

30 August 2024

Department of Transport and Planning
1 Spring Street
MELBOURNE VIC 3000

UDIA Victoria submission for Plan for Victoria

The Urban Development Institute of Australia, Victoria (UDIA Victoria) welcomes the opportunity to participate in public consultation as part of the development of *Plan for Victoria*. Our written submission provides a high-level outline of key issues and opportunities identified by our industry members. This does not constitute an exhaustive list and we look forward to continuing to work closely with the Department of Transport and Planning (the Department) through ongoing industry consultation.

We also look forward to continuing to work closely with the State Government, through the Affordability Partnership. UDIA Victoria and its members have a long history of working with all levels of government to deliver improved industry and community outcomes – there has never been a more important time to continue this approach.

About UDIA Victoria

UDIA Victoria is a not-for-profit research, advocacy and educational organisation supported by a membership of land use and property development entities, across the private sector and Victoria's public service.

UDIA Victoria is a signatory to the State Government's Affordability Partnership, whose focus is on meeting the objectives of Victoria's Housing Statement: building 800,000 new homes by 2034 – 80,000 homes per year, over the next decade.

UDIA Victoria is focused on establishing the right policy and regulatory settings to enable the development industry to continue building diverse, high-quality and sustainable housing to meet the demand of Victoria's rapidly growing population.

We apply a rigorous, research and evidence-based approach to developing policy advice for decision-makers, at all levels of government. UDIA Victoria research tracks market trends, construction costs, regulatory changes, and prevailing economic conditions, providing a comprehensive picture of Victoria's development industry. Our detailed research has informed this paper.

Our policy committees and regional chapters are comprised of over 250 developers, practitioners and professional service providers from across the urban development industry.

UDIA Victoria research and our members' technical expertise and deep industry experience has guided this submission.

Background

Victoria's population is growing at a rapid rate, outpacing every other state in Australia. Last year, Melbourne surpassed Sydney as Australia's most populous city – almost a decade earlier than previously forecast. Victoria's population is set to reach 11.2 million by 2056, with Melbourne on track to becoming a city of 9 million by 2050.

Much of the strong population growth is due to overseas and interstate migration, as more people, attracted to our prized liveability, choose to call Victoria home. Historically, population growth has fuelled Victoria's economic prosperity, however, the unchecked challenge of housing Victoria's growing population may see this negatively impact economic growth in coming years.

For the last three decades housing and rental affordability has been in steep decline, culminating in the current housing crisis. Inadequate access to housing is now threatening to undermine the strength, stability, productivity and economic prosperity of our State.

Late-2023 saw the release of the eagerly anticipated Victorian Government's *Housing Statement*. This follows the National Cabinet's commitment to deliver 1.2 million new homes over the next five years, to July 2029. Despite a focus on improving housing supply, dwelling construction is trending down and expected to be lower in 2024 than previous years.

Approximately 52,330 homes are forecast to begin construction in 2024. In 2023, construction commenced on approximately 52,300 new homes, the lowest performing year since 2013.

This submission is prepared in the context of considerable headwinds facing industry, government and the community. Construction cost escalation and an uncompetitive taxation and regulatory environment is making residential development prohibitively expensive in Victoria compared to other states.

Stakeholder Engagement

UDIA commends the Government for engaging with a wide range of stakeholders across the Victorian community. We have appreciated the opportunity to also provide input to this process through various workshops.

We do note however, that aligning community aspirations and expectations for Victoria's future towns, cities and regions with what is practicably possible in the short, medium and long term is yet to occur. Recognition of global, national and local factors impacting the delivery of new housing, in addition to the social and physical infrastructure required should be incorporated into the Plan. In addition, understanding what the industry is capable of delivering against these aspirations is important. Development economics, workforce capabilities and supply chain constraints are all important elements that will influence the success or otherwise of the Plan for Victoria.

Community understanding and acceptance of the compromises and indeed sacrifices that may need to take place to ensure that Victoria remains an attractive and liveable place for future generations is an important cultural shift that is yet to take place, evidenced by strong resistance to new development in many established parts of Melbourne. Governments and industry must work together to better communicate why our towns, cities and regions in Victoria must continue to evolve.

Housing affordability and diversity

Plan for Victoria should adopt a holistic approach to housing that promotes affordability, diversity, choice and innovation. This includes ensuring a variety of housing types, encouraging affordable housing initiatives, and supporting new housing models that cater to changing demographics.

Victoria faces significant challenges in housing affordability, with median house prices and rental rates rising faster than incomes. The lack of diverse housing options, particularly in inner- and middle-ring suburbs, limits housing choice contributing to the exclusion of lower-income groups from the housing market.

In addition to this, the current regulatory environment does not adequately support all housing models. For example, built-to-rent (BTR) developments receive significant support in the form of incentives and concessions. There is a compelling justification to extend similar benefits to other typologies, considering the important need to deliver more new housing across the Housing Continuum.

We encourage the adoption of clear, achievable affordable housing targets within Plan for Victoria, backed by financial and regulatory incentives for developers. This could include density bonuses for developments that incorporate affordable housing units and streamlined approval processes.

We also encourage the Government to consider incentives to support the development of a range of housing types, including townhouses, apartments, and dual-occupancy units, particularly in areas with good access to public services, transport and amenities. Zoning policies should be sufficiently flexible to allow for higher-density developments in appropriate locations.

Statutory planning and building approval processes

There has never been a more important time to address the structural issues with the State's Planning & Environment Act, 1987 in addition to planning and building approval processes. The evidence is clear, planning inefficiencies are a leading contributor to the State's deepening housing supply crisis.

The Red Tape Commissioner's 2021 Review already sets out a range of recommendations for reforms. Their implementation accords with the State Government's *Housing Statement* and will see a marked improvement in the speed of delivery of new housing – especially in established suburbs.

UDIA Victoria encourages the State Government to hasten the adoption of these recommendations. Planning reform has the capacity to create tens-of-thousands of jobs over the next decade, and accelerate planning approvals of new dwellings by up to 6-months on average.

The current planning system is well-known to be inefficient and in dire need of substantive reform. Better Regulation Victoria's Planning and Building Approvals Process Review examined many of these inefficiencies, presenting a range of recommendations to the Victorian Government. UDIA Victoria was extensively engaged in this review process.

Victoria's construction sector is worth approximately \$33 billion and is one of the biggest contributors to the State's economy. The economic cost of the inefficiencies in the State's

planning system, identified by the Commissioner's review, ranges from \$400 to \$600 million per year – approximately 2 per cent of the sector's value.

The current approach to planning has ongoing challenges which lead to slower and more costly applications. In addition to this, local governments are not always adequately resourced and are often overwhelmed with the volume of planning applications required to be assessed.

Reforming the planning system could also add approximately \$7 billion to the State's economy.

Planning system reform, cutting red tape and streamlining approvals processes are critical to ensuring Government's ambitious housing targets can be achieved.

Streamlining third-party approval processes and supporting land development

Other issues significantly impeding the delivery of housing, especially in greenfield settings, relate to protracted post-Precinct Structure Plan (PSP) processes, including with water authorities and the administration of Cultural Heritage Management Plans (CHMPs).

We welcome the Victorian Government's acknowledgement, through the *Housing Statement*, that there is a need to improve processes involving water and utility authorities. These authorities play a pivotal role in land development and inefficiencies are leading to significant cost increases and delays, making it harder for the sector to bring affordable housing to market.

Worryingly, industry participants across Melbourne's established suburbs and growth areas are experiencing significant delays to development, as a result of water authorities' processes and involvement in floodplain management.

Without significant improvement, these delays will continue to represent a major barrier to the delivery of new housing.

There is also a need to review Cultural Heritage Management Plan (CHMP) processes, which are increasingly impacting the delivery of affordable housing.

The current administration of CHMP approval processes, particularly those relating to CHMP investigations, salvage and assessments, is adding to the administrative burden of Registered Aboriginal Parties (RAPs) while exacerbating uncertainty, costs and delay in the development industry.

UDIA Victoria has observed that RAPs bear a heavy workload in relation to cultural heritage testing, surveys and assessments, as well as monitoring and inspection activities under approved CHMPs. The experience of UDIA Victoria's membership over the last 15 years indicates the current CHMP system is also becoming increasingly complex and protracted without commensurate benefits for the protection of cultural heritage. This is also significantly hampering efforts within the industry to currently deliver adequate housing supply in the growth areas.

Urban growth and supply of developable zoned land

Plan for Victoria must ensure a consistent and adequate supply of developable land to meet the demands of a growing population. The current artificial constraints on land supply, particularly in metropolitan Melbourne, have directly contributed to escalating land prices, exacerbating housing affordability issues.

Despite the strong need to increase development density in our established areas, greenfield development will play a pivotal role in housing Victoria's growing population and providing affordable housing. Infrastructure Victoria's *Our Home Choices* report, 2023, acknowledges this important role – noting that many households would choose to live in our growth areas, even if established areas were more affordable. The report notes that four out of five households surveyed would not trade a detached home in a new suburb for a townhouse or apartment of a comparable price, closer to a city centre.

We recommend reassessing the decision to limit greenfield land release within Metropolitan Melbourne's and regional centres. Greenfield development, which can more readily respond to demand surges, will remain essential in controlling price pressures as long as supply is available. Slowing greenfield land release will likely lead to earlier price escalations in growth areas.

UDIA Victoria urges the government to expedite the rezoning of identified growth areas and ensure the timely delivery of enabling infrastructure. We also implore the Government to take a proactive approach to land release, supported by robust and fit-for-purpose planning controls, will provide certainty to developers and discourage speculative behaviour that drives up costs. This must include the introduction of a clear timeline and targets for land release, coupled with a transparent process for rezoning and infrastructure provision.

This will create a more predictable environment for development, contribute to housing affordability and help to achieve the key aspirations of current strategic planning policy. We have advocated for greater alignment of the Victorian Planning Authority's Business Plan with the Housing Statement's delivery targets. Year on year reporting of delivery against these targets will assist both government and industry to understand market dynamics and opportunities for further reform and innovation.

Transitioning to a new paradigm and achieving a 70:30 target

UDIA Victoria supports the State Government's approach to increase the density of development in Melbourne's established suburbs. However, we are concerned with the limited detail that has been tendered regarding how this is proposed to be implemented. We submit that Plan for Victoria should clearly define how the State proposes to transition to more infill development, given the significant departure from the status quo this represents. This will help clarify that any zoning or policy changes aimed at promoting infill development will not have an immediate impact and will take time to materialise.

We also contest the proposed approach to staged rezoning in growth areas, since there is a need to maintain a constant and reliable supply of housing where people want to live and can afford to live. We submit that structure planning and amendments should be undertaken concurrently across Victoria's growth areas. This approach prevents limiting choices and avoids "picking winners".

Planning all growth areas simultaneously provides a safeguard against potential changes in planning provisions, which could otherwise delay the process, if done sequentially. Rezoning is time-consuming, and conducting multiple rezoning exercises sequentially would consume resources and slow down progress.

The appropriateness of proposed housing targets and applied 70:30 universally

While Victoria's housing targets, particularly the 70:30 split between infill and greenfield development are commendable, they also present significant challenges that require closer scrutiny.

UDIA Victoria is particularly concerned about the potential of achieving 70 per cent of new housing through infill development in the short term, particularly in a market where high-density projects face significant viability issues. Rising construction costs, coupled with increasing labour and financing expenses, have made infill developments less attractive to investors, potentially stalling progress towards these targets. Moreover, the market's reluctance to adjust to the higher selling prices needed to make these projects viable raises questions about whether the current targets are realistic without significant government support.

Additionally, the emphasis on infill development might overlook the nuanced needs of regional areas, where the dynamics of housing demand and development differ significantly from metropolitan Melbourne. In many regional towns and cities, greenfield development is not only more feasible but also more aligned with local housing preferences and market realities. The blanket application of the 70:30 split across diverse contexts could lead to policy misalignments, where regional areas are pressured to meet targets that do not reflect their unique economic and social conditions.

A more flexible, regionally tailored approach may be necessary to ensure that housing targets are both achievable and effective in promoting balanced growth across the State.

Infrastructure delivery and coordination

Infrastructure planning, prioritisation and delivery must be closely coordinated with land use planning to ensure that development is supported by the necessary enabling infrastructure. This includes transport, utilities, social infrastructure (such as schools and healthcare facilities), and public open spaces.

Infrastructure gaps have been a recurring issue in rapidly growing suburbs, leading to congestion, reduced quality of life, and delays in development projects. The disjointed approach to infrastructure planning has often resulted in communities being established without adequate access to essential services, leading to long-term social and economic costs.

In addition to this, long delays to the provision of enabling infrastructure are severely constraining the development of identified growth areas. This has resulted in fewer homes being brought to market than previous years and is undermining the objective of putting downward pressure on housing prices.

We recommend that the Government adopt a clear and transparent approach to infrastructure planning and delivery, including developing integrated infrastructure plans that are coordinated with land use planning, ensuring that infrastructure delivery timelines

align with land development. These plans should be informed by robust and transparent modelling, including population forecasts, economic analysis, and community needs assessments.

We also encourage Government to collaborate with industry to seek the most efficient ways to deliver infrastructure in a timely way that reflects the needs of growing communities. In this context “timely” and “efficient” relates to ensuring infrastructure provisions keeps pace with growing communities, but also avoids quarantining development as a result of early infrastructure delivery before the demand necessitates it.

We also encourage the State Government to establish a publicly available pipeline of priority state infrastructure investments, which:

- identifies all state infrastructure required to service Melbourne over a 10-year period;
- is based on an objective cost-benefit analysis with a focus on infrastructure that will enable the greatest development of housing and jobs in growing suburbs;
- allows consideration for early funding of projects if savings can be delivered; and
- maximises the affordable delivery of new homes to support the State’s housing targets.

In addition to this, we recommend the Government work closely with industry to consider changes to existing infrastructure contribution arrangements to ensure that the funding mechanisms for infrastructure are fair, transparent, and sufficient to meet the needs of new communities. The timing of such reforms must be considered in light of the extreme difficulties currently experienced by industry, and other reforms such as tax reforms should be prioritised in the current economic climate.

UDIA Victoria recognises the need for development to contribute towards the provision of key infrastructure in urban renewal and greenfield settings. However, these contribution rates are often significant and, in some instances, perversely disincentivise development.

Metropolitan Activity Centres and State Priority Precincts

UDIA Victoria are supportive of the State Government’s ambitious housing agenda, including the implementation of the Metropolitan Activity Centre (MAC) Program. This includes the development of new planning frameworks for an initial 10 activity centres across metropolitan Melbourne, aimed at delivering 60,000 new homes close to services, jobs and transport. However, there are challenges and considerations that must be addressed to ensure that these targets can be achieved, and that the Activity Centres are developed in line with Government’s aspirations.

Any framework controls must pay due consideration to prevailing market conditions and development economics to ensure that development potential can be realised. Planning controls also need to be resolved in a timely manner to facilitate expedited and streamlined approvals. They should also remain flexible wherever possible, recognising that community needs vary over time and may evolve in unexpected ways.

- There is an existing gap in understanding surrounding the different interactions and layering of policy objectives within precincts that carry a cost impact (the whole is greater than the sum of its parts). These policy objectives have been found to have conflicting consequences creating “stalemates”. This is where permit conditions are a significant overreach or are unachievable, i.e. tree canopy coverage, utility service

locations and local authority carriageway expectations increasingly make it difficult to deliver the expected supply.

- The existing lack of consideration of the cost of delayed or contested planning decisions, and its impact on affordability or other policy objectives.
- Delegation of planning risk placed on the developer to address public sentiment due to poor communication and/or engagement with the community during strategy framework formation. This leaves the developer to unravel the desired policy outputs and engage with the community.
- Delayed or quickly outdated planning schemes/policies where the information that informed the submission in the first instance has become outdated.
- There is growing scepticism from industry whether planning reform in activity centres and precincts is focused on the outcome of increasing housing supply, or rather, being designed for the purpose of capturing the value of land to help fund major infrastructure closer to identified Precincts.
- Precincts cannot thrive with higher levies because projects will cease to be commercial. In fact, they typically require a higher level of support, compared to established, lower-density locations, to compensate early adopters for the limitations on infrastructure and amenity partnered with the speculative/volatile nature of these markets.

Precinct schemes are burdened with policies that appear to have been drafted without an in-depth consideration of commercial feasibility. There is not enough consideration given to development economics in strategic planning, or an understanding of what the development industry can deliver. A world class planning system cannot bring about the desired outcomes if other key regulatory frameworks are not supportive. Victoria's current tax system is an impediment to new development. UDIA has consistently called for an investment and tax reform framework, particularly since the release of the Housing Statement in 2023.

To ensure policy is deliverable, UDIA Victoria recommends policy- and decision-makers draw extensively from the expertise of development practitioners who have first-hand knowledge of property development economics. This is particularly important when giving consideration to incorporating affordable housing quotas or targets. Project feasibility is exceedingly difficult at present, and additional cost inputs frequently render projects unviable.

Industry would welcome the opportunity to develop and present a Draft Precinct Structure Plan for one of the 10 Activity Centres, to highlight the differences between what the sector would consider commercially viable and the Government's proposed approach.

The role of regional development in supporting Victoria's sustained growth

The key objectives outlined in Plan Victoria have different implications in regional settings compared to metropolitan Melbourne. Their interpretation and application will also vary significantly between regional cities, centres, towns, and townships. Factors such as population size, existing housing and commercial stock, and the level of infrastructure will lead to diverse needs and perspectives across regional Victoria.

The Regional Strategic Plans are also due to be refreshed, and Plan for Victoria presents an opportunity to review and refine their role and application. Incorporating aspects of these plans within a Plan for Victoria and aligning them more closely with the planning scheme could provide the necessary weight to influence decision-making effectively.

Strengthening these overarching strategies will make it easier to achieve State Government housing targets, as they will provide clear guidance for local governments to align their strategic plans with the State's objectives. It would also give local and state government the opportunity to test whether the Plan for Victoria objectives can be delivered at a regional level.

The proposed 70:30 rule may not be suitable for all regional contexts. For instance, Ballarat has proposed a 50:50 approach, however what is viable in other regional centres such as Shepparton, Benalla, Sale, or Hamilton may differ significantly. The varying economies of scale in regional areas highlight the need for a more nuanced approach. Home buyer preferences and demographics should inform medium and longer term greenfield/density targets. The development industry is best placed to provide data on consumer preferences.

As Melbourne's land supply (within the established Growth Boundary) diminishes, we strongly advocate for proactive planning to enable regional cities and towns to play a more active role in accommodating future population growth.

While infill development in regional areas is important and should be promoted, it is unlikely to be commercially viable in the near term. Therefore, regional growth will likely rely primarily on a competitive and efficient greenfield market.

We urge the State Government to deliver a robust pipeline of greenfield land supply in key regional areas, as limiting greenfield development will only constrain regional growth. Importantly, regional greenfield growth can still deliver the benefits of 20-minute neighbourhoods – a clear advantage over many locations in metropolitan Melbourne.

Currently, high-density development faces viability challenges due to rising material and labour costs, as well as increased financing costs. The market has not yet adjusted to the higher selling prices needed to offset these cost increases. While density within regional cities is important for meeting certain market segments, it does not align with the aspirations of the majority of the regional market. However, higher-density living, particularly in the form of retirement or land lease developments, is gaining traction in regional markets and offers opportunities for creative infill and density projects.

Infill development in regional centres

The concepts of change, density, and high-rise development can cause anxiety in regional communities, where many people choose to live specifically to avoid urban characteristics. There is a significant gap between the general population's perception of these developments and those of industry professionals who understand their benefits. To bridge this gap, work is needed to promote the retrofitting of existing areas with new technology, climate change adaptations, and smaller footprints at a suitable scale.

Further considerations

In addition to the above observations, we have prepared a list of additional considerations, noting this does not constitute an exhaustive list. We implore the Victorian Government to continue to work closely with all stakeholders, including industry representatives and UDIA Victoria on these important matters.

- **Aspirational targets:** We strongly recommend acknowledging the 70:30 split as an aspiration rather than a definitive direction. We discourage Government from mandating specific targets, as there is no planning scheme mechanism for enforcing such decisions.
- **Nuanced support for infill:** We recommend that Plan for Victoria use more nuanced language regarding the 70:30 target, including its appropriateness for regional settings. Specifically, the Strategy should lend support to infill development rather than directing a specific target. This will provide future users of the policy with a clear tool to support planning decisions that result in infill and density development, without rejecting other housing types.
- **Flexible rezoning:** We recommend a departure from staged rezoning in greenfield areas. Allowing the market to bring on supply as quickly and extensively as possible is crucial for addressing affordability issues and meeting the State's growing housing demands.

Clear implementation strategy: We recommend better illustrating that any proposed change will occur slowly over time and only if current statutory controls are successfully amended. This will help manage expectations and provide a realistic outlook on the impact of policy changes. Industry and community do not presently have visibility of how structural changes will be delivered.

- **Housing Typology Information:** We recommend including detailed housing typology information for the reference of readers and users who may not be familiar with these terms. This will enhance understanding and improve the utility of the document.
- **Active Supply vs. Capacity Analysis:** We recommend including an analysis that clarifies the difference between capacity and active supply. This will provide readers with a more accurate understanding of the current housing market dynamics.
- **Economic Analysis of Housing Costs:** We recommend incorporating an economic analysis comparing the relative costs of infill/apartments with stand-alone housing. This will help users of the policy understand the economic rationale behind the recommendations.
- **Infrastructure Costs and Requirements:** We recommend providing more detailed information on the expected infrastructure costs and requirements to prepare each municipality for density development (water, sewer, power, etc.). This will facilitate a comprehensive comparison of the relative benefits of various areas.

Further consultation

We thank you for your consideration of this submission and look forward to continuing to work with the Government as Plan for Victoria is progressed.

If you would like to discuss any of the matters raised in this submission, please do not hesitate to contact myself at [REDACTED] or UDIA Victoria's Director of Policy, Jack Vaughan, at [REDACTED]

Yours sincerely,

[REDACTED]

Linda Allison, Chief Executive Officer
UDIA Victoria