



25 February 2020

The Hon. Tim Pallas
Treasurer of Victoria
1 Treasury Place
EAST MELBOURNE VIC 3004

Dear Treasurer,

Urban Development Institute of Australia (Victoria) – Pre-budget Submission 2020

The Urban Development Institute of Australia, Victoria Division (UDIA Victoria) welcomes the opportunity to make its annual pre-budget submission to the Victorian Government.

UDIA Victoria is a non-profit advocacy, research and educational organisation supported by a membership of land use and property development organisations, across the private sector and Victoria's public service. We are committed to working with both industry and Government to deliver housing, infrastructure and liveable communities for all Victorians.

UDIA Victoria considers affordable housing to be critical economic infrastructure essential to Victoria's productivity and liveability. Indeed, housing affordability is a key element of our current Advocacy Agenda, which seeks to ensure policy and planning decisions prioritise housing affordability by facilitating development and healthy housing supply.

HOUSING DEMAND AND SUPPLY GAP

The supply and cost of housing is one of Victoria's biggest challenges. Despite record low interest rates, short-term government incentives like NRAS and a once-in-a-generation capital injection of \$5.2 billion under the Nation Building Program, housing remains out of reach for too many Victorians. For this reason, UDIA Victoria is actively working to support the delivery of new dwellings to meet demand and ensure housing for purchase and rent is accessible and affordable for all.

UDIA Victoria commends the Andrews Government's record in contributing to steadily increasing new dwelling supply which reached a peak of 66,245 dwellings in FY17-18. This record number of new dwellings was absorbed by the unprecedented population growth Victoria experienced in recent years, and a consistent forward pipeline of new dwellings is required to continue to meet the ongoing demand generated by population growth.

Whilst we also commend the Andrews Government's contribution to the record number of planning and building approvals for dwellings issued in the financial years 2016-17 and 2017-18, there has been a sharp decline in both since 2018. This contributed to the shortfall of almost 7,000 new dwellings in the 2019 financial year as shown in the most recent UDIA Victoria Residential Development Index (Residential Development Index Report, September 2019, **Attachment A**) and is projected to increase for the 2020 financial year.

Looking forward, we also forecast a significant shortfall between dwelling supply and demand within the coming two to three years based on the data from the 2019 financial year and a range of indicators for the current financial year to-date.

Victoria experienced a substantial decrease of 21 per cent in building approvals for dwellings in the 2019 financial year (UDIA RDI, September 2019). Notably, the four-storey plus apartment market in inner Melbourne recorded 5,250 building approvals for dwellings in the 2019 financial year, which represents a decline of 59 per cent from the peak in the 2018 financial year. This market remains subdued and is forecast to achieve approximately 6,000 building approvals for dwellings in inner Melbourne in the current financial year.

The deterioration in the four-storey plus apartment market in the inner and middle ring of Melbourne has had a direct impact on the Victorian economy and employment. This segment of the residential development sector contributed just over \$4 billion in the 2019 financial year, representing a decline of 40 per cent from the 2018 financial year (UDIA RDI, September 2019). The four-storey plus apartment market sustained a total of just over 36,000 jobs (direct and indirect) in the 2019 financial year, which also represented a 40 per cent contraction from the previous financial year (UDIA RDI, September 2019).

Meanwhile, only 8,178 residential lots were sold in Melbourne's growth areas in the 2019 calendar year, which is substantially lower than the 23,880 lots sold at the market peak in 2017 (Research 4). This is also well below the forecast demand of 16,800 annually based on population growth. While the greenfield market showed signs of improvement in the second half of 2019, it has a long way to go to fulfill underlying demand.

Concurrently, population inflows to Victoria continue to remain at high levels, with an increase of 132,800 people in the twelve months to June 2019 (ABS, 3101.0 - Australian Demographic Statistics). Moving forward, we predict these market conditions will contribute to worsening housing affordability.

Key factors impacting on the current state of both the greenfield and apartment markets include:

- regulatory and policy changes which have discouraged both resident and non-resident investors from buying dwellings off-the-plan and new residential lots in growth areas;
- ongoing amendments to the *Planning and Environment Act 1989*, the Victoria Planning Provisions and various ad-hoc Planning Scheme Amendments at the municipal level, including introducing requirements for the provision of affordable housing, which create uncertainty for industry to invest in land, significantly increase approval delays, and increase the cost of delivery;
- the introduction of the Building Cladding Rectification Levy;
- amendments to the *Land Tax Act 2005* and the *Duties Act 2000* in 2019 to introduce new taxes regarding economic entitlements and amend the way primary production land is taxed. Both of these increase the cost to purchase, and hold, sites for residential development;
- weaker purchasing power of consumers due to increasing cost of living and stricter bank lending standards; and
- strong underlying demand due to population growth and low levels of unemployment, which is not translating into real demand because of weaker purchasing power, price growth (after a brief plateau) and reduced options for new dwellings.

DISCUSSION AND RECOMMENDATIONS

UDIA Victoria considers there are three key areas where State Government focus and intervention will have the most impact on increasing the delivery of new housing to market, increasing the overall supply of housing and contributing to improving housing affordability. Within these three key areas we have provided five recommendations.

1. Review and adjust fiscal policy applied to residential development

The 2019 State Budget showed that 44.6% of Victoria's tax income is derived from property, making it a critical plank of the state's economic future.

Property taxes play a significant role in funding the improvement and development of our communities in established areas, growth areas and regional areas. However, the 2019 State Budget demonstrated there is still a dependence on taxes from the property sector to provide revenue to the State Government despite the significant contraction in the residential development sector in 2018 and 2019.

Meanwhile, the health of the residential development sector has declined further since the last UDIA Victoria pre-budget submission (**Attachment B**) was provided to the State Government in February 2019.

On this basis, it is our view that the key messages and recommendations from the 2019 submission remain relevant, especially the commentary relating to the role of investors.

The Federal and State Governments have effectively used fiscal policy to discourage both resident and non-resident investors in the residential sector. Various measures have been introduced, and incrementally increased, since April 2016, and the full impact of these on the health of the residential development sector is now clear.

By specifically targeting and taxing investment by both non-residents and residents in the housing market, the Federal and Victorian Governments have effectively reduced overall demand for new housing in Victoria. The cost to the economy from the reduction in overall demand, translating into reduced construction activity, would eclipse the additional income derived from the additional investor duties.

This, in combination with the tightening of availability of project and retail finance for residential projects, has made it more difficult for projects to secure finance and deliver both investment dwellings for rent and dwellings for homeowners in all residential markets in Melbourne.

While this has encouraged more first homebuyers to enter the market, which is a good outcome, it has not been sufficient to cover the significant gap left by retreating investors. The result is a shortfall between new houses delivered to market and underlying demand created by ongoing population growth. If this gap continues to grow, we will see increasing competition for rental properties driving up rents and an increase in the cost of the new housing that is being delivered to market.

Recommendation 1

We strongly encourage the State Government to intervene to moderate the substantial decline in the delivery of new housing to market. The fiscal levers immediately available to specifically stimulate the delivery of new housing to market include the following:

- reinstate the stamp duty concession for investors purchasing dwellings off-the-plan;
- remove the foreign purchaser stamp duty surcharge;
- review Land Tax Rates to ensure they are equitable; and
- exclude new dwellings from the Vacant Residential Land Tax where they have not sold or failed to settle.

2. Implement key 'proposed improvements' from the Building and Planning Approvals Systems Review

UDIA Victoria welcomed the review led by the Commissioner for Better Regulation into Victoria's Building and Planning Approvals Systems and Early Building Works Infrastructure. We worked closely with the Commissioner for Better Regulation and the Review Team during this process to demonstrate the issues with the current system and the benefits that would be gained from improving existing processes.

The Discussion Paper and Proposed Improvements demonstrated an understanding of the complexity of the issues plaguing the planning approvals process. On this basis, we support almost all of the eighty-one Proposed Improvements relating to the planning approvals process. Our submission is attached (**Attachment C**).

Recommendation 2

In our view, implementing the following five key proposed improvements would have an immediate and significant impact on streamlining planning approvals, reducing the overall cost of delivering residential land or dwellings to market, and stimulating the residential development sector:

- i. Move to online planning permit processing and tracking
- ii. Reduce response times for referrals
- iii. Streamline compliance with permit conditions
- iv. Reduce timelines for electricity connections
- v. Simplify the infrastructure contributions system across government agencies

Recommendation 3

UDIA Victoria strongly holds the view that a framework for ongoing accountability, review and reporting must be established for the full value and economic benefit of the Commissioner's Proposed Improvements to be realised.

We urge the Victorian Government to engage the Commissioner for Better Regulation to establish an ongoing, regular review and reporting framework to ensure that the Proposed Improvements are:

- appropriately rolled out by state government, local government and referral authorities;
- understood and implemented by industry stakeholders and any capacity building within industry is supported and reported;
- assessed to understand the economic value to Victoria of streamlining the system and unlocking new efficiencies; and
- further developed where the Improvements could be expanded or applied more widely for even greater benefit.

Recommendation 4

Properly fund the Victorian Planning Authority (VPA) to undertake strategic planning activities in all major development settings in Victoria.

The capacity of the VPA to deliver Precinct Structure Plans (PSP) and other strategic planning outcomes across urban renewal sites and regional areas, is key to unlocking land for development in the designated growth areas, urban renewal areas and regional areas. As such, we consider that the VPA requires additional funding to deliver the Victorian Government’s mandate and to:

- Improve the delivery timelines of planning outcomes including PSPs and other strategic planning frameworks;
- Ensure costs are not inappropriately passed onto the private sector but rather maintained as positive government investment in appropriate planning and approval outcomes; and
- Ensure funding for key policy and process improvements such as Streamlining for Growth is maintained.

As a priority, the Metropolitan Planning Levy must be reallocated to the VPA to ensure it has a consistent, ongoing funding base, with additional funding provided by Government on an ongoing basis to empower the VPA to unlock the economic value that proper strategic planning can deliver Victoria.

3. Implement a whole-of-government approach to delivering affordable housing

In our view, addressing Victoria’s affordable housing crisis requires a whole-of-government approach underpinned by significant capital investment. The addendum to UDIA Victoria’s preliminary submission to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing provides more details and is attached (**Attachment D**).

The development sector is already responsible for delivering most affordable housing across Victoria, and this contribution should be recognised in any policy settings. An approach which further increases the costs of delivery for the sector without creating incentives will have the unintended consequence of reducing supply.

Recommendation 5

UDIA Victoria’s recommended approach to developing an effective affordable housing framework is set out below:

- i. A healthy new housing supply pipeline will make more houses more affordable to rent

and buy for more Victorians.

- Establish housing growth targets across the Metropolitan Region with corresponding performance and accountability measures.
 - Incentivise local government to plan for new housing by aligning infrastructure investment to housing growth targets.
- ii. Set clear affordable housing delivery objectives and refine household targeting.
- Identify costed affordable housing delivery targets – both across the broader metropolitan region, by LGA and for redevelopment precincts.
 - Increase Governor in Council income brackets to include key workers.
 - Define a methodology for determining affordable housing price points for purchase.
- iii. Introduce a tightly defined, broad based, flat rate Affordable Housing Contribution levied through the Planning System across Metropolitan Melbourne, to avoid skewing of market activity between sectors, precincts or specific sites. The Affordable Housing Contribution must be applied to all planning permit applications for development in metropolitan Melbourne, and:
- be phased in at a low rate (i.e. 0.5% of assessed land value at the time of application) for a transition period of no less than 5 years to allow the market to adjust;
 - replace all other affordable housing requirements with a delivery cost to landowners/developers – i.e. voluntary agreements, or planning controls;
 - be permitted to be satisfied via cash, or delivered outcomes with the equivalent cost; and
 - be collected and managed transparently by a centralised Government Authority established for that purpose.
- iv. Design an Affordable Housing Delivery Toolkit (“Toolkit”), aligning Federal, State and Local direct funding opportunities and incentive mechanisms to guarantee the gap between the Affordable Housing Contribution and cost of delivery targets.
- Where delivery targets are identified through a strategic planning process, that process must also identify the Toolkit measures that will be applied by Government to guarantee the gap, to ensure a level playing field.
 - An example Toolkit relevant to the Victorian context is set out in the attached submission and includes (but is not limited to) direct Government capital and land allocation, taxation relief, development right uplift mechanisms, and the Affordable Housing Contribution funds.
- v. Capacity building programs across all levels of government, development and community housing industries, financiers, and the community are essential to ensure the success of the system and can be rolled out over a five year integration period for the Affordable Housing Contribution. These should aim for both shared understanding of interests of the various parties, outline the various ways in which affordable housing outcomes can be delivered to meet the varied needs of very low, low and moderate income households



including key workers, such as market purchase, assisted purchase, assisted rental, public and community housing and crisis housing, and set out clear processes for achieving delivery targets through the application of the Toolkit.

We look forward to briefing you and members of the Department of Treasury and Finance on these issues prior to the finalisation of the Victorian Budget 2020. Please contact me directly at danni@udiavic.com.au to arrange a suitable time to do so.

Yours sincerely

A handwritten signature in blue ink that reads 'Danni Hunter'. The signature is fluid and cursive, with a long horizontal flourish extending from the end of the name.

Danni Hunter
Chief Executive Officer

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Attachments:

- A. Residential Development Index Report, September 2019
- B. UDIA Victoria Pre-budget Submission 2019
- C. UDIA Victoria Submission to the Better Regulation Commissioner's Review of Victoria's Planning and Building Approval System and Early Works Infrastructure
- D. UDIA Victoria Supplementary Submission to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing