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The Hon. Tim Pallas MP
Treasurer of Victoria
1 Treasury Place
MELBOURNE VIC 3000

Dear Treasurer,

Industry Submission: 2018-19 Victoria State Budget

The Victorian division of the Urban Development Institute of Australia (UDIA Victoria) congratulates the Victorian Government on its work over the 2017-18 financial year. We look forward to our continued engagement and collaboration with the Government in the 2018-19 financial year, and to working together to harness the urban development industry's role in advancing Victoria's strong economic conditions.

Over the next 12 months, population growth, investment certainty, planning efficiency, infrastructure provision and activating the tax system will be key areas demanding government and industry attention. As such, we put forward the following recommendations for your consideration in confirming the 2018-19 Victoria State Budget.

Protect Victoria as an investment destination

i. Activate the tax system and re-introduce tax incentives for investors

Additional taxes on investors are beginning to negatively impact Victoria's apartment market, hindering new housing supply at a time we need it most.

According to the UDIA Residential Development Index (RDI), between 2018-19 and 2020-21, total dwelling commencements must average 75,000 per annum to supply an adequate volume of net additional dwellings. This compares to average levels of 66,440 dwelling commencements per annum between 2014-15 and 2016-17.[1] We need to secure a very strong pipeline of housing projects if we are to sustain the high levels of building activity required to accommodate the growing population.

Foreign investors are expected to make up 21 per cent of new Victorian property sales in the first quarter of 2018, down from 25.2 per cent in the same period a year ago.[2] This poses a critical issue for the apartment sector, which relies on foreign investors to contribute significantly to the high number of pre-sales required by the banks for a development project to receive construction finance. As foreign

[1] UDIA Residential Development Index Report, March 2018 Update

[2] ANZ and Property Council Survey, March Quarter 2018

investors withdraw, developers are facing increasing difficulty in meeting the pre-sale targets required by the banks, ultimately dissolving future supply.

While UDIA Victoria welcomes the policy intent underpinning the *Homes for Victorians* strategy, we urge State Government to consider how the removal of stamp duty concessions negatively impacts upon one of the housing market's most vulnerable groups – renters.

According to Government's rental report for the December quarter 2017, the Melbourne Rent Index (MRI) increased by 1.7 per cent over the previous quarter. The MRI annual increase of 4.5 per cent is above that of the December quarter last year (3.8 per cent).[3] With the cost of living on the rise, home prices continuing to go up, and wage growth remaining relatively static, we must recognise that an increasing number of people cannot afford to buy and live in their own home. An important role the investor plays is to provide rental stock for this broadening demographic which requires affordable, diverse and long-term rental stock.

As such, we recommend the re-introduction of stamp duty concessions for investors in new housing, which would incentivise the provision of additional rental stock, and increase housing supply particularly for owner-occupiers looking to live inner Melbourne. Further, we encourage State Government to address tax impediments undermining new housing asset models such as 'build-to-rent'.

ii. Re-build Victoria's attractiveness as an investment destination

Victoria's liveability, economic growth and jobs pipeline relies on the ability of local, national and international businesses to confidently commit to projects without the ongoing threat of political interference. This applies to city-shaping infrastructure and new housing projects alike. But the combined effect of various political decisions of late have compromised business certainty, which is relied on by the private sector to make informed investment decisions that fund and deliver our state's growth. Without investment certainty underpinning a strong pipeline of projects, Victoria's economic future is at risk.

Additionally, our state planning system is more open to third party reviews than other jurisdictions. According to the Grattan Institute, almost a third of all local council assessed dwelling applications go to VCAT in Melbourne, Port Phillip and Yarra councils. In both Port Phillip and Yarra, the majority of these contested matters ultimately receive development approval, yet they succeed in delaying applications, which typically take over a year after going to VCAT before they are finalised.[4] These delays increase costs and uncertainty for developers, which translates into price growth for homebuyers and dissuades investment across urgently required housing projects.

The urban development industry is happy to continue working overtime for the state's economy, producing housing and new communities for our rapidly growing population. But we rely on an established planning system to make informed investment decisions. Without investment certainty underpinning a strong pipeline of projects, the development industry – and therefore Victoria's economic future – faces significant risks.

[3] Victoria Government Rental Report, December Quarter 2017

[4] Grattan Institute Housing Affordability: Re-imagining the Australian Dream, March 2018

After recent actions by politicians from all political persuasions, including the planning freeze placed on Fishermans Bend and several motions to revoke Planning Scheme Amendments, Victoria is in a very precarious position and cannot afford another hit to investment certainty.

State Government must re-build Victoria's position as an attractive investment destination at a local, domestic and global level if we are to protect and grow the appetite of the financial investment community for Victorian projects. We therefore recommend the DTF commit funding towards initiatives that will limit uncertainty caused by unforeseen political decisions, unsubstantiated contests, and overnight changes that compromise investment and projects already underway.

Get real about managing Victoria's population growth

i. Establish a Victorian Population and Demographics Data Centre to understand and future-proof Victoria in the context of ongoing, record population growth

With population growth underpinning the Victorian economy, it has never been so important for state policy decisions to consider the need to future-proof population growth through the protection and enhancement of Victoria's livability. It is critical that we accurately measure and understand the growth we are experiencing now, that which is coming, and the housing, infrastructure and investment required to cater for our new and existing communities.

The need for a more sophisticated process of measuring population growth is evident through years of discrepancies between what has been forecast and the infrastructure and housing planned to accommodate the forecasted growth. Victoria's population grew by 144,000 in the 12 months to June 2017; materially faster than the 112,000 per year forecast in Plan Melbourne.[5] In 2031 we will have at least 665,000 more people than what was forecast for that year a decade ago.[6] Continuing to underestimate population growth will result in policy that fails to meet community needs, subsequently deterring population growth and severely compromising the Victorian economy.

Victoria's population growth and demographic trends are also outpacing the existing data sources. Reliance on five-yearly Census data is no longer adequate if we are to properly plan for and deliver on the infrastructure and housing needed to support Victoria's growing communities.

We therefore recommend secure, long-term funding for a new Victorian Population and Demographics Data Centre, tasked with the following key areas of responsibility:

- Accurately measure population growth and demographic trends on an annual basis;
- Forecast population growth and demographic trends across Government policy and investment activity areas;
- Establish and maintain useful data sets to underpin all decision-making around infrastructure investment, land use planning and property tax changes; and
- Set housing targets by municipality based on population growth forecasts and capacity to deliver housing in areas that are well-serviced by existing infrastructure and services.

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[5] Grattan Institute Housing Affordability: Re-imagining the Australian Dream, March 2018

[6] UDIA Residential Development Index Report, March 2018 update

ii. Plan and deliver infrastructure for new communities as they grow, in a way they can afford

We commend the Victorian Government on its commitment to major infrastructure projects including the Melbourne Metro and several recently announced projects that will draw on the Growth Areas Infrastructure Contribution fund. However, the infrastructure backlog and associated congestion remains a key issue across the state, demanding additional attention that is proactive and strategic in nature.

According to a report by the Victorian Auditor General, rapid population growth is creating unprecedented challenges for infrastructure and service delivery, and infrastructure and services of all types are limited and generally lagging behind population settlement.[7]

Considering that population growth underpins the Victorian economy, it is not viable to curb growth as a solution. We must therefore focus on solutions that enable the delivery of infrastructure and services as we are growing – not afterwards – and at a cost our communities can afford.

All Victorians deserve a transparent process that prioritises critical infrastructure, and one that establishes a way to ensure money intended for infrastructure investment is being spent effectively. UDIA Victoria therefore urges State Government to establish a strategic pipeline of priority infrastructure projects for each of Victoria's housing markets – infill, greenfield and regional.

To further ensure that infrastructure investment is focused on delivering the most value to our communities and the state, a transparent cost/benefit analysis should accompany various charges imposed through Infrastructure Contribution Plans, and costs incurred through infrastructure authority contributions, fees and charges. This is particularly important in the context of our housing affordability crisis.

Since 2012, house prices have risen 50 per cent in Melbourne[8]. Melbourne's house prices are now almost 10 times higher than the median household income, making us the fifth "least affordable" city in the world[9]. The need to rationalise new and increasing costs affecting the housing market has therefore never been so pertinent.

Unlock the potential of the planning system

i. Fund the Victorian Planning Authority to advance the *Streamlining for Growth* program

We commend the Victorian Government's ongoing commitment towards reducing delays and creating efficiencies in the planning system through the *Streamlining for Growth* program managed by the Victorian Planning Authority (VPA). To date, the program has made solid headway in speeding up the delivery of projects in the greenfield areas that provide employment growth and increased housing choice, diversity and affordability.

[7] Victorian Auditor-General's Report: Effectively Planning for Growth, August 2017

[8] Grattan Institute Housing Affordability: Re-imagining the Australian Dream, March 2018

[9] 14th Annual Demographia International Housing Affordability Survey, 2018

However, with population growth well exceeding expectations, Melbourne's greenfield market continues to experience record low stock levels, which has caused the median lot price to increase by 29% across the 2017 calendar year.[10]

According to the 2018 UDIA State of the Land Report, a critical issue remains around title timeframes, which are stretching beyond 15 months across most of the estates, resulting in a 9.3% decrease in stock released over the December quarter 2017 when compared to the same period a year earlier. By the December quarter 2017, there were only 112 active estates, compared to 158 active estates in 2014. This restricted level of supply over the second half of calendar 2017 has seen in the average number of trading stock fall from 1.3 months in 2016 to a minimal 0.6 months in 2017. As a general guide, a market which has less than four months of trading stock indicates that supply is not keeping up with demand.[11]

At present, the robust population gains seen in recent years suggests the industry needs to deliver between 22,000 and 24,000 lots per year in the Melbourne growth corridors. This is up from the long-term industry average of around 15,000 lots.[12] This elevated level of supply will continue to put the industry under significant stress in delivering the required lots in a timely manner.

To address these market conditions with the level of urgency required, UDIA Victoria recommends the Victorian Government increase ongoing funding for the VPA, enabling them to significantly drive the *Streamlining for Growth* program agenda forward as a matter of priority. The program should focus on releasing new PSPs and subsequent additional lots, and streamlining several key post-PSP inefficiencies, which will help the industry bring more stock to market in an appropriate timeframe and relieve upward pressure on house prices.

ii. Fund phase three of the *Smart Planning* program

While the Victorian Planning Provisions (VPP) have served Victoria well in the past, increasing demands on the planning system and successive reforms have resulted in planning schemes that are no longer operating efficiently or effectively. It is therefore timely and critical to implement change that ensures the VPP is re-aligned with the founding principles, but also responds to evolving operating conditions and new opportunities for modernisation.

To date, Government's *Smart Planning* program has made meaningful progress in reforming the VPP by reducing complex, inefficient and out-dated rules, triggers, documents and definitions, which has had a positive impact on over half of all permit applications.

We understand that by mid-year, the *Smart Planning* program will have introduced several very positive, high impact changes including a code assessment framework to provide for easier lodgement and faster decisions on appropriate permit applications, a new planning policy framework for integration of state, regional and local policy, and the roll-out of a new digital planning platform resulting in faster approval times and greater transparency.

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[10] UDIA State of the Land Report, 2018

[11] UDIA State of the Land Report, 2018

[12] UDIA State of the Land Report, 2018

Phase three of the program will be even more impactful with several initiatives to be implemented, expected to translate into an annual saving of $35m for the property development industry through faster permit processing and a reduction in holding costs.

On this basis, UDIA Victoria strongly supports the case for funding Phase Three of the *Smart Planning* program.

iii. Keep authorities accountable for delivering on population growth

There is currently a lack of accountability by referral authorities and local government councils to assess and determine applications in a timely manner, resulting in unreasonable and unnecessary red tape, risk, time and cost to the planning process. This lack of accountability is making it increasingly difficult for the development industry to deliver much needed housing stock to market at an appropriate pace to satisfy market demand, and at a price point the market can afford.

Examples of unjustifiable delays include local councils not providing any response to a subdivision application up to 9 months after lodgement, and referral authorities taking up to two and half years to give approval for drainage scheme works.[13]

According to the Grattan Institute, permits take longer for dwelling development applications in inner and middle ring council areas, where housing is in greatest demand. The typical dwelling application takes over 214 days to get approved in the City of Melbourne, and longer in Port Phillip and Yarra councils.[14]

While some statutory timeframes exist, our authorities often exceed them without consequence, meaning that many take much longer than they should to issue approvals. To address this serious problem, UDIA Victoria recommends the Government actively monitor council authorities and referral agencies, and introduce financial penalties for ongoing poor performance as a means to driving improvements in the planning approval process.

iv. Digitise the planning system and unlock economic growth through innovation

As Australia's fastest growing state, Victoria is subject to ongoing change that will create new challenges and opportunities for our current and future residents. It has never been more important to consider how our rapidly changing built environment will alter what people want and need from their communities, and how the planning system can support the efficient and cost-effective delivery of those communities.

There are several opportunities to capitalise on digital technologies that provide new opportunities for modernisation, innovation and sustainable growth. As a starting point, UDIA recommends State Government:

- Digitalise the administration, certification, and notices processes for standard matters across councils, referral authorities and the State Revenue Office;
- Expand the Victorian *Know your Council* website so that it captures additional information on council performance, highlights high and low performers, demonstrates best practice and increases accountability;

[13] UDIA Post-PSP Inefficiencies Submission, submitted November 2017

[14] Grattan Institute Housing Affordability: Re-imagining the Australian Dream, March 2018

- Implement a coordinated timeframe-based digital system to facilitate and enforce a set of regulated overall approval timeframes that relevant parties are held to account on;
- Establish a digital platform where councils are required to provide a consolidated, statutory checklist of requirements for submission, so that applicants are clear about the information they need to provide with an application; and
- Introduce a digital process to ensure appropriate communication between councils and referral authorities is adhered to, in order to avoid common issues of disparity such as duplication of charges and conflicting developer requirements.

Thank you for your ongoing engagement with the development industry through UDIA Victoria. We are happy to provide further information on the above recommendations, and eagerly anticipate the 2018-19 Victorian State Budget which we trust will address these as part of a robust annual State Budget to advance Victoria's strong economy.

If you have any queries, please do not hesitate to contact Hyatt Nidam, Advocacy and Communications Manager at hyatt@udiavic.com.au or on 03 9832 9600.

Yours sincerely,

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