20 August 2020

Stuart Mosley
Chief Executive Officer
Victorian Planning Authority

By email: arden@vpa.vic.gov.au

Dear Stuart

Submission: Arden Structure Plan

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.

UDIA Victoria congratulates the Victorian Planning Authority (VPA) and the City of Melbourne (CoM) on the preparation of the draft Arden Structure Plan (the Structure Plan). The Structure Plan represents a large body of work and stakeholder involvement. It provides a preliminary vision and framework for the growth and development of this important precinct that will help to leverage Government's investment in the new Melbourne Metro underground railway station and provide opportunity for more intensive development in the area.

Key Issues

This submission is structured around the following key issues, which are discussed in more detail below the summary of key issues:

Delivery Program

The Structure Plan should include governance arrangements and an implementation framework that can support the timely delivery of the vision and outcomes proposed. There should be greater clarity around responsibilities, programming, resourcing, and priorities. Defined priorities help signal to our industry where opportunities will first arise.

Policy Issue 1: Affordable Housing.

UDIA Victoria supports a broad-based affordable housing levy to fund Government investment that is gradually introduced, rather than heavy imposts on specific development.

UDIA Victoria does not support the Structure Plan's proposed requirement for new development to provide 6% affordable housing. We attach our submissions (refer **Attachment 1**) and established policy positions as articulated to the City of Melbourne and the Victorian Government's Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing.

Policy Issue 2: Infrastructure Funding.

UDIA Victoria does not support the application of an Infrastructure Contribution Plan (ICP) to the Arden Precinct, as we are not confident that the ICP System for Strategic Development Areas is workable at all.

We attach our submission (refer **Attachment 2**) to the Minister for Planning regarding the strategic redevelopment area ICP system.

UDIA Victoria supports the preparation of a mechanism that applies longstanding principles which would ensure appropriate cost sharing for clearly defined Council led projects.

Policy Issue 3: Cumulative Cost Impact

UDIA Victoria is concerned about the cumulative cost impact of planning policy and regulation being applied to new development, and housing in particular. We refer to our recently released research *The Hidden Cost of Housing* (refer **Attachment 3**) and would welcome a further discussion about this.

Delivery Issue 1 - Innovation Heart

UDIA Victoria supports the vision for the 'Innovation Heart', provided the Victorian Government can commit to delivery in a timely manner. Without commitment, there is a risk that development potential is blighted, delayed, or otherwise not optimised due to a lack of clarity and certainty around this vision.

Delivery Issue 2: - Facilitate Short Term Residential

Given the risks to the delivery of new housing in similarly iconic precincts, due to delays in delivery of some of the longer-term vision aspirations, the Structure Plan needs to unequivocally support the early activation of short-term residential projects.

Delivery Issues 3: Drainage Infrastructure

Novel and preliminary or conceptual drainage and water managements proposals form part of the Structure Plan. Any proposed design guidelines, developer works or development services scheme projects need to be clearly defined, costed and detailed land implementation plans provided. We are concerned that this has not been fully explored or understood in partnership with Melbourne Water.

Design Issue 1: Integrate with the Site's Context

The Structure Plan's concepts are not sufficiently integrated with its urban context. In particular, the failure to embrace further intensification around the existing North Melbourne rail station is a key deficiency and represents significant lost opportunity for the precinct and its surrounding urban area.

Our members are concerned that the conceptual nature of the Structure Plan, combined with a list of poorly defined development requirements, will serve only to increase planning and development risk.

Development outcomes, timeframes and costs are highly uncertain in the precinct. Financial backing and the capital required to catalyse the revitalisation of Arden has abundant and global choice. Uncertain planning jeopardises investment and must be avoided if the Arden precinct is to successfully attract the level of capital investment required to develop a precinct of this size and significance.

Each of these key issues is now addressed in more detail.

Delivery program

The Structure Plan includes an aspirational vision and various spatial and other objectives and strategies. It does not provide an implementation framework or supporting mechanisms. We are concerned that in absence of a fulsome delivery program, development will be stalled for some years while further detail to support implementation is developed by Government.

Some of the key issues include:

- There is no governance framework articulated for the implementation of the Structure Plan.
- It is unclear who will be the planning authority or the responsible authority for the implementation of the plan.
- There is no list of actions, with defined responsibility, lead agency identification, cost and timing for implementation.
- There is no implementation program.
- Strategies are listed in chapters with no identification of priority; some are in direct competition with each other and there is no discussion of compromises that may be required between objectives.
- The critical or catalytic actions are not identified.
- A short-term priority set of actions for immediate attention is not provided.
- The plan lacks a development focus, an understanding of steps to activate private investment.
- Some of the strategies will impose costs and requirements on a range of agencies and Council departments as well as on private development proponents, yet there is no sense or identification of these substantial costs.

The Structure Plan should be developed further to include mechanisms that can support the timely delivery of the vision and outcomes proposed. UDIA Victoria seeks more detail around responsibilities, programming, resourcing and priorities.

A range of proposals are flagged in the Structure Plan and greater definition is required around:

- Areas that will remain in Government ownership, verses areas to be divested.
- Specific areas of land proposed to be acquired or developed for drainage purposes.
- Specific boundaries of any land to be acquired or developed for open space purposes.
- Location of the proposed primary school, and any adjacent community hubs or the like.
- Land proposed to be acquired for road extensions or widening.
- Definition of any other key public uses or developments.
- A proposed future zoning plan.

Creation of an Implementation Framework is critical to the urban development industry so investors have a sense of how the plan might be delivered so development aspirations and priorities can be identified and land appropriately valued.

Policy Issue 1: Affordable housing requirement

UDIA Victoria does not support the Structure Plan's proposed requirement for new development to provide 6% affordable housing. 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. A copy of our submission to the CoM is provided at **Attachment 1**.

UDIA Victoria proposes:

- A low, flat rate, broad-based Affordable Housing Contribution, like 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.
- A whole-of-government Affordable Housing Strategy rather than seeking to introduce affordable housing requirements at the Council level.

Policy Issue 2: Infrastructure Funding

UDIA Victoria does not support the application of an ICP to the Arden Precinct. We rely on our separate submission (refer **Attachment 2**) to the Minister for Planning regarding the ICP system for Strategic Development Areas.

UDIA Victoria supports the preparation of a Development Contributions Plan (DCP) that applies longstanding principles to ensure any charging regime is fair. This would be a seamless transition from the Development Contribution Plan Overlay that was put in place by the Minister for Planning in July 2020.

UDIA Victoria proposes:

- Government acknowledges that any infrastructure contributions are just that - a 'contribution' toward local infrastructure and not a system designed for full cost recovery.
- That any infrastructure contribution should remain designed for the collection a contribution toward local infrastructure requirements and should exclude State infrastructure.
- Mechanisms provide certainty for immediate development and certainty of costs.

In the absence of a workable ICP system, the UDIA supports use of the DCP system.

UDIA Victoria would be pleased to work with the VPA and Council around what projects should be considered for a DCP for the Arden Structure Plan area.

It would be a very useful exercise to develop a draft list of projects, their costs and apportionment to allow the industry to better understand projects that might be funded and which they might be able to deliver as works in kind projects.

Policy Issue 3: Cumulative Cost Impact

UDIA Victoria is concerned about the cumulative cost impact of planning policy and regulations being applied to urban development, and housing in particular. The Arden Precinct provides an example of how policies can be written without sufficient discipline which then imposes a range of unintended significant costs on development which impact housing affordability.

A copy of the UDIA Hidden Cost of Housing Report can be found at: https://www.udiavic.com.au/hidden-cost-of-housing and is at **Attachment 3**.

We challenge the idea 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. 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.

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.

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 infrastructure as new areas of Melbourne are developed.

The Hidden Cost of Housing Report highlights the following costs of producing new housing in established areas of Melbourne:

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

In addition to these requirements, the Arden Structure Plan proposes:

- A 6% affordable housing requirement.
- Design recommendations, floor area controls and built form controls (page 42).
- Requirements for buildings to provide a 100-year structural life and be designed for adaptive re-use (strategy 7.2 and strategy 7.4).
- Require large developments to prepare an operational management plan and annual disclosure of performance to improve sustainability outcomes (strategy 9.1).
- Introduce a precinct wide power purchase agreement (strategy 10.1).
- Centralised freight and waste management facilities (strategy 10.2 and 17.6).
- Require all new buildings to connect to precinct sustainability infrastructure (strategy11.1).
- Require all buildings to deliver World leading sustainability performance (strategy 11.2).
- Require all new buildings to be 100% electric (strategy 11.3).
- Minimise the use of virgin materials, in preference for recycled products (strategy 13.3).
- All new buildings to achieve 40% of site area as green cover (strategy 14.3).
- Support delivery of an alternative water treatment plant and third pipe infrastructure plumbed for toilets, laundry and irrigation (strategy 20.2). Conflicts with strategy 20.3 which requires buildings to capture rainwater.
- Require at least 5% of private development to be universally accessible (strategy 23.6).
- Require noise sensitive uses to include noise and vibration attenuation when near freeway and rail infrastructure (strategy 28.1).
- Ensure permits within the gas measurement length manage risk (strategy 28.4).

In addition, our preliminary analysis has indicated that there is a miss match between the development controls and the Floor Area Ratio (FAR) proposals. UDIA Victoria recommends that there should be a threshold site area test to apply the FAR, e.g. it should only apply to sites less than 1200sqm (if the objective is to avoid design outcomes similar to the Phoenix pencil towers in Melbourne's CBD).

UDIA Victoria would welcome the opportunity to explore a development feasibility through a working group established by the VPA and Council.

The planning policy and regulation identified above will add very significant cost to new development. Our assessment is that the development will not be feasible.

Before we can create a feasibility case study, we will need to understand the intention around application of the strategies proposed (for example World leading sustainability standards).

Delivery Issue 1: Innovation Heart

The UDIA Victoria supports the vision for the 'Innovation Heart', provided the Victorian Government and the City of Melbourne can commit to delivery in a timely manner. We are concerned that Government is not sufficiently committed to the establishment of the precinct and seek a greater understanding of the proposal and commitments to it. We would also like to understand the views of existing stakeholders like the University of Melbourne and the various health facility mangers adjacent to the University.

We seek a greater understanding regarding what would be required to occur to achieve the vision. What level of Government investment would be necessary and over what time frame could this occur?

We are also concerned that the concept does not use conventional planning terms for example 'Innovation Heart' is not a conventional term. This may lead to implementation issues through statutory translation – providing uncertainty for investors and development proponents.

Delivery Issue 2: Residential Short-Term Priority

The Structure Plan provides numerous longer term, challenging visions and objectives. Given the risks to delivery of long-term planning aspirations, the Structure Plan needs to clearly and unequivocally support activation of short-term residential projects.

It would be useful for the Structure Plan to identify the key risks to the more crucial catalytic projects and explore what might happen if those risks eventuated.

A clear position on how additional development requirements might be phased in would assist, as not all of the requirements would be possible to impose on initial developments.

Delivery Issue 3: Drainage Infrastructure

The Structure Plan does not have sufficient detail to understand the delivery of drainage infrastructure in terms of land requirements and infrastructure construction. We expect that the proposals will see a sharp increase in cost of development through an upgraded development services scheme.

There does not appear to be a well-integrated strategy with respect to requirements on private development, public drainage infrastructure and water and recycled water proposals through the water authority. Overlap and duplication needs to be resolved.

Novel and preliminary developed drainage and water managements proposals form part of the Structure Plan. Any proposed design guidelines, developer works or development services scheme projects need to be clearly defined, costed and detailed land implementation plans provided.

Design Issue 1: Integrate with the Site's Context

The Structure Plan's concepts are not sufficiently integrated with its wider urban context. In particular, the failure to embrace further intensification around the existing North Melbourne rail station is a material deficiency that should be rectified.

The Structure Plan should both support and leverage adjacent and nearby existing urban fabric, nodal points, transit, pathway and open space networks. More clarity is needed as to the unique identity of this precinct in its context, rather than trying to be all things to all people (and there are some excellent place drivers within it and abutting it).

While acknowledging the Structure Plan does include context maps and sufficient discussion around context - the narrative is missing an explicit recognition of the opportunity to integrate Arden with planning strategies for the wider neighbourhood and joining the dots of investment on the western edge of the CBD and to precincts to the north.

More explicit recognition of how the Structure Plan relates to the planning of and integration with the remaining parts of North Melbourne (north of Arden up to Flemington Road) and east (through existing fabric to the edge of the city and Docklands) provides an opportunity for a more holistic outcome.

Further opportunities that could be associated with the local context (recreation, education, cultural hubs, established main street character and local business) include:

- Royal Park as a breakout space for North Melbourne / Parkville: improved connectivity across Flemington Road and better north-south street connectivity (with improved amenity from Arden Street).
- Royal Children's Hospital / McDonalds House immediately north.
- Royal Melbourne/ University Innovation Hub to the north east, and the broader university / knowledge corridor through Carlton (along the Queensberry Street and Flemington Road links).
- Meat Market / Arts House (events and cultural spaces), Lithuanian Club/ Comedy Club (which draws regional crowds, supported by other smaller performance spaces through Comedy Festival and North Melbourne Festival).
- Errol Street, being the current main street in North Melbourne. This is a street with long established businesses and strong coffee culture drawing people from across Melbourne and it is still popular (e.g. Amiconi, Town Hall Hotel, Auction Rooms). Mapping should consider connections to and the relationship with Errol Street, and demonstrate how Barwise Street (the proposed new high street) relates.
- Small business and startups in warehouses and back street locations in North/ West Melbourne – how can this local grit, activity and culture be kept. This could this be the point of difference to Fisherman's Bend.
- Health and recreation at the Arden Street Reserve. Is there an opportunity to expand on the sports science theme created through the City of Melbourne Pool / Sports Centre, and North Melbourne Football Club?
- Victoria Street could be more explicitly integrated with Queen Vic Markets.

- Could the opportunity for animal health and research, emerging through the existing Lost Dogs Home (whose rehousing does not appear to have been considered), the Lort Smith Hospital (to east of Arden Street precinct), emergency vet hospital to west of rail line, Flemington Zoo, Flemington Races?

In terms of connectivity, we provide the following observations:

- The Structure Plan provides the opportunity to better facilitate connectivity to North Melbourne Station (and connectivity from south of Dynon Road north), across King and Spencer Streets, and the Dynon Road underpass.
- King Street and Spencer Street are generally rather hostile for people. The Structure Plan provides the opportunity to explore how these conditions can be tamed and safe cycling routes facilitated (direct east-west feeders).
- The Structure Plan provides the opportunity to better facilitate east-west permeability (e.g. from Laurens Street to Errol Street) and create cross block connections with redevelopment.
- Spencer and Victoria Streets are opportunities for improved connectivity (stitching back to the CBD/ Docklands), and not just Queensberry Street.
- Tram / train interchange and upgrade opportunities exist, to connect to Abbotsford and Queensberry Street. Can the Structure Plan also plan for a high frequency bus loop service from train stations for those that cannot walk the distance from the train?
- Macaulay Road presents an opportunity for a trackless tram (or other high frequency high capacity format) to replace the bus service and create connections to the new stations and established tram services.
- The Structure Plan provides the opportunity to improve north-south movements (to Royal Park and beyond).
- Queensberry Street provides a cross city connection, and link to Parkville and also Carlton (University / knowledge hub), through to the Exhibition Centre.
- What is the rationale for one-way street networks (is this to accommodate more transit)? Should the idea of adaptable streets be adopted (i.e. cars now but transit-proofed for the future)?
- What is the rationale for the consolidated parking facility? Is Dryburgh Street possible given its smaller land holding and footprints? Is this much car parking actually needed given the strong transit context)? How is the cost of this dispersed across the precinct?
- North Melbourne train station had a strong role in city events (pre-COVID). It was as an off/ on point for events at Marvel Stadium and Festival Hall, and also for Melbourne Cup etc. Its post-COVID role is likely to be similar.

Throughout North and West Melbourne, the City of Melbourne has had to retrofit open space back into the urban fabric to cater for needs of residential population as it has increased over time (such as the Adderley Street verge extension and Errol Street triangle park).

The Structure Plan should consider smaller civic spaces as part of the network with equal weight as the larger spaces (all new spaces proposed are effectively the size of football fields). There is an opportunity to build on the theme of linear green streets and high amenity networks to create connectivity and place throughout precinct and beyond. If not shown on the Plan, smaller spaces will be left to individual developments, which is likely to result in a less integrated network.

Conclusion

UDIA Victoria congratulates the Victorian Planning Authority and the City of Melbourne for completing significant strategic planning work which will ultimately enable further development in the Arden Structure Plan Area.

Our members provide in-depth expertise and experience in urban development, and work in an environment of ever-increasing regulation. They strive to increase the quality of urban development, infrastructure, community and livability outcomes.

Rising standards and calls for more financial contributions such as those evident in the Arden Structure Plan need to be carefully weighed and balanced against critically important objectives including housing affordability, development feasibility and overall deliverability. The Arden Structure Plan raises a host of key issues and we look forward to working with the Victorian Government and the City of Melbourne to resolve and improve the final vision and implementation framework.

Please contact me directly at danni@udiavic.com.au to arrange a suitable time to discuss this submission in detail.

Yours sincerely

Danni Hunter

Danni Hunter
Chief Executive Officer

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Attachment 1: UDIA Submission to City of Melbourne Affordable Housing Strategy

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

Danni Hunter
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Urban Development Institute Australia (Victoria)

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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 imposts 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

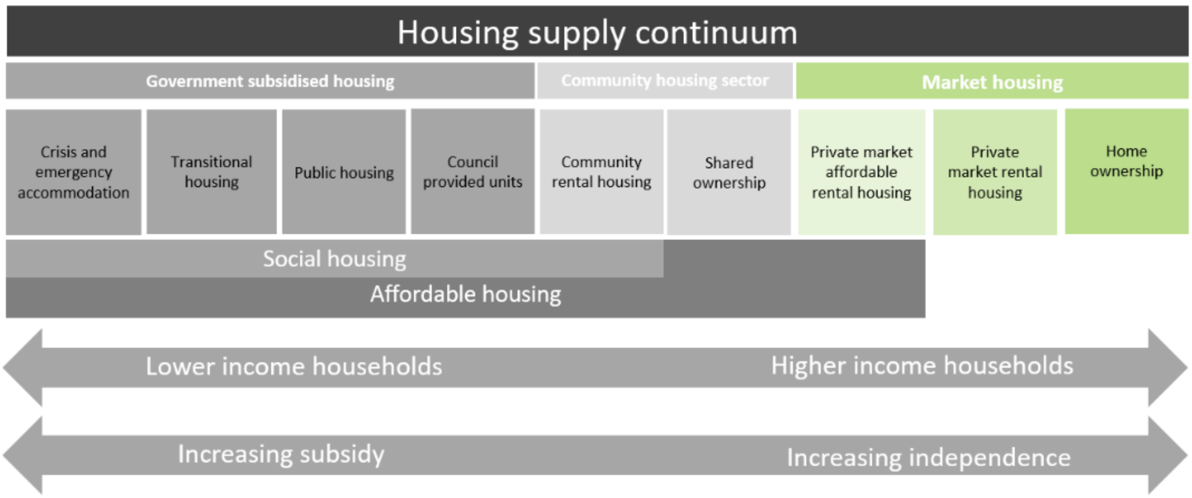
We commend the City of Melbourne's advocacy intent expressed in the Draft Strategy and note the pivotal importance of federal and state Government investment in affordable housing to increase the supply and accessibility of affordable housing.

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

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.

Attachment 2: UDIA Victoria Submission regarding Strategic Redevelopment Areas ICP

9 July 2020

Joel Twinning
Planning Systems
Department of Environment, Land, Water and Planning

By email: joel.twining@delwp.vic.gov.au

Dear Joel,

UDIA Victoria Submission: Strategic Development Areas Infrastructure Contributions System

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.

UDIA Victoria welcomes the opportunity to provide a submission to the Department of Environment, Land, Water and Planning (DELWP)'s discussion paper on an Infrastructure Contribution Plan System (ICP System) for Strategic Redevelopment Areas (SDAs).

Our key positions are as follows:

1. The Victorian Government should pause the consultation and development of the ICP system for SDAs until the COVID-19 pandemic period has passed;
2. Infrastructure Contributions are a contribution toward local infrastructure and a system for ICPs for SDAs needs to be designed with this principle at the forefront;
3. UDIA Victoria strongly opposes collection of state infrastructure levies through the ICP system that was, is and should remain designed for the collection a contribution toward local infrastructure requirements;
4. Insufficient analysis, impact assessment, research and interrogation has been done to support the proposed ICP system for SDAs and this must be done before a system can proceed;
5. A standardized ICP system for SDAs will be difficult to achieve due to the unique nature of these urbanized, redevelopment precincts or sites;
6. In the meantime, the well-established system of using Section 173 Agreements and Development Contribution Plans should continue to be utilized;
7. The proposed two-tiered system that is proposed presents significant difficulties and does not adhere to the standardization principle;
8. A cap on Supplementary Levy amounts should be introduced for all development settings, including SDAs, to combat exponential rises in charges and housing cost impost from Supplementary Levy items; and
9. A more rigorous, industry supported process for developing this important system is required if

it is to be done properly and effectively to support the local infrastructure needs of Melbourne's Strategic Development Areas into the future.

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 A**.

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 Kingston 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.

Cost of producing new housing

UDIA Victoria is concerned about the mounting costs of new and increased taxes, charges and regulation that comprise the cost of a new house in Victoria.

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 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. 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.

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.

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 infrastructure as new areas of Melbourne are developed.

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. 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 imposts 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

Principles of an ICP System

The concept of an ICP System for SDAs was first proposed by the Standard Development Contributions Advisory Committee in 2012 and 2013. Since then, numerous iterations of the System have been workshopped, and a commitment has been made by the Andrews Government to deliver an ICP System for SDAs including Fishermans Bend.

The Standard Development Contributions Advisory Committee's two key reports – 'Setting the Framework' (Dec 2012) and 'Setting the Levies' (May 2013) – outlined the following key principles:

- **Need:** The planning unit across which a charge is levied must have a demonstrated need for the proposed infrastructure. The degree and level of detail to which this principle must be demonstrated will inevitably vary according to the development setting and the nature of the infrastructure needs which exist in that setting.
- **Nexus:** There must be a reasonable nexus between the infrastructure that is levied for, and the planning unit across which it is intended to impose the levy. It may not be necessary to demonstrate that an individual development causes the need for the infrastructure, but that it forms part of a wider planning unit that will need the social and physical infrastructure. How need and nexus are demonstrated in a development setting with a standard charge is addressed further in this report.
- **Apportionment:** Levies should be fair and represent a reasonable apportionment of the cost of delivering infrastructure, having regard to the quantum of development and its likely use as a percentage of the overall use of the facility. The concept of 'user pays' underpins this principle but in the context of overall metropolitan development over time and complex usage patterns, this is a difficult concept to operationalise fairly or precisely.
- **Simple, flexible, provide certainty and be fair:** Fairness has the following dimensions:
    - A significant contribution by new residents to the basic and essential infrastructure that they generate a need for;
    - Existing residents in growth areas make a contribution through their rates to infrastructure delivered to address the needs of new residents, but which they are also likely to benefit from;
    - Some contribution through grants and other contribution from the revenue base of the State and Commonwealth governments for infrastructure that is provided State and

Australia wide;

- New residents pay a contribution over time through their rates for some of the infrastructure they require; and
- Fairness is a matter of judgment and not a matter of objective assessment.

Need for Solid Policy Development

UDIA Victoria has broadly supported the reform of local development contributions as they apply to Melbourne's Greenfield Precinct Structure Plan (PSP) areas. The ICP System designed for Greenfield areas was done so as to solve well-defined and agreed problems. All stakeholders agreed that the Development Contribution Plan system needed to be overhauled. Despite this, the reformed ICP System has proven complex in the Greenfield areas and further improvements and refinements are necessary to ensure the principles of need, nexus, apportionment and fairness are indeed achieved.

Our most recent submission regarding the Greenfield ICP System identified further important changes that are required, some requiring legislative refinements. This submission is included at **Attachment B**.

We are concerned that, unlike the Greenfield ICP System, the work to support the system's development for the Strategic Development Areas has not been done. The supporting research by Urban Enterprise is dated and new analysis about the potential impact of costs needs to be done to properly support the proposed policy approach.

Considerable work was undertaken by the Government, Councils and the industry to devise the original ICP concept, and to establish the details of the Greenfield System. There were many years' worth of Development Contributions Plans (DCPs) to test, analyze and interrogate to demonstrate the likely charging outcomes for the new system. Years of data was available and carefully scrutinized. Transport, Community, Recreation and other items, were assessed across many Greenfield ICPs. The information was shared with industry and we participated in numerous forums and considered discussions. This comprehensive process based on research and analysis built the case for the reform and formed a broad consensus between the stakeholder groups.

We have very carefully considered the material provided by DELWP and considered the application of an ICP system for SDAs and have attended a meeting of the Industry Reference Group. We have consulted our most experienced members and their advisors around the proposals. But we are yet to sight a working model that would show how an ICP, as now proposed, would work for an SDA. We are yet to see detailed analysis of existing or proposed precincts.

The proposals provided by DELWP around allowable items and supplementary levies are very broad and loose. There is very little structure to how the proposal would work and what infrastructure, in a more detailed sense, would be included. This will create great uncertainty for investors and developers.

More detailed work has to be done by in order to fully understand the impact of the proposed System and must be a pre-requisite for further industry consultation.

Our view is that at the very least the DELWP should demonstrate, with perhaps half a dozen fully worked examples, how the ICP would be applied, in a complete sense. This would we think demonstrate the issues we are describing, in detail. This should have been done and presented to stakeholders.

Unlike greenfield areas which are more consistent, the strategic redevelopment areas are diverse, their immediate settings are diverse, and the planned developments vary considerably, as does their likely timing. Each site has its own bespoke needs. One site might need a road traffic network upgrade, where another site may have good traffic access and may need a new major tram stop or bus prioritisation lanes. Each site will have very different requirements.

Development can be quite variable and the market for different development forms is not as predictable as greenfield areas. A large mixed-use development could include a range of development types. The demand for such buildings can vary over time, making forecasting complex. This work would need to be carried out for each strategic redevelopment area, in concert with structure planning work.

Unlike in the greenfield settings, in almost all cases considerable infrastructure existing in the strategic redevelopment areas. This is one of the key tenants of urban consolidation policy – for many decades. Government policy over generations has encouraged redevelopment to occur – as the infrastructure costs to Government are less.

The Standard Development Contributions Ministerial Advisory Committee focused more on the greenfield areas and is nearly a decade old. UDIA Victoria recommends that a new process is established to properly research, interrogate and assess an ICP System for SDAs, in partnership with the urban development industry.

Please contact me directly at danni@udiavic.com.au to arrange a suitable time to do so.

Yours sincerely

Danni Hunter

Danni Hunter
Chief Executive Officer

Urban Development Institute Australia (Victoria)
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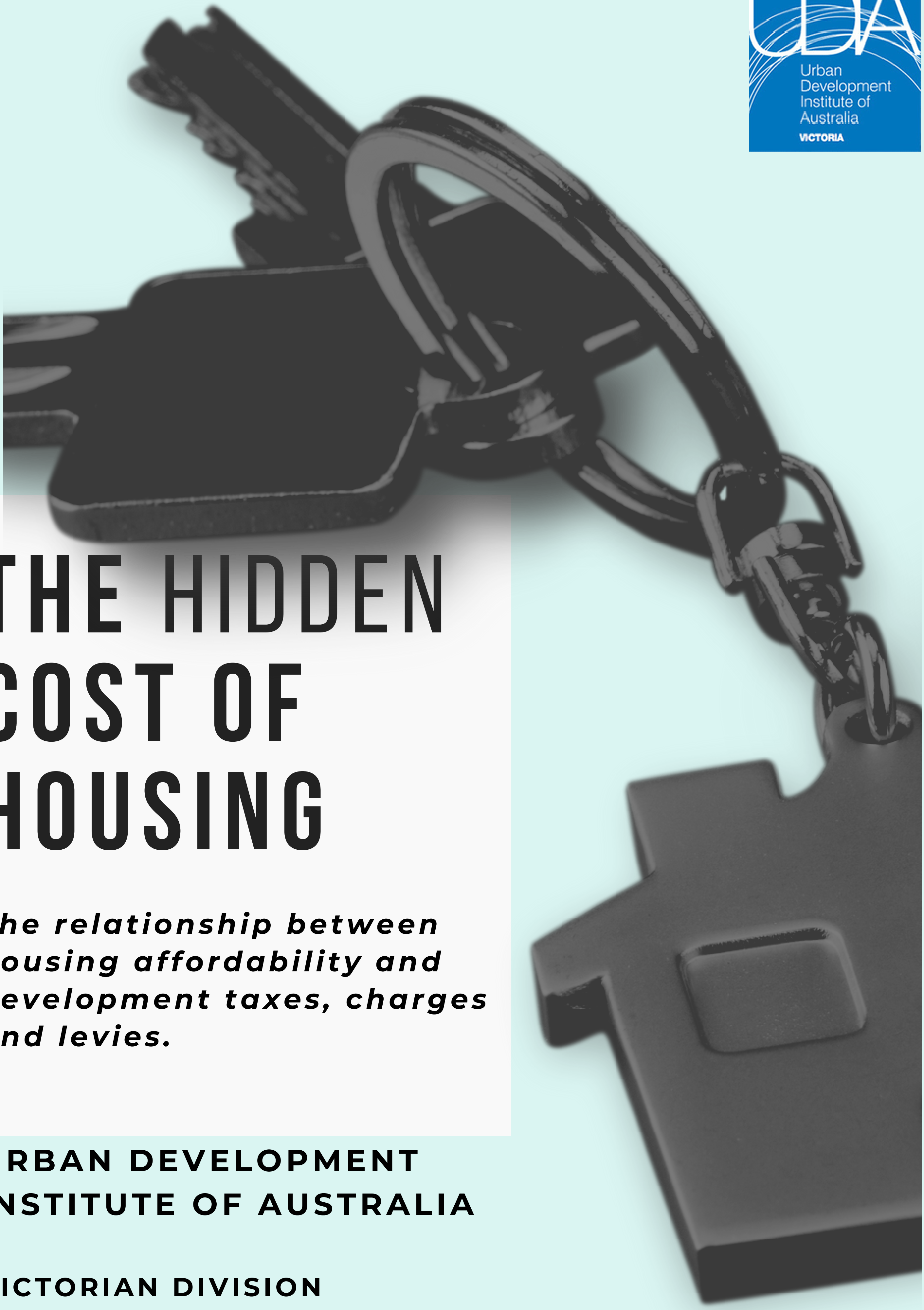
Attachment 3: UDIA Victoria Report *The Hidden Cost of Housing* (July 2020)

THE HIDDEN COST OF HOUSING

The relationship between housing affordability and development taxes, charges and levies.



URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

VICTORIAN DIVISION

JULY 2020

ABOUT UDIA VICTORIA

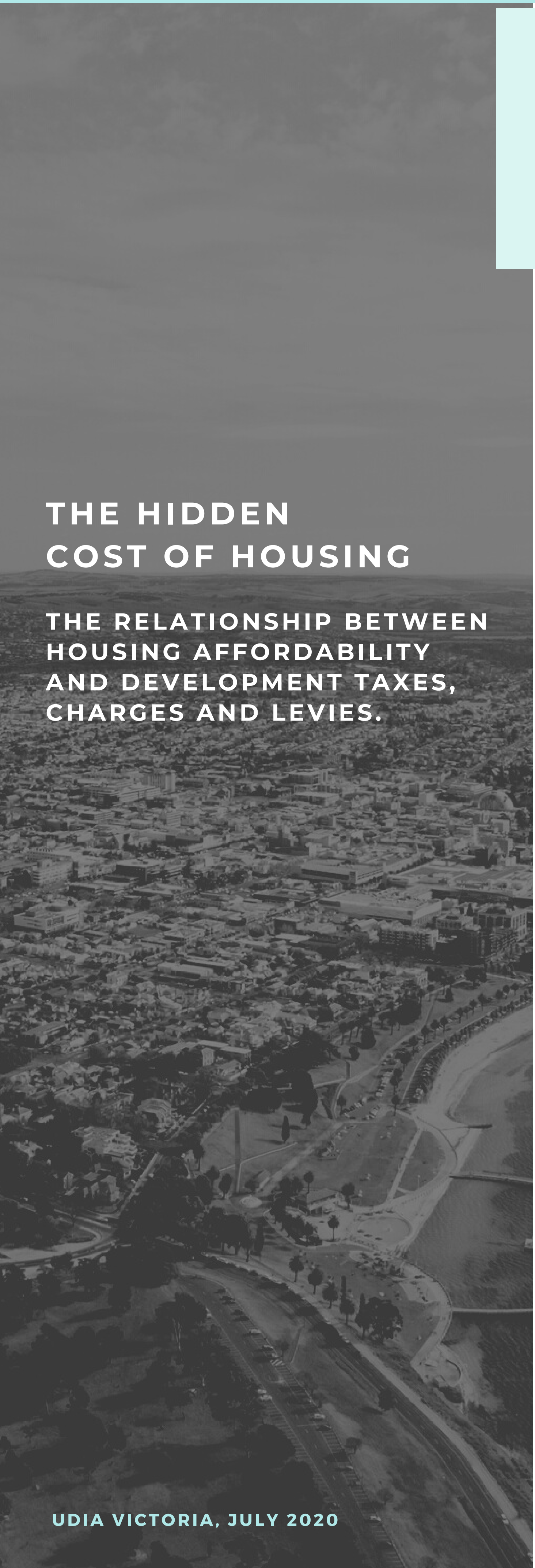
The Victorian Division of the Urban Development Institute of Australia (UDIA Victoria) is a non-profit advocacy, research and educational organisation. We are supported by a membership of land use and property development organisations across the private sector and Victoria's public service. We are committed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

UDIA Victoria considers housing affordability to be essential to Victoria's productivity and liveability. Our efforts to improve housing affordability seek to support secure home purchases and guarantee ongoing employment for hundreds of thousands of Victorians – those working in the building, construction and development industry, as well as in related service industries including the planning, legal, financial, environmental management, engineering and consulting sectors.

The cost of housing is one of Victoria's biggest challenges, but it doesn't have to be that way. We are committed to influencing bold, forward-thinking Government policy that reduces the cost of new housing for all Victorians.

HOUSING IS OUT OF REACH FOR TOO MANY VICTORIANS. WE ARE WORKING HARD TO CHANGE THAT.

#MakeHousingAffordable



THE HIDDEN COST OF HOUSING

THE RELATIONSHIP BETWEEN HOUSING AFFORDABILITY AND DEVELOPMENT TAXES, CHARGES AND LEVIES.

UDIA VICTORIA, JULY 2020

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EXECUTIVE SUMMARY

WHEN VICTORIANS BUY A NEW RESIDENTIAL PROPERTY, **19-34%** OF THEIR PURCHASE PRICE IS DRIVEN BY GOVERNMENT TAXES AND CHARGES.

- UDIA Victoria's ***The Hidden Cost of Housing*** research highlights how much of a new home purchase price is attributable to Commonwealth, State and Local Government taxes, charges and levies.
- The research shows that **government charges cost up to 34% of a local homebuyer's purchase price** of a new residential lot or dwelling, depending on the circumstances of the homebuyer and the property they are buying.
- Taking **interest costs** into account, the research finds that the large up-front cost impost then sits in the homebuyer's mortgage, adding significantly to the length and cost of their mortgage.
- In most cases, the total cost of government taxes, charges and levies on homebuyers is **higher than the developer's profit** – a finding that disproves the view that home prices are high because developer profit margins are high.
- **Foreign homebuyers pay up to 40% more in taxes and charges** than domestic homebuyers in the examined scenarios. This is an issue particularly if the foreign buyer later sells to a domestic purchaser at a price that reflect the higher price they paid.
- The approach in this report has been deliberately conservative with **several taxes and charges excluded**. The cost to buyers and pressure on development feasibility is therefore expected to be much higher in many circumstances.
- In conclusion, **government taxes and charges have a real impact on the cost of housing in Victoria.**

#MakeHousingAffordable

CURRENT SYSTEM IS NOT CONDUCIVE TO HOUSING AFFORDABILITY

The residential development industry creates homes for Victorians and delivers important economic activity across the state.

This activity is reliant on two key factors:
1. Development must be commercially viable; and
2. The residential product (homes) delivered to market must be relatively affordable for homebuyers with different incomes.

UDIA Victoria's research shows these key factors are not being achieved in large segments of the market. One of the key drivers of this imbalance is the hidden cost of housing, imposed by taxation, regulatory charges and development delays which reduce feasibility and increase the purchase price.

UDIA VICTORIA RECOMMENDATIONS

Reform development taxes, charges, levies and fees

The findings of this research clearly demonstrate that the current tax mix hurts homebuyers at all income levels and circumstances.
We urge the State Government to consider targeted adjustments to taxes, which may achieve two goals by stimulating greater transactions through a demand response, while reducing the cost of housing. Cost reduction measures should be considered for buyers and the development process. Additionally, in considering reform options, Government should apply a whole-of-government approach by acknowledging the total range of cost drivers impacting on housing, including GST, local government charges, delays in approval processes and various new planning policy measures.

Moratorium on new taxes and charges

Government must recognise that the development industry is unable to absorb any additional taxes or charges, without passing the added cost impost straight onto homebuyers. Any additional taxes and charges imposed by governments should therefore be considered a cost to homebuyers. Given declining purchasing power, there is a strong case for a moratorium on new taxes and charges.

Plan for growth

In the current environment we risk facing a dramatic reduction in housing supply, that could feed into the following two or three years. This will impact on housing choice and affordability when population growth and immigration stabilise following the COVID-19 pandemic period.

RISKS TO VICTORIA OF NOT REDUCING THE HIDDEN COST OF HOUSING

01 Affordability, buyer behaviour and housing choice

Ongoing increases to the cost of development, driven by taxes and charges, cannot feasibly be carried by the development sector, Therefore, many government taxes and charges on development are ultimately paid by homebuyers. This has impacts on affordability, buyer behaviour, housing choice and creates financial stress for many Victorians.

02 Government's tax revenue base

A high property tax base makes an increasing number of projects unfeasible. High taxes act as a halt on development, weakening the tax revenue base used to fund state services and infrastructure.

03 Key workers

High taxes and charges that drive up the cost of housing lead to uncompetitive home prices and rental accommodation. This could limit affordable housing that meets the needs of population growth which could constrain the numbers of key workers coming to Victoria, including teachers, nurses and emergency service workers.

04 Domestic and foreign students

High housing costs driven by taxes and charges impacts on the attractiveness of Victoria for domestic and foreign students – one of our key export markets and a primary industry sector for the state.

05 Public housing and human services

Growing housing costs will indirectly drive up costs across a range of State Government portfolios – for example, unaffordable housing is likely to cause an increasing number of people to require Government support through the public housing and human services system.

HOME BUYER PROFILES

The Hidden Cost of Housing research is based on different buyer profiles that represent a cross-section of Victoria's home buyers.

29%

MARIA: 1ST HOMEBUYER, SINGLE PARENT, KEY WORKER

- Income: **$90,000 pa**
- Buying: **200m2 lot in growth areas**
- Approx. purchase price: **$200,000**
- Taxes & charges: **$62,480 + interest**
- Developer profit: **$25,136**
- **29% of Maria's purchase price is driven by taxes and charges.**

34%

TOM & EMILY: 2ND HOMEBUYER, FAMILY OF 4

- Income: **$135,000 pa combined**
- Buying: **400m2 lot in growth areas**
- Approx. purchase price: **$315,000**
- Taxes & charges: **$106,314 + interest**
- Developer profit: **$36,050**
- **34% of Tom and Emily's purchase price is driven by taxes and charges.**

19%

SAM: SINGLE DOWNSIZER, RETIRED

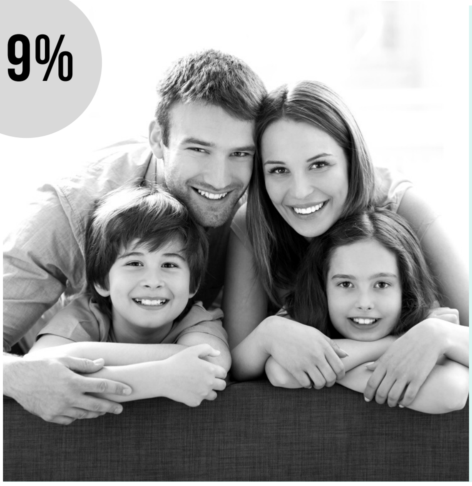
- Income: **$50,000 pa (super)**
- Buying: **Off-the-plan 2 bed, 1 bath apartment**
- Approx. purchase price: **$685,000**
- Taxes & charges: **$131,765 + interest**
- Developer profit: **$77,363**
- **19% of Sam's purchase price is driven by taxes and charges.**

Victorian homebuyers are paying too much in government taxes and charges.

#MakeHousingAffordable

BUYER PROFILES

19%



STEVE & MELISSA: INVESTOR FAMILY

- Income: **$160,000 pa (combined)**
- Buying: **Off-the-plan 2 bed, 2 bath investment apartment**
- Approx. purchase price: **$685,000**
- Taxes & charges: **$131,765 + interest**
- Developer profit: **$77,363**
- **19% of Steve and Melissa's purchase price is driven by taxes and charges.**

21%

CON: OWNER/BUILDER, BUILDS 2 TOWNHOUSES PER YEAR

- Buying: **Site in an established suburb; fund construction himself**
- Approx. purchase price: **$1.4m**
- Taxes & charges: **$299,491 + interest**
- Developer profit: **$159,685**
- **21% of Con's purchase price is driven by taxes and charges.**

+40%

FAITH: FOREIGN STUDENT

- **Buying:** Off-the-plan 2 bed, 2 bath investment apartment
- Approx. purchase price: **$685,000 + $55,000 surcharge duty = $740,000**
- Taxes & charges: **$183,958**
- As a foreign resident, **Faith will pay 40% more on taxes and charges than an Australian investor family** purchasing the same property.

Victorian homebuyers are paying too much in government taxes and charges.

#MakeHousingAffordable

HOUSING AFFORDABILITY

HOUSING AFFORDABILITY WILL BE CRITICAL TO KEEPING VICTORIANS OWNING AND RENTING THEIR OWN HOMES – AND OFF THE GOVERNMENT'S SOCIAL AND AFFORDABLE HOUSING WAITING LISTS.

#MakeHousingAffordable

COVID-19 has exacerbated the existing housing affordability challenges faced by Victoria's homebuyers. As unemployment and under-employment rises, and purchaser finance becomes harder to obtain, it is time for Government to address the massive financial hurdles blocking Victorians from buying a home.

The cost of housing is significantly increased by government taxes and charges on the developer, in addition to taxes and charges paid by homebuyers as part of their acquisition and ongoing ownership of a property.

Other costs include land acquisition costs, construction and financing costs, project profit and marketing.

Through this research, we have found that government taxes and charges can cost the equivalent of **one third of the purchase price** of a new home in Victoria. These costs are often hidden, and have to be funded by a homebuyer's mortgage and paid back over time.

There's never been a better time to get real about the high cost of housing in Victoria. We need radical change to the state taxation system – change that supports homebuyers and the building, construction and development industry so it can continue to support our economy and welcome Victorians into the housing market.

Housing affordability will be critical to keeping Victorians owning and renting their own homes – and off the government's social and affordable housing waiting lists.

HOMES FOR VICTORIANS

VICTORIAN GOVERNMENT, 2017

THE HOMES FOR VICTORIANS STRATEGY RELEASED BY THE VICTORIAN GOVERNMENT IN 2017 STATES THE FOLLOWING:

Recent data shows the problem is growing. Median house prices in Melbourne have risen by over 40 per cent since 2012.

Metropolitan Melbourne house prices have risen to $610 000 and unit prices to $490 000 for the June Quarter 2016.

Melbourne continues to have the highest home prices after Sydney. From 2005 to 2015, the median sale price of housing across regional Victoria increased 49 per cent, from $206 000 to $307 500.

At the same time unit prices in regional Victoria rose 32 per cent, from $190 000 to $251 000. These increases are having a real impact on the ability of Victorians to buy a home.

From 1994-95 to 2013-14, home ownership rates dropped from 76 per cent to 69 per cent of Victorian households.

The price growth is having the biggest impact on our young, with the decline in home ownership rates steepest among Victorians aged 25 to 34.5.

IMPACT OF CORONAVIRUS

"On the 2018-2019 year for net overseas migration, we're expecting just over a 30 per cent fall in 2019-2020, the current financial year. And in 2020-2021, an 85 per cent fall-off those 2018-2019 levels as well."

SCOTT MORRISON, PRIME MINISTER OF AUSTRALIA, 2 MAY 2020

As a major plank of the Victorian economy, the housing sector has been negatively impacted by COVID-19 and the pandemic has drastically changed the market and business conditions as follows:

- A good portion of the current residential construction activity was generated from property sales which occurred over the past two years.
- Following a period of historically lower activity due to several factors, sales had only recently started to build again. Now COVID-19 has compromised buyer confidence and their ability to access finance. New home sales have dropped significantly; this will flow through to reduced civil and home building construction activity, which may result in thousands of jobs being lost in the 2020-21 financial year. Residential property and land sales - which drive construction - may be soft for some time.
- Immigration has been the single biggest driver of residential market sales in recent years. For obvious reasons, immigration has ceased and may not normalise for some time. Overseas student intake change will be a second factor that will impact some markets.
- There is a risk that when buyer confidence starts to recover, the impact of the stalled immigration will be felt, which will mean residential markets make take an extra 12 to 18 months to recover.

KEY CONCLUSIONS

UDIA Victoria's ***Hidden Cost of Housing*** report demonstrates that government taxes, charges and levies imposed on the production of new housing, have a tangible and significant impact on housing affordability.

Key conclusions:

- The mix of existing taxes and charges levied on development and on homebuyers, has a material impact on the ability of different buyers to enter the housing market and buy property that suits their needs and financial circumstances.
- The cost of taxes and charges sit within a mortgage and is paid back over time. This adds significantly to the size of the homebuyer mortgage.
- While interest rates are currently at record lows, any movement upwards to normalised interest rates would have a large impact on the interest payable on a mortgage, and on the component of costs which comprise government taxes and charges.
- Foreign buyers pay additional taxes and charges. For example, a foreign buyer purchasing an off-the-plan 2 bedroom, 2 bathroom apartment will pay approximately $52,193 more than a domestic investor would pay for the same property. If the foreign buyer sells to a domestic purchaser at a later date, the sale price could be higher to reflect the price paid by the foreign buyer on the original purchase.
- State and local governments should be cautious about assuming that major infrastructure can be funded with new taxes on property, or other measures such as value capture without significantly increasing the cost of housing.
- The key drivers of high home prices are the cost of development, brought on by taxation, regulatory charges and development delays which reduce feasibility and increase the purchase price.

- The current tax system is significantly compromising economic activity by locking more Victorians out of the housing market.
- 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.
- 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.
- The high cost of producing housing does not automatically reduce 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 some 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 affordable housing 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 be impacted (and the cost of delivering these services to the community), if housing needs are not met due to a lack of affordable housing supply.

METHODOLOGY AND ASSUMPTIONS

This report seeks to quantify the typical government taxes, charges and levies associated with delivering new residential lots in Melbourne's growth areas, or new dwellings (townhouses and apartments) in established areas. It is a conservative estimate, and does not extend to all taxes, charges, levies and costs associated with the planning and development approval process. This is because it is difficult to achieve uniformity across all taxes, charges, levies and costs.

The report calculates government taxes, charges and levies as a percentage of the total cost of the land or dwelling to demonstrate the affordability impacts across various buyer profiles. These buyer profiles are examples only and do not represent all buyer profiles.

Five buyer profiles are depicted that:

- Are broadly representative of segments of the residential purchaser market in Victoria; and
- Represent a range of scenarios from purchasing new residential land in Melbourne's growth areas, to new dwellings in established areas.

The buyer profiles and broad assumptions are related to examples located within 40km from CBD. The cost inputs into each buyer profile have been peer reviewed for accuracy by residential development practitioners operating in Melbourne's growth areas and established areas.

This process confirmed the figures used for the taxes, charges and levies, and that the detailed assumptions, are a reasonable representation of real projects.

INCLUSIONS AND EXCLUSIONS

GOVERMENT TAXES AND CHARGES

UDIA Victoria has taken a deliberately conservative approach in quantifying the total amount of government taxes and charges. **This should assure government decision-makers that our scenarios in no way resemble a worst-case scenario**, and in fact represent an optimistic depiction of the impact that taxes and charges have on homebuyers.

We have not included the impacts of all taxes and charges. Particularly, we have excluded those that are relatively variable in nature and in application to individual development sites, some that have recently been introduced, and those which are expected to be introduced or take effect in 2020.

Government taxes and charges included in this study:

- Developer land tax
- Stamp duty (twice being paid once by the developer and once by the homebuyer)
- Foreign buyer surcharge on stamp duty
- GST
- Growth Area Infrastructure Contribution
- Infrastructure Contributions
- Developer council rates
- Open Space Levy
- Metropolitan Planning Levy
- Statutory utility charges

Samples of some of the items we have excluded include:

- Infrastructure Contribution Plans for Strategic Development Areas
- Impacts of the Better Apartment Design Guidelines
- Cost increases assocated with the Melbourne Strategic Assessment and Biodiversity Conservation Strategy
- Cladding Rectification Building Permit Levy
- An amendment to the Duties Act 2000 which means Development Agreements attract stamp duty (2019)
- An amendment to the Land Tax Act 2005 changed the method for applying land tax to primary production land (2019)
- Taxes and charges that apply post homebuyer acquistion

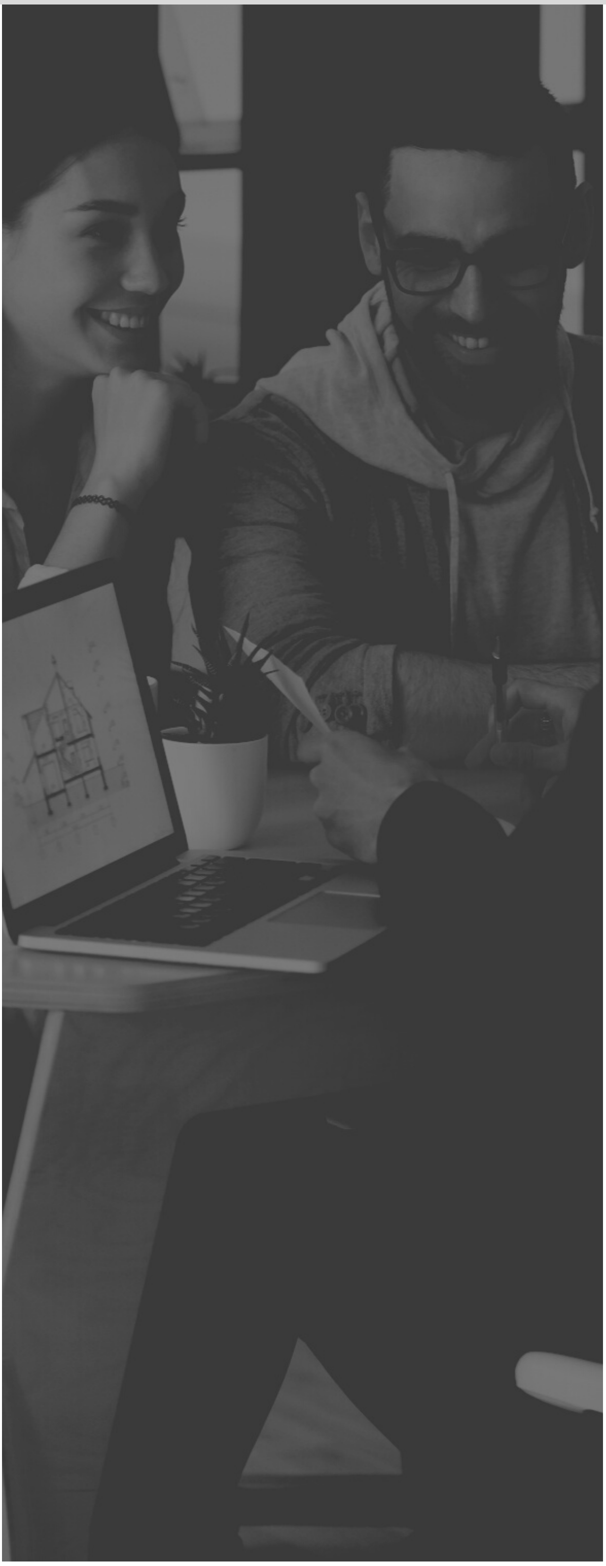
OVERVIEW OF KEY ASSUMPTIONS

Profile	Developer Costs	Developer taxes & charges	Buyer taxes & charges	Purchase Price
Maria (resident FHB)	$149,500	$43,210	$19,271	**$211,980**
Maria (foreign resident FHB)	$149,500	$43,210	$42,414	**$235,124**
Tom & Emily (resident FHB)	$211,025	$65,364	$27,639	**$304,028**
Tom & Emily (resident not FHB)	$211,025	$65,364	$40,951	**$317,339**
Tom & Emily (foreign resident)	$211,025	$65,364	$62,422	**$338,811**
Steve & Melissa (resident)	$556,543	$36,570	$95,195	**$688,307**
Steve & Melissa (foreign resident)	$556,543	$36,570	$147,388	**$740,501**
Sam (resident)	$556,543	$36,570	$95,195	**$688,307**
Sam (foreign resident)	$556,543	$36,570	$147,388	**$740,501**
Con (resident)	$1,121,250	$102,999	$196,492	**$1,420,741**
Con (foreign resident)	$1,121,250	$102,999	$304,226	**$1,528,474**

- Developer costs includes land acquisition, construction, and developer margin
- FHB = First homebuyer

BUYER PROFILES

THE AMOUNT THAT TAXES, CHARGES, LEVIES AND FEES ADD TO THE COST OF HOUSING IS SIMPLY TOO MUCH FOR HOMEBUYERS TO CARRY.



UDIA Victoria has analysed the impact of government taxes, charges and levies on a range of different buyer profiles to demonstrate the cost of these charges to the real people who are buying new homes.

The report includes five buyer profiles which are broadly representative of segments of the residential purchaser market being:

- The first home buyer, who is a single parent and a key worker;
- A family with two key worker parents;
- A single downsizer;
- An investor family; and
- A builder.

Foreign buyers are also considered in the analysis under various scenarios, and the sixth buyer profile focuses on a foreign buyer.

In addition, the assessment considers the impact of taxes and charges on the size of a mortgage and long-term interest costs.

These buyer profiles are intended to provide context for the debate regarding housing supply, housing affordability, and key policy settings impacting the cost of delivering new dwellings.

This research quantifies how these costs compare to the overall initial cost of buying a lot or dwelling.

BUYER PROFILES

MARIA

Maria is a single parent and key worker who earns an annual income of $90,000.

Maria is a first homebuyer; buying a 200m2 lot in the growth areas with a budget of $200,000 for the lot.

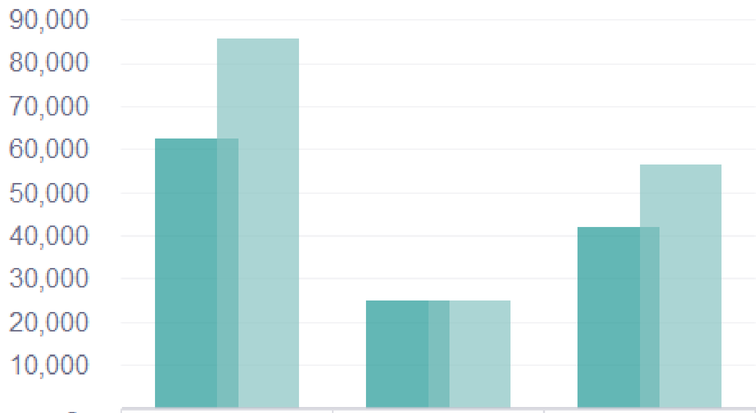
29%

The equivalent of **29% of Maria's purchase price is** driven by taxes and charges.

As part of Maria's acquisition of a 200m2 block of land in the growth areas at a price of approximately $200,000, she will face a total mix of costs including:

- $43,210 of taxes and charges paid by the developer and passed on to the buyer.
- $19,271 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $62,480.**
- These costs are significantly higher than the **developer profit of $25,136** on this project.

TAXES & INTEREST PAID BY MARIA (1ST HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
1st home buyer	62,480	25,136	42,123
Foreign Buyer	85,624	25,136	56,392

1st home buyer   Foreign Buyer

- In addition, to fund the total taxes and charges, she would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $42,123.**
- **What if?** If Maria was not a first homebuyer, the total tax cost directly paid by her and passed on by the developer amounts to $70,269.
- **What if?** If Maria was a foreign resident, she would face a total tax and charges cost of $85,624.

BUYER PROFILES

TOM & EMILY

Tom and Emily are schoolteachers with two kids and a combined annual income of $135,000.

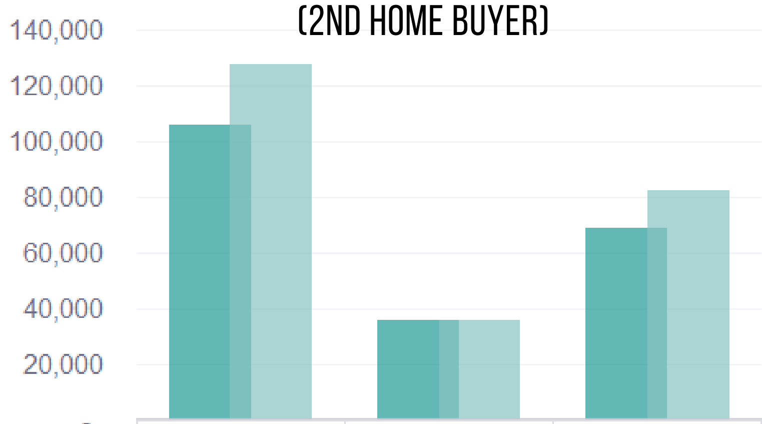
They are purchasing their second home; a 400m2 lot in the growth areas with a budget of $315,000 for the lot.

34%

The equivalent of **34% of Tom and Emily's purchase price is driven by taxes and charges.**

- As part of Tom & Emily's acquisition of a 400m2 block of land in the growth areas at an approximate price of $315,000, they will face a total mix of costs including:
- $65,364 of taxes and charges paid by the developer and passed on to the buyer.
- $40,951 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $106,314.**
- These costs are significantly higher than the **developer profit of $36,050** on this project.

TAXES & INTEREST PAID BY TOM & EMILY (2ND HOME BUYER)

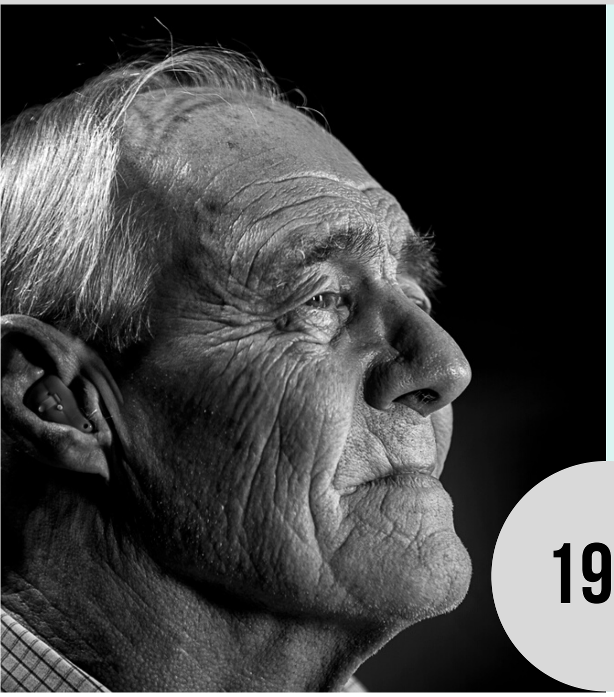


	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	106,314	36,050	69,149
Foreign Buyer	127,786	36,050	82,388

2nd home buyer Foreign Buyer

- In addition, to fund the total taxes and charges, Tom & Emily would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $69,149.**
- **What if?** If they were first homebuyers, the total tax cost directly paid by them and passed on by the developer amounts to $93,003.
- **What if?** If they were foreign residents, they would face a total tax and charges cost of $127,786.

BUYER PROFILES



SAM

Sam is a single downsizer with an annual income of superannuation of $50,000.

Sam is looking for an off-the-plan 2 bedroom, 1 bathroom apartment with a budget of $685,000.

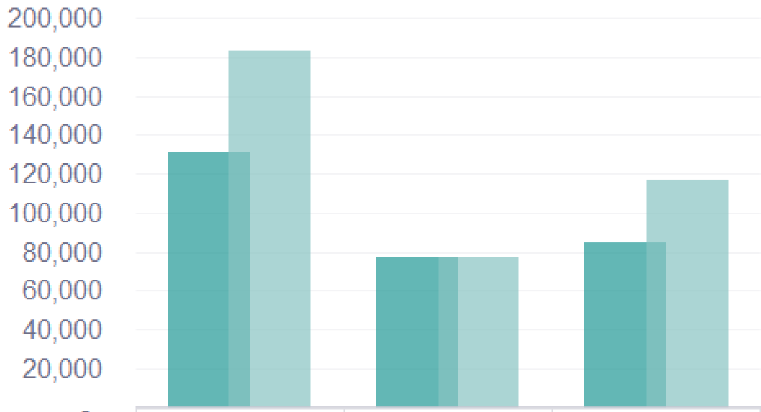
19%

The equivalent of 19% of Sam's purchase price is driven by taxes and charges.

As part of Sam's acquisition of a 73m2 unit in an established area at an approximate price of $685,000, he will face a total mix of costs including:

- $36,570 of taxes and charges paid by the developer and passed on to the buyer.
- $95,195 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $131,765**
- These costs are significantly higher than the **developer profit of $77,363** on this project.

TAXES & INTEREST PAID BY SAM (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	131,765	77,363	84,841
Foreign Buyer	183,958	77,363	117,022

2nd home buyer   Foreign Buyer

- In addition, to fund the total taxes and charges outlined above, Sam would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $84,841.**
- **What if?** If the new stamp duty provisions on Development Agreements applied, it is estimated that the total taxes and charges faced by Sam would increase to $134,701.
- **What if?** If Sam was a foreign resident, he would face a total tax and charges cost of $183,958.

BUYER PROFILES

STEVE & MELISSA

Steve and Melissa are a couple with kids, looking for an investment property.

On a combined annual income of $160,000, they are looking for an off-the-plan 2 bedroom, 2 bathroom investment apartment with a budget of $685,000.

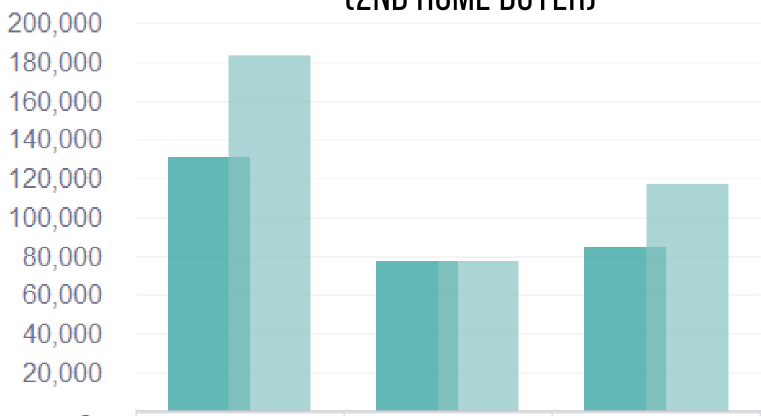
19%

The equivalent of 19% of Steve & Melissa's purchase price is driven by taxes and charges.

As part of Steve & Melissa's acquisition of an investment unit in an established area at an approximate price of $685,000, they will face a total mix of costs including:

- $36,570 of taxes and charges paid by the developer and passed on to the buyer.
- $95,195 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $131,765**
- These costs are significantly higher than the **developer profit of $77,363** on this project.

TAXES & INTEREST PAID BY STEVE & MELISSA (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	131,765	77,363	84,841
Foreign Buyer	183,958	77,363	117,022

2nd home buyer   Foreign Buyer

- In addition, to fund the total taxes and charges outlined above, Steve & Melissa would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $84,841.**
- **What if?** If the new stamp duty provisions on Development Agreements applied, it is estimated that the total taxes and charges would increase to $134,701.
- **What if?** If the buyer was a foreign resident, they would face a total tax and charges cost of $183,958.
- It is worth noting that Steve and Melissa would also incur a land tax cost of approximately $1,500 each year post acquisition.

BUYER PROFILES

CON

Con is an owner builder who builders two townhouses per year.

Con's business model is to acquire a site in established suburb at a cost of $1 million and fund the construction himself for approximately $400,000.

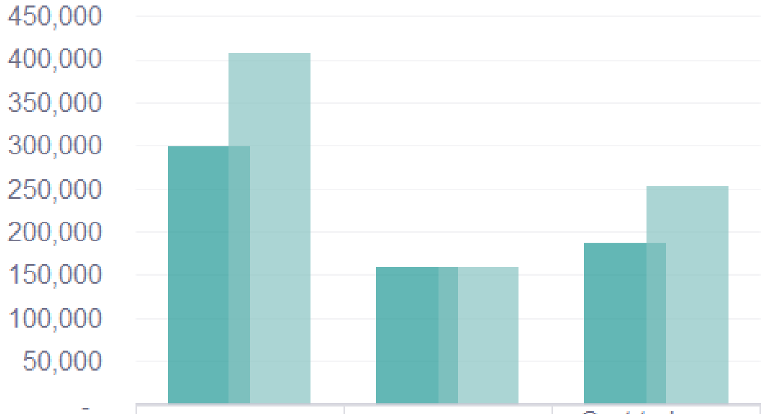
21%

The equivalent of 21% of Con's purchase price is driven by taxes and charges.

As part of Con's buyer acquisition of a townhouse at an approximate price of $1.4m he will face a total mix of costs including:

- $102,999 of taxes and charges paid by the developer and passed on to the buyer.
- $196,492 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $299,491.**
- These costs are significantly higher than the **developer profit of $159,685** on this project. .

TAXES & INTEREST PAID BY CON (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	299,491	159,685	188,254
Foreign Buyer	407,224	159,685	254,679

2nd home buyer Foreign Buyer

- In addition, to fund the total taxes and charges outlined above, Con would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $188,254.**
- **What if?** If the new stamp duty provisions on Development Agreements applied, it is estimated that the total taxes and charges faced by the buyer would increase to $312,703.
- **What if?** If the buyer was a foreign resident, they would face a total tax and charges cost of $407,224.

BUYER PROFILES

FAITH

Faith is a single student looking to buy a property that she can use when she studies in Melbourne.

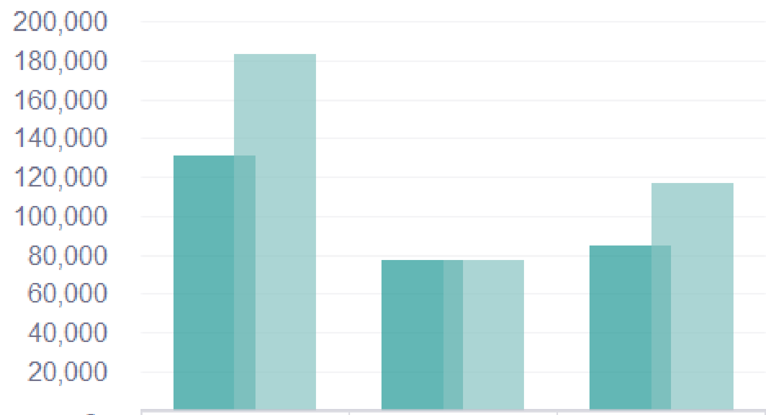
She is looking for an off-the-plan 2 bedroom, 2 bathroom apartment with a budget of $740,000.

+40%

As a foreign resident, Faith will pay 40% more on taxes and charges than an Australian investor family purchasing the same property.

- As a foreign resident, Faith would face total **tax and charges cost of $183,958.**
- As an Australian investor family, Steve and Melissa would face total taxes and charges of $131,765 when buying exactly the same property as Faith.
- That means **Faith would pay $52,193 more** in taxes and charges, than Steve and Melissa (39.6% more).
- If Faith later sells to a domestic purchaser, the sale price could be higher to reflect the higher price she paid on the apartment.

TAXES & INTEREST PAID BY FAITH (FOREIGN BUYER), COMPARED WITH STEVE & MELISSA (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	131,765	77,363	84,841
Foreign Buyer	183,958	77,363	117,022

2nd home buyer   Foreign Buyer

GROWTH AREAS VS ESTABLISHED AREAS

COST OF TAXES AND REGULATION BY BUYER PROFILES IN THE GROWTH AREAS

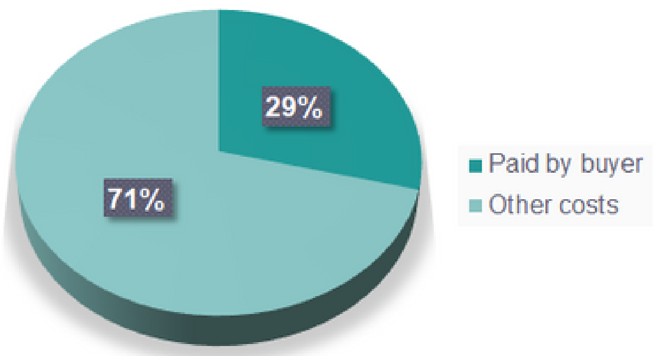
Summary of impacts

The outputs below summarise the mix of costs paid by a buyer as part of their property acquisition in a growth area. The costs include taxes and regulatory charges paid by the developer and passed on to the buyer including costs of delayed planning. These are combined with stamp duty, land tax, GST and rates.

It should be noted that other costs including the impact of recent changes to planning regulations together with environmental offsets and additional development contributions in priority precincts are not included. **We are therefore presenting a conservative picture of the impacts.**

MARIA

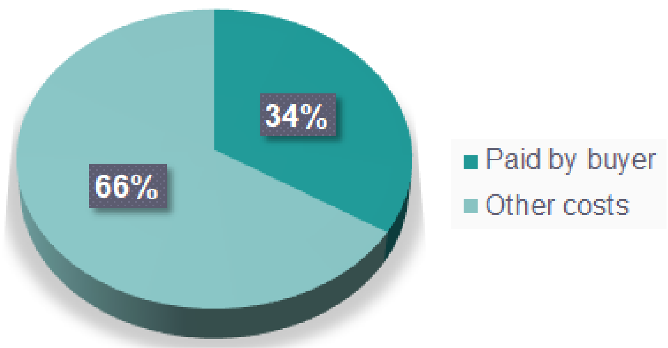
1ST HOMEBUYER, SINGLE PARENT, GROWTH AREA



The equivalent of 29% of buyer costs (purchase price plus transaction costs = $62,480) is driven by taxes and charges.

TOM & EMILY

2ND HOMEBUYER, FAMILY OF 4, GROWTH AREA



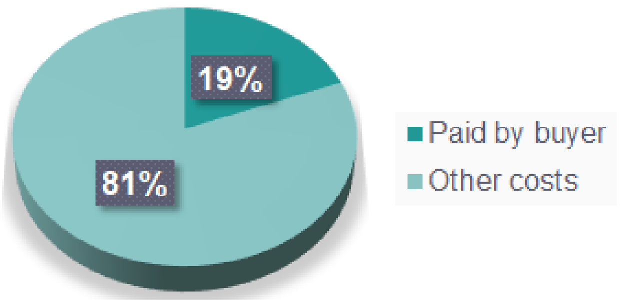
The equivalent of 34% of buyer costs (purchase price plus transaction costs = $106,314) is driven by taxes and charges.

COST OF TAXES AND REGULATION BY BUYER PROFILES IN ESTABLISHED AREAS

Summary of impacts

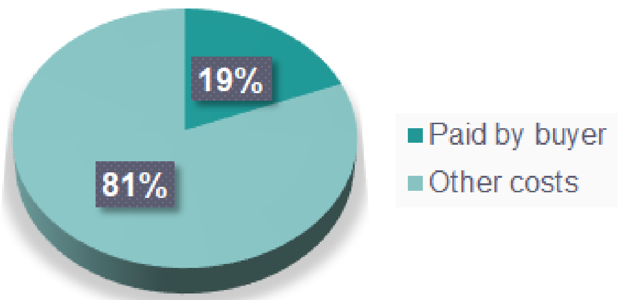
The outputs below summarise the mix of costs paid by a buyer as part of their property acquisition in an established area. The costs include taxes and regulatory charges paid by the developer and passed on to the buyer including costs of delayed planning. These are combined with stamp duty, land tax, GST and rates.

STEVE & MELISSA: APARTMENT INVESTORS



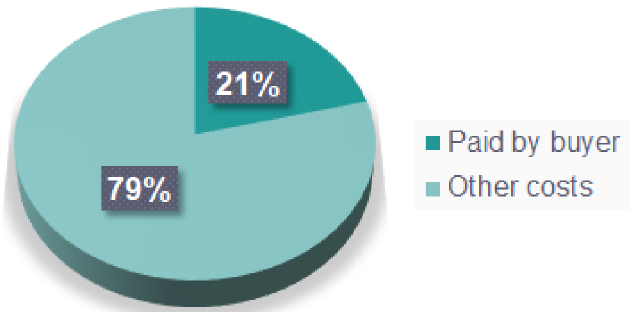
The equivalent of 19% of buyer costs (purchase price plus transaction costs = $131,765) is driven by taxes and charges.

SAM: DOWNSIZER, APARTMENT



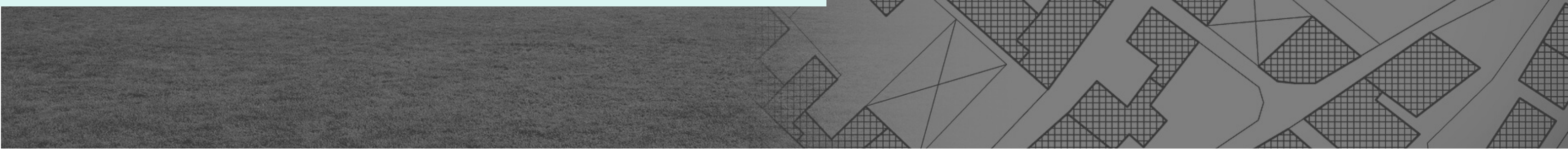
The equivalent of 19% of buyer costs (purchase price plus transaction costs = $131,765) is driven by taxes and charges.

CON: OWNER/BUILDER, TOWNHOUSE



The equivalent of 21% of buyer costs (purchase price plus transaction costs = $299,491) is driven by taxes and charges.

POLICY CONTEXT



The current taxes and charges applied to residential development in Victoria are best understood in the context of incremental policy changes since 2016 relating to housing policy, fiscal policy, and planning policy. These are set out in the following pages.

HOUSING POLICY

The Victorian Government policy framework for affordable housing ***Homes for Victorians,*** was introduced in March 2017 with the intention of securing a supply of affordable housing as the state's population grows. The stated aim of the policy framework is to give every Victorian every opportunity to find a home, and to ensure housing accommodates population growth by facilitating the construction of more than 50,000 new dwellings each year.

A fundamental component of this policy framework is the removal of off-the-plan stamp duty concessions for investors and an increase in stamp-duty-concessions for first homebuyers.

A significant decline in approvals for building permits for all dwellings across Victoria since June 2017 indicates that this initiative, combined with other policy interventions and an overall tightening of availability of project and retail finance for residential projects, has had the perverse outcome of contributing to the reduction in the pipeline of new dwelling supply, resulting in a lower supply of new dwellings in the coming two to three years.

FISCAL POLICY

The Victorian Government also increased existing taxes in 2019, specifically the foreign purchaser duty and the absentee land tax surcharge. Compounding this, the State Government introduced two significant amendments to state taxes in 2019, and a new levy. The amendment to the Duties Act 2000 now means Development Agreements attract stamp duty, and the amendment to the Land Tax Act 2005 changed the method for applying land tax to primary production land. Both taxes increase the cost of purchasing, and holding, land in greenfield areas prior to residential development starting.

Additionally, a new levy on building permits to fund the rectification of combustible cladding, is applicable to apartment and mixed-use development projects and came into effect on 1 January 2020; also expected to increase the cost of delivering these projects.

Amendments to fiscal policy include the following:

Federal Government Initiatives

- Restriction of lending to foreign property buyers without a domestic income by Australian banks (2016)
- APRA limits on interest-only loans with a loan-to-value ratio above 80% (2017)
- APRA instructions to authorised deposit-taking institutions to limit interest-only loans to 30% of new residential loans (2017, however this was removed in 2018)
- Introduction of a New Dwelling Exemption Certificate by the Federal Government (2017)
- Introductions of a 50% cap on the sale of new apartments to foreign investors (2017)

Victorian Government Initiatives

- Removal of off-the-plan stamp duty concessions for investors (2017)
- Introduction of the Federal Annual Vacancy Fee for foreign investors (2017)
- Introduction of the Vacant Residential Land Tax (2017)
- Introduction of Absentee Owner Surcharge (2017)
- Increase of Foreign Purchaser Duty (2019)
- Increase of Absentee Land Tax Surcharges
- Introduction of the building permit levy for the rectification of combustible cladding of 0.82% of the cost of the work where the cost of the building is more than $1,500,000 (2019)
- An amendment to the Duties Act 2000 which means Development Agreements attract stamp duty (2019)
- An amendment to the Land Tax Act 2005 changed the method for applying land tax to primary production land (2019)

PLANNING POLICY

UDIA Victoria commends the State Government for acknowledging the challenges faced by the development industry within planning and development approval processes. The Government took action with the appointment of the Commissioner for Better Regulation who undertook a major review of the system in 2019. Industry submissions highlighted the challenges faced across layers of planning policy and regulation, creating uncertainty and making investment decisions increasingly difficult.

There has also being an increasingly heavy reliance on the Victoria Planning Provisions to deliver a range of State Government policies, including the delivery of affordable housing. It was expected that the Victorian Government will seek to address these issues in 2020 and major reform is being called for by industry members, which would be widely welcomed if implemented by the Government.

The viability of infill apartment developments in inner Melbourne has been impacted by planning scheme amendments restricting height and urban form, while middle ring developments have been impacted by uncertainty and limited information regarding the State Government proposed Suburban Rail Loop.

Apartment developments have had to adjust and respond to the Better Apartment Design Standards which were introduced in 2018 and have been the subject of review since 2019. The standards are designed to increase the quality and amenity of apartment projects but have also had an impact on production costs due to size and other design requirements.

In Melbourne’s growth areas, the Precinct Structure Plan process is steadily delivering approximately 13,000 to 14,000 development ready lots annually. However, the revised developer contributions system introduced in 2018 continues to have significant impacts on the development approval pathway and consequently the time it takes to deliver houses to market.

COVID-19 MEASURES

The policy amendments outlined above must be considered and reviewed in context of the Federal and State Government responses to COVID-19 and the consequential economic impact.

It has never been so vitally important for the Victorian Government to work with industry to consider improvements and changes to the taxes, charges and levies that contribute to the cost of producing housing in Victoria.

UDIA Victoria has commended the State Government for establishing a dedicated taskforce to keep the building and development industry running through the coronavirus crisis. The ***Building Victoria's Recovery Taskforce*** (BVRT) is overseen by the Planning Minister and Treasurer and supported by the co-chairs of the BVRT – Roger Teale, Jude Munro AO and Stan Krpan.

UDIA Victoria has been appointed to sit on the BVRT Steering Committee with other key industry associations, and several of our Board members represent the industry on the Industry Working Groups.

The BVRT's purpose is to provide advice to the Victorian Government on issues impacting the industry to ensure we can continue to operate in a manner that supports Victorian jobs, housing and infrastructure throughout the pandemic.

The immediate focus of the BVRT is to oversee the fast-tracking of planning approvals for shovel-ready projects where decisions have been delayed due to coronavirus related impacts on the Victorian Planning System. The Government will also seek BVRT's advice on a pipeline of building and development projects over the longer term, including initiatives that further expand social housing options.

UDIA Victoria is now urging the Victorian Government, and potentially through the BVRT, to reform several taxes, charges and levies that increase the cost of housing across Victoria.

SHORT-TERM REFORM

Victoria is facing uncharted territory in the face of the COVID-19 pandemic, and the situation is changing daily. It is critical for industry to work closely with State and Local Governments to ensure the residential development sector is well placed to contribute to the Victorian economy when the situation normalises and the state needs building, construction and development work to ramp up again.

UDIA Victoria has recommended that State Government impose a moratorium on proposed new or amended fees, levies and taxes (Local and State Government level) or planning scheme amendments that will increase the cost of residential development, until 30 June 2021.

These include 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
- Adjustment and Indexation of the Melbourne Strategic Environmental Mitigation Levy
- 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. For example, Amendment C186 to Darebin Planning Scheme proposes to double the public open space contribution on development to 10%.

LONGER-TERM REFORM

While short-term measures are necessary, they can't supersede longer-term reform. Bold, forward-thinking government action that reduces the cost of new housing will support secure home purchases and guarantee ongoing employment for hundreds of thousands of Victorians – those working in the building, construction and development industry, as well as in related service industries including the planning, legal, financial, environmental management, engineering and consulting sectors.

As a first step, the Government must understand that **developers cannot absorb increases to development taxes, charges and levies.** Therefore, added government charges flow through to the end price of new housing, which impacts affordability for many buyer segments.

We **need a whole-of-government approach** when introducing new taxes and charges; or increasing existing government taxes, charges and levies. This is critical to ensure government fully understands the **cumulative impact of various policy and legislative changes across departments, local councils and statutory authorities.**

The Victorian Government housing policy goal of improving housing affordability, should inform the above. Further, the Victorian Government should consider whether the mix of existing or proposed taxes and charges impact on the state's ability to achieve appropriate housing supply.

In response to the coronavirus pandemic, it is vital that the Victorian Government consider both supply and demand. UDIA Victoria's Roadmap to Recovery sets out a range of measures relating to planning and fiscal policy, and greenfield and infill development settings.

On the supply side, we need targeted adjustments to taxes that could achieve two goals by stimulating greater transactions through a demand response, while reducing the costs of housing. For example, reducing the cost of stamp duty on residential transactions could encourage a greater volume of transactions, thereby returning the equivalent revenue to the State Government (as a lower number of transactions with a higher stamp duty cost would).

On the demand side, the Victorian Government should consider how buyers and the industry can be incentivised to re-enter the market with targeted tax relief. Again, a targeted change to stamp duty could increase transactions and be revenue neutral.

THE HIDDEN COST OF HOUSING

WE MUST GET REAL ABOUT THE HIGH COST OF HOUSING IN THIS STATE.

IT HAS NEVER BEEN MORE APPARENT THAT EVERY PERSON DESERVES SUITABLE HOUSING, WHICH IS AFFORDABLE RELATIVE TO THEIR INCOME.

THERE'S NO SILVER BULLET TO FIX OUR HOUSING AFFORDABILITY CHALLENGES, BUT THERE IS A COMPELLING CASE FOR RADICAL CHANGE TO THE STATE TAX AND PLANNING SYSTEMS – CHANGE THAT SUPPORTS HOMEBUYERS AND THE BUILDING, CONSTRUCTION AND DEVELOPMENT INDUSTRY AT A TIME WHEN WE NEED IT MOST.

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