UDIA VICTORIA

2023 PRE-BUDGET SUBMISSION

About

The Urban Development Industry of Australia, Victoria (UDIA Victoria) is a not-for-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 industry and Government to deliver housing, infrastructure, and liveable communities for all Victorians.

Background

UDIA Victoria has developed a suite of recommendations for Government's consideration, ahead of the 2023-24 State Budget. These recommendations have been developed to ensure the development industry can continue to support Victoria's post-pandemic economic recovery, address the current housing affordability crisis and provide jobs and homes for more of Victorians. The recommendations outlined within this submission are proportionate, targeted and align with State Government priorities.

The urban development industry is one of the biggest contributors to the Victorian economy and one of the State's largest employers. UDIA Victoria is focused on ensuring the development industry continues to thrive, despite the current economic challenges, and we remain committed to working with state and local governments to deliver better access to housing for all Victorians.

Ahead of the 2022 State Election, UDIA Victoria published *The Homeowner State: A Plan for Victoria's Future*, which identified a range of industry-led initiatives that would support Victoria's post-pandemic economic recovery and address the State's growing housing affordability crisis. ***The recommendations from our election platform remain necessary. However, in addition, we ask that the Victorian Government considers these important initiatives in conjunction with the recommendations outlined within this pre-budget submission***.

State of the Residential Development Market

UDIA Victoria research tracks and forecasts market trends, providing a comprehensive picture of the state of the Victorian urban development sector. The data we have collected has informed this submission.

Victoria is in the midst of a housing crisis which will require government and industry cooperation to address. The development industry is uniquely placed to play a key role in the coming year when housing affordability is a nat`ional priority.

Rising cost-of-living pressures and successive interest rate hikes are diminishing consumer buying capacity. More Victorians are locked-out of the housing market, which is adding pressure on an increasingly competitive rental market. A return to steady population growth post-pandemic, coupled with unattended supply shortages, is expected to further exacerbate the State's housing challenges.

Research shows a significant **reduction in buyer capacity of up to $300,000** for the average Victorian couple, and a rise in the median house price in Melbourne to $993,000. The market is also suffering from a lack of land supply within the growth corridors, where demand (27.5 years zoned and unzoned) far outstrips incoming supply (13 years).

A tenth consecutive rate hike has so far failed to curb Australia's inflation that sits stubbornly at 7.8 per cent. Prospective homebuyers are increasingly forced to remain in a highly competitive rental market, which will see an average annual rental increase of 2.2 per cent (Australian Bureau of Statistics).

Research conducted by Urbis shows the exodus from Central Melbourne, witnessed during the pandemic, has ended. Both vacancy and rental rates have returned to pre-pandemic levels and are continuing to rise. In addition, it shows a significant decline in the apartment pipeline in developed areas in Melbourne. 2016-21 saw the creation of an average of 4,400 apartments annually, 2022-27 saw an average of just 2,000. This dramatic reduction, partnered with the return of international migration, will exacerbate the existing housing supply shortage, and push more Victorians into housing stress.

Similarly, a lack of availability of zoned land in the State's designated growth areas is constricting supply of house-and-land stock, which is failing to meet demographic and market expectations.

The importance of a robust urban development industry to Victoria's economy

Residential development directly contributes a total of $6.7 billion annually to the Victorian Budget through the following:

- $2.5 billion of development charges; and
- $4.2 billion of taxes on residential development.

Our research shows average combined taxes and charges on greenfield development are approximately $2.48 million per hectare. This equates to $146,100 per lot, or 44 per cent of the median greenfield lot price. In established areas, combined taxes and charges equate to approximately $178,000 per dwelling or 30 percent of the average dwelling price.

Taxes on property represent approximately 44 per cent of the State Government's taxation revenue and 14 per cent of its total revenue. In FY22021-22, the residential construction sector accounted for $26.9 billion in expenditure and based on economic value add, generated a further $31.96 billion towards the Victorian economy.

The development industry is one of the State's leading employers. Direct employment in residential construction increased to approximately 54,000 jobs and indirect jobs creation in other sectors supporting residential construction increased to 188,000 in FY2022, creating a total of 241,600 direct and indirect jobs in Victoria in FY2021-22, relative to 156,000 over the previous year.

At a time of global economic uncertainty, during deepening housing affordability crisis, the development sector will play a key role in ensuring Victoria remains the nation's strongest growing state.

UDIA Victoria and its members have a long history of working with state and local government to deliver liveable and connected communities and we look forward to continuing to work with the State Government to create more jobs and homes for Victorians.

1

UDIA Victoria call on the Victorian Government to remove or provide temporary relief from the Foreign Purchaser Additional Duty (FPAD) which is throttling investment in Victoria's residential development sector and impacting the sector's ability to deliver new housing in developed areas.

Victoria's Foreign Purchaser Additional Duty (FPAD) increases the cost for global capital to invest in Victorian residential property by 8 per cent. This serves as an obvious disincentive to investing in Victoria and is making the State a less attractive place to live and work.

Research from AEC Group in 2019 examined the contribution of foreign investment in residential and non-residential property on the Victorian economy, and the impact introduction of surcharges has had on this contribution.

The assessment reviewed historical levels of foreign investment as a share of total investment in residential and non-residential property and compared it to previous AEC modelling on the economic contribution to the Victorian economy.

The impacts of the surcharge were estimated based on the observed reduction in foreign investor levels between 2015-16 and 2016-17 in Victoria (and other states) from the introduction of a surcharge. In 2019, before the introduction of an 8 per cent FPAD, AEC predicted the tax had cost the Victorian economy up to $7.4 billion in foregone investment and employment.

When the FPAD was introduced, Melbourne's median house price was $671,000 and median weekly rents in the CBD were $410. Today, even after accounting for recent falls, that price is a touch under $1 million and weekly rents are $625.

Instead of lessening demand for homes, the FPAD serves to restrict supply. Foreign buyers are far more likely to add to rental housing stock. If they are buying a property but living overseas, those properties will be rented out – boosting rental supply and maintaining downward pressure on weekly rents. Project feasibility relies on a threshold level of off-the-plan pre-sales. Without foreign investment, these pre-sales are made more difficult and projects are far less likely to proceed.

By adopting our recommendation to remove the FPAD, the Victorian Government can restimulate lagging investment and send a signal that Victoria is open for business, post-pandemic. Critical investment is needed to support the construction and delivery of new housing in Victoria, create jobs and boost economic activity.

2

UDIA Victoria calls on the Victorian Government to provide greater funding to the Victorian Planning Authority (VPA) to ensure they are well resourced to lead critical strategic planning within Victoria's growth areas, and address the State's growing housing supply challenges.

In order to address growing demand for housing and maintain affordability, we need to increase supply. Victoria requires a diverse range of housing stock, through a mix of greenfield and urban infill development to meet our growing population's needs.

To maximise the benefits of State Government initiatives including Victoria's Big Housing Build, the VPA and local government must be adequately resourced to facilitate their delivery. We recommend that the State Government commits an additional $10 million each year to better resource the VPA and local government planning departments; support better strategic and statutory planning; and enable the delivery of much-needed housing supply across Melbourne and regional Victoria.

Victoria is Australia's fastest growing state, with a projected population of almost 9 million by 2050 – Melbourne is poised to overtake Sydney as Australia's largest city by 2030. However a lack of funding, resources and skilled labour are causing extensive planning delays and constraining housing supply.

Limited supply continues to be a significant issue impeding access to housing across Victoria, particularly in designated growth areas. Timely release of developable land is essential to ensuring Victoria's housing market can meet the demand of its growing population – well-resourced planning departments and a robust state planning authority are critical to achieving this.