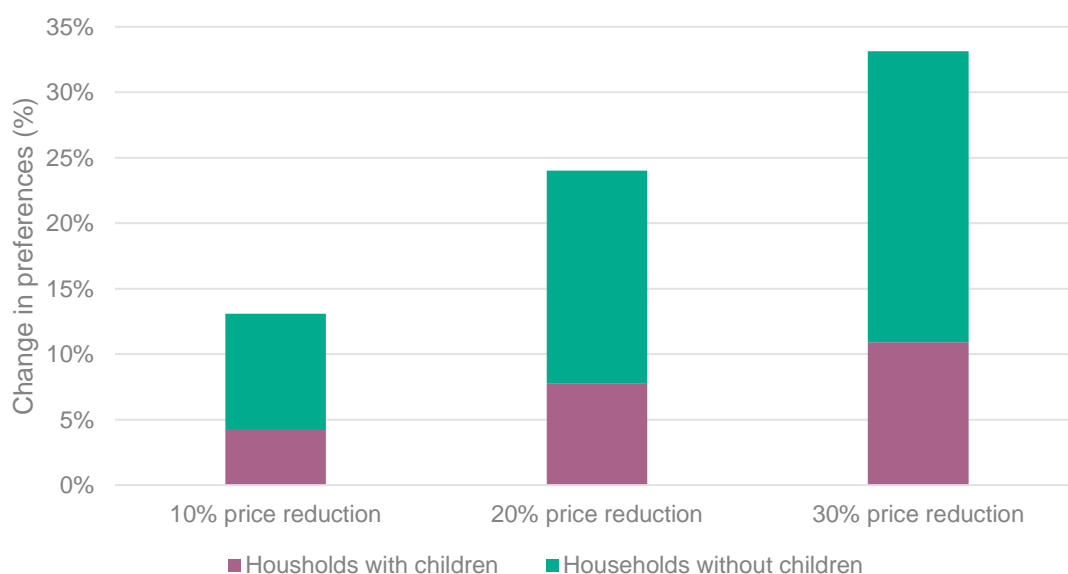
Greenfield homes serve a particular segment of the housing market. Households with children made up almost 60% of growth area households in 2021, compared to an average of 40% in Melbourne's established suburbs.<sup>302</sup> Many other growth area households are planning to have children. Some people at our focus groups told us that this was a factor in their decision to buy or rent a greenfield home. They valued access to private open spaces for play and enough bedrooms for each of their children.<sup>303</sup>

Most focus group participants living in a greenfield detached home would not consider moving to an apartment in an established suburb. However, apartments will be an important component of future diversity

for households with children. Concerns about apartments included anxiety around noise, space to play and ease of access to car parking. Others were concerned about design quality and safety.<sup>304</sup> Research into liveability for households raising children in apartments confirms our findings.<sup>305</sup> This work identified the lack of suitably sized apartments, communal play space, indoor and outdoor storage and soundproofing as design oversights that affect apartment liveability in inner city locations for households with children.

Despite these considerations, our choice modelling shows that more households with children would be prepared to live in apartments if the price is right. The number of households choosing an apartment in an established suburb increased by 13% when apartment prices were reduced by 10%. This rose to 24% when apartment prices dropped by 20% (see Figure 21). Households with children made up around one-third of those willing to consider apartments when the price was reduced, even with current apartment designs that do not cater for their needs.<sup>306</sup>

**Figure 21: Change in apartment preferences in established suburbs when prices are reduced, %**



The Centre for International Economics, *Demand for housing in Victoria: stated preference research*, 2022

These results indicate that well-designed, larger apartments can be an alternative to greenfield homes in some instances. Children and their parents can benefit from living in established suburbs that offer better access to infrastructure such as schools, childcare and public transport, but few alternatives to greenfield homes are built that meet their needs.<sup>307</sup> For example, our modelling indicates that households who prefer detached houses in growth areas will not substitute for apartments with less than 3 bedrooms,<sup>308</sup> but the supply of new 3-bedroom apartments is often confined to luxury apartments that moderate income households cannot afford.<sup>309</sup>

Design standards can help to make apartments a realistic and attractive option for households with children. Victoria's Better Apartments Design Standards were introduced in 2017 to improve the internal design of new apartments of 5 or more storeys and make them more liveable and sustainable. They were extended in 2021 to improve external design, for example to create more green space and attractive street fronts.<sup>310</sup> The Victorian Government can extend them further, to make apartments more accessible, versatile and safer for children.

Design solutions for apartments to appeal to households with children must include features that compensate for greenfield housing attributes such as private yards and extra living space.<sup>311</sup> They can also respond to the noise, safety and design concerns raised by greenfield residents.<sup>312</sup> Child-friendly amendments to the Better Apartments Design Standards can build on the 2022 *Inquiry into apartment design standards*, which proposed several recommendations for apartments to better meet the needs of households with children. These include new guidelines on accommodating households with children in apartments and updated guidance on open and communal spaces.<sup>313</sup>

The Victorian Government can also introduce voluntary design guidelines to go beyond the minimum requirements set in the Better Apartments Design Standards, to support developers to achieve best-practice child-friendly design without mandating uniform changes. These can be informed by a competition to produce child-friendly apartment designs that can be easily replicated, similar to the Future Homes design competition which sought designs for 3 storey apartment buildings.<sup>314</sup>

The government can encourage uptake of the voluntary guidelines with developer incentives, for example by streamlining assessments or using an accreditation scheme to demonstrate quality and enable fast track planning approvals. The Victorian Government can also establish design review panels to improve compliance with design standards while supporting design innovation, as recommended by the *Inquiry into apartment design standards*.<sup>315</sup> We recommended that the government establish design review advisory panels in *Victoria's infrastructure strategy 2021–2051*.<sup>316</sup>

The Victorian Government can also model best-practice child-friendly design in its own housing developments. Government demonstration projects can influence building industry and community acceptance of new and innovative designs by showing their feasibility and commercial appeal.<sup>317</sup>

We estimate that updating standards to achieve better apartment design outcomes for households with children can happen within the next 2 years, but changes to actual development projects will take longer. It will also take time for households with children to be more confident that apartments can be a genuine substitute for greenfield homes. This is therefore a medium-term option. It can be introduced alongside reforms to stamp duties and proposed changes to the Victorian Homebuyer Fund (see **Options 2 and 4**), which can in time help direct demand for better designed apartments in existing suburbs.

#### Case Study

### Vancouver's approach to child-friendly density

Households with children historically made up around 35% of the City of Vancouver's population. New housing delivery in the city is shifting into higher density forms while affordability and availability of the 'traditional family home' is in decline. In response, the city has been introducing policies since the 1990s for new homes to meet the needs of households with children.

Vancouver's *High density housing for families with children guidelines* offer guidance on child-friendly design features such as play areas. The city also introduced a mandatory minimum for 'family-sized' apartments, including a minimum of 10% 3-bedroom units in new residential developments that are rezoned.<sup>318</sup> The family housing policy and guidelines are being modernised as part of the *Housing Vancouver strategy: three-year action plan (2018–2020)* to improve supply of family housing and the experience of children living in high density homes.<sup>319</sup>

Vancouver is making progress in increasing the supply of homes suitable for households with children. The city approved over 33,000 new apartment units between 2017 and 2021. Almost half (45%) were for family-sized homes.<sup>320</sup> The high density housing guidelines were well received by residents. A 2008 post-occupancy survey found that the apartment guidelines are largely successful, and that households with children enjoy the lifestyle of high density communities.<sup>321</sup>



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