Melbourne's Missing Middle

## Building a liveable, affordable, and sustainable city for all.

YIMBY MELBOURNE

The Missing Middle Zone
Six storeys, mixed-use, near transit

Introduce the Missing Middle Zone (MMZ) to provision for liveable, six-storey density across Melbourne. Reduce mandatory parking minimums to 0 and expand permitted non-residential uses to deliver affordable homes and a wide range of amenities for all.
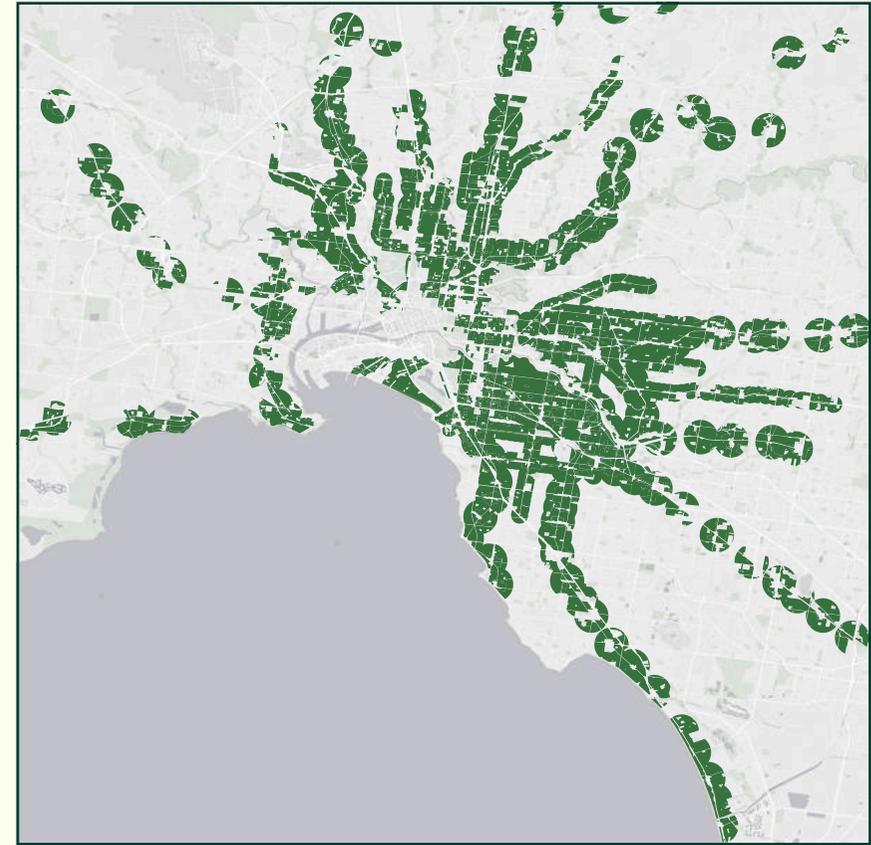
Create an interconnected network of 1,922 activity centres by upzoning all residential land within 1km of train stops and 500m of tram stops, building capacity to deliver more than 5 million new dwellings in the places where people want to live.

Benefits
A liveable, affordable, and sustainable city for all

🧍 For renters:

- Increase housing choice in inner and middle-ring suburbs to reduce housing tradeoffs, displacement, and overcrowding
- Increase renter bargaining power to incentivise landlords to upgrade existing stock
- Reduce the relative and absolute price of apartments, to enable more people to choose inner-city living

👨‍👩‍👧 For families:

- Increase the affordability and supply of aspirational, family-size apartments
- Increase housing choice to enable children to remain living near family when they move out

👷 For workers:

- Reduce the housing-inclusive urban wage penalty and make the city more affordable for all
- Empower a greater number of workers to see their wages increase 1–4% thanks to the urban economic bonus

📈 For businesses:

- Enable more companies to share in the agglomerative effects of the city, tapping into demonstrable productivity increases
- Create more viable small businesses through a more abundant and diverse customer base

🌳 For the environment:

- Reduce per-capita emissions by enabling more people to live in areas with an abundance of active and public transport options
- Retain existing biodiversity by reducing sub-urban sprawl
- Create new public parks on consolidated lots

🏛 For the government:

- Reduce per-dwelling government infrastructure spending by up to 75% through a focus on infill development
- Generate up to $6 billion in revenue by introducing a 30% Residential Windfall Gains Tax

Recommendations
Policies to build the Missing Middle

1. Introduce the Missing Middle Zone (MMZ), enabling six-storey, mixed-use development. Upzone all existing residential land located within 1km of train stations and 500m of tram stops to the MMZ.

2. Upzone all Melbourne land currently designated Neighbourhood Residential Zone (NRZ) to General Residential Zone (GRZ), and all GRZ land to Residential Growth Zone (RGZ).

3. Increase access to shelter across the city through the implementation of shelter targets across jurisdictions with the goal of ending street homelessness by 2030.

4. Reduce per-capita emissions by significantly increasing the proportion of Melburnians living in areas with an abundance of active and public transport options.

5. Increase inner-city biodiversity through the provision of additional public parkland across consolidated lots.

6. Introduce clear housing targets for all planning bodies to ensure all decisions and processes are outcomes-oriented. Exceeding targets should be rewarded, and failing to meet them should be penalised.

7. Abolish demand-side subsidies such as the First Home Owner Grant (FHOG), which distort market housing preferences, and replace stamp duty with a broad-based land tax.

8. Increase the Growth Areas Infrastructure Contribution (GAIC) to more accurately represent the costs of greenfield development.

9. Reform the *Planning and Environment Act 1987* to establish a permissive rather than restrictive planning system, establishing clear criteria for build compliance and approval.

10. Enable by-right development across the Missing Middle Zone (MMZ) for builds containing at least 10% social housing.

11. Reassess all heritage, neighbourhood character, and design overlays within Missing Middle Zone areas. Abolish overlays where an on-balance assessment indicates that negative social impacts of the overlay is greater than its benefit.

12. Create pathways and incentives for land-owners and governments to consolidate adjacent blocks in order to create neighbourhood-level planning outcomes.

13. Introduce a reduced Residential Windfall Gains Tax (Residential WGT) rate for residential property value uplifts below $100,000. Hypothecate proceeds from the Residential WGT toward ambitious social housing builds.

Contents

Key terms

Definitions

Block: A section of the city bound on all sides by streets or other public infrastructure.

Community housing: A form of social housing assistance that is managed, or owned and managed, by not-for-profit community housing providers where access and rent is determined on tenant income and sometimes other eligibility criteria.[1]

Lot: An individual parcel of land.

Market housing: Housing that can be bought and sold on the open real estate market.

Public housing: Housing, other than employee housing, that is owned and managed by the government directly.[2]

Social housing: Social housing is government-subsidised short and long-term rental housing for people on low incomes, and who often have experienced homelessness, family violence or have other special needs. Social housing is made up of two types of housing: public housing, which is owned and managed by State and Territory Governments, and community housing, which is managed and often owned by not-for-profit organisations. In the housing market continuum, social housing sits between emergency accommodation and private rental.[3]

Zones

GRZ: General Residential Zone. Three-storey, multi-residential use.

LDRZ: Low Density Residential Zone. Two storeys, with a limit of 1–2 dwellings per lot.

MMZ: Missing Middle Zone. Proposed six-storey, mixed-use residential zone. Not currently implemented.

NRZ: Neighbourhood Residential Zone. Two storeys, with a limit of 1–2 dwellings per lot.

R1Z: Residential Zone 1. Two storeys, with a limit of 1–2 dwellings per lot.

RGZ: Residential Growth Zone. Four storeys, mixed-use residential. 1% of Melbourne's current legislated land use.

Abbreviations

AHNA: Abundant Housing Network Australia.

CGT: Capital Gains Tax.

FHOG: First Home Owner Grant.

GAIC: Growth Areas Infrastructure Contribution.

NIMBY: Not in My Backyard.

WGT: Windfall Gains Tax.

YIMBY: Yes in My Backyard, a mindset and movement for liveable, affordable, and sustainable cities.

To Melbourne, with love

To Melbourne, with love
A growing city is a living city

Melbourne is a tram ride in the rain. It's a rooftop bar in the summer. It's an aversion to crossing the Yarra, and it's loving the experience every time you do. It's a day in the NGV, and it's cheap dumplings in Chinatown. It's Fringe and it's Comedy, and it's the alleyway bar you end up at after the show. It's the crowd at the MCG and it's all the beautiful people spread across Edinburgh gardens.

This is a city bustling with life.

And yet that bustle is highly concentrated. And by virtue of its scarcity, living within these areas is becoming increasingly unaffordable. Outside these small pockets of density are entire suburbs of urban carpet: the detached and quiet homes of suburbia.

You cannot separate this stratification from the worsening housing crisis—both homes and bustle are scarce in this city. And as what we love about this place becomes increasingly difficult to access and afford, the questions of housing costs and abundance are cemented as a part of social life and the future of our city's growth.

Building Melbourne's Missing Middle is about growing this city we love, and creating housing abundance for all.

It's about unlocking a liveable, sustainable, and affordable city for everyone who's here, and for everyone who wants to be here. Melbourne should be a city where all residents can walk down cosy streets to their local grocer, doctor, and cafe. Where all families young and old can visit a great park or playground in the long golden hours of summer—without once needing to get in the car.

The Missing Middle is about urban optimism. It's about the excitement and energy that comes from living in a dynamic, ever-changing city, and it's about embracing and relishing that process of change, creating space for all the new stories yet to be told.

To create great change, we must create great systems. We must create a planning system that is permissive rather than restrictive. We must begin again to build whole neighbourhoods—not just individual lots. And we must welcome our new neighbours with open arms, into our shared backyards.

We started YIMBY Melbourne out of love for this city. And we kept at it because we believe in the city as an organism—as a thing that grows and changes and strengthens and renews itself time and time again. We believe in a denser Melbourne, one with abundant homes where people want to live, embracing the liveable density at the heart of great cities around the world.

This aspirational vision of Melbourne is possible. There is no rule that says the city must grow outward, rather than upward. No rule that says we cannot provide more housing choices in more places for more people.

In order to meet the combined Plan Melbourne and Victorian Housing Statement goals, 560,000 homes must be delivered in existing suburbs over the next decade. But neither Plan Melbourne nor the Victorian Housing Statement have articulated a clear path toward this target.[4, 5]

This report articulates that path. Through key land use and planning reforms, we can choose as a city to build Melbourne's Missing Middle. Through medium density upzoning across Melbourne's iconic transit network, we can provide more than enough homes for the city's growing population, and enable everyone to share in the best this city has to offer.

We love this city. We love it for its energy and dynamism. We love it so much we want to share it. What follows is the best way to start doing just that.

Jonathan O'Brien
Lead Organiser, YIMBY Melbourne
lead@yimbymelbourne.org.au

"Melbourne is desperately in need of a Missing Middle policy. The city can no longer be a vertical and cramped CBD immediately flanked by single family homes. Diversity in dwellings will bring greater economic diversity of who can live in the city centre.

"If Melbourne wants to maintain its status as a world class city, it is high time to embrace smart growth through upzoning. This report supplies sensible and clear policies in that direction."

– Dr Max Holleran, Lecturer University of Melbourne

"Australia's most European city"

Density and densification are an essential part of enabling the life of the city to be shared. And when we think of iconic urban density, we think of Europe. This is especially true in the context of Melbourne, which is widely and often described as Australia's most European city.

But how do the patterns of land use and built forms of Melbourne compare to an actual European city?

Paris's built form is predominantly medium-rise, built on blocks of land large enough to support multifamily buildings, and under a planning system that enables a high level of site coverage due to an absence of setback requirements.

The land use patterns seen in Paris—ground floor commercial and retail spaces, internal courtyards, and large public enclosed squares and parks—are largely absent from Melbourne. There are pockets of this sort of development in the inner-city, but they are few and far between.

All this is to say: Melbourne's middle is missing, because it is broadly banned from being built.

The 100 most dense square kilometres of land in Paris house around 2.54 million Parisians, while the same area in Melbourne houses only 584 thousand Melburnians. But Paris's density is not the result of a small number of upzoned areas which allow huge developments—rather, it is because the city's land use rules enable a broad medium density that builds communities across the entire city.

Inner-city density: Melbourne vs Paris
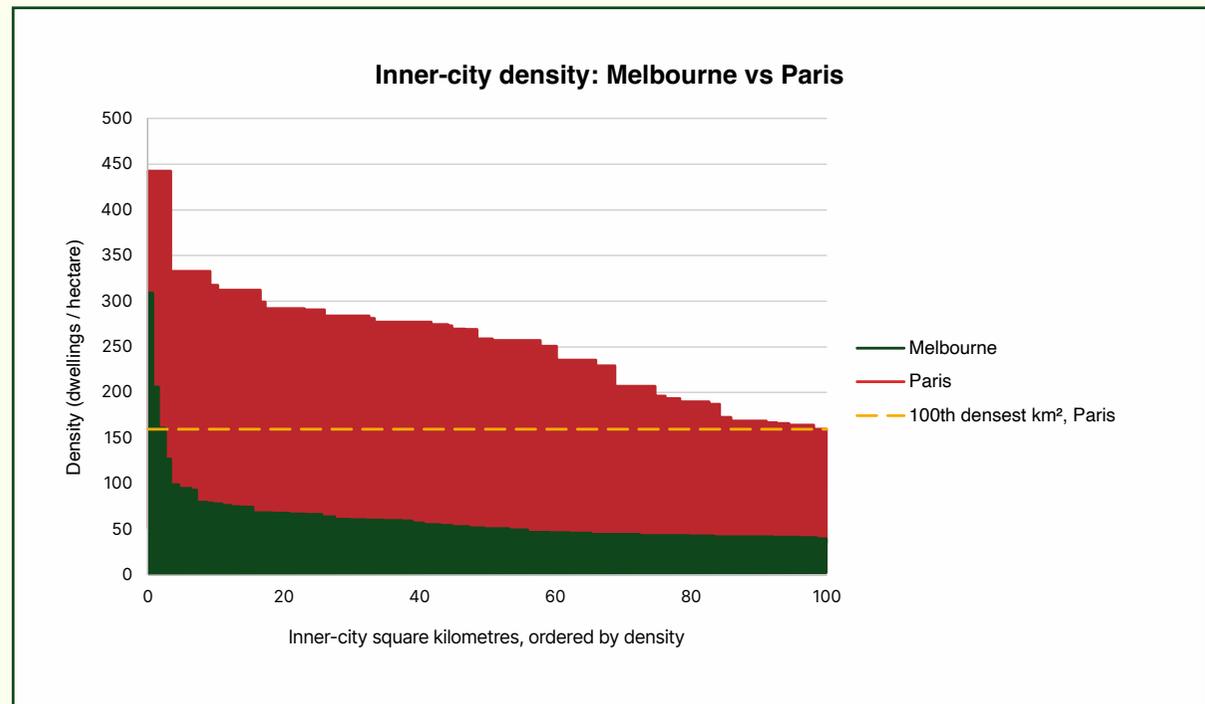
The densest 100 square kilometres of both Paris and Melbourne, compared. Only 2.37km² of Melbourne has the same density as any part of Paris's densest 100km².

Paris & Melbourne: 1st most dwelling-dense hectare

11th Arrondissement, Paris

CBD North, Melbourne

Paris & Melbourne: 50th most dwelling-dense hectare

5th Arrondissement, Paris

Kensington, Melbourne

Paris & Melbourne: 100th most dwelling-dense hectare

Les Lilas, Paris

Bentleigh, Melbourne

Inner-city density: Melbourne vs Paris

Density (dwellings/ha)

- Most dense hectare
- 100th most dense hectare
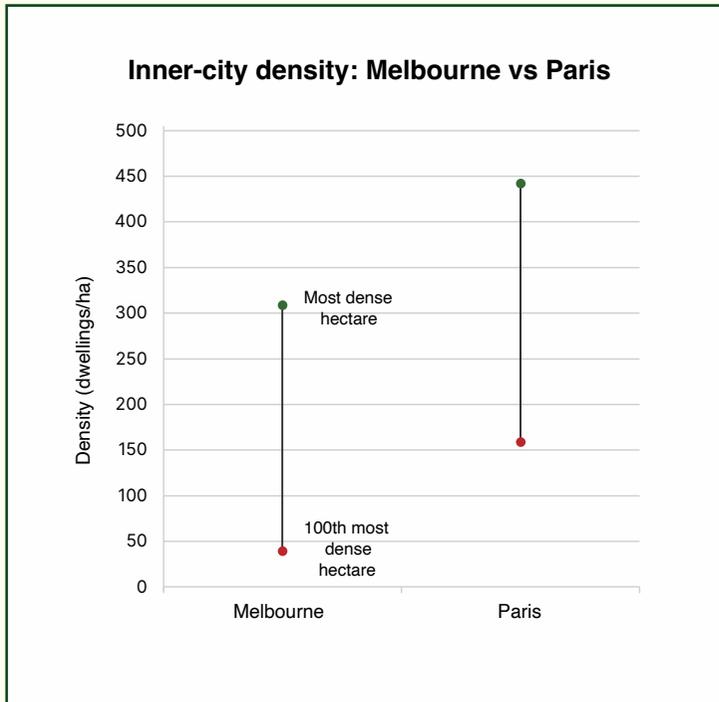
Melbourne   Paris

Despite the huge disparity in the cities' overall population densities, there is only a 1.3 times difference between the most dense area of Paris and the most dense area of Melbourne.

But Melbourne's densest square kilometre—the Hoddle Grid—is around 7.6 times more dense than the 100th densest. In Paris, the densest three square kilometres—The 11th Arrondissement—is only 2.8 times more dense than the 100th densest square kilometre.

This distribution is emblematic of Melbourne's sprawl. While our city has a very dense core,

this density falls away quickly, and is replaced with low density detached houses even in areas within walking distance of the CBD.

In cities like Paris, Barcelona, and Venice, a broader provision of medium-density enables many more people to live where the city is at its best: near transit and cultural hubs, near their jobs, and near their friends, their families, and their communities.

"Building Melbourne's Missing Middle is impossible without bold changes to our zoning and planning regulations. Paris is consistently beautiful and coherent. To achieve this—and make density not just tolerable but desirable—we must have the confidence to plan holistically again, instead of leaving our public realm up to chance.

"This is only possible if we free Melbourne from the grip of excessive restrictions on density. The work of YIMBY Melbourne literally opens the space up for beauty."

– Milly Main, Founder
Street Level Australia

Defining Melbourne's Missing Middle

Melbourne's middle urban areas are broadly underutilised, and the current Governmental approach of focusing on a small number of activity centres—while a step in the right direction—has been slow to roll out, and ignores large swathes of our urban landscape that would strongly benefit from enabling medium density.

By the Government's own estimates, currently defined activity centres will only deliver a total of 60,000 homes.[6] The Suburban Rail Loop precincts will only deliver another 140,000.[7] Given the Government's target of building 2.24 million new homes by 2051—and excluding the loss of existing homes required to enable this development—new homebuilding in defined activity centres and SRL precincts will deliver less than 10% of the new housing stock required.[8]
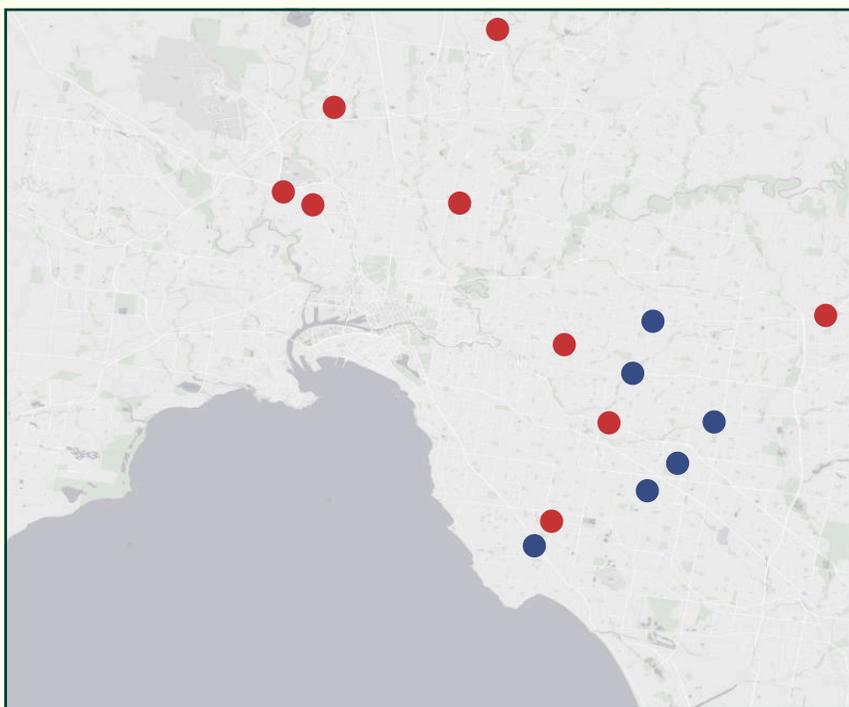
Government-identified Activity Centres (red) & Suburban Rail Loop precincts (blue).

Creating 1,922 Activity Centres

The answer to the housing supply shortage, therefore, will not be found in this handful of designated activity centres and precincts. Rather, it will be found through the delivery of permissive planning reforms across every one of Metropolitan Melbourne's existing 1,992 train and tram stops.

Melbourne's existing rail network provides frequent, high capacity transport options across the whole city, and by building near these stations, we give more people access to this network, while simultaneously providing more destinations that are close to rail.

Through broad transit-oriented upzoning and development, the Victorian Government can deliver housing abundance and provide more housing choices to all current and future residents across the entirety of the city. This will fulfil the original goal of Plan Melbourne creating a vast array of 20-minute neighbourhoods, rather than a small number of scattered activity centres.[9]

The Missing Middle Zone:
Revising the Residential Growth Zone

Definition

To provide liveable, affordable, and sustainable communities, the Missing Middle Zone (MMZ) needs to permit a wider variety of uses, building sizes and forms to make space for additional population and amenity.

The Missing Middle Zone (MMZ) is a refinement of the existing Residential Growth Zone (RGZ), and has been altered in four key ways. The MMZ:

1. Implements a default maximum height of 21 metres and 6 storeys, an increase from the RGZ's current 4-storey default.

2. Expands non-residential land uses to include a wider range of neighbourhood services & amenities.

3. Reduces mandatory parking minimums to 0.

4. Exempts from notice and review developments of any total value containing at least 10% public or community housing in perpetuity.
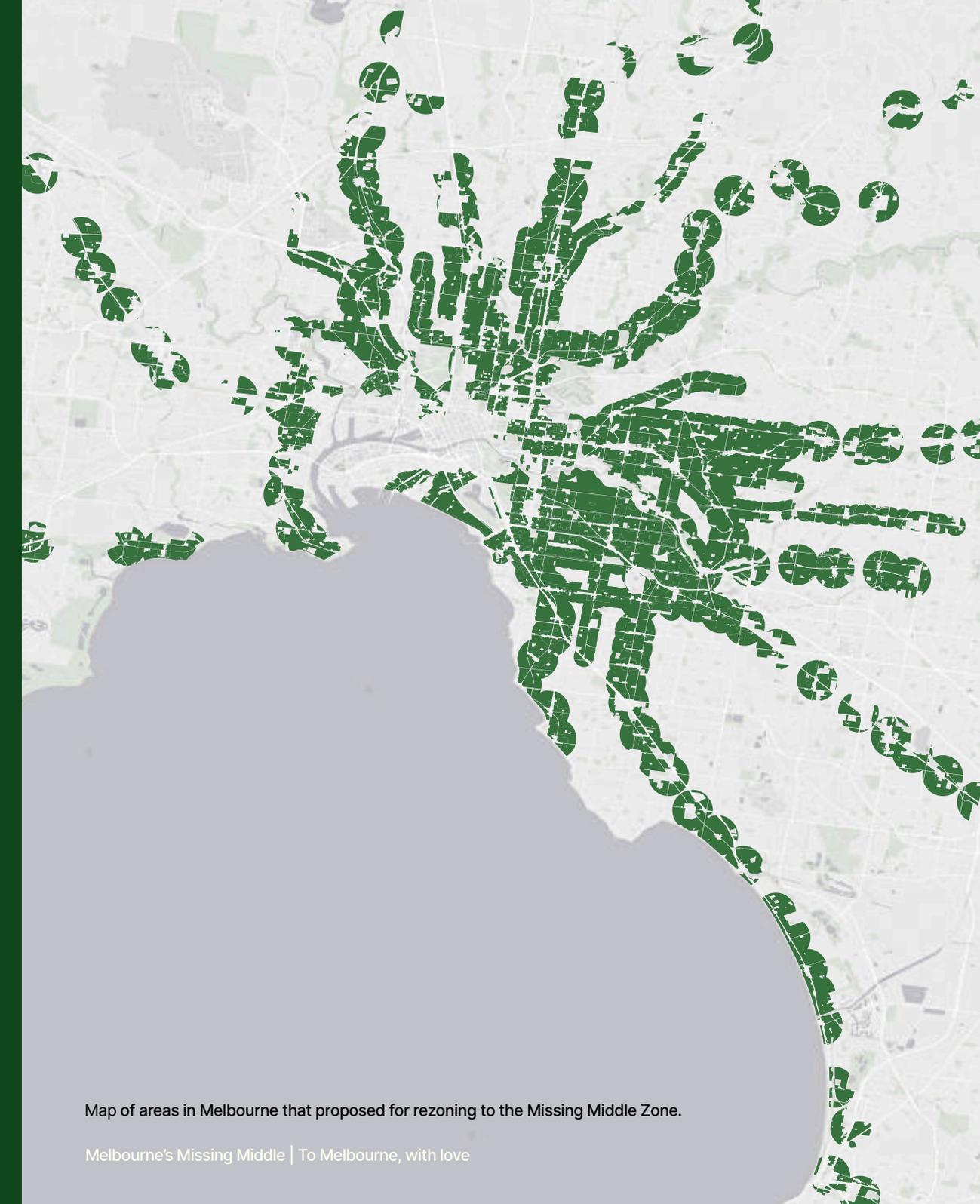
Map of areas in Melbourne that proposed for rezoning to the Missing Middle Zone.

Placement

To enable sustainable growth that serves all Melburnians present and future, all residential land within 1km of train stops and 500m of tram stops should be upzoned to the new Missing Middle Zone.

This upzoning should apply to all land around transit currently designated as part of a Neighbourhood Residential Zone (NRZ), General Residential Zone (GRZ), Low Density Residential Zone (LDRZ), Residential Zone 1 (R1Z) or Residential Growth Zone (RGZ).

The area proposed to be upzoned currently provides an estimated 596,000 dwellings. Under the MMZ, the same area would be able to provide more than 5 million dwellings—far exceeding the 2.7 million required under Plan Melbourne population targets.[10]

Upzoning more land than is necessary to provision for population growth gives public and private planners the flexibility to deliver amenity—parks, libraries, and other community services—alongside abundant housing choices.

Recommendation 1

Introduce the Missing Middle Zone (MMZ), enabling six-storey, mixed-use development. Upzone all existing residential land located within 1km of train stations and 500m of tram stops to the MMZ.
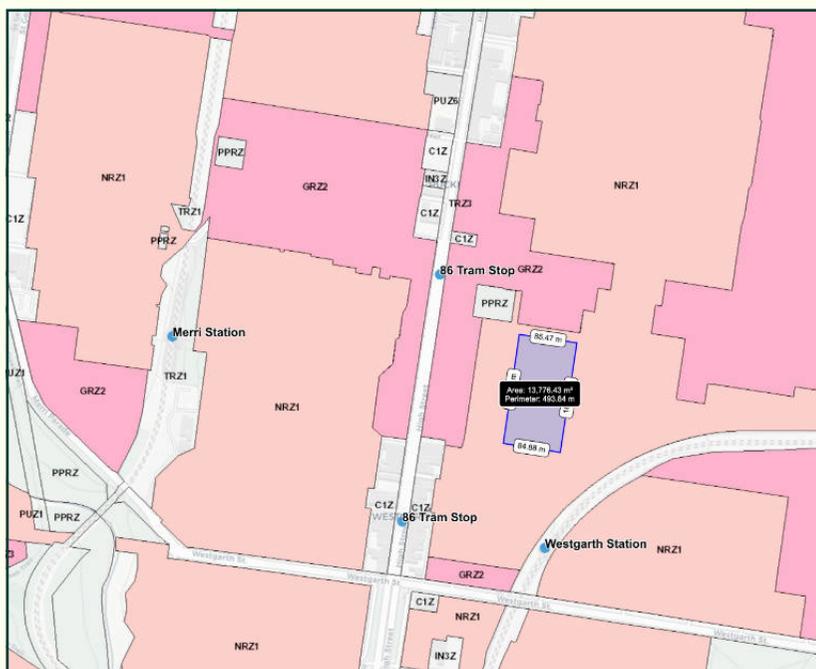
Despite being within walking distance of tram, train, and cycling infrastructure, all the land above is zoned for either 2 storeys (Neighbourhood Residential Zone (NRZ)), or 3 storeys (General Residential Zone (GRZ)).

The selected rectangle is a single block, currently encompassing 35 dwellings. The footprint of a six-storey, mixed-use building has been overlaid on each of the four corners, comprising a total of 172 dwellings on 30% of the site.

Demonstrating a medium density blueprint: Northcote

We can build an understanding of how the Missing Middle Zone enables the provision of both density and open space through a tangible example.

Let's take a single Northcote block. The block is currently designated Neighbourhood Residential Zone (NRZ), despite being within walking distance of two train stations and two tram stops.

This block currently provisions 35 dwellings across almost 13,900 square metres of land. Under NRZ rules, subdivision may enable the block in its current configuration to provide up to approximately 50 dwellings total.

But the capacity to provide homes through subdivision of land zoned for low density is significantly limited, deeply inefficient, and contributes to land fragmentation.

Upzoning and lot consolidation, on the other hand, enables the delivery of more homes within a smaller footprint, leaving greater space for green space and amenity. In this example, each footprint represents a six-storey mixed-use development, each delivering 43 dwellings and two spaces for local businesses.

By delivering four of these builds on the block above, the same amount of land provides 172 dwellings—a fivefold increase—across just 30% site coverage.

This configuration enables 70% of the site to be used for greenspace and other amenities, creating a large communal backyard for the many, in the place of 35 small backyards for the few.

This degree of aspirational, neighbourhood-level planning, would be made possible across Melbourne's inner-city through the broad implementation of the Missing Middle Zone.

Upzoning the city beyond transport-rich areas

While this report focuses on the provision of the Missing Middle Zone around existing transit infrastructure, the Government must in addition to this undertake broad upzoning to enable more development in existing suburbs.

While the MMZ enables a thriving Parisian-style density for Melbourne, broader upzoning of all land currently designated Neighbourhood Residential Zone (NRZ) or equivalent will encourage a more diverse array of housing options across the city through an increase in gentle density.

Local communities and businesses that aren't as closely situated to Melbourne's vast train and tram networks also deserve to reap the benefits of urban agglomeration.

The COVID-19 shift led us away from the CBD and back toward the suburbs, giving Melbourne a taste for true suburban community. We went to local cafes down quiet streets, met neighbours we didn't know existed, and discovered parks and trails we had only ever driven past. The return to the office, the slow unwinding of work-from-home, and cars reclaiming our streets have put the brakes on this suburban reawakening. Gentle density through broad upzoning is the key to bringing back the suburbs bigger and better than ever before.

Through allowing more local businesses, alongside a broader customer base, this kind of reform could even bring about the return of the iconic corner milk bar.

This kind of suburban upzoning is low-impact and effective. Auckland's upzoning of residential land that took land that only permitted single detached homes and allowed townhouses and small apartment buildings is a powerful example of how a city can be transformed for the better through a modest, but broad-based change.

Inspired by the success of Auckland's reforms, explored over the following page, YIMBY Melbourne endorses a complete elimination of the current NRZ across Metropolitan Melbourne, and its replacement with the General Residential Zone (GRZ). In turn, all land currently zoned GRZ should also be upzoned to the Residential Growth Zone (RGZ).

> "Housing affordability is not rocket science—it is a function of incomes and prices. We need to give low-income households more purchasing power, and build more houses to lower costs. Reforms to achieve this are simple, and many of them have been proven overseas. The time for debate is over—we need action, else Australia will fall further behind the rest of the world." [11]
>
> **– Matthew Maltman,
> Research Economist**

Williamson Avenue, Belmont, Auckland.

Lake Road, Narrow Neck, Auckland.

To see how broad upzoning has begun to transform Auckland we can look to the dual examples of Williamson Avenue, Belmont (top image pair), and Lake Road, Narrow Neck (bottom image pair). Both locations are located around 14km from the Auckland CBD—about a 36 minute bus ride.

In the case of Belmont, upzoning enabled a single three-bedroom detached dwelling to be transformed into four new four-bedroom homes. In the case of Narrow Neck, two old weatherboard houses were replaced with twelve four-bedroom apartments. Matthew Maltman on his website, One Final Effort,

explores many more of these examples of the Auckland upzoning experience.[12]

Broad upzoning of Melbourne's NRZ areas would reflect Victoria's ambition to not only meet but surpass the National Housing Accord targets. This process would meaningfully increase density across the state and further enable public and private development to provide affordable homes where people want to live. 🏢

Recommendation 2

Upzone all Melbourne land currently designated Neighbourhood Residential Zone (NRZ) to General Residential Zone (GRZ), and all GRZ land to Residential Growth Zone (RGZ).

Better lives in a bigger Melbourne

Better lives in a bigger Melbourne
Housing for anyone benefits everyone

"Committee for Melbourne recognises the importance of delivering an appropriate mix of housing, close to amenities and transport options. The Committee's Benchmarking Melbourne 2023 report, which examines Melbourne's performance against 19 global peer cities, highlights a 'Tale of Two Cities' emerging in across Greater Melbourne.

"Whilst there are highly rated and widely enjoyed amenities in the centre of the city, there is less access to public transport, green spaces, services, experiences and entertainment, the further you live from the CBD. The Committee supports ideas and thought leadership that might help to deliver more housing options, at an affordable level, in the middle suburbs of Melbourne."

– Mark Melvin, CEO
Committee for Melbourne

Melbourne is consistently ranked as one of the world's most liveable cities,[13] and for good reason: our city is the creative and cultural hub of Australia, with beautiful parks within and just outside our boundary, and a world-class quality of life thanks to our robust healthcare system.

However, the often-cited liveability indexes do not take into account one of the most important aspects of actually living in a city: access to secure, affordable housing.

Due to this factor's exclusion, even as housing prices have soared, Melbourne has held onto its strong reputation for "liveability".

As housing in established suburbs has become increasingly scarce and expensive, Melbourne has increasingly become what the Committee for Melbourne calls a "tale of two cities".[14]

The first is a city for the wealthy, with access to great services and amenities. The second is a city for the systematically disadvantaged, those priced out of the amenity-rich inner-city and forced to live on the city's ever-expanding fringe, in areas with little access to community, transit, and other key infrastructure.

Rather than prioritising a ballooning expanse of individual backyards, Melburnians must come to understand parks and other public third spaces as the urban backyard. Indeed, these places should be conceptualised as the new Australian backyard.
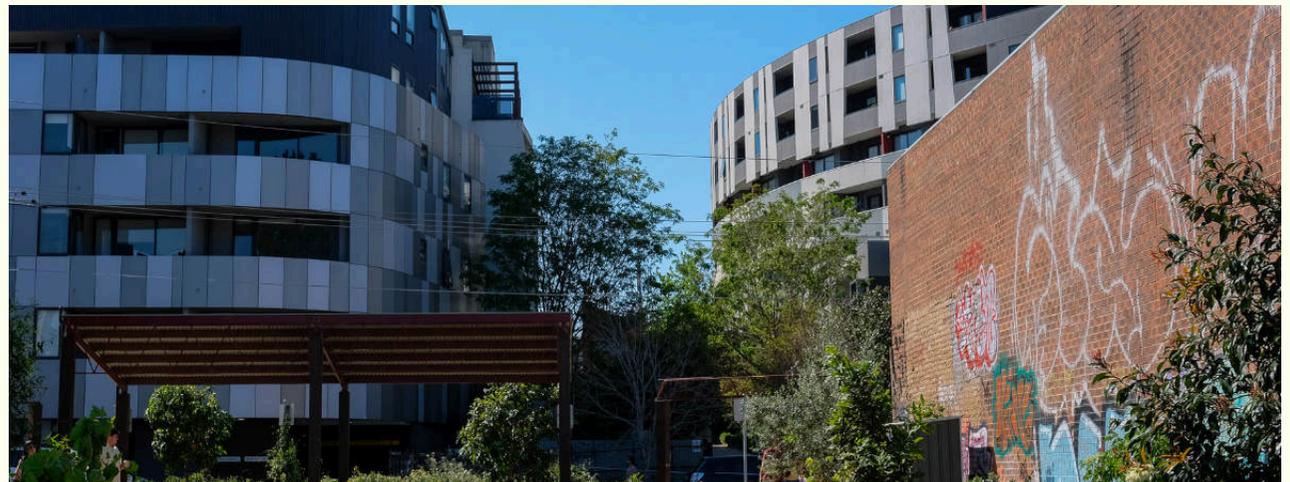
Ending Melbourne's housing affordability crisis

Throughout this year we've heard challenging stories about the suffering brought on by our current housing crisis. Earlier this year, Shaye, a mother, asked the Victorian Legislative Council Legal and Social Issues Committee:

> "Am I just bringing up my children to shove them into a housing crisis where they do not even get to see the world or buy a concert ticket? That is disgusting. What is the point?" [15]

Making Melbourne affordable is the city's moral responsibility, and building Melbourne's Missing Middle provides a pathway to fulfilling that responsibility.

The Auckland experience significantly reduced rents after upzoning more than three-quarters of its residential land, highlighting how a surge in housing supply has significant positive effects, reducing rents in real terms.[16] Recent evidence suggests that Auckland's rents are 14-35% lower than they otherwise would have been.[17] This aligns with the existing literature, including the case study from Minneapolis (left), which overwhelmingly shows that more supply reduces housing costs at both a neighbourhood and regional level.[18, 19, 20, 21]
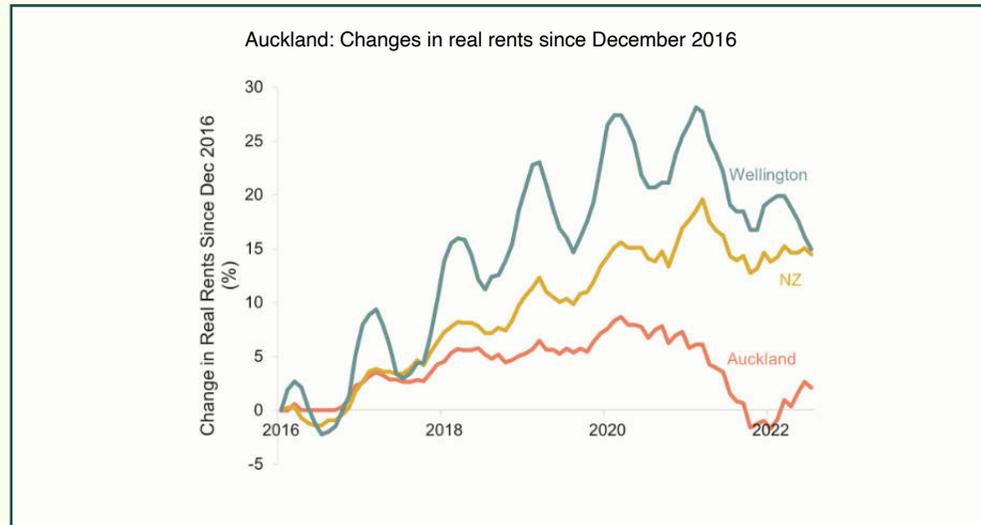
Since upzoning 75% of its urban area in 2017, real rents in Auckland have fallen astronomically.
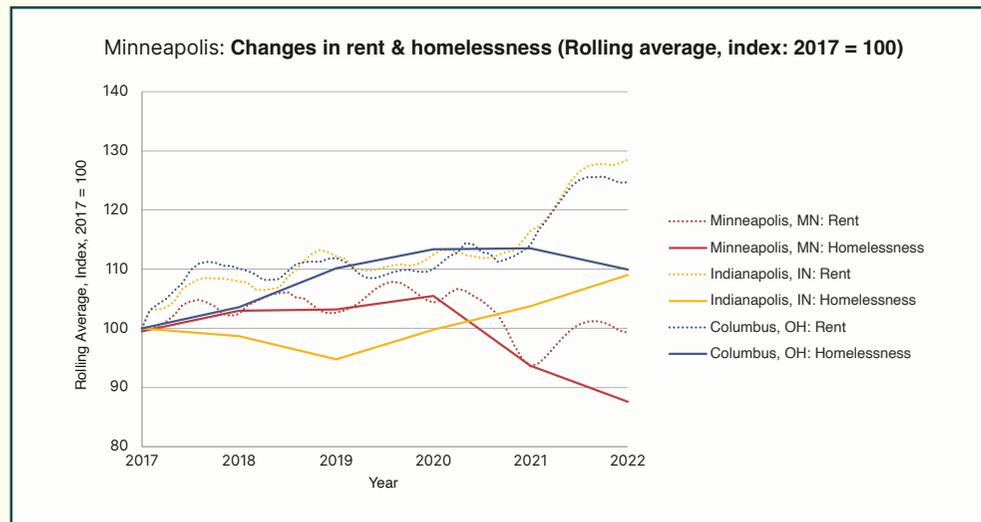
Since upzoning much of the inner-city in 2020, Minneapolis has seen significant rent and homelessness decreases.

Reducing overcrowding and displacement

Building more homes where people want to live also provides a potent, and simple, solution to the overcrowding experienced in high-amenity suburbs.[22]

Because more people want to live in our inner and middle suburbs than current supply can handle, people—predominantly renters—are forced to either move away or overcrowd their housing in order to minimise costs. Under the current regime of housing scarcity, it is not uncommon for students and other renters to face the choice of either renting a sharehouse couch for $400 a week, or travelling well over an hour to get to class each day.[23, 24, 25]

By providing more diverse and dense housing across Melbourne, more people will be able to live both near their work and within their communities. These housing options will enable children to remain near their parents when they move out, and enable international and interstate migrants to live near their existing community networks.

Building Melbourne's Missing Middle will reduce the number of tradeoffs people have to make when choosing their home, and enable everyone from large families to single renters to find housing that suits their wants and needs.[26]

Mitigating the effects of gentrification

Another important beneficiary of Melbourne's Missing Middle are low-income renters, who are predominantly at high risk of displacement.[27, 28]

The common perception that high development volumes cause displacement is misguided. Development only occurs at scale when an area has already become desirable, and prices have already begun to rise as a result. Empirical evidence overwhelmingly shows that in gentrifying areas where new construction takes place, rents remain lower than in equivalent gentrifying areas where new construction is blocked.[29] Furthermore, despite ongoing suggestions to the contrary, numerous independent studies have failed to identify an increased rate of displacement as a result of gentrifying neighbourhoods.[30]

In simple terms: gentrification is caused by rising prices, and not the other way around. The best way to combat gentrification is to build more homes where people want to live.

"Building Melbourne's Missing Middle, including fixing our planning system to 'legalise Paris', would help provide more housing options at lower prices for more people, located closer to where they would most prefer to live.

"We support the work of YIMBY Melbourne because we believe that it's critical to building a more beautiful, liveable, and accessible city."

– Jeremy Lawrence, President
Streets Alive Yarra

> "Integration of land use and public transport planning and delivery is vital to give Melburnians affordable access to jobs, education and other services. It's also our best path to more liveable and sustainable communities."
>
> – Public Transport Users Association (Melbourne)

Reducing the housing-inclusive urban wage penalty

While high-skilled workers tend to earn an overall urban wage premium, this is not true for low-skilled workers. For these workers, high inner-city housing costs outstrip the urban wage premium, resulting in an overall urban wage penalty.[31]

This means that even though both a lawyer and a cleaner in the inner-city will each earn higher total incomes than in the equivalent roles in regional areas, after housing costs the cleaner is likely to effectively make less.

By reducing housing costs by building more homes where people want to live, Melbourne's Missing Middle provides a clear path toward reducing the urban wage penalty, and making our city more affordable for people across a broader range of skills, incomes, and life stages.

Freeing up the costs of car dependency

Focusing provision of the Missing Middle Zone unlocks additional affordability for more Melburnians by offering abundant housing in areas with a diversity of active and public transit options.[32] This enables more Melburnians to live without needing to rely on their cars, cutting down on fuel expenditure and ensuring that car ownership is an optional rather than necessary part of living in the city.

The removal of car parking minimums within the Missing Middle Zone also serves to reduce housing costs for residents who do not wish to pay for an empty parking space. Each parking spot, according to a Merri-bek Council study, increases the cost of an apartment by upwards of $56,000—more than 10 months of wages for the median working Victorian.[33,34]

Under several existing planning schemes in metropolitan Melbourne, one- and two-bedroom departments require a single car park each, whereas three-bedroom apartments require two car parks—meaning that family apartments are an estimated $112,000 more expensive due to parking minimums, which are applied regardless of whether the family owns a car.[35] This cost is being felt all across Melbourne, with RMIT researchers estimating that 40% of residential parking spaces are empty.[36]

Here we echo Infrastructure Victoria, who have highlighted previously how the removal of car parking minimums will incentivise the development of more family apartments.[37] Making family apartments both abundant and affordable is a key part of making apartment living aspirational for Victorians at different stages of life, and unlocking housing choices for all.

"Australian cities have an abundance of affordable, subsidised and often free homes—but only for cars." [38]

– Elias Visontay, Transport and
urban affairs reporter
The Guardian
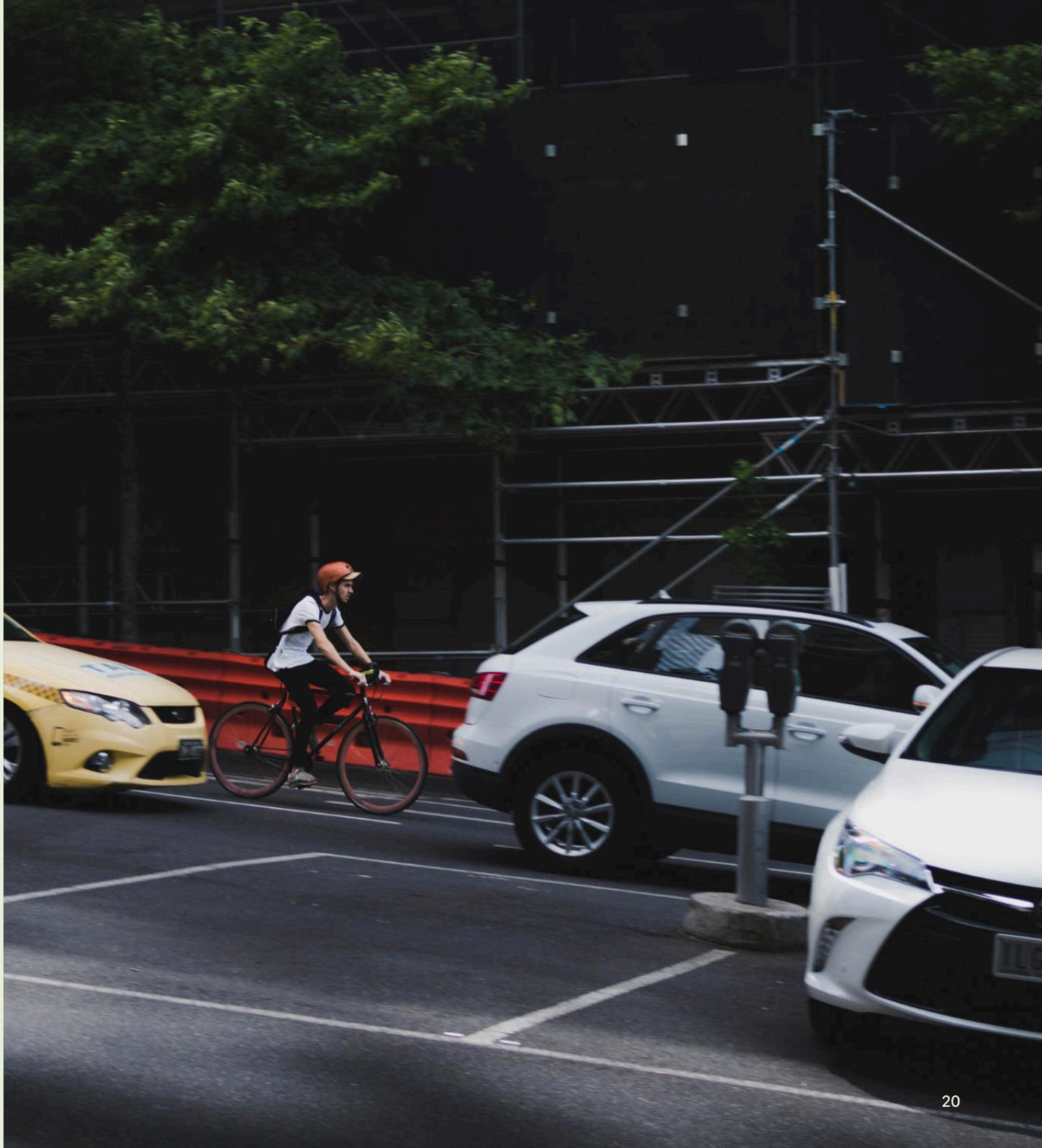
Reducing homelessness by building more homes & shelter

Housing is a fundamental human right, and to experience homelessness is to experience the loss of the grounding and security that should be universal in a wealthy society. While an episode of homelessness may occur for someone in any socioeconomic bracket, within a functioning society every one of these episodes should be "brief, rare, and non-recurring".[39]

Where homelessness is not brief, it is inextricably tied to housing supply and affordability. To state the obvious, the best way to end a person's experience of homelessness is for them to have a home. But where market housing is scarce and expensive, and community and public housing is under-provisioned as a proportion of total stock, a given episode of homelessness may end up extended.

In their 2022 book *Homelessness is a Housing Problem* Colburn & Aldern analyse cities and counties across the United States to demonstrate the significantly lower rates of homelessness in areas with greater housing supply and affordability.[40] These lower rates, they show, occur because a reduction in housing choices for those facing crisis, illness, domestic violence, or another precipitating event, makes it more likely that their homelessness will become an entrenched, rather than transient, experience.

With its provision of abundant market housing supply as well as incentivised tangible inclusionary zoning of 10% social housing per build, Melbourne's Missing Middle provides a tangible structure for supporting the reduction of homelessness.

By housing more people who have experienced or are at higher risk of experiencing homelessness in amenity-rich areas, we can create a system of support that enables those most in need to remain secure in their housing tenure, and for any episode of homelessness to be as it should be: brief and non-recurring.

Introducing shelter targets alongside housing targets

Effective homelessness intervention should occur as early as possible in the homelessness cycle. This intervention process begins well before the provision of housing, and often takes the form of short-term shelter services. These services enable people experiencing a homelessness episode to feel secure, and create space for homelessness professionals to provide support tailored to the needs of the individual, beginning the process of long-term interventions.

An effective homelessness policy, therefore, involves not only the provision of more housing, but also the provision of more shelter in the interim. As part of Melbourne's Missing Middle, local and state government bodies should adopt binding shelter targets alongside housing targets, ensuring that enough shelter is built and provided, in order to ensure a holistic and effective approach to ending homelessness.

"Launch Housing has a mission to end homelessness in Melbourne, and we know what the solution is—more housing combined with more tailored support services.

"We need investment in permanent supportive housing to break the cycle of homelessness and ensure no one is left behind.

"To create truly liveable cities, we need a committed community and the right investment in prevention and support."

**– Bevan Walker, CEO
Launch Housing**

Recommendation 3

Increase access to shelter across the city through the implementation of shelter targets across jurisdictions with the goal of ending street homelessness by 2030.

Earning the urban economic bonus

As a creative hub, Melbourne is no stranger to the agglomeration benefits of the city. The city's reputation for diversity, creativity, and community precedes it, and creates a flywheel effect. But as housing supply has failed to keep up with the pace of this flywheel, living in the city has become incredibly expensive—specifically because so many people want to benefit from the city's momentum.

Enabling people to live in the city is a good thing. Not only is it a moral good, but also an economic good: by building Melbourne's Missing Middle, we can increase productivity and wages, while reducing government service delivery costs. This will enable our city to grow its economy, without pricing out the incredible and creative people who make this place what it is.

Increasing productivity and wages

Massachusetts Institute of Technology, University of Queensland, Macquarie Business School, and the Federal Reserve Bank of New York have all produced studies and reports highlighting the correlation between increased density and improved productivity across industries.[41, 42, 43] These productivity gains not only increase the city's overall economic output, but also increase workers' wages by between 1 and 4%.[44]

An abundance of affordable housing close to agglomerative economic centres increases worker disposable income and spare time by reducing commute time and costs. It also increases the number of employment choices available to a given worker, increasing their bargaining power in the labour market, enabling them to find more suitable employment tailored to their specific skill set.[45]

Creating markets for small businesses

Another key benefit of dense, mixed-use development is a broader base of local customers for local businesses. This not only enables existing businesses to further flourish through a larger customer base, but also allows for more boutique stores, restaurants, and cafés to be viable, due to increased community diversity.[46] As Melbourne's highstreets face high commercial vacancy rates in the aftermath of COVID-19, an increase in density is a key way to breathe life back into the countless empty shop fronts that litter our suburban landscapes.

This increase in the range and diversity of commercial services would greatly contribute to placemaking and community-building across our suburbs, in addition to providing a broader range of local employment opportunities for those who choose to live there.

Enabling cheaper per-dwelling service delivery

The state government will also reap the economic benefits of increased density.[47]

New greenfield development involves substantial investment in new infrastructure, such as roads and utilities connections. The NSW Productivity Commission found that outer suburban developments in Sydney cost $75,000 more per new home than the infill equivalent.[48]

Through a reshuffling of development incentives and planning permissions, the Victorian Government could substantially increase the proportion of infill housing built per year. Infrastructure Victoria analysis suggests this could reduce per-dwelling infrastructure spending by up to 75%.[49]

By reducing the development of additional suburban sprawl, the Government can provide better infrastructure for more people, focusing on existing infrastructure upgrades, enabling the government to reallocate capital to improving existing under-serviced suburban sprawl.

Creating a more sustainable Melbourne

The housing crisis sits at the intersection of the cost of living crisis and the climate crisis. Densification, and building homes around active and public transport options, is key to reducing the per-capita emissions of Melburnians.

Inner-city residents produce far fewer emissions than their suburban counterparts.[50] Meanwhile, the city's ever-expanding urban sprawl threatens Victoria's biodiversity and natural habitats, and the excessive protection of outdated buildings entrenches energy-inefficient dwellings, forcing renters and owners to spend more on heating and cooling, all while producing more greenhouse emissions.

Building Melbourne's Missing Middle will ensure that Melbourne's population growth is distributed in a way that nurtures better environmental outcomes for the city, the state, and the planet.

Creating an energy-efficient future

Melbourne's ageing housing stock presents significant challenges for emissions reduction, as a majority of existing homes fall far short of modern energy efficiency standards.

Heating and cooling accounts for nearly 40% of the average household's energy use, with older homes requiring far more energy to regulate temperature.[51] This problem is felt most acutely within our existing rental stock. While homeowners can utilise a suite of energy efficiency improvement programs and subsidies, renters are at the mercy of their landlords. Better Renting's recent report, *Power Struggles: Renting in Winter*, highlights the utterly inadequate energy performance of our rental stock: 90% of Victorian rentals measured had indoor temperatures below 18°C—the World Health Organisation's recommended minimum indoor temperature.[52]

With Melbourne's rental vacancy rate as low as 1.1%, renters' bargaining power is limited, all but forcing them to accept substandard environmental conditions and increased energy bills in older buildings.[53]

In recent years, the Victorian and Federal Governments have made vast improvements to the standards for new builds through the Better Apartment Design Standards and the National Construction Code respectively. As it is much easier to legislate and verify the quality of new builds than existing builds, one of the most cost-effective ways for the government to enable renters to access more environmentally friendly housing stock is to simply allow more homes of a modern standard to be built where people want to live.

"Every new home built to modern energy performance standards is another chance for someone to secure a decent, healthy home. Alongside retrofitting the existing housing stock, building more good homes makes it easier for renters to find a home that they can afford to keep at a healthy temperature all year round."

– Joel Dignam, Executive Director
Better Renting

Reducing emissions and car-dependence

Since the introduction of the 1954 *Melbourne Metropolitan Planning Scheme*, Melbourne has been held hostage by a culture of car-dependence.[54] Over the past 70 years, most major planning documents in Melbourne and Victoria have contained major carve outs for automobile-centric design and planning. Many of these plans have been informed by the American Dream, which was imported to Australia in the post-war era, and has led to the duplication of America's car-dependent suburbia across Melbourne and Australia at large.

It is no surprise, then, that the number of passenger vehicles per capita in Victoria has doubled over the past thirty years.[55] This is in no small part because of the enormous portion of housing stock being delivered in greenfield developments of detached, single-family housing, on an ever-expanding urban fringe.[56]

This sort of development, which often has little access to transit and other amenities, leaves households on the urban fringe with no option besides car dependence—and leads to an additional 4.4 tonnes of CO_2 per household per year from transit alone, and 8% more emissions overall when compared to those living in the inner-city.[57, 58] Urban policy that targets the reduction of car-dependent lifestyles must be a priority for Victoria to meet its stated emissions reduction targets.

Recommendation 4

Reduce per-capita emissions by significantly increasing the proportion of Melburnians living in areas with an abundance of active and public transport options.

Protecting our state's biodiversity

Suburban sprawl swallows bushland, and replaces diverse ecologies with concrete and lawns—neither of which create good environmental outcomes.[59]

Infill development, on the other hand, enables governments and planners to deliver more biodiversity within our inner-city through greater provision of high-quality public parkland in lieu of individual backyards.

By focusing on densification, we can create better environmental outcomes for Melbourne and Victoria more broadly, and protect existing parklands while nurturing biodiversity through the creation of new public parks across existing suburbs. 🏢

Recommendation 5

Increase inner-city biodiversity through the provision of additional public parkland across consolidated lots.
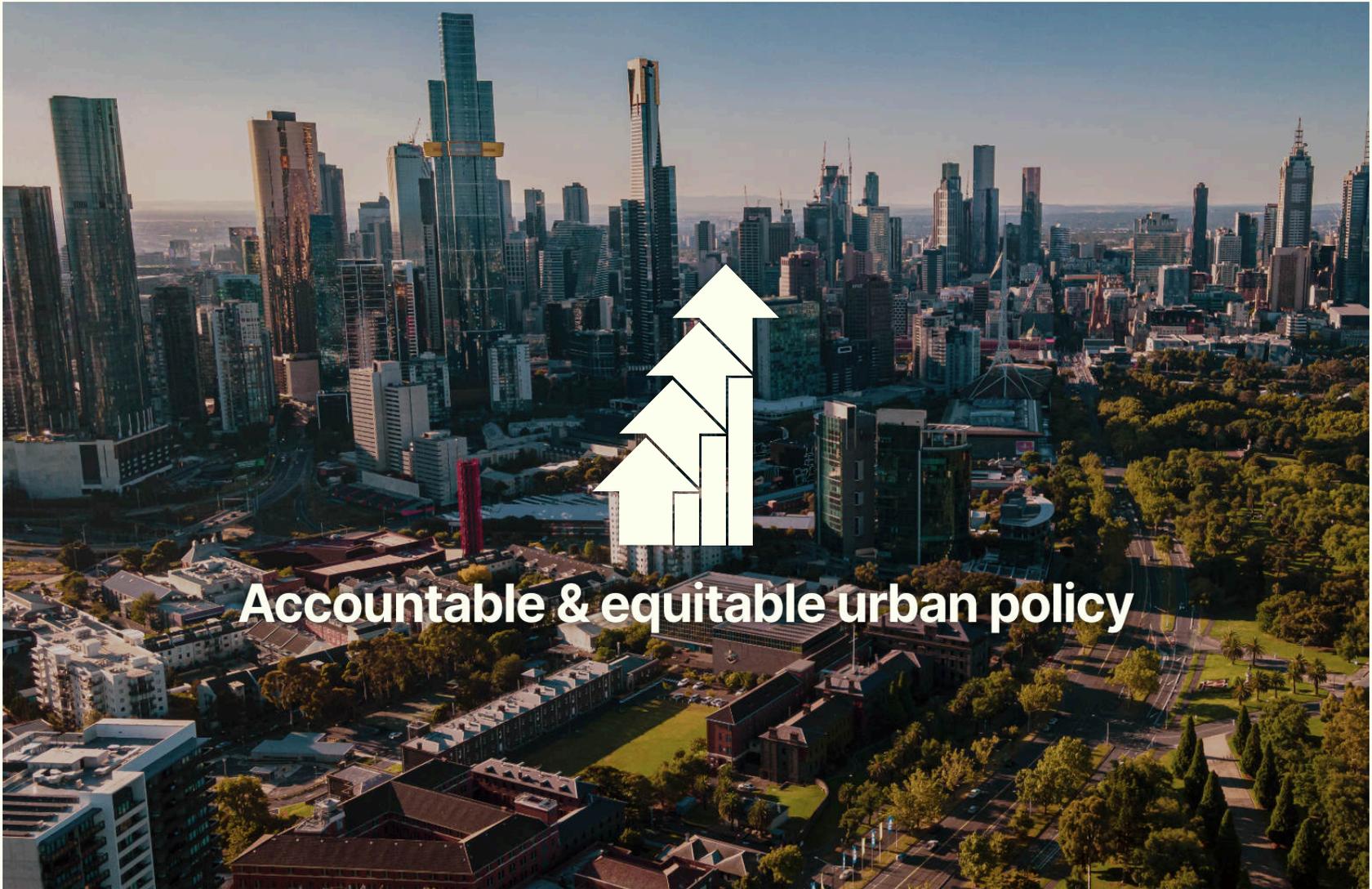
Accountable & equitable urban policy

Accountable & equitable urban policy
Planning to build, not planning to wait

A mainstay of conversations about planning reform is a frustration with the complexity of the system. Pull on one thread, they say, and you spend two weeks unravelling half a blanket.

Part of the reason the system has become so complicated is that it lacks checks and balances. There are no binding targets or performance indicators used to moderate the ever-expanding *Planning and Environment Act 1987*, no outcomes-driven super-structures. Instead, the planning system is preoccupied with processes, rather than its purpose, which is to deliver homes and infrastructure in the places where people want to live.

"The housing challenge facing Melbourne is daunting and requires radical changes in thinking if we are to solve it. Building Melbourne's Missing Middle is a logical part of the solution by providing meaningful amounts of housing where people want to live and work.

"I congratulate YIMBY Melbourne on its leadership in this space and the courage to step up and provide constructive alternatives to the current paradigm. Some of these suggestions are challenging, but it's time we had a conversation about significant changes to our city rather than tinkering around the edges."

– Colleen Peterson, CEO Ratio

Building better housing targets and metrics

"Local councils are biased against the housing we need. They represent local residents, not the direct beneficiaries of the new housing—the potential residents who typically come from outside the area. To offset these biases and build Melbourne's Missing Middle, the State government should set and enforce high housing targets for each council."

– Peter Tulip, Chief Economist Centre for Independent Studies

Within the current planning system, the State Government provides a framework for housing delivery, which is then actioned through housing strategies determined by individual local councils. It is at each council's discretion how detailed and outcomes-based their housing strategies are, as there are currently no targets or performance indicators keeping local councils accountable to the needs of Victoria's growing population.

This dynamic greatly contributes to the city's chronic underutilisation of land, and strongly indicates the need for consistent frameworks at the city or state level to ensure enough homes are built where people want to live.[60]

No council operates in a vacuum. When one local government area under-delivers housing stock, demand rises across the entire region. The opposite is also true, meaning that councils that don't deliver housing are being subsidised by those that do.

Regardless of the system of delivery—be it independent planning panels, councils, or departmental processes—the annual net increase in dwellings must be tracked against clear targets. The government should ensure that the institutions responsible for our planning systems meet or exceed these targets, and are penalised in the case that they do not.[61] This net increase metric will need to be applied to subsets of housing types. For instance, social housing targets should also be set.

Only through transparent measurement and reporting will Melbourne be able to achieve housing abundance, and deliver diverse housing options where people want to live.

Recommendation 6

Introduce clear housing targets for all planning bodies to ensure all decisions and processes are outcomes-oriented. Exceeding targets should be rewarded, and failing to meet them should be penalised.

Removing damaging demand-side and developer subsidies

Over the past decades, a series of incentives created by state and federal governments have induced outsized demand for suburban greenfield housing developments over infill housing.

This has led to a set of policy conditions that have undermined the stated goals of Plan Melbourne, and exacerbated the housing crisis.

Growing out of demand-side subsidies

One of the most recent examples is Victoria's First Home Owner Grant (FHOG) and the associated stamp duty tax concessions. This is a prime example of the Government's demand-side policies working directly against its own infill housing targets.

Beyond the well-documented evidence that these programs only benefit home sellers by increasing house prices, they also shift first-home buyer demand away from established suburbs and toward greenfield areas.[62] [63]

The FHOG applies only to new builds, and the full gamut of incentives only applies to properties priced up to $750,000. The combination of subsidised and less complex greenfield development, as well as buyer subsidies and artificially restricted infill development, has created a perverse demand cycle. For the past decade, developers have focused on low-risk greenfield developments, demand for which has been fuelled by demand-side subsidies and tax concessions.

There is no excuse to continue programs as devastating as the FHOG.[64] Due to the program's colossal costs—estimated at around $3.6 billion—and its inefficiency as a housing affordability program, FHOG needs to be abolished rather than reformed.[65]

This report again implores the government to abolish stamp duty altogether and to replace it with a broad-based land tax. For a full assessment of stamp duty's deleterious impacts on housing affordability, see YIMBY Melbourne's submission to the 2023 Inquiry into Land Transfer Duty Fees.[66]

> **Recommendation 7**
>
> Abolish demand-side subsidies such as the First Home Owner Grant (FHOG), which distort market housing preferences, and replace stamp duty with a broad-based land tax.

Increasing developer contributions in growth suburbs

Greenfield development usually attracts a significant fee from the developer, known as the Growth Areas Infrastructure Contribution (GAIC), in order to subsidise the necessary infrastructure surrounding a new build. Set at $110,590–$131,360 per hectare developed, or around $6,100 per dwelling, on the surface this sounds like a significant levy on development.[67]

However, research by SGS Economics and Planning shows that this covers only 12% of total greenfield infrastructure costs, leaving taxpayers footing the bill of an additional $1 million per hectare—or $50,000 per additional dwelling.[68] In substance, Victorian taxpayers are providing a significant subsidy to developers to build more houses on the urban fringe.

In order to successfully increase the delivery of infill housing, the GAIC should be increased significantly in order to reduce market distortions, make infill development more attractive, and ensure infrastructure costs are burdened more equitably, saving significant taxpayer dollars.

Recommendation 8

Increase the Growth Areas Infrastructure Contribution (GAIC) to more accurately represent the costs of greenfield development.

Making apartments cheaper in both relative and absolute terms

In its *Our Home Choices* report, Infrastructure Victoria demonstrated that a 10% price drop for apartments and townhouses in established areas, combined with a 10% rise in detached homes in growth areas, reduced greenfield demand by 17%.[69]

This is supported by Grattan Institute's The Housing We'd Choose report which found that relative to demand, there were "large shortages of semi-detached homes and apartments in the middle and outer areas of [Melbourne]".[70]

These combined findings suggest a strong demand for denser living in well-located areas. It is essential that we reform our planning system and incentives to deliver an abundance of this supply.

"Our research shows that the cost of infrastructure in growth areas can be up to four times higher than in established suburbs. The current charge doesn't reflect the true cost of infrastructure needed to service greenfield communities. That means it is sending the wrong price signal." [71]

– Jonathan Spear, CEO
Infrastructure Victoria
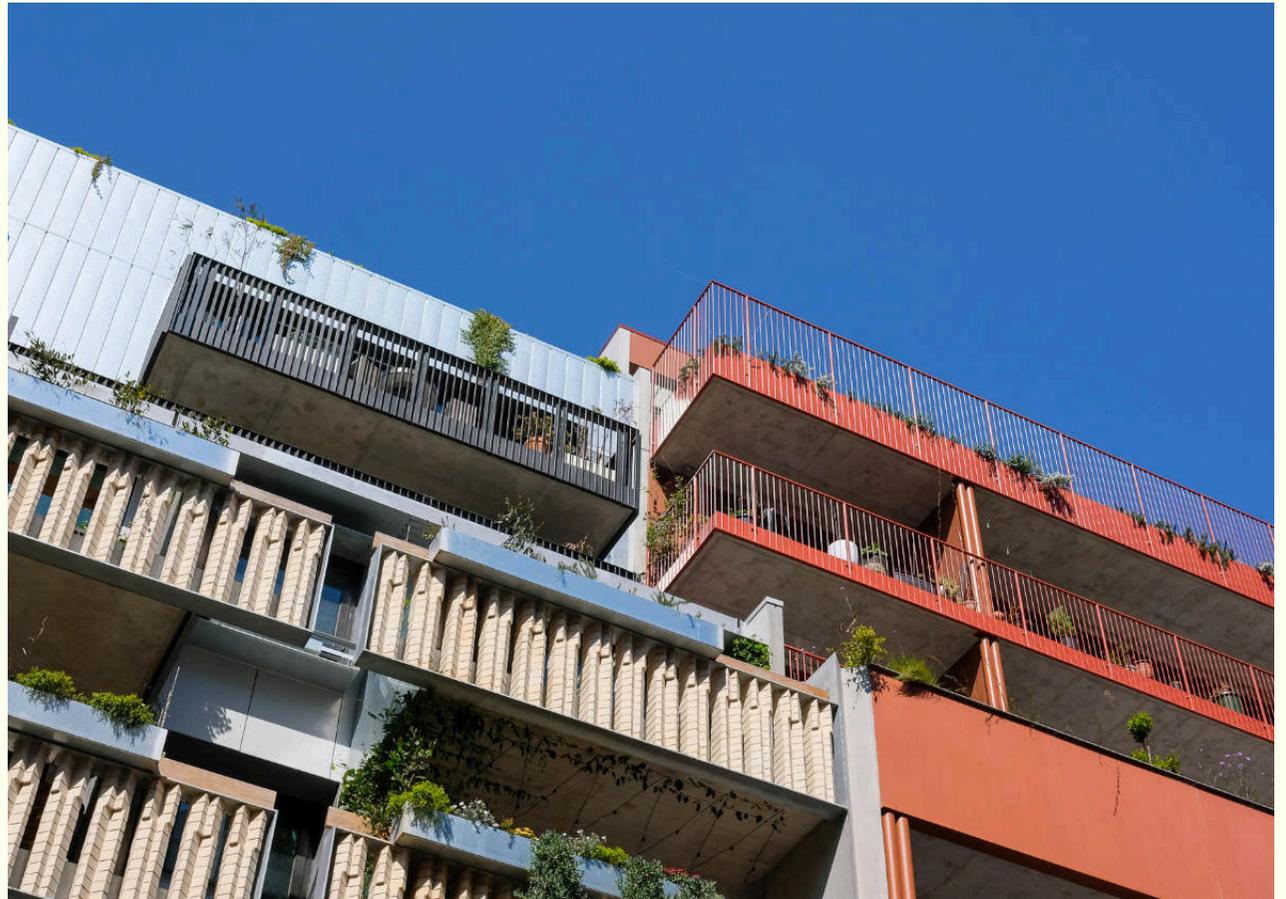
"Grattan has spilled a lot of ink over the years on house prices and rents. Most of it comes back to the pretty basic idea that we need more housing built in the areas people want to live and work. We think the evidence is pretty conclusive that more homes is what is needed to address this.

"Grattan has pointed the finger at land use planning regulations that have a status quo bias that give too much weight to those that oppose change—the so-called NIMBYs." [72]

– Joey Moloney, Senior Associate
Grattan Institute

Creating a permissive planning system

Victoria's restrictive planning system remains one of the key barriers to building public and community housing, as well as market-rate housing, where people want to live. Many projects face fierce community resistance, or arbitrary permit denial by councillors.[73, 74, 75] In order to deliver the amount of housing supply needed to combat the worsening rental crisis, Melbourne must move away from development-by-development consultation, and toward a more holistic neighbourhood planning approach.

Removing barriers to public and social builds

A key articulation of the scale of community backlash to social housing can be found in the Australian Housing and Urban Research Institute's 2011 *Gentrification and displacement: the household impacts of neighbourhood change* report:

> In Randwick a councillor gave the example of two planning applications, both for eight units, one of which was for social housing in which the spec-built scheme received two or three objections, but the social housing application received 245 objections. It would seem therefore that those that have been actively involved in the gentrifying of an area can have a vested interest in seeing that the area continues to lose its diversity.[76]

This issue has not improved since 2011, with the state's restrictive planning system continuing to sabotage the Government's own projects.

Case studies litter the Homes Victoria's own website. Beginning in 2016, it took five years of "community consultation" and another two months of "additional community consultation" to even start building 178 affordable and social homes in Ashburton.[77] In Prahran, a similar story: community consultation for 445 new social and private homes began in 2016 and ended in 2021, with site completion estimated for 2024.[78]

It is worth noting, also, that these years of consultations broadly served to significantly hamper housing supply delivery with consultation resulting in a 30% reduction in the Ashburton build's total housing delivery, from 252 units to 178.[79] Public backlash to social housing specifically continues to be alarmingly high.[80]

If the state is going to deliver a broad and holistic boost to housing supply, then they must reform the planning system to be permissive, rather than restrictive, and must reform the current process of development-by-development approval and objection processes.

Recommendation 9

Reform the *Planning and Environment Act 1987* to establish a permissive rather than restrictive planning system, establishing clear criteria for build compliance and approval.

Expanding by-right development

If a development complies with building codes, zoning legislation, and social housing targets, then it should be able to be built by default, without third-party appeals.

All compliant developments of six or fewer storeys within the Missing Middle Zone, therefore, should be approved immediately upon passing a professional planning assessment. This approval should be granted regardless of the project's cost or scale, with the provision that the build should provide a net increase in housing stock on the site, as well as at least 10% public or community housing.

This will significantly reduce administrative overhead and costs while increasing certainty for all stakeholders, and ensuring that Melbourne becomes a city with abundant housing for all.

Recommendation 10

Enable by-right development across the Missing Middle Zone (MMZ) for builds containing at least 10% social housing.

Reforming federal housing incentives

"We believe that, in the long term, the only way to solve our housing crisis is to build more homes than are needed to meet demand every year, forever— and make sure all our policies are aligned to make that happen.

"The best long-term solution to the rental crisis is to build tens of thousands more private, public, community, and cooperative homes every year in our cities where there's jobs, services, amenities, and community."

– Abundant Housing Network Australia

While falling beyond the scope of this report, YIMBY Melbourne recognises the important role of the Federal Government in housing and land use reform. As a member of the Abundant Housing Network Australia (AHNA), we recently made a number of recommendations for housing reform at the national level.[81] These recommendations included the following:

- That the Commonwealth create a new independent agency responsible for national housing policy coordination and research—to address policy fragmentation and collect consistent data on housing, planning and land use.

- That the Commonwealth provide outcomes-focussed financial incentives to state, territory and local governments to deliver affordability outcomes.

- That the Commonwealth make significant planning reforms a condition of funding major infrastructure projects and instruct Infrastructure Australia to develop a priority list of infrastructure projects that would unlock infill housing.

- That National Cabinet adopt a national cities policy that harmonises approaches to urban infrastructure planning and investment nationwide — with a particular focus on improving liveability of inner city areas for residents, reducing transport costs, enabling transport-oriented development, and reducing urban emissions.

- That the Commonwealth expand existing grants schemes like the Thriving Suburbs Program to help state, territory and local governments build community infrastructure at the scale necessary to accommodate large-scale infill and inner urban population growth.

- That the Commonwealth prioritise investment in public and active transport projects in growth areas both in the inner city and already underserved outer suburbs.

For further exploration of these points, see AHNA's submission to the 2023 Inquiry into the worsening rental crisis in Australia. 🏢
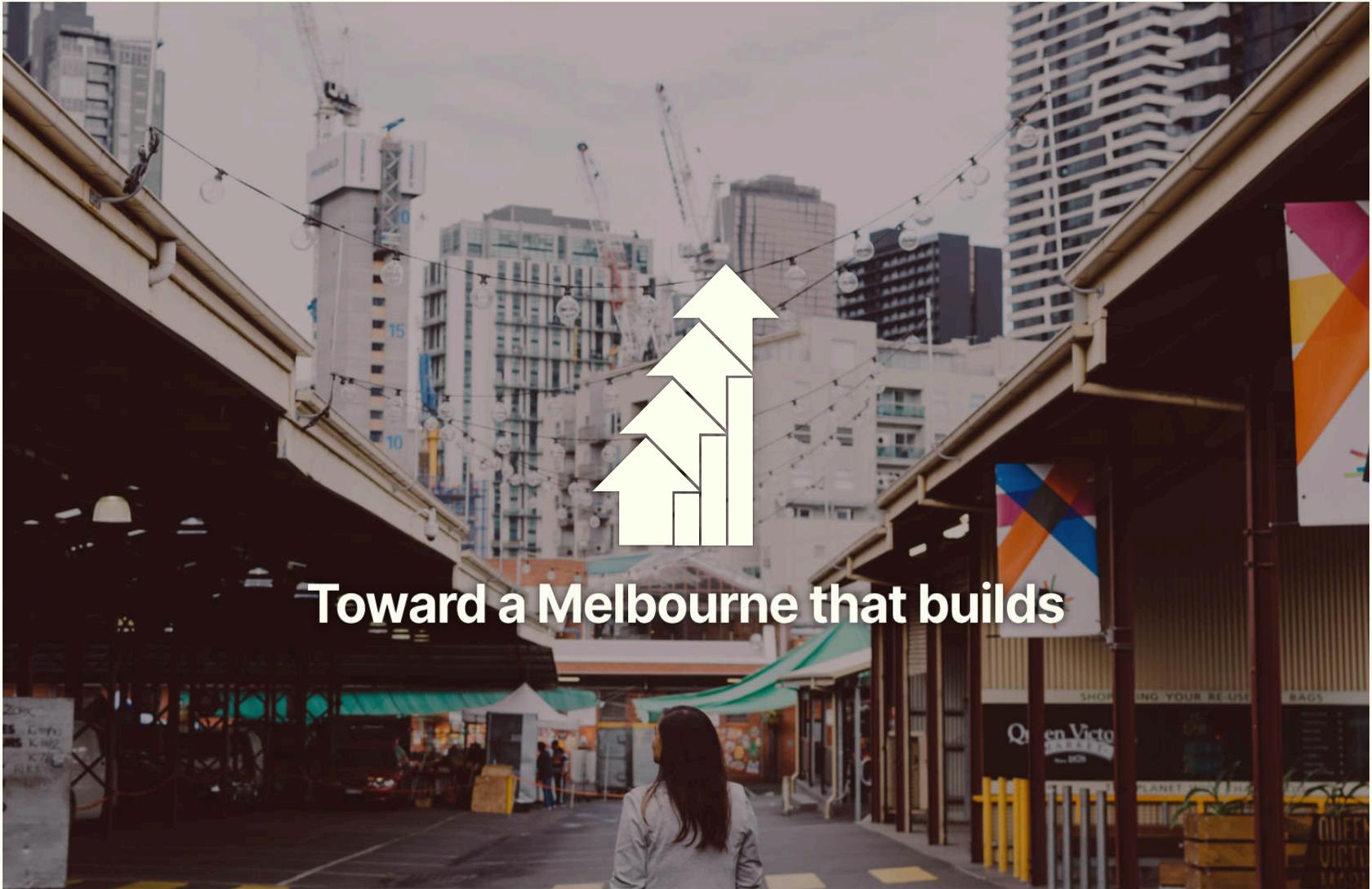
Toward a Melbourne that builds

Toward a Melbourne that builds
Growth, for the whole city

The current planning scheme provisions for a Residential Growth Zone (RGZ). However, the zone is underutilised, with merely 1% of Melbourne's land earmarked for "residential growth".[82]

But Melbourne is growing, and this small portion of land is insufficient to enable that growth to be undertaken sustainably, within the infrastructure and amenity-rich areas of the city, rather than the endlessly expanding urban fringe.

To make up for the shortcomings of Plan Melbourne's urban infill targets to date, and in order to ensure growth that is environmentally and economically sustainable, Melbourne should broadly implement our Missing Middle Zone, and implement it across Metropolitan Melbourne's train and tram networks.

Melbourne's Missing Middle should be built first and foremost in the areas directly surrounding the city's 1,992 train and tram stops. By rolling out the Missing Middle Zone to less than 5% of Melbourne's land, the city can provision well beyond the expected population growth of 5 million people, while ensuring that all new Melburnians have access to transit, infrastructure, and amenities.

Under the application of the current RGZ, 5 million more Melburnians could be housed on 3.8% of Melbourne's land. Under the application of our proposed MMZ, this portion is reduced to just 2.5%.
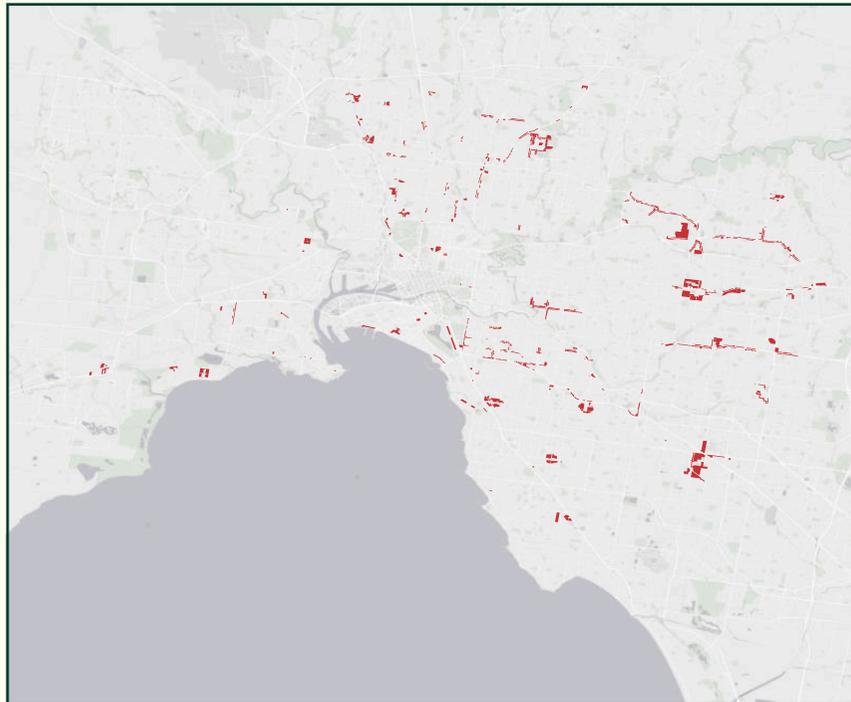
Current placement of the Residential Growth Zone (RGZ).
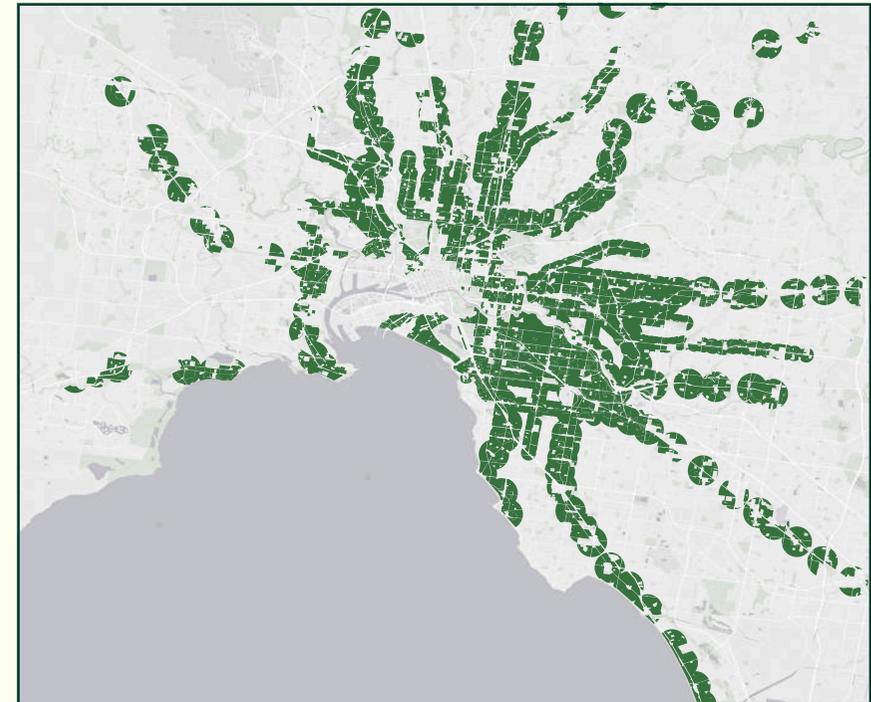
Proposed placement of the Missing Middle Zone (MMZ).

"Our city is crying out for good quality, medium density housing in areas well serviced by public transport, schools, shops. We have the opportunity right now to build up Melbourne's Missing Middle, reducing people's emissions, lowering the cost of living and contributing to more vibrant and healthy communities"

– Dan McKenna, CEO
Nightingale Housing

Reforming overlays and implementing the Missing Middle Zone

Zoning is not the only control artificially restricting the supply of land in Melbourne. Many different kinds of overlays also play a role in restricting supply, including:

- Heritage Overlays
- Neighbourhood Character Overlays
- Design and Development Overlays

For instance, the Centre for Urban Research's 2015 *Melbourne at 8 million* report modelled maximum dwelling yield for the 3,291 lots over 2,000sqm along tram lines under then-current zoning allocations.

The maximum yield for these lots, without heritage considerations, was 81,895 dwellings. With heritage factored in, this yield was reduced by more than 63%, to a total yield of 29,822 dwellings. Of this reduction, 36,230 sites (44%) were excluded due to an explicit heritage overlay, and 15,843 (19%) were excluded due to construction taking place prior to 1945.[83]

Raising heritage standards

The Victorian Government must make the bold decision to reform heritage protections in this city. Our city is not a museum; it is a living, breathing place—one where people want, and should be able, to live. Overly broad heritage protections lock our city in the past, and force Melbourne's current residents to preserve what came before them, in place of writing their own histories. In some cases local councillors have even explicitly weaponised heritage protection processes to block development.[84]

Therefore, where they apply to lots falling within the area of Melbourne's Missing Middle, these overlays should be reassessed through an on-balance, outcomes-based process. This may involve moving to an opt-in model of heritage listings, a model of government ownership of all heritage assets, or the replacement of all overlays with site-by-site assessments. The composition of heritage panels themselves may need to be revised to properly represent the diversity of interests in heritage decisions. The windfall gains generated from upzoning—explored later in this report—could also be used to help fund the creation and support of local community centres and museums to allow our history to be respected whilst allowing land use to continue to move into the future.

There are many possible models for better heritage and neighbourhood character policy, each with their key strengths and weaknesses. What is overwhelmingly clear, however, is that the overlay is a blunt tool, used cynically and all too broadly to support this city in its goal of growing sustainably over the coming decades.

Overlay reform is essential. In cases where heritage, neighbourhood character, and other overlays are found to be an impediment to sustainable land use and the provision of new housing supply, they should be revised and, if merited, removed entirely.

Recommendation 11

Reassess all heritage, neighbourhood character, and design overlays within Missing Middle Zone areas. Abolish overlays where an on-balance assessment indicates that negative social impacts of the overlay is greater than its benefit.

Creating lot consolidation pathways and incentives

In order to deliver the best possible medium density outcomes, the Victorian Government should work to provide clear pathways and incentives for lot consolidation by multiple residential landowners. This will enable the delivery across suburbs of diverse social amenities which cannot be fit on a single standard residential lot—for instance: libraries, civic centres, and parkland.

Lot consolidation processes are significantly under-researched—and yet they are an important tool for delivering a robust urban fabric. To provide a simple method for several landowners to facilitate the delivery of new builds across their combined land would create a meaningful pathway to new supply as well as neighbourhood-level planning across the Missing Middle Zone.

While existing residential lots can deliver high-quality medium density housing outcomes, the potential diversity of stock and public infrastructure is limited. In order for every Melburnian to have access to amenities in their local area, we must ensure that all suburbs have the ability to actually deliver that amenity.

Accessible lot consolidation processes would also enable the increased delivery of Victoria's recently expanded Future Homes program. A few significant barriers currently prevent Future Homes from reaching its full potential, and the scarcity of appropriately sized and placed lots is one of them.[85]

Recent Australian research from UQ reinforces this point: we need greater state involvement in lot consolidation in order to reap the benefits of planning at this scale.[86] The Victorian Government should explore a wide range of approaches, including tax concessions and incentives for owners to undertake lot consolidation, and government purchases of land at market-rate for title combination and resale.

Recommendation 12

Create pathways and incentives for landowners and governments to consolidate adjacent blocks in order to create neighbourhood-level planning outcomes.

Implementing a Residential Windfall Gains Tax

Land prices increase upon upzoning as increased building rights enable a greater level of value to be extracted from the land by the owner.

For instance, upzoning a given block of land from General Residential Zone (GRZ) to the Missing Middle Zone (MMZ) enables six storeys of apartments to be built where previously only three storeys were permitted.

In cases where there is an outsized increase in the sale price of upzoned homes, the Victorian Government should capture a portion of this value, rather than passing on the full amount of the windfall gain to incumbent landowners.

Upzoning & house prices

When cities have undertaken broad upzoning, they have seen similar changes in house prices for upzoned homes. To demonstrate this, we include both Auckland and Minneapolis as examples. We additionally include Fishermans Bend as a case study to demonstrate a missed opportunity to collect windfall gains from previous upzoning within Melbourne.

Auckland

In Auckland, the price of a detached house increased by up to 3.7% more per year than its non-upzoned equivalent. Two years after upzoning, this was an excess increase of up to 7.5%.[87]

Minneapolis

In 2018, Minneapolis undertook similarly intensive upzoning, eliminating single-family zoning throughout the city. This is the equivalent of eliminating the Neighbourhood Residential Zone in Melbourne, which would allow medium-density development across the 20% of the city zoned NRZ. Upzoned homes in Minneapolis saw a 3–5% greater price increase than their non-upzoned equivalents.[88]

Fishermans Bend

Closer to home, Prosper Australia's 2021 *The Rezoning 'Honeypot': Evidence from Fishermans Bend* report analyses the value uplift of Fishermans Bend. Sims & Hermans calculated that the rezoning from the Industrial 1 Zone to Capital City Zone 1 created a value uplift of $4.43b, none of which was captured by the Government.[89]

While creating Melbourne's Missing Middle does not involve upzoning of the magnitude undertaken at Fishermans Bend, this example demonstrates a previously missed opportunity for the Victorian Government to capture the windfall gains associated with upzoning.

Even if home prices fell by 20%, rezoned land would still see its maximum yield increase by 60%.

General Residential Zone
3 storeys
6 homes ($500k each)
$3m total yield

Missing Middle Zone
6 storeys
12 homes ($400k each)
$4.8m total yield

Price increases & housing affordability

While counterintuitive, upzoned property price increases are not at odds with housing affordability. This is because the increased price is explicitly associated with the greater development potential of the underlying land—that is, the potential to provide additional homes where people want to live.

Providing these homes makes an enormous difference. In both Minneapolis and Auckland, upzoning was associated with a significant fall in real rents, and in Minneapolis with a decline in homelessness. This is because upzoning enables the delivery of additional desperately needed housing supply, through enabling a greater number of homes to be delivered on the same amount of land. The increased transaction price and land value is thereby able to be shared between multiple units, and even after any moderate price increase results in lower per-dwelling land costs, the affordability of housing is increased.

Upzoning is a policy change that increases property values, an increase which should be considered a windfall gain for the incumbent landowner.

As such, the government may wish to reform the Windfall Gains Tax (WGT) in order to capture some of the value created by the broad upzoning of Melbourne.

The current WGT implementation in Victoria only applies to land rezoned to receive a value uplift of more than $100,000, and exempts residential land from the tax. Based on the case studies above, it is unlikely that the modest upzoning of either NRZ, GRZ and RGZ to MMZ would result in uplift in excess of $100,000 for any given residential lot.

However, as seen in Auckland and Minneapolis, the total value of the uplift across the city will be significant, with upzoning increasing the market value of all homes by 3–7.5%. If the government wishes to capture some portion of this uplift, WGT as it exists will need to be reformed.

If the government is to implement WGT for broad residential upzoning, it must be cautious in its implementation. Even though WGT only applies to excess value created by changing policy, a high tax rate may disincentivise property sales, and dampen the positive supply-side and affordability impacts of upzoning.

The current WGT marginal rate begins at 62.5% for an uplift over $100,000. For the implementation of a Residential WGT to be politically viable, the tax rate for an uplift below $100,000 will likely need to be much lower.

Residential WGT example

Drawing from the Minneapolis and Auckland case studies, we assume a 4% uplift in value upon upzoning from NRZ to MMZ.

Under this assumption, and using the median Melbourne house price of $938,000, the hypothetical value uplift of $37,520 will raise the sale price to a total of $975,520.

Given these assumptions, a 30% Residential WGT, set in line with the widely understood Capital Gains Tax (CGT), could result in $11,256 Victorian Government revenue per upzoned home, collected upon the first property sale following upzoning.

Applied across the estimated 600,000 properties contained within Melbourne's Missing Middle, this policy could generate $6 billion in revenue throughout the implementation of Plan Melbourne 2050.

Residential WGT yield on estimated 4% house price uplift
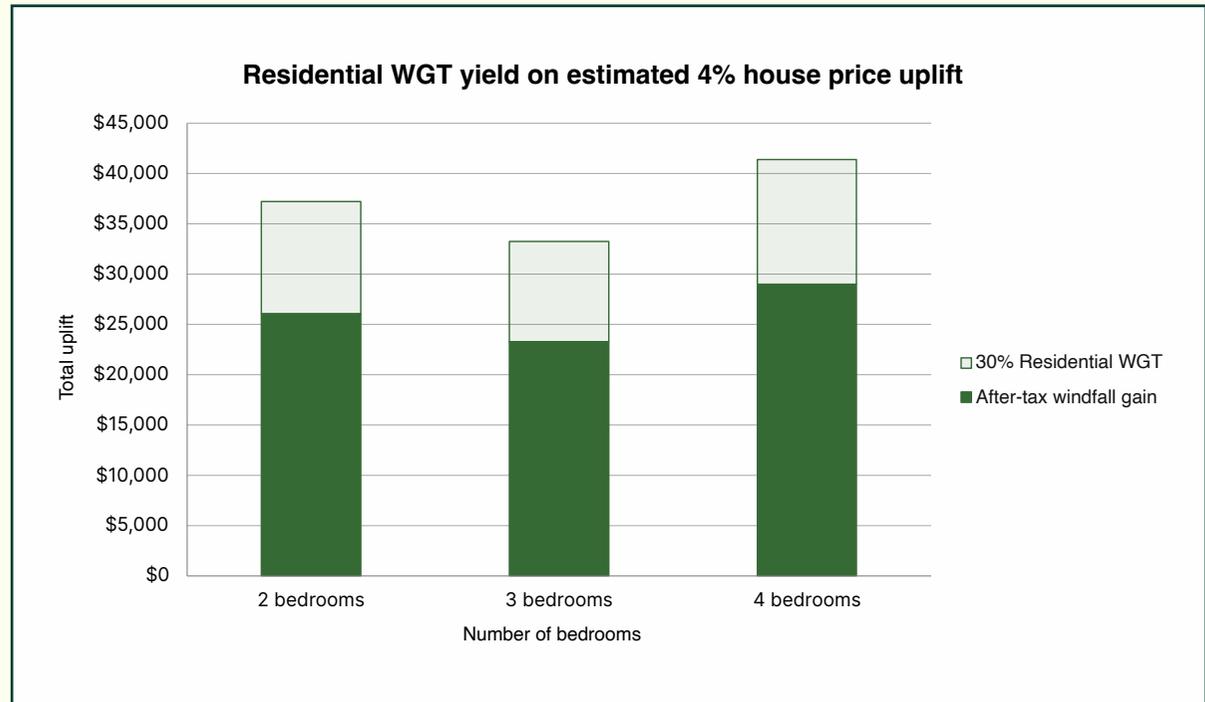
The upzoning uplift value of Melbourne's median house prices with the gains after Residential Windfall Gains Tax applied. [90]

> "Pricing upzoning may well be essential for democratic buy-in to missing middle density. There's an inequity in who wins and loses from infill development: the owner of the tear-down house or empty lot blighting the streetscape sells out first, and cashes in the most, leaving the disruption and costs for people more grounded in their local neighbourhood and contributing more to place and community.
>
> "Along with gradual change and quality design, a social bargain for higher density needs to reverse this dynamic. Pricing upzoning lets us fund better local amenities and lower general rates, so that development can become seen as an opportunity, not a threat."
>
> – Tim Helm, Research & Policy Director Prosper Australia

Hypothecating windfall gains

YIMBY Melbourne strongly endorses the hypothecation of WGT proceeds to ambitious social housing builds. Over its lifetime, the Residential WGT could fund the equivalent of a second Big Housing Build, continuing to provide a much-needed boost to the state's supply of non-market housing. 🏢

Recommendation 13

Introduce a reduced Residential Windfall Gains Tax (Residential WGT) rate for residential property value uplifts below $100,000. Hypothecate proceeds from the Residential WGT toward ambitious social housing builds.

Looking up

Looking up
A new age of urban optimism

"Urban optimism is about believing in the city. It's about a passion for people, and for the incredible things that happen when they come together. By building Melbourne's Missing Middle, we can empower more people to live close to each other, to share in the energy of the city, and to live securely in the places they want to live.

"Our team put together this proposal out of deep love for this city, and deep love for all the incredible things that happen here every day.

"The coalition of YIMBY Melbourne members—well over 100 at the time of writing—want to see a bigger city, a city for everyone, a city of housing abundance. The ideas we put forth in this document are the first step toward making that a reality. "

– Jonathan O'Brien, Lead Organiser
YIMBY Melbourne

Since our official incorporation in May 2023, YIMBY Melbourne has in a short few months changed how the city speaks about the ongoing housing crisis. In our efforts to shift this discourse, we have undertaken successful campaigns across Greater Melbourne's diverse array of local councils, given evidence at two Victorian Parliamentary inquiries, and built a strong city-wide coalition for housing abundance.

We cannot take full responsibility for these successes. Rather, this momentum speaks first and foremost to Melbourne's pent-up frustrations with living under a regime of housing scarcity. These same frustrations are now being heard by all levels of government, all across the country, over and over again. Renters are growing as a proportion of the voting demographic, and their voice can no longer be ignored. A system under which housing prices double every 13 years has been great for those lucky enough to have been born when they were, but has done enormous damage to the prospects of young people, migrants, and other less wealthy groups, increasing inequality between those who own property and those who don't.

But times are changing, and this is the moment for policymakers to take action and create a stronger, denser, and more vibrant Melbourne. All the recommendations we have proposed within this document are inexpensive to implement, and complement the state's appetite for sustainable growth alongside budget recovery. We look forward to working with all stakeholders to bring about the changes needed to create a better city for all.

But changes in policy alone will not be enough. For too long, a vocal minority has coloured the prospect of development and densification with fear and uncertainty. To build Melbourne's Missing Middle is to embrace a denser Melbourne, and to think bigger about a city with the potential to be liveable, affordable, and sustainable for all. As the movement for housing abundance grows, this widely-felt urban optimism can no longer be blotted out by a small number of cynical voices.

Over recent years, the Victorian Government has succeeded admirably in selling the vision of the Metro Tunnel Project, and it is this vision that has ensured the project's enduring popularity, even in the face of setbacks. To build our city's Missing Middle will require another strong vision: one of a denser Melbourne, put forth boldly and with confidence. This document provides a blueprint for that vision, and demonstrates clearly the potential for what this city can be, and who can live in it.

And now that we have the vision, the building can begin. 🏢

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Work stops at sunset. Darkness falls over the building site. The sky is filled with stars. "There is the blueprint," they say.

– Italo Calvino,
Invisible Cities