



A Homebuyer's Budget

UDIA Victoria Pre-Budget Submission 2022

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ABOUT UDIA VICTORIA

The Urban Development Industry of Australia, Victoria (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.

INTRODUCTION

The 2022-23 Victorian Budget comes at a critical time. Throughout the past two years, following repeated and extended lockdowns, the notion of home has never had greater meaning; the Budget comes months before the next State election; and it will be handed down at a time when housing affordability has never been worse. **This Budget must be a homebuyer's budget**, with measures to ease housing affordability pressures and put Victorians families within reach of their home ownership dreams.

Working closely with our Board of Directors and expert committee members, UDIA Victoria is consciously ensuring that the initiatives outlined in this submission are targeted, proportionate and reasonable. Each is designed to support housing affordability and otherwise promote stimulatory economic activity to support the State's economic recovery.

STATE OF THE RESIDENTIAL DEVELOPMENT MARKET

As Australia transitions to a post-COVID world, and otherwise begins to comprehend the potential of a new Omicron stain and its consequences, trends are emerging which have fundamentally altered the Victorian residential market and will change the way the market grows for decades to come. While Melbourne's greenfield areas and regional cities have seen record residential lot sales over the past twelve months, the apartment market in inner and central Melbourne faces enormous challenges.

The following key structural trends have been identified as emerging in the market.

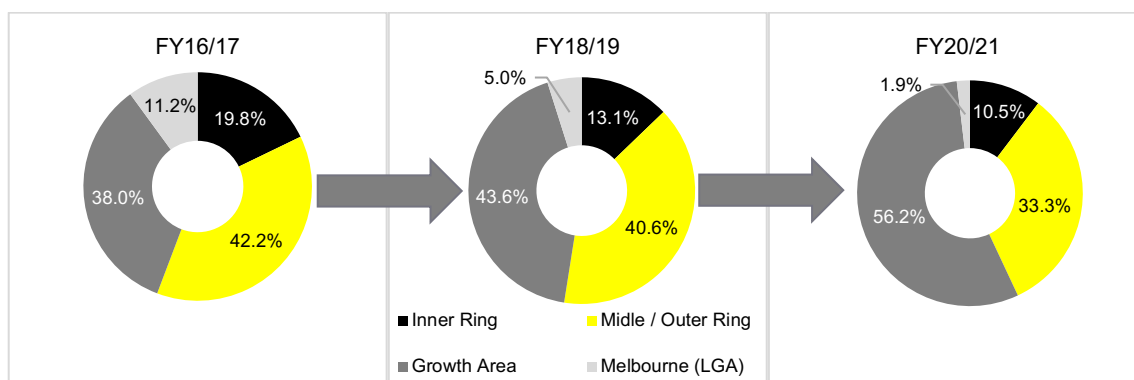
The shrinking share of new dwellings in central and inner Melbourne

Since 2016, there has been an ongoing decline in the share of new dwellings in central Melbourne which accelerated through the Covid-19 pandemic. Four years ago, the City of Melbourne LGA was responsible for 11 per cent of all new residential stock which came on the market within Victoria, with that share declining year-on-year to 2 per cent in 2021.

The impact of COVID-19 has been most evident in the central Melbourne rental market, as the closure of international borders resulted in the collapse of overseas migration and student and tourism inflows. As a result, both traditional and short-stay rental demand suffered at a time when apartments were still being delivered to market and now form part of the stock overhang.

Similarly, councils within the inner ring have seen a halving of contribution of new stock, which now comprises less than one in ten dwellings. This can be attributed to the decline in project feasibility in the apartment market, as well as shifting buyer preferences and the strength of supply currently seen in Melbourne's Growth Areas.

The graph below describes the proportion of dwelling approvals and the shift over time away from the inner ring and CBD to the middle and outer ring of Melbourne and the Growth Areas.



Declining project feasibility

There is a clear trend of significant escalation in land prices and an increasing range of government charges and taxes. More recently, this has been compounded by inflationary pressure in construction materials which have increased by 30 to 40 per cent over the last two years, placing pressure on available materials and labour.

These pressures have led to higher dwelling prices within the CBD and inner ring and has contributed to a reduction in supply of projects in the CBD and inner ring.

Pulling power of Melbourne's greenfield areas and regional cities

The impacts of successive lockdowns in response to COVID-19 has resulted in major shifts in how, when, and where people work, including a greater number working from home more often. This has allowed workers to re-assess their need to live close to the workplace, and many are now choosing to live in regional areas and either occasionally commuting to work or permanently working from home.

Recent research carried out by UDIA Victoria in partnership with Urbis is consistent with this trend, revealing that 35 per cent of survey respondents are considering moving to Melbourne's growth areas and regional cities of Geelong, Bendigo and Ballarat.

Lot sales data supports these trends. In the twelve months to August 2021, Melbourne recorded more than 28,000 residential greenfield lot sales.¹ This is a new record; the average annual residential lot sales of the five years prior is 19,790. Recent sales data for regional areas including Geelong, Ballarat and Bendigo demonstrate that people are buying residential land in these areas at double or triple the rate of sales pre-COVID.

We expect this additional pressure on greenfield locations, regions and coastal areas to continue into the future, noting many of these areas have significant land supply constraints. A focus on infill and consolidation only, without room for expansion in key locations, does not respond adequately to demographic expectations and requirements.

GOVERNMENT COSTS AND DELAYS ARE LESSENING THE NET IMPACT OF BUDGET STIMULUS

The cost to develop new homes continues to rise, through direct costs of Government fees and charges and the indirect cost of red tape.

Greenfield developers are required to pay five different groups of charges to four different agencies at various stages throughout the development process. The complexity of various charges requires time for discussion with the relevant agencies or in some cases, outsourcing management of these charges, resulting in an increased internal cost to the developer. This complexity also often gives rise to approvals delays, resulting in slower delivery of lots and housing to the market.

With increasing frequency, councils are implementing social and affordable housing strategies that seek a percentage of the dwellings to be provided as social and/or affordable housing. This significantly impacts on the feasibility of developments and negotiations can take many months.

Civil construction costs continue to rise (i.e. constructing roads, footpaths, drains and wetlands) due to increasing standards required by the relevant Authorities. For example, the EPA recently released a policy for stormwater management that will see drainage costs significantly increase when it is fully implemented.

¹ RPM Group.

Separately, the development industry is concerned by the lack of costings in Regulatory Impact Statements and other costs that appear to be unknown or relatively misunderstood by the Government's central economic agencies but proposed and implemented by arms of Government – for example the costs of Cultural Heritage Management Plans, the proposed Dja Wurrung Land Use Activity Agreement (informing broader First Nations policy for Victoria), or the increased costs that will arise from the implementation of the proposed Better Apartment Design Standards (likely to be upwards of \$20,000 per apartment, plus ongoing maintenance fees).

In early 2021, UDIA Victoria commissioned Urban Enterprise to conduct research into development contributions and other property development taxes and charges in Victoria and to analyse the impact that these charges have on the property industry.

Its investigation and analysis of levies within the sample groups of Development Contribution Plans (DCPs) and Infrastructure Contribution Plans (ICPs) across metropolitan Melbourne greenfield growth areas between 2010 and 2020 shows that:

- development contributions levies increased substantially (in real terms) from an average of \$351,000 per ha for early DCPs to \$540,000 per ha for ICPs;
- the Transport levy has increased significantly over time and continues to increase despite the introduction of standard levy caps through the ICP system; and
- overall, the ICP system has standardised Community and Recreation levy and equalised Public Land contributions, but there has been a failure of the ICP system to contain or standardise transport construction costs and levies. Frequent use of the Supplementary Transport levy is enabling levies to continue escalating.

THE IMPORTANCE OF THE URBAN DEVELOPMENT INDUSTRY TO THE VICTORIAN ECONOMY

Residential development added over \$22 billion to the Victorian economy in FY20/21. Although this contribution is the lowest it has been in five years, this can be directly attributed to the COVID-19 pandemic and the impact it has had on all sectors of the Victorian economy. Even still, in FY20/21, the residential construction sector contributed 5 per cent of the State's total economic output. **Since FY16/17, residential construction has contributed over \$125 billion to Victoria.** The strength of the Victorian economy fundamentally relies on the strength of the residential development sector as a job creator, enabler of economic activity and by delivering new homes for Victorian families.

Economic value add (\$m, Jan 2021, real), total residential construction					
	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21
Direct value add (\$m)	\$5,887	\$7,126	\$6,028	\$6,265	\$5,427
Indirect value add (\$m)	\$18,149	\$21,970	\$18,586	\$19,226	\$16,655
Total value add (\$m)	\$24,036	\$29,096	\$24,615	\$25,490	\$22,082

Source: Urban Development Institute of Australia, Victoria, Residential Development Index

Based on the May 2021 Budget, taxes on property represent 46 per cent of the State Government's taxation revenue, while the December 2021 budget update shows this has risen to 49 per cent. The broader urban development industry is a fundamental plank of the Victorian economy, employing over 300,000 Victorians, with approximately 194,000 of those jobs in residential construction.² For every three dwellings built, 37 jobs are created along with \$2.9 million in economic benefits.

There is no doubt that the delivery of new housing supply will support Victoria's economic recovery.

² UDIA Victoria, *Residential Development Index*, December 2020.

Now, more than ever, the sector is critical to Victoria's ongoing prosperity. UDIA Victoria and the urban development industry have long partnered with the State Government to deliver liveable and connected communities, create jobs and stimulate economic activity. We continue to work with the Victorian Government to put Victorians into jobs, and into homes.

UDIA VICTORIA BUDGET RECOMMENDATIONS

The following measures are of immediate importance to the urban development industry, as a means of supporting housing supply and affordability and creating economic activity to help Victoria's economic recovery following the COVID pandemic.

RECOMMENDATIONS:

- 1. No new or increased property taxes or taxes on homebuyers.**
- 2. Commit to a 50 per cent stamp duty waiver on new homes until 30 June 2024.**
- 3. Allow remediation and land holding costs to be deducted from any value uplift for the purpose of the Windfall Gains Tax.**
- 4. Immediately inject resources to clear the backlog of Planning Scheme Amendments.**
- 5. Commit to a comprehensive plan for, and funding of, investment in catalytic infrastructure in Melbourne's growth corridors to ensure liveability as Melbourne grows.**
- 6. Ensure appropriate resourcing of both DELWP and the VPA to ensure that Melbourne's growth corridors maintain no less than 15 years' active supply of development-ready land.**

Recommendation 1: No new or increased property taxes or taxes on homebuyers

In Victoria, the broader property industry contributes \$45.1 billion to Gross State Product, employs more than 331,000 people and supports more than 400,000 workers in related fields. It pays more than \$21 billion in total wages and salaries per year, employs one in four of the state's workers either directly or indirectly, and accounts for 57.5 per cent of Victorian tax revenue (and 46 per cent of State Government revenue).

Analysis of Victorian budgets since 2014 shows that:

- A total of \$46.9 billion in property related stamp duties have been collected;
- Annual property related stamp duty receipts have increased by over \$2.2 billion, or 50 per cent;
- A total of \$22.9 billion in land tax has been collected; and
- Annual land tax receipts have increased by \$2.3 billion, or over 120 per cent.

Since the 2014-15 Budget, Victorian property taxes have contributed an average of 44 per cent of total State revenue, more than New South Wales.

UDIA Victoria recently engaged Urban Enterprise to quantify the development charges and taxes specifically for the residential development sector, focusing on new residential land in growth areas or new dwellings in established areas. The research revealed the residential development sector **contributes a total of \$6.4 billion annually** through the following:

- \$2.5 billion of development charges; and
- \$3.9 billion of taxes on residential development.

In greenfield development areas, the combined average greenfield charges and taxes is \$2,480,000 per hectare. This equates to **\$146,100 per lot** or **44% of the median greenfield lot price**. A 'worst case scenario' was also quantified which adopts the maximum amounts of each infrastructure charge, which equates to **\$179,400 per lot** or **54% of the median greenfield lot price**.

In established areas (strategic development areas), the combined taxes and charges equated to approximately \$165,200 per dwelling or 28% of the dwelling price prior to the Victorian Parliament passing the Windfall Gains Tax (WGT). When this was updated to account for the WGT, and the increased stamp duty and land tax rates that came into effect on 1 July 2021, the resulting combined taxes and charges applicable to this new case study is approximately \$221,100 per dwelling, plus a holding / interest cost of \$32,400 per dwelling. The total combined result is **\$253,500 per dwelling** or **42 per cent** of the apartment price of \$600,000.

This research demonstrates that the cumulative impact of the development charges and taxes are significant, and directly contribute to the escalating cost of new housing which in turn negatively impacts on private market housing affordability. **The quantum of development charges and taxes is a direct contributor to the current housing affordability crisis.**

Despite this, 19 State Government tax changes have occurred since the 2014 State election that have negatively affected the property industry, either through the introduction of new taxes or increases to existing taxes.

Throughout the same period, total Government revenue attributable to property taxes has increased from \$7.46 billion to \$13.26 billion – an increase of nearly \$6 billion or 77 per cent. In last year's budget alone, new and increased property taxes hit homebuyers in the amount of \$2.4 billion, comprising increases to the rates of stamp duty and land tax and the introduction of the windfall gains tax.

The urban development industry has confronted a turbulent market over the past 24 months. Although some confidence has returned in recent months, it is critical for the industry's confidence and economic contribution that it is not stymied by further tax increases.

The importance of the urban development industry to the fortunes of the Victorian economy is unquestioned. As we have seen with write downs in the State's stamp duty forecasts with the onset of the pandemic, an over-reliance on property taxes also ensures that the State's economy is susceptible to fluctuations in the property market.

In a globally competitive environment for capital, Victoria cannot afford to introduce more new property taxes or further increase existing taxes in this year's State Budget.

We ask for your commitment that this will not occur. Each new or increased tax makes doing business more expensive and the urban development industry, where it can, must pass on the increased costs to purchasers and tenants to maintain margins that are required by financiers and equity partners. If those costs cannot be passed through, then many developers will look to other jurisdictions to invest, costing Victorian jobs, stifling housing supply and driving up the price of new homes.

Recommendation 2: Commit to a 50 per cent stamp duty waiver on all new homes until 30 June 2024

Housing affordability across Victoria is being challenged like never before. Melbourne's median house price in October 2021 reached \$1,037,923, an increase of 16.8 per cent in 12 months. Housing affordability across regional Victoria has also reduced significantly in recent years. In Geelong it has reduced by 85 per cent since 2018, in Ballarat it has reduced by 55 per cent since 2019 and in Warragul

it has reduced by 45 per cent since 2020.³ House prices in the Greater Geelong have risen by 22 per cent on an annualised basis since 2012 and, on current projections, will exceed \$1.35 million in less than 4 years.

Research by Urban Enterprise shows that up to 42 per cent of the cost of a new home in suburban Melbourne is attributable to taxes, fees and charges. On a typical Melbourne home costing \$960,000, over \$400,000 will go to various levels of government, taking the average Victorian over 20 years to pay off the tax bill alone. A key measure of housing affordability is a households' debt-to-income ratio. Assuming a 20 per cent deposit and a median household income of \$120,000, the average debt-to-income ratio is 6.3. Halve government charges and that drops to a ratio of 4.6.

Victorian families see stamp duty as the major barrier to affordability. In a recent UDIA Victoria/Urbis Home Purchaser Sentiment Survey, considering the views of over 1,000 Victorians in October 2021, **43 per cent of respondents with a mortgage consider that the removal of stamp duty would make housing more affordable.**

In the 2020-21 State Budget, the Victorian Government announced stamp duty discounts of 50 per cent on new residential properties and 25 per cent on existing residential properties, and increased the dutiable value threshold to \$1 million; while the 2021-22 Budget provided a temporary increase in the eligibility threshold for the off-the-plan duty concession to \$1 million and a 100 per cent stamp duty concession for new residential property within the Melbourne LGA.

Operating in parallel to the Commonwealth's HomeBuilder Scheme, these discounts have served to support the greenfield residential sector. However, given the marketing and campaign timeframes required to support a new inner-city apartment development and secure off-the-plan sales, the stamp duty discounts alone have not had enough time to support the delivery of higher density apartment stock.

UDIA Victoria recommends that the Victorian Government announces a further 50 per cent stamp duty concession for *all* new residential property until 30 June 2024 to support the inner-city apartment market's recovery, while providing support for the greenfield market as it contends with the lack of net overseas migration since March 2020.

Recommendation 3: Allow remediation and land holding costs to be deducted from any value uplift for the purpose of the Windfall Gains Tax

Section 10 of the *Windfall Gains Tax and State Taxation and Other Acts Further Amendment Act 2021* provides for a deductions regime to be prescribed by regulations, to ensure that the calculation of any taxable value uplift makes allowance for the necessary costs incurred in achieving that uplift. This regime should reflect that value uplift is a function of the costs and expenses incurred by a developer to bring land to a point at which it can be rezoned, as well as the rezoning decision which is the final (and easiest) step in the process.

The Government's position through consultation on the Windfall Gains Tax prior to the introduction of legislation was that the tax is "capturing the economic value created by a Government decision to enable a higher and better use". This is incorrect. It is more accurate to say that a Government decision to enable a higher and better use *releases* the value that is most often created by the significant time and expense incurred by a developer to bring a site to the point of rezoning. The position set out in the discussion paper assumes that all value improvement attributable to development costs expended before the CIV1 valuation are reflected in the CIV1 valuation. That is not the case. In fact, none of the value created from those costs may be reflected in the CIV1 valuation in some circumstances. The pre-rezoning development costs put the Government in a

³ Research4.

position to decide whether to rezone the land based on the merits created in expending those costs. The rezoning decision that triggers the value uplift between CIV1 and CIV2 is a realisation event for value already accumulated and embedded (unrealised) in the land because of the developer's early work. Although the rezoning decision creates some value, it is erroneous and misleading to say that it creates all value.

All development costs are factored into revenue or capital cost bases for Commonwealth purposes, and this should be so for State purposes.

Land speculators make profits on rezonings with relatively little investment of time or resources, and without any economic value add in the process. By contrast, developers purchase land for the purpose of development – creating jobs, housing, employment precincts and communities. Developing a project takes several years, cost millions of dollars in holding, remediation and planning costs. Developers carry significant project risk, invest enormous sums, pay significant local, state and federal taxes (more than any other industry), and, by doing so, deliver enormous economic and social benefits to Victoria.

In many cases, remediation and land clearing works are often required to facilitate a Planning Scheme Amendment, with recent EPA requirements often making this a pre-condition to the lodgement of an amendment. If these significant costs are a pre-condition of a rezoning event, then it follows that they must be deductible from any value uplift created by that rezoning event.

Recommendation 4: Immediately inject resources to clear the backlog of Planning Scheme Amendments

The existing backlog of applications for rezoning should be progressed as a priority to unlock the development potential of these sites, to create new homes and keep a lid on housing affordability, as well as to create jobs and drive Victoria's economic recovery.

There are existing programs that can be leveraged for this purpose and should be provided with additional resources to create a workstream to focus on progressing rezoning applications.

The Regional Planning Hubs program provides statutory and strategic planning support and resources that:

- assist councils with peak workloads and priority developments;
- build land use planning capacity and capability within councils;
- improve planning schemes to streamline and simplify processes and approvals; and
- assist with significant regional planning projects.

Rezoning applications are within the remit of this program therefore the creation of a dedicated workstream to focus on this should be relatively straightforward for a significant benefit.

In established areas, the existing Development Facilitation Program within DELWP was established because the Victorian Government identified Victoria's building and construction sector as a key mechanism to revitalise Victoria's economy during the coronavirus pandemic.

The purpose of the Development Facilitation Program is to speed up the assessment and determination of identified priority projects that:

- deliver investment into the Victorian economy;
- keep people in jobs; and
- provide a substantial public benefit.

This program should also include a dedicated workstream to focus on rezonings which will unlock development projects that will provide employment, directly contribute to the Victorian economy, and contribute a public benefit.

Recommendation 5: Commit to a comprehensive plan for, and funding of, investment in catalytic infrastructure in Melbourne's growth corridors to ensure liveability as Melbourne grows

Plan Melbourne sets out nine guiding principles, seven outcomes, and 32 directions and 90 policies, which must be implemented at a regional and local level by several Land Use Framework Plans (LUFs). The aspirations in *Plan Melbourne* and the details in the LUFs rely on the timely delivery of catalytic infrastructure to growing communities. Without the upfront delivery of this infrastructure, Melbourne's growing communities will be disadvantaged through a lack of walkability, public transport and access to health and education services.

The development industry already directly contributes a total of \$6.4 billion annually. Sadly, it is the development industry which often bears the brunt of a local community's disappointment flowing from a lack of infrastructure. The development taxes and charges contributed by the residential development sector, in combination with the broader economic activity generated, already contributes sufficiently to the delivery of this critical infrastructure; no new taxes and charges are required for this purpose, but infrastructure must be delivered by Government. A specific concern is the lack of public transport infrastructure. Government is looking to increase densities in town centres without any commitment to delivering railway stations.

Despite repeated calls from the industry, the Growth Areas Infrastructure Contribution (GAIC) fails to meet the demands of Victorian communities. GAIC is forecast to raise \$288 million in 2021-22, rising to \$331 million in 2022-23.

The *Planning and Environment (Growth Areas Infrastructure Contribution) Act 2011* acknowledged that GAIC would fund up to 15 per cent of state infrastructure needed in the new growth areas, with the remaining 85 per cent to be delivered from other Government revenue sources. Due to the significant amount of investment required to deliver state infrastructure in the growth areas, all GAIC expenditure should be focussed on infrastructure that will obtain the greatest benefit to newly created communities and the state budget.

In reviewing current expenditure of GAIC, there is a significant concern that the projects funded through GAIC do not represent value for the newly created communities or the State. A pipeline of priority state infrastructure is needed to ensure that projects of high value to new communities and are prioritised. Prioritisation of funding growth area infrastructure should follow the below principles:

- A plan is developed that identifies all relevant state infrastructure required to service Melbourne's growth areas over a 20-year period;
- Prioritisation is based on an objective cost-benefit analysis with a focus on infrastructure that will enable the further development of housing and jobs in growing suburbs;
- Prioritisation must be flexible enough to allow consideration of funding projects early if savings can be delivered from delivering the project concurrently with other projects (both public and private);
- Prioritisation considers maximising the affordability of delivering new housing and the affordability of living in these new communities; and
- Projects are designed and delivered in a way that minimises the cost of future local and state infrastructure works, where there is a clear benefit to do so.

Often the higher priority infrastructure items may be the costliest, and GAIC may not be able to cover the full cost of delivery. However, GAIC was never intended to fully fund the state infrastructure needs of Melbourne's growth corridors. Accordingly, GAIC expenditure in many instances should be used as one of many funding sources to ensure high priority 'enabling' infrastructure is funded first.

Recommendation 6: Ensure appropriate resourcing of both DELWP and the VPA to ensure that Melbourne’s growth corridors maintain no less than 15 years’ active supply of development-ready land

Along with property taxes, adequate land supply is the most crucial element in supporting homeownership. Unfortunately, the Government’s land supply projections are incorrect and do not reflect market reality.

The Urban Development Program, which considers land supply across Victoria, does not appropriately consider the nature of land and its capacity to deliver new homes meaning that Government projections are overstated. Although UDP figures suggest that there is 14 years of ready supply,⁴ the reality is very different. These figures are based on a long running average of greenfield activity as a percentage of total housing demand of 36 per cent. When a running 7-year average is applied, this proportion rises to 43 per cent, whereas in periods of peak demand (such as those experienced since the onset of the COVID pandemic), the role of greenfield supply rises to 60 per cent of total housing demand – or nearly 25 per cent higher than the average.

It is critical that the Government’s land supply projections reflect “active supply” – that is, to ensure that the market has sufficient selling capacity to address peak demand. Based on active estates and the ability of the market to bring homes to customers, analysis from Research4 (one of Australia’s leading greenfield land research houses) suggests that we currently have only 5.1 years of effective active supply.

Based on Research4’s analysis, the following table provides a breakdown of the UDP’s planned supply against effective active supply in different sub-markets.

Market	Planned Supply (Years)	Active Supply (Years)
Melbourne Growth Areas (total)	14	5.1
Casey PSPs	11	2.8
Craigieburn PSPs	12	1.7
Hoppers Crossing PSPs	11	1.1
Sunbury PSPs	22	11

The Government’s UDP, within DELWP, needs greater resources to ensure it is equipped to provide timely assessment of the residential land market and update its land supply projections in real-time. Similarly, with the active land supply figures significantly lower than UDP projections, greater resources are urgently needed for the VPA to deliver new PSPs across Melbourne and regional Victoria.

⁴ 110,000 lots in approved PSPs and 101,000 lots in active estates.