

UDIA VICTORIA INFILL & URBAN RENEWAL INITIATIVES

DISCUSSION PAPER



About UDIA Victoria

The Urban Development Industry of Australia, 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 committed to working closely with industry, local, state and commonwealth government, key housing sector stakeholders, and the community to improve access to diverse, high-quality and affordable housing in Victoria.

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.

In 2024, UDIA Victoria is laser-focused on establishing the right policy, regulatory and taxation settings to enable the residential development industry to do what it does best: build great housing for the growing number of people who choose to call Victoria home.

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.

UDIA Victoria's Urban Renewal and Built Form (URBF) Committee

UDIA Victoria's Urban Renewal and Built Form (URBF) Committee is comprised of twenty-five leading experts from across the industry including developers, planners, legal professionals, engineers and designers.

The Committee brings a wealth of collective experience to issues of policy, planning and development. We are committed to ensuring the right conditions for industry to build more high-quality, diverse and affordable homes in Central Melbourne and the City's major Metropolitan Activity Centres.

UDIA Victoria's Urban Renewal Initiatives Discussion Paper

This paper is prepared in the context of considerable headwinds facing industry, government and the community.

Despite a focus on improving housing supply, **dwelling construction is trending down and expected to be lower in 2024 than previous years.** Construction cost escalation and an uncompetitive taxation and regulatory environment is making residential development prohibitively expensive in Victoria compared to other states.

The aim of this paper is to start a collaborative conversation with decision-makers, with consideration to prevailing conditions. Our recommendations are proportionate, responsive and consistent with the State Government's overarching objectives: improving economic output; increasing housing supply; putting downward pressure on housing prices; and creating more Victorian jobs.

UDIA Victoria and its members have a long history of working with government to deliver improved outcomes for industry and the community. We look forward to continuing to work with the State Government to create more jobs and homes for Victorians.

From UDIA Victoria's CEO, Linda Allison and URBFC Committee Chair, Nick Holuigue

UDIA Victoria is pleased to be a signatory of the State Government's Affordability Partnership and is committed to working with the State Government

However, the industry is facing the toughest conditions many have seen in decades. Compared to the State's population growth, residential construction is now at its lowest ebb since the recession of the early-1990s.

More needs to be done if the Government is serious about changing the tide on housing affordability and delivering more homes in Melbourne's established suburbs.

Residential development and the construction industry kept the lights on during the COVID-19 pandemic and it remains one of the biggest contributors to the State's economy. Residential development generated almost \$14 billion in tax receipts last year and provided around 333,000 Victorian jobs – we play an important role in Victoria's prosperity and will play a leading role in meeting the State's housing targets.

UDIA Victoria's Infill & Urban Renewal Initiatives Discussion Paper provides a range of proportionate recommendations aimed at improving the deliverability of multi-residential development in established suburbs.

Linda Allison

Chief Executive Officer
UDIA Victoria

Nick Holuigue

Chair, Urban Renewal & Built Form Committee
UDIA Victoria

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 5 years, to July 2029.

In June 2024, the State Government released Local Government Area (LGA) Draft Housing Targets as part of its work on a refresh to the State's overarching strategic planning strategy, *Plan for Victoria*.

The draft targets for many inner- and middle-ring suburbs demand a significant increase beyond existing forecasts. For example, Melbourne will see a 122 per cent increase and Maribyrnong a 114 per cent increase in dwellings by 2051. This translates to 4,963 new dwellings per year in Melbourne and 1,815 new dwellings per year in Maribyrnong.

Achieving these targets will not be possible without commensurate government investment.

State of the market

Rising cost-of-living pressures are crushing consumer confidence. More Victorians are locked-out of the housing market, putting pressure on an undersupplied rental market. A ferocious return to post-pandemic population growth, coupled with unattended supply shortages, has brought the State's housing shortage into sharp focus.

13 consecutive cash rate hikes appear to be containing Australia's inflation rate – the fastest rate hike in decades – however, it remains stubbornly high. Inflation and interest rates are having a lasting impact on consumer confidence and borrowing capacity.

UDIA Victoria research shows a significant **reduction in borrowing power of around \$300,000 for the average Victorian family**, while skyrocketing house prices have seen the median home in Melbourne reach \$1 million.

Research conducted by Urbis, for UDIA Victoria, [Central City Rental Market & Apartment Pipeline](#), shows rental rates have surpassed pre-pandemic levels and are continuing to rise. In addition, it shows a significant decline in the apartment pipeline in developed areas in Melbourne and a reducing pool of rental properties as investors exit the market at historically high rates.

2016-21 saw the creation of an average of 4,400 apartments annually, **2022-27 will see an average of just 2,000 apartments.** This dramatic reduction in supply within central

Melbourne, partnered with a strong return of overseas 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 (a result of long-term strategic and statutory planning delays) will impact the supply of dwellings in what is historically, the strongest performing sector of the market. **Research shows underlying demand (27.5 years zoned and unzoned) far outstrips incoming supply (13 years).**

The urban development industry's role in Victoria's economy

Victoria's development industry will play a pivotal role in operationalising the State Government's aspirational housing policy. It is critical that Government recognises the key role it plays and the importance of supporting industry.

The urban development industry is one of the biggest contributors to the Victorian economy and one of the State's largest employers. However, **2023 has seen a marked decline in construction, leading to reduced productivity, economic activity and employment opportunities.**

Research commissioned by UDIA Victoria, the Civil Contractors Federation (CCF) and the Association of Land Development Engineers (ALDE), highlights the significant impact felt across industry:

- 25 per cent of Australia's 200 largest construction companies have been operating at a loss over the last 2 years; and
- 1,709 construction businesses entered administration as of April 2023.

In 2014, property taxes were responsible for less than 18 per cent of all state government tax revenue. Over the past decade, this has risen to over half of the State's tax revenue and is forecast to remain higher than 40 per cent over the next 4 years.

Property taxes have contributed to around 50 per cent of all State taxation revenue since 2014:

- Over \$57.1 billion in property-related stamp duties have been collected;
- Annual property-related stamp duty receipts have increased by over \$6 billion, or more than 140 per cent;
- More than \$27.1 billion in land tax has been collected; and
- Annual land tax receipts have increased by over \$2.5 billion, or more than 250 per cent.

In 2023-24, **residential development directly contributed a total of \$14 billion to the Victorian Budget through existing taxes, fees and charges.** This represents approximately 45 per cent of State Government tax revenue for the financial year, and around 20 per cent of its total revenue.

Urban Enterprise research, conducted for UDIA Victoria, [Development Contributions, Fees, and Charges Analysis](#), also 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 per cent of the average dwelling price.

As one of the State's leading employers, Australian Bureau of Statistics (ABS) data shows **direct and indirect employment in the residential construction sector reached approximately 333,000 jobs** in August of 2023.

The State's housing crisis demands a crisis response

Industry, Government, and the wider community are unanimously declaring the current state of housing affordability and undersupply a crisis. UDIA contends that there are multiple parts to the overarching crisis:

- **Construction costs**
Supply chain disruptions, the State Government's record infrastructure pipeline and deteriorating labour productivity, have increased the cost and reduced the availability of construction materials and labour. Australia is one of the most expensive countries in the world to build, despite having abundant space, raw materials and modern infrastructure.
- **Consumer confidence**
Consumer borrowing capacity has severely declined in recent years, putting even the most affordable housing options out of reach for low to moderate income households. High interest rates, cost-of-living, new taxes and lack of diverse housing supply has seen a reduction in prospective purchasers entering the market.
- **Investor environment**
Increasing property-related taxation and new property taxes are hurting project feasibilities and forcing Victorian businesses to look interstate for development opportunities. A punitive and unpredictable taxation landscape is eroding Victoria's attractiveness as a place to invest – we are losing our competitive advantage.

The State's housing crisis demands a crisis response. UDIA Victoria is calling on the Government to explore measures, including short-term relief initiatives, aimed at reducing the cost of development; uplifting consumer and investor confidence; and jumpstarting new housing construction, at scale, to connect more Victorians with secure housing.

Key issues and initiatives

Development in Activity Centres and Priority Precincts

- 1 Prioritising economic considerations in strategic planning**

Precinct planning does not currently prioritise commercial feasibility and urban economics. Closer engagement with development practitioners would lead to more successful urban regeneration projects.
- 2 Underpin affordability in Priority Precincts**

With present market conditions, incorporating a percentage of affordable housing renders many developments unviable. Instead of transferring affordability costs onto developers, the government could establish a concessional finance lending facility for developers or consumers within specific precincts.

Planning and building approvals processes

- 3 Streamline planning and create greater certainty**

The State's planning and building systems are notoriously inefficient and have dampened the sector's ability to deliver affordable housing, at scale, for years. The State's housing crisis will not improve without meaningful reform. In addition to this reform program, it is critical that the Government focuses on opportunities to cut red tape and streamlining approvals processes.
- 4 Digitising the planning system**

Digitisation provides a unique opportunity to improve the efficiency, communicability and transparency of planning processes. All of which would have a significant impact on the speed of bring new housing to market.
- 5 Simplifying design standards**

Industry constantly innovates to deliver affordable, high-quality dwellings. Overly prescriptive standards are not leading to better outcomes. We need standards and regulations that encourage creativity and innovation, that will lead to better homes.

Service authorities and utility providers

- 6 Service authority and utility provider reform**

Service Authorities and Utilities Providers are restricted by current regulations from creating essential infrastructure easements, leading to development delays and confusion. Legislative amendments to facilitate easement creation and access for authorities will streamline development processes and ensure efficient, cost-effective land servicing.
- 7 An Independent Board to facilitate resolution on service authority requirements**

An Independent Board can set enforceable timeframes, publish benchmark costs, facilitate dispute resolution, ensure accountability, and improve authority responsiveness, thereby streamlining development processes and alleviate strain on VCAT.

Property sector taxation

- 8 Reduce development industry taxation**

Housing supply and affordability is being undermined by higher taxes. To stimulate development and support homebuyers, we need tax reform, including changes to stamp duty and additional duties.

Activity Centres and Priority Precincts

The state Government is embarking on major planning reform, including the implementation of the Activity Centre Program. This involves developing new framework controls for an initial 10 activity centres across metropolitan Melbourne, aimed to deliver 60,000 homes close to services, jobs and transport.

This initiative is broadly commended, however, there are challenges and considerations that must be addressed to ensure that the delivery of additional housing targets can be achieved. Importantly, these new framework controls for these activity centres must make a meaningful contribution to infill development opportunities, and this requires support from local governments and communities.

Any proposed framework controls must also be informed by market conditions and economics to ensure that they can be fully realised. They also need to be developed in a timely manner to effectively facilitate expedited and streamlined planning approvals. They should remain flexible wherever possible, recognising that community needs vary over time and may evolve in unexpected ways.

Key considerations

The recommendations below are to address concerns not only around the delivery and eventual management of the framework for the activity centre, but more broadly in how the government influences any precinct developments. These developments will increasingly become more important as we seek to balance population growth in our urban environments.

The committee identified a range of core problems which the recommendations are seeking to address:

- **Siloed policy formation**

There is an existing gap in understanding surrounding the different and layering of policy objectives within precincts that not only have an exponential cost impact (the whole is greater than the sum of its parts) but have been found to have conflicting consequences creating “stalemates”. This is where permit conditions desired 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.
- **Accountability**
 - The existing lack of transparency relating to the cost associated with 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 public 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.
- **Tax revenue or outcome focused**

There is scepticism from industry whether planning reform in activity centres and precincts is focused on the outcome of supplying Victorians with housing, or rather is being designed for the purpose of capturing the value of land to help fund major infrastructure near these precincts. The two goals are not complementary – precincts cannot thrive with high taxes because projects will not stack up.

Conversely, 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 and the speculative/volatile nature of these markets.

1 Prioritising economic considerations in strategic planning

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 urban economics in strategic planning, or an understanding of what the development industry can deliver, particularly in the current market conditions.

To ensure policy is deliverable, UDIA recommends policy makers draw extensively from the expertise of development practitioners who have first-hand knowledge of property development economics and the UDIA would welcome greater engagement in this regard.

For example, the industry would like the opportunity to development and present a draft precinct structure plan for one of the ten activity areas to highlight the differences between what the sector would consider commercially viable when compared to the Government's approach when released for public display.

2 Underpin affordability in Priority Precincts

Instead of transferring affordability costs onto developers, the government could establish a lending facility that offers concessional finance that is available within designated activity centres/precincts. This could be provided to developers (under arrangements similar to treasury loans).

Alternatively, they could be made available for consumers in designated areas.

- If a qualified purchaser accesses this facility to improve their ability to purchase an apartment (at no cost to the developer), the property will contain a caveat for a set period, that requires a percentile of land value to contribute to a housing fund. This is similar in scope to combining the Housing Affordability Fund ([HAF](#)) and Property Industry Foundation ([PIF](#)) and may apply for a set period of time until market conditions stabilise. This could lead to more efficient distribution of funds, removing the current prolonged procurement process that has a high rate of failure, where funds are allocated to projects that are ultimately not delivered.

Planning and building approvals 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 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.

Planning system reform will be critical to ensuring a government's ambitious housing targets can be achieved. UDIA Victoria is actively engaged in consultation on Planning and Environment Act reform, through the Department of Transport and Planning.

In addition to this reform program, it is critical that the Government focuses on opportunities to cut red tape and streamlining approvals processes.

3 Streamline planning and providing greater certainty

A consistent, transparent and efficient planning system is crucial to providing certainty to the urban development industry to invest in development opportunities and drive the efficient and cost-effective delivery of new housing. The Red Tape Commissioner's *Planning and Building Approvals Process Review*, 2021, stated that inefficiencies in the current planning system will cost Victoria \$7 billion across the next decade.

Streamlining planning provides one of the most effective levers for increasing the overall speed of housing delivery. Avenues for improvement in the established areas context include:

- Establishing and publishing how precinct frameworks/structure plans are to be formulated and approved, including expedited timeframes for government approvals.
- A *Precinct Planning Taskforce* with the necessary economic and development industry expertise, responsible for considering and monitoring cost implications of planning permit conditions and any time delays.
- To manage stakeholder expectations, particular the existing local community, the government should be more accountable during the strategic planning phase to ensure it is not only engaging but educating the community on the planning process and the commercial reality (refer to development economics) of why certain conditions and the framework are required. The frameworks must:
 - Facilitate meaningful change and explain how activity centres are essential in addressing housing targets to tackle affordability issues,
 - Be easily and readily interpreted and implemented, while avoiding onerous requirements, unless costed and considered holistically, not independently of each other.
- Consider the removal of third party appeals which have a significant impact on time and commercial risk for projects. Their removal would reduce the potential of the matter being referred to the Victorian Civil and Administrative Tribunal (VCAT) which is both time consuming and expensive.
- Council permits should not be subject to appeal if they comply with the planning scheme. Councils should also be financially accountable for declining permits without reasonable grounds, with measures including paying a developer's costs built into the system to prevent potential unwarranted actions.
- Reviewing permit triggers and allowing more 'as of right uses/development opportunities within these activity centres and precincts.
- Strengthening the Development Facilitation Program to provide greater value in terms of time savings or outcomes. The existing Program provides a strong base however, to gain greater traction the Program requires a greater return on investment for the developer.

4 Digitising the Planning System

Digitisation provides a unique opportunity to improve the efficiency, communicability and transparency of planning processes. All of which would have a significant impact on the speed of bringing new housing to market.

The government should introduce a more transparent digital workflow that tracks and monitors planning performance which by virtue of its introduction, will standardise submission requirements between councils. This will:

- Provide an up-to-date state of play in the performance of authorities, allowing quicker analysis as to underperformance while also being able to have a running cost impact that planning is placing on the industry.
- Encourage councils to fast-track planning rules-to-code and consistency of planning permit structures which is the first step necessary to hasten the utilisation of the automation tools that will be essential to achieve desired productivity levels.

These structural improvements would also align with the Planning and Building Approvals Process Review's recommendations.

This also creates the chance to investigate options like the introduction of automation planning for a Future Homes-like product. This would encourage the removal of 3rd party appeals as the approval and its subsequent reasoning could now be visually reviewed by the public further hastening the process.

We would encourage the Government to support and accelerate their digitalisation processes that provide intelligence for the private market and increase the speed of planning approvals.

5 Simplifying design standards

The residential development industry is constantly innovating to provide high-quality and well-designed dwellings at an affordable price point. This evolution through competition continues to deliver ongoing improvement in apartment design without any intervention from Government.

(BADS) were adopted in Victoria to ensure apartment designs prioritised liveability of habitable spaces. However, there are some requirements of the standards that we consider to be overly prescriptive. These have limited the development industry's ability to deliver high-quality performance-based solutions in many instances

Areas we would note for further investigation by the State to increase the viability of apartment development would include:

- **Mandated balcony sizes**

The market delivered a sensible range of outcomes before sizes were officially mandated. Providing greater flexibility through design standards in this regard can affect the end purchaser price assisting with entry to the market.

- **Communal areas**

Although a popular addition in large projects, often these areas were provided regardless of the requirement. For small and medium-sized projects this inclusion impacts the developable land component and materially increases maintenance in addition to operating costs (which are considerable and unwanted by many residents). These add costs and can undermine the feasibility of a project.

- **Corridor daylight**

This feature is a desirable addition to a project design but not necessary. Ensuring the overall design of the project allows for the adequate natural light inclusions within the dwellings and corridor can severely limit the agility of design on individual sites. Protecting natural light within the dwelling is critical. However, natural light to corridors should not be considered mandatory.

- **Increased flexibility**

BADS is imposed by Councils without the reasonable flexibility that should accompany a Standard. For example, if a room is 100mm smaller than the preferred size, but it simplifies the structure and therefore overall cost to the homebuyer, this should be seen as sensible and approved. This common sense is not given any weight, leading to costly and sometimes inferior outcomes where compliance is prioritised without context.

- **Tree replacement**

The inability or cost to remove and replace trees is a major barrier to urban development. Replacement of standard (i.e. not protected) trees should be deemed acceptable, if the cost to maintain them exceeds reasonable cost or reduces yield without implications for biodiversity on the site.

Service authorities and utility providers

Connections to utilities are a vital and often overlooked part of the delivering housing in brownfield and greenfield settings. Drainage connections and their installation timelines, directly dictating the effective release dates of entire projects. While prices for these connections continue to rise and affect the viability of projects across the state, the service authorities frequently deliver slow, excessively risk averse and inconsistent outcomes.

Service authorities, most notably Melbourne Water, have absolute power to determine levels and other critical factors affecting development outcomes. These decisions are frequently made without any coordination with other planning controls or regard for balancing the costs and benefits of these major economic decisions. Many property developers experience significant delays to built-form projects as a result of requirements or inaction of service authorities/utility providers. When offers are provided, service authorities are not necessarily required to explain the cost-of-service infrastructure or engage in efforts to reduce these costs. Many cases of these offers simply being miscalculated are unearthed through complaints to the Ombudsmen.,

In addition, many development sites are suffering from inability to access services through adjacent land, and therefore are effectively quarantined indefinitely. These delays result in a variety of suboptimal outcomes for industry including project uncertainty, delays in providing housing supply, and increased construction and holding costs which are ultimately passed onto the consumer.

6 Service authority and utility provider reform

Service authorities and utilities providers are often assumed to currently have broad powers to create easements. However, they are restricted by the requirement to return the land to its former state, which removes the ability to create many service requirements such as substations, drainage basins, drainage channels, pump stations, water tanks and pumps etc. This creates highly volatile situations for all affected parties as each attempt to navigate the opaque landscape of enabling development to occur with each party expecting the other to act.

Authorities are also not encouraged to create easements on behalf of developers, further exacerbating the attempt to develop new supply.

Current legislation under section 36 of the Subdivision Act 1988 (Vic) allows a landowner to apply an easement over land where an easement is required 'for the economical and efficient subdivision of the land'. In practice, this has rarely occurred for the benefit of subdividing land for housing.

VCAT has determined 'section 36 itself provides little guidance to the Tribunal on the circumstances in which it should exercise its discretion to grant leave to acquire an easement' – see example case [Australia Red Hill Real Estate Group Pty Ltd v Melton CC \[2022\] VCAT 1165](#).

The subdivision Act requires review and amendment to ensure there is the ability to create easements, in favour of relevant authorities, for the purpose of developing land and clarity of processes to both create the easement and ensure reasonable access to construct infrastructure is available.

Amending legislation to allow for the creation of service easements and construction access in favour of authorities will create substantive improvements in the existing processes in the short and medium term. Providing them with the ability to service land will ultimately ensure efficient, cost-effective delivery, which in essence was the aim of section 36 of the Subdivision Act 1988 and aligns with the efforts of the *Housing Statement* which seeks notable improvement in this space.

7 An Independent Board to facilitate resolution on service authority requirements

Two major considerations of note are the timely delivery of housing stock and the effective mitigation of conflict resolution that continues to be escalated to VCAT, constraining the Tribunal's limited resources.

These could be combatted via an Independent Board that would be responsible for:

- Setting realistic and enforceable maximum timeframes for specific authority outcomes (e.g. Development Servicing Offer, service delivery, Practical Completion, refunds);
- Investigating and publishing benchmark costs for common works; publishing the scope and cost of headworks and services provided to all development land in a public register, thereby providing transparency for developers to better understand and anticipate likely costs, and providing a historic record of how these costs increase over time;
- Facilitating the resolution of disputes, alleviating the need for developers to go from Authority management to VCAT;
- Investigating applications that run beyond maximum time-frames;
- Ensuring that authorities and service authorities do not inflate base costs where they are the only available service providers;
- Improving overall accountability, flexibility and responsiveness;
- Assessing and implementing ways of securing servicing for developments; and
- Generally, oversee the Authority's application processes for the purpose of achieving government's overall housing and development goals.

With standard VCAT cases approximately taking 30 weeks on average to conclude, methods must be implemented to alleviate this strain and an Independent Board provides one such methodology.

Property sector taxation

The Victorian Government's reliance on property tax revenue places the State's economy in a precarious position. With mounting inflationary pressures, and the RBA's sharpest increase in the official cash rate since 1994, property prices are under pressure, while the State's budget and expenditure program is built on construction and land release taxation.

The evidence is clear: tax reform is needed to reduce the burden on Victorian homebuyers, support housing affordability and de-risk the State's economy.

8 Reduce industry taxation

The Victorian Government's reliance on property tax revenue places the State's economy in a precarious position. With mounting inflationary pressures, and the RBA's sharpest increase in the official cash rate since 1994, property prices are under pressure, while the State's budget and expenditure program is built on construction and land release taxation.

Ensuring the Victorian market remains an attractive place to live and invest is critical to the state economy however choosing to operate within our market is becoming harder to justify as other states and countries continue to incentivise their markets.

Key considerations

Within the context of the established areas, the Government has the opportunity to ease restrictive measures and reduce the existing impost to increased investment.

Specific considerations include:

- Since 2014, the Victorian Labor Government has introduced a new tax, or increased an existing one, 52 times – more than 5 a year over the last decade. Despite this, the State's debt is still mounting. The continued and expanding tax burden on the urban development industry exacerbates end purchaser prices and has impeded project feasibilities.
- Research from S&P shows Victoria's gross debt may reach \$247 billion by 2027 – continuing to remain higher than that of New South Wales (NSW), and well ahead of South Australia, and Queensland. Noting the existing debt profile for the state our recommendations aim to reflect cost-neutral or low cost impacts to future state tax revenue.
- Better Apartment Design Standards (BADs) were implemented to safeguard the standard of apartment living in Victoria. This is supported by UDIA Victoria and the wider industry. However, it is notable that the impact of BADs since its implementation—both economic and built-from—has not been reviewed. Despite this, the standards have been further strengthened in recent years.

Demand from investors continues to fall which is being especially felt within the new residential housing sector, which traditionally feeds new rental stock into the market.

The end purchaser takes greater risks buying off the plan, and historically this risk was incentivised through favourable tax arrangements. Foreign capital also benefitted from these concessions and were provided equal access to new housing, on the basis that it increased the supply of rental accommodation. These concessions provided the impetus for a wave of new developments that were sold between 2010 and 2018 and constructed over the past five years. Much of this stock is now being resold, providing access to well-

located homes for customers (who are mostly owner occupiers) or replenishing vital rental stocks.

As noted earlier, 2016-21 saw the creation of an average of 4,400 apartments annually in central Melbourne, 2022-27 will see an average of just 2,000 apartments, this is in part indicative of the market pressures felt by developers seeking precommitments to achieve financing milestones to progress projects.

Approximately \$200,000 of new taxes has been attributed to a prospective foreign buyer, significantly undermining a necessary source of financing new housing supply (refer to [Table 1](#)).

Research conducted by the UDIA Victoria, [Melbourne's Affordability Challenge](#) outlines the substantive reduction in buyer capacity, with the apartment segment of the market offering the lowest entry point for customers struggling to get onto the housing ladder.

Product feasibility within this segment of the market continues to struggle, as required precommitments for bank financing flag and high costs restrict new apartments to those catering to the luxury downsizers.

Faced with prolonged headwinds, it is vital that we stimulate new apartment developments and support prospective homebuyers (including investors) by lowering the barriers to entry that the existing tax regime and regulatory settings have created. Notably through:

- Removing stamp duty; revising thresholds to align with runaway house prices; and replacing the regime with a broad-based system have all been canvassed. Recently, South Australia provided an exemption from stamp duty for first homebuyers who buy or build their new home.
- UDIA Victoria research shows that the State Government's Foreign Purchaser Additional Duty has impacted the sector's ability to deliver new multi-residential development.
- Freezing all State Government taxes that threaten to do further harm when recovery is needed.
- Reviewing Windfall Gains Tax (WGT) and introduce a rate cap. The extremely high potential rates of WGT is disincentivising development of established suburbs, urban regeneration areas and the regions. WGT threatens to undermine the development aspirations of Metropolitan Activity Centres and Priority Precincts.
-

UDIA Victoria's [Pre-Budget Submission 2024-25](#) identifies additional opportunities for taxation changes to improve housing supply.

Thank you

UDIA Victoria thanks the State Government for their consideration of the initiative identified in this discussion paper. This is not an exhaustive list of initiatives, and we will continue to advocate for improved industry and community outcomes on a range of issues relating to housing.

We look forward to continuing to work closely with Government, through the Affordability Partnership, and in any other capacity. UDIA Victoria and its members have a long history of working with government to deliver improved outcomes and there has never been a more important time to continue this approach.

Housing supply and affordability are national priorities, and the residential development industry will play a pivotal role in addressing these twin challenges.



Urban Development Institute of Australia (Victoria)

Level 54, Wellington Street, Collingwood VIC 3066

info@udiavic.com.au

+61 3 9832 9600

udiavic.com.au

au.linkedin.com/company/udiavic