



7 June 2024

Affordable Housing Development Contributions Strategy
Mornington Peninsula Shire
Private Bag 1000
ROSEBUD VIC 3939

via email: [REDACTED]

To whom it may concern,

The Urban Development Institute of Australia, Victoria (UDIA Victoria) welcomes the opportunity to participate in the public consultation process for the Mornington Peninsula Shire's (the Shire) Affordable Housing Development Contributions Strategy (the Strategy).

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.

Our priority is ensuring the development industry can continue to deliver a consistent pipeline of high-quality, diverse housing that is affordable to buy and rent for the growing number of people who choose to call Victoria home.

Mornington Shire Affordable Housing Development Contributions Strategy

UDIA Victoria believes every Victorian should have access to secure and affordable housing.

Housing affordability has been in terminal decline in Victoria for the last 30 years, culminating in the current housing crisis. Improving access to affordable housing is now a key priority at all levels of Government with a growing number of Australians experiencing housing stress.

Importantly, undersupply of affordable housing has disproportionately affected marginalised and vulnerable members of the community.

In Victoria, a failure to meet the demand for a diverse range of housing, across the *Housing Continuum*, threatens to undermine the strength, stability, productivity and economic prosperity of the State.

We concur with the Mornington Peninsula Shire (the Shire) that increasing the provision of a diverse range of affordable housing, as it is defined in the Affordable Housing Development Contributions Strategy (the Strategy) is critically important. However, we contest that the proposed approach of levying all development in the region, neither:

- Constitutes an 'innovative' approach to subsidising the delivery of Affordable Housing; or
- Is appropriate in the context of the challenging economic and market conditions facing the residential development industry.

Context

In 2024, the residential development industry is facing some of the toughest conditions many in the sector have seen, leading to a reduction in dwelling construction. This year, despite a strong national focus on increasing housing supply, Victoria is expected to see fewer dwelling completions than in each of the last five years.

Since May 2022, the Reserve Bank of Australia has raised the official cash rate 13 times – the steepest hike in decades. However, inflation remains stubbornly fixed. This has had a significant impact on consumer borrowing capacity, with UDIA Victoria research showing a reduction in consumer borrowing capacity of around \$300,000 for the average Victorian couple.

Meanwhile, rising cost-of-living pressures and economic headwinds are further impacting consumer confidence and suppressing market demand, despite strong population growth.

Victoria's considerable infrastructure delivery program and global supply chain disruptions have driven the cost of development higher in Victoria over the short- to medium-term, reflected in both increased cost of materials and labour.

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 addition to this, the property sector is already one of the most highly levied industries and this directly contributes to the soaring cost of housing.

In FY2023-24, the Victorian Government increased the property sector's tax liability, imposing a Windfall Gains Tax (WGT) and expanding the Vacant Residential Land Tax (VRLT) – the latter of which was the 51st new or expanded tax by this Government, since 2014.

Before 2014, property industry taxes, fees and charges were responsible for less than 18 per cent of all State Government tax revenue. Over the past decade, this has risen to around half of the State's tax revenue and is projected to exceed 50 per cent over the next four years, reflected below:

- 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.

UDIA Victoria research 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.

Mornington Peninsula Shire's proposed pathway

In this context, UDIA Victoria is concerned with the Shire's proposed approach to institute an additional contribution regime.

The Shire proposes three pathways within the proposal:

- Pathway One: Municipal-wide application of the Specific Controls Overlay (SCO) (Mandatory)
- Pathway Two: Site-specific application of the Specific Controls Overlay (or Development Plan Overlay (DPO3) if relevant) for rezonings (Discretionary)
- Pathway Three: Voluntary planning agreements attached to planning permits (Voluntary)

The report preferences the application of Pathway One which seeks to implement a mandatory contribution towards the delivery of Affordable Housing.

This constitutes an additional developer contribution of 3.3 per cent of the total Gross Realisation Value (GRV) of a development site, and will apply to both new dwellings and new non-residential development across the municipality.

We note that this proposal would apply to any permit application for new housing, including a single dwelling on an existing lot. This means that almost every new home constructed on the Peninsula will cost 3.3 per cent more, including land that is already appropriately zoned and subdivided.

As previously outlined, development already contributes significantly to general government revenue and local government revenue through taxation; existing developer and infrastructure contribution schemes; and various other mechanisms.

UDIA Victoria's position

UDIA Victoria recognises the shortfall in social and Affordable Housing in the region. However, we note that this stems from decades of underinvestment by successive governments.

UDIA Victoria considers affordable housing to be critical social infrastructure. Housing affordability underpins our advocacy agenda, which seeks to ensure policy and planning decisions prioritise housing affordability by providing investment certainty, facilitating robust housing supply, and ensuring that State and Local Government policy considers affordability impacts.

As the Shire acknowledges in the Strategy, private market affordable housing (for homeownership) is the largest contribution to affordable housing annually. These new homes are delivered at a price point tailored to moderate- and low-income earners and provide a vital supply of new housing for key workers within the region and the broader Victorian economy.

Historically, around half of Victoria's housing has been delivered in the growth areas and Victoria's regions. These areas have long been the key to maintaining housing affordability in Victoria.

The vast majority of these dwellings were delivered without any tax concessions or subsidies, and comprise the full rate of infrastructure contributions and various other existing development fees and charges. On this basis, we consider the residential development industry already makes the most significant annual contribution to the delivery of affordable housing to the market.

This far surpasses the annual delivery of Affordable Housing by, or for, registered housing agencies – which is estimated to deliver an historical average of 1,000 to 1,500 new dwellings annually.

In comparison, the Victorian Government's *Big Housing Build* will deliver 12,000 new dwellings over four years. Of these, 2,900 dwellings will be affordable for low- and moderate-income earners, including options to buy or rent. This is an average of 725 affordable dwellings annually for four years, which is dwarfed by the annual private market contribution.

We support a consistent funding stream to support this critical social infrastructure. However, a lack of social and affordable housing is a community-wide issue and deserves a community-wide solution. It should not be viewed as the responsibility of the residential development industry, or homebuyers, to fund in isolation. In addition to this, it is our position that council-by-council social and affordable housing strategies that relies on levying homebuyers has the opposite effect on housing affordability and availability. These regimes inevitably increase the cost and complexity of delivering housing and therefore disincentive its delivery at volume.

Although the Shire has characterised this contribution scheme as one on development, we contest that the proposed Strategy places the funding burden on homebuyers.

As a developers' cost base increases, the cost must be passed through to the customer. The imposition of an additional contribution scheme on the delivery of new private housing, to support the provision of subsidised Affordable Housing is fundamentally inequitable and will only increase the price of private housing in the Shire.

There is ongoing discussion about the most appropriate mechanism to fund Affordable Housing (including social housing). This discussion is framed in terms of taxing perceived profits from residential development to fund Affordable Housing.

This approach assumes the new housing being levied is not affordable, and ignores the fact that a cross-subsidy will be created whereby new housing solely funds new affordable housing, and has no regard for the impact on the viability of residential development projects that may well not proceed as a result.

Further, we highlight the Social Affordable Housing Contribution (SAHC) developed by the State Government in 2022, proposed a 1.75 per cent levy to subsidise provision of social and Affordable Housing. This was opposed by industry because of the significant impact it would have on the sector and was ultimately aborted by Government. The Shire is proposing a rate that is close to double this figure and could not be accepted.

We believe the proposed targeted levy contribution regime against new development will have the unintended consequence of disincentivising residential development in the Shire. This will also drive up the costs of housing that remains viable, thereby increasing the need for additional Affordable Housing.

As such, we recommend the Shire does not adopt the proposed Strategy.

We encourage the Shire to instead work closely with industry, State and Commonwealth Governments to increase the provision of Affordable Housing through means that do not jeopardise the delivery of private market affordable housing, including through the State Government Social Housing Growth Fund (SHGF) and the Commonwealth Government's Housing Australia Future Fund (HAFF).

Further consultation

UDIA Victoria strongly encourages the Shire to reconsider the proposed Strategy, which we believe could have an unfavourable impact on the provision of affordable housing at volume for the Mornington Peninsula.

We thank you for the opportunity to provide a written submission through the public consultation phase, and for considering our position on this important document. We look forward to continuing to work with the Shire on these matters..

If you would like to discuss any of the matters raised in this submission, please don't hesitate to contact UDIA [REDACTED]

Sincerely,

