

4 May 2020

Emma Appleton
Director, City Strategy
City of Melbourne

By email: affordablehousing@melbourne.vic.gov.au

Dear Emma,

City of Melbourne Affordable Housing Strategy – UDIA Victoria Submission

The Urban Development Industry of Australia, Victoria Division (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.

The building, construction and development industry contributes almost half of the state Government's tax base, employs almost 300,000 Victorians and is a major contributor to the Victorian economy.

UDIA Victoria commends the City of Melbourne on the deep work and consultation done to date which supports the draft Affordable Housing Strategy 2030 (**the Draft Strategy**). We welcome the opportunity to work with the City of Melbourne to explore how affordable housing can be delivered and increased and note that we have participated in two important workshops with the City of Melbourne and members of our Board of Directors and policy committees.

Demonstrating our longstanding commitment to finding real solutions to the affordable housing challenge faced by Victoria, UDIA Victoria has been an active member of the Affordable Housing Industry Advisory Group (AHIAG) since its establishment in 2016. In 2019 we delivered the *Introduction to Property Development Economics for Affordable Housing* course, on behalf of the Department of Environment, Land, Water and Planning's (DELWP).

Our mutual objectives to boost housing supply and to make it more affordable, are aligned. Where we differ, is where the responsibility for funding affordable housing should lie and what is the most appropriate strategy is to increase affordable housing stock.

From the early 1980's when social housing comprised around 10% to 15% of new dwellings, Government investment has dwindled to now represent around 2% to 3% of new dwellings. Historically, social housing was seen in public policy as being a welfare issue rather than an economic issue. The real reason for our inadequate supply of affordable housing, has been the lack of priority given by successive state Governments to investing in social and affordable housing.

We appreciate that Councils, being at the community frontline, experience the societal consequences of there not being sufficient affordable housing supply, and have to find real solutions for the implications of inadequate Government investment.

The current housing affordability crisis cannot be solved through Victoria's planning system alone, or by having various arrangements in place at the Council level. The solution requires a whole of Government approach underpinned by significant capital investment from the state Government.

Affordable housing is social infrastructure that is a broader community issue; the solution to which should not be isolated to the private sector. Significant underinvestment by governments over time cannot be successfully remedied by leveraging the new housing markets in a way which will directly result in further price lift and reduced affordability.

The urban development industry is ready, willing and able to deliver affordable housing in partnership, but not at the expense of investment certainty and project feasibility. Further, the failure to adequately transition any new controls in recognition of market cycles, will result in a reduction in housing supply and, perversely, an increase in median house prices.

Our most experienced members strongly believe that the measures proposed by the Draft Strategy will make investment and development in the City of Melbourne unattractive, leading to less housing supply. Asset owners will respond in ways that will constrain residential development opportunities. They will shift and pivot their strategies toward other asset creation opportunities, rather than reduce land values as has been assumed by the City of Melbourne. Where developments do proceed, they will do so only when retail prices lift to allow cost to be passed on future home buyers, making housing less affordable.

An alternative approach

Noting the clear direction of the City of Melbourne, as well as the Victorian Government to address affordable housing through the planning system, UDIA Victoria has proposed a balanced approach that we believe has the best chance of delivering affordable housing outcomes at scale without compromising supply or the median house price.

The approach comprises:

- a low, flat rate, broad-based Affordable Housing Contribution, similar to the Fire Services Levy, transitioned over a period not less than 5 years, to replace all other affordable housing provisions;
- affordable housing delivery targets, supported by an Affordable Housing Delivery Toolkit of funding and incentive measures that can be applied to fund the gap between the cost of delivering and the Affordable Housing Contribution; and
- a comprehensive capacity building program targeting all stakeholders – all levels of government, development and community housing industries, financiers, and the community — to create common shared understanding of interests of the various parties, and 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.

Going forward

We strongly urge the City of Melbourne to consider:

1. The industry experience and depth of knowledge represented in the solutions put forward by UDIA Victoria;
2. Calling on the Victorian Government to establish a whole-of-government Affordable Housing Strategy rather than seeking to introduce affordable housing requirements at the Council level;

3. Avoiding unworkable and unnecessary duplication at various levels of government and to include the City of Melbourne's approach in the state-government led strategy;

UDIA Victoria has written to the Minister for Planning requesting a moratorium on any new policy settings or increased fees and charges that would have a material impact on the cost of producing housing, until the COVID-19 pandemic period has passed. As such, we strongly urge the City of Melbourne to:

4. Give proper consideration to the difficulties facing the building, construction and development industry as well as the housing market, as a result of the COVID-19 pandemic and to delay progressing the Draft Strategy until at least 1 July 2021.

Finally, we again commend the City of Melbourne on the work done to develop and consult on the Draft Strategy. Just like the City of Melbourne, we are committed to finding real, tangible and meaningful solutions to Victoria's affordable housing crisis.

Our objectives are aligned; let us work more closely on positive solutions.

We look forward to continuing to work closely with the City of Melbourne. Please contact me directly at danni@udiavic.com.au to discuss this submission further.

Yours sincerely

A handwritten signature in black ink that reads 'Danni Hunter'. The signature is stylized with a large, sweeping underline.

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Submission to City of Melbourne Draft Affordable Housing Strategy

Introduction

UDIA Victoria's positions on the provision of affordable housing through the planning system have been developed through a broad and deliberate program of member consultation led by our CEO and Board of Directors and involving our member Committees including our Planning Committee, Greenfield Developers Committee and Apartment and Urban Renewal Committee.

In 2019, UDIA Victoria prepared two key submissions to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing.

These submissions are at **Attachment A** and **Attachment B**.

UDIA Victoria has a deeply established position that the planning system is not the appropriate mechanism through which Government should seek to access additional affordable housing, and that a more sophisticated framework of funding and a 'Toolkit' approach is in fact required.

A real solution for Victoria's shortage of affordable housing at volume will require a whole of government response predominantly driven by fiscal initiatives.

The urban development industry is not responsible for funding a crisis that has built over several generations and successive Governments. A whole of Government approach is required. A broad-based levy, for example the Fire Services Levy, could be used to help fund affordable housing, and we note that property related taxes already deliver close to half of all Government revenue.

Having reviewed and visited international examples, the 'Toolkit' approach is evidenced to be the most effective in delivering the highest number of new dwellings. Adding to this approach, is the need for a necessary funding stream so that affordable housing dwellings can in fact be acquired by appropriate community housing providers, with certainty.

Impact of COVID-19

The COVID-19 crisis needs to be resolved before any further policy change or cost imposts can be considered. UDIA Victoria is working with the Victorian Government and the Building Victoria's Recovery Taskforce to support the building, construction and development industry through the COVID-19 pandemic period, and to save jobs and grow jobs on the other side.

UDIA Victoria has written to the Minister for Planning asking that the Government consider establishing a moratorium on policy changes and additional costs which would impact the cost of producing new housing, until mid-2021. A copy of this letter is provided at **Attachment C**.

These including but are not limited to:

State Government

- Any proposal on foot to implement a state-wide Social and Affordable Housing Levy.
- Any proposal for a new infrastructure contribution for strategic redevelopment areas.
- Annual indexation and increase of the Growth Areas Infrastructure Contribution (GAIC).

- Adjustment and Indexation of the Melbourne Strategic Environmental Mitigation Levy (EML).
- Better Apartment Design Guideline amendments which are currently the subject of consultation.

Local Government

- Proposals for new design standards and requirements. Councils continue to work on ad hoc planning scheme amendments that apply new local policies to development in their municipalities.
- Proposals for social and affordable housing. More than 40 Councils have various proposals on foot to prepare planning scheme amendments that will support new local policies for social and affordable housing which may include imposing Section 173 Agreements in exchange for development approvals.
- Proposals to increase public open space levies. A number of councils have planning scheme amendments generate proposals to increase open space contributions in established suburbs under the Subdivision Act. As an example, Amendment C186 to Darebin Planning Scheme proposes to double the public open space contribution on development to 10%.

Cost of producing new housing

Taxes and charges that contribute to the cost of producing housing, either increase the price of the end housing product, or reduce the land price a developer can pay from the original owner.

We challenge the idea espoused in the Draft Strategy, that new taxes or costs will only affect asset owners through offsetting land values. History has shown that the introduction of such new costs, such as the Growth Areas Infrastructure Charge, discourages and or delays development and leads to significant unintended consequences. Melbourne already has some of the most expensive prices in the world for new housing and the proposals in the Draft Strategy will reduce supply further thereby exacerbating the very issue that we are trying to solve.

The business model supporting residential development reflects significant project risk and high costs of finance that developers must assume to deliver a project, as well as often low margins that are achieved on residential development projects.

The high cost of producing housing does not drive a reduction of underlying land values. In contrast, where the cost of producing housing is high, residential development may no longer be the highest and best use, and the land may continue to be used for another purpose despite a residential zoning. This drives an overall reduction in the supply of new housing.

High taxes, charges and delays through the planning and development approval process reduce housing supply by increasing risk, reducing returns and making certain types of development unfeasible.

The high cost of housing in Victoria pushes lower income segments out of the private buyer and rental market and into the affordable housing market.

If taxes and charges are increased further due to bracket creep or new taxes and charges being introduced, residential development may not be the highest and best use of the land and urban renewal areas and priority precincts may lay dormant.

If the cost of producing housing is so high that the system reduces overall supply, Government will need to play a greater and more deliberate role in funding and supporting affordable and social housing.

Portfolios such as justice, health and education can also be impacted as can the cost of delivering these services to the community if housing needs are not met due to a lack of affordable housing supply.

There is limited opportunity for new levies to be introduced for value capture, priority precincts and affordable housing, without a material impact on the affordability of housing in Victoria. However, these measures cannot afford to be applied retrospectively or in a broad-brushed manner without significant consequences to the overall sector.

The cost of producing new housing in established areas of Melbourne comprise the following costs imposed as a result of state and local government policy, taxes and direct charges:

State Government

- Land tax
- Stamp duty
- Foreign purchaser surcharges on stamp duty and land tax
- Vacant residential land tax
- GST
- Metropolitan Planning Levy
- Statutory utility charges
- Cladding Rectification Levy
- State government infrastructure contributions
- Better Apartment Design Standards

Local Government

- Permit fees and charges including for extensions of permits
- Plan checking and supervision fees
- Local infrastructure contributions including local water authority fees, electrical authority fees, NBN deployment fees
- Council rates
- Open Space Levy
- Passive open space requirements

The role of Government investment

We commend the City of Melbourne's advocacy intent expressed in the Draft Strategy and note the pivotal importance of federal and state Government investment in affordable housing to increase the

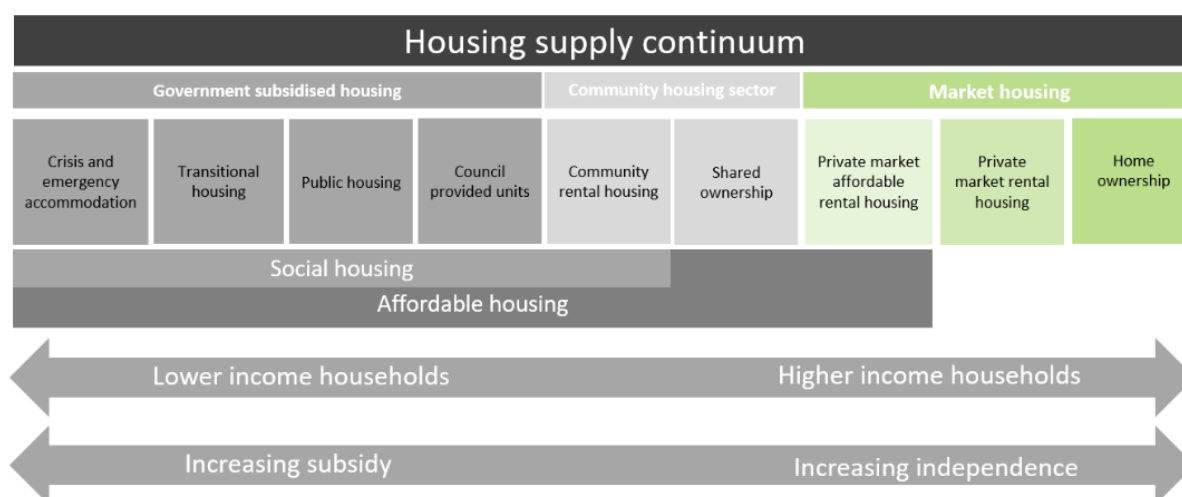
supply and accessibility of affordable housing.

In early 1980s social housing was perceived to be an essential economic infrastructure; commencements were around 15,000 per year (~10% to 15% of new dwellings starts). Later that decade social housing policy morphed to a welfare discussion.

New social housing investment has declined since, except only for the National Rental Assistance Scheme (NRAS) investment in 2009 and 2010 as the Commonwealth sought to mitigate the GFC crisis. Today Commonwealth funding delivers about 2,500 net new homes per annum and this figure continues to fall.

State governments have followed the trend of reducing investment. The Andrews Government is investing to create 1,000 new social housing dwellings in this term, some of which are in the City of Melbourne. However, some estimates are that about 1,700 net new homes are required in Victoria every year to maintain the current 3.5% share of new dwellings. There is not yet any clear long-term vision as to the volume of affordable housing government policy seeks to deliver.

The following diagram produced by the City of Sydney depicts the various forms of housing supply providers and the role of government across the spectrum of housing products:



Source: City of Sydney, 2015, Housing Issues Paper.

Streamlining and improving the planning and development approval system

Federal and state Governments should use their existing tax base to fund and invest in social and affordable housing. At a local level, Councils should work to find significant efficiencies in the planning and development approval process, to modernise the planning scheme framework and to build in market-based incentives to provide affordable housing stock. Where Councils own land, they could choose to include an affordable housing requirement.

Councils need to ensure that any local level policy is compatible with broader state government policy to eliminate any policy conflict and make certain that the planning delivery mechanisms do not restrict or delay the further provision of housing.

Inclusionary zoning is a relatively blunt tool which does not address the needs of all participants in the process of delivering a significant volume of new affordable housing across different market segments.

UDIA Victoria's submission to the Commissioner for Better Regulation as part of the *Planning and Building Approvals Process Review* highlights several key proposals for streamlining the planning and approval system at the local level. We encourage the City of Melbourne to review UDIA Victoria's suggestions here: [https://www.udiavic.com.au/getattachment/Policy-Committees/Policy-Submissions/UDIA-RED-TAPE-REVIEW-submission-August-2019-\(1\).pdf](https://www.udiavic.com.au/getattachment/Policy-Committees/Policy-Submissions/UDIA-RED-TAPE-REVIEW-submission-August-2019-(1).pdf)

Market impacts of new taxes, charges and cost imposts resulting from policy changes

UDIA Victoria notes the background work done by SGS Economics and that we have had the opportunity to meet with the City of Melbourne and advisor Marcus Spiller to better understand the thinking and assumptions that underpin the Draft Strategy.

Our analysis and review of the SGS Economic reports, and the underlying assumptions used have led us to form the following view:

- The SGS model is too simplistic and fails to appreciate the full market dynamic and the competitive nature of land acquisition for development purposes;
- SGS Economics have used extremely simplistic assumptions and modelling to justify the role they believe the development sector should play in providing affordable housing dwellings;
- SGS Economic have long been an advocate for inclusionary zoning, and as such, they have not provided a balanced view of the arguments for or against inclusionary zoning, and have relied too heavily upon this strategy as a solution for providing more affordable housing;
- The peer review of SGS Economics work is not available on the City of Melbourne website, and as such, is not able to be validated.

We make the following specific comments relating to the market fundamentals of the property and development industry in response to the SGS Economics report:

- The supply of development sites is not elastic; it is highly constrained. The market does not respond in the way the economic models suggest. New costs and imposts are built into development costs, are passed on to the end consumer and are reimbursed to the developer in the form of retail price increases.
- If the retail housing market does not accept higher end prices, supply will stall, as was seen initially after the GAIC was introduced, as development projects will be shelved until such time as consumers can afford the higher cost of housing.
- Development margin does not and cannot get squeezed. If the market cannot find a suitable margin, the project will not attract necessary investors and bank funding and therefore development will not proceed.
- Most developers are looking at a pipeline of development sites that need replenishment and this process is highly competitive. Sites need to be in suitable locations, and also supported by suitable planning and infrastructure frameworks to make the project attractive to the end user.
- The planning scheme and the planning processes itself puts a lot significant of risk into projects and strong restrictions on much large portions of land that is are otherwise considered developable.
- The market, in reality, does not support the theory that landowners will simply accept a

reduced price for their land, and that a supply of development sites will continue to flow into the pipeline. Instead, landowners are more likely to pursue other asset development strategies – for example, commercial or retail development – or pursue asset refurbishment and leasing strategies, or they simply will not sell their land.

- The notion of a requirement to “gifting” completed dwellings will significantly impact the viability of most development sites and cripple the delivery of new housing supply.