MAKING IT STACK

Infill feasibility in regional Victoria

Urban Development Institute of Australia
VICTORIA

About UDIA

The Urban Development Institute of Australia, Victoria (UDIA) 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 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 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 is focused on establishing the right policy, regulatory and taxation settings to enable the residential development industry to do what it does best: build high-quality housing for the growing number of people choosing 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 research tracks market trends, construction costs, regulatory changes, and prevailing economic conditions, providing a comprehensive picture of Victoria's development industry. This submission draws on that detailed body of work.

From UDIA Victoria's CEO, Linda Allison and Geelong Committee Chair, Nick Clements

The recent release of the state's overarching strategic planning policy, Plan for Victoria, makes it clear – the major regional centres, including Ballarat, Bendigo and Geelong are going to play an invaluable role in housing Victoria's growing population. However, despite Plan for Victoria's lofty aspirations for increased density in these regional city centres, it has never been more challenging to deliver the kind of development the government wants to see.

A prohibitive and uncompetitive taxation landscape, cost premiums associated with regional development, long planning delays and a restrictive regulatory environment all add to the cost of delivering new homes in regional Victoria. Without transformative change, regional development will only become less attractive, fewer homes will be built and those that are will be more expensive.

UDIA is advocating at all levels of government to improve outcomes for the development industry and more support to enable it to do what it does best and build more homes than ever before to meet the growing demand across Victoria.

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Background

Victoria's population is growing at a rapid rate, outpacing every other state in Australia. It is projected to reach 11.2 million by 2056, with Geelong on track to becoming a city of 500,000 by 2050. The City of Greater Geelong is experiencing the fastest growth of any regional city across Australia. The delivery of committed land-use planning initiatives at Armstrong Creek, Northern and Western Growth Areas, and Central Geelong will result in an additional 190,000 residents by 2036.

The State's population growth is driven largely by overseas and interstate migration, as more people, attracted to Victoria's prized liveability, choose to call the state home. Historically, this migration has fuelled Victoria's economic prosperity. However, as the gap between housing prices and buyer capacity widens, this prosperity is at risk. An undersupply of housing contributes to unattainable housing prices and a severely overheated rental market. Rising cost-of-living pressures and high interest rates have severely diminished consumer buying capacity, seeing more Victorians locked-out of the housing market.

In September 2023, the Victorian Government released its *Housing Statement*, which sets an ambitious target to deliver up to 800,000 new homes by 2034, equating to 80,000 homes per year. This follows National Cabinet's commitment to deliver 1.2 million new homes over the next 5 years, to July 2029. UDIA is a signatory to the *State Government's Housing Industry Affordability Partnership*, which is focused on facilitating improving housing affordability and supply in Victoria.

The Victorian Government has committed to delivering 800,000 new homes by 2034 under its *Housing Statement*, and regional centres like Greater Geelong will play a critical role in meeting this target. However, apartment delivery in these centres remains stubbornly constrained. Despite clear strategic direction and a pipeline of zoned land, infill housing is not being delivered at scale. The reason is simple: under current planning and economic settings, most projects do not stack up.

This report presents the experience of UDIA's members and the commercial realities they face in bringing mid-rise apartment developments to market. It provides real-world case studies from Greater Geelong to demonstrate where current planning instruments, regulatory frameworks and cost pressures intersect to make even strategically aligned projects financially unviable.

The paper highlights a growing misalignment between policy ambition and planning implementation. It offers practical and targeted recommendations to recalibrate planning, investment and regulatory settings to ensure apartment delivery is not only possible, but feasible. This work is intended as a constructive contribution to the Government's efforts to meet housing and affordability targets. It makes clear that enabling private sector delivery through planning discretion, feasibility-informed frameworks and realistic cost settings is a necessary precondition for unlocking housing supply and improving affordability outcomes in regional Victoria.

Recommendations

To support the delivery of mid-rise infill housing in Greater Geelong and comparable regional markets, UDIA recommends the following actions by state and local government:

1. **Allow Greater Flexibility in Planning Rules to Support Feasibility**

   Planning rules need to provide more flexibility, particularly around building heights and density. In locations where a project demonstrates good design, provides affordable housing, or brings multiple smaller lots together, height or yield uplift should be allowed to support financially viable development outcomes.

2. **Test Feasibility Before Locking in Planning Frameworks**

   Before finalising future planning frameworks like Urban Design Frameworks (UDF) or Precinct Structure Plans (PSP), feasibility testing should be used to ensure proposed height limits, densities and design requirements are realistic under current market conditions.

3. **Update Outdated Planning Schemes with a Focus on Viability**

   Many local planning schemes have not kept pace with current housing needs or economic realities. Councils should be supported to modernise their schemes and explicitly consider project feasibility when setting planning controls. Where necessary, the Ministerial intervention should be pursued to unlock housing delivery on key strategic sites.

4. **Trial Incentives in Key Precincts to Unlock Infill Apartments**

   Government should pilot incentive-based approaches in walkable, infrastructure-ready areas to support mid-rise development. This could include allowing greater development potential where projects deliver community benefits like affordable housing, diverse housing types, or improved public spaces.

5. **Reactivate Stalled Approvals with Fast-Track Pathways**

   There are many sites across Central Geelong with existing planning permits that are not proceeding due to current market conditions. Many sites across Central Geelong with existing planning permits are not proceeding due to current market and feasibility conditions. Government should prioritise streamlined amendments to existing permits where appropriate (such as height and yield increases) to improve project viability and support housing delivery.

6. **Align Developer Charges with Project Viability**

   Infrastructure contributions and levies need to be transparent and proportionate. They should be set at levels that reflect the realities of development feasibility, so they do not unintentionally prevent housing from being delivered.

7. **Use Incentives to Support Affordable Housing Delivery**

   Affordable housing targets are important, but mandatory requirements routinely make projects financially unviable. Governments should focus on practical incentives such as allowing more storeys, greater site coverage, or reduced car parking and provide direct funding or co-investment to ensure affordable housing can be delivered without compromising a project’s viability.

The issue

Victoria's deepening housing and rental affordability crisis demands urgent intervention.

The State Government's *Housing Statement* proposes several initiatives to tackle the housing crisis, with a strong emphasis on increasing residential density in established urban areas. The overarching strategic planning policy, Plan for Victoria, which was released in March 2025, also sets bold targets for infill development for the State's regional cities.

This paper outlines the depth of the challenges for prospective apartment developments and the required financial and planning metrics required for projects to meet feasibility thresholds to secure construction financing.

Though these case studies focus on Greater Geelong, these challenges are being felt across Victoria and provide insight into the hurdles developers face in bringing residential projects to market in the regions.

Since May 2022, the Reserve Bank of Australia has raised the official cash rate 13 times – the steepest rate rise in decades – which, in addition to stubbornly high inflation is impacting buyer confidence, budgets and borrowing capacity. While interest rates have stabilised and are expected to reduce further in 2025, the outlook remains uncertain.

Meanwhile, the development industry is experiencing some of the most challenging conditions in decades. Record construction cost escalation; long planning delays; increased red tape; and the introduction and expansion of new property taxes are making it harder to deliver affordable housing in Victoria than ever before.

> *"To enable infill development to meet these increased density expectations—or at least to reach parity—there needs to be more discretion and incentivisation built into the existing planning frameworks."*

Overview of residential development conditions in Geelong

Much like metropolitan Melbourne, Victoria's regional centres are experiencing a deepening housing supply and affordability crisis. As with metropolitan Melbourne, regional cities like Ballarat, Bendigo and Greater Geelong have relied on greenfield development for much of its housing supply.

The City of Greater Geelong has historically relied on its newer greenfield suburbs to accommodate most of its growth. However, this has shifted in recent years with the introduction of the City's Settlement Strategy which seeks to achieve a 50/50 split of all future development between Geelong's growth areas and established suburbs. Since its adoption in 2020, the actual ratio remains strongly skewed towards the growth areas at a rate closer to 20 per cent infill, 80 per cent greenfield.[1] This imbalance underscores the

[1] Geelong Chapter Barwon Region, Strategic Priorities 2024-2025, UDIA

need to accelerate infill delivery in line with adopted strategic goals, supported by planning systems that can enable viable medium-density outcomes in established areas. Plan for Victoria reinforces this shift, setting an expectation that Greater Geelong accommodate 60 per cent of all new dwellings to 2051 within established areas and only 40 per cent in greenfield.[2] This regional target reflects Geelong's role as one of Victoria's three major regional cities, identified as being sufficiently serviced to support large numbers of new homes in well-connected locations. The plan explicitly adjusts the typical statewide 70/30 target to account for local circumstances, while still clearly prioritising infill development to meet Victoria's broader goals for housing affordability, sustainable land use and climate resilience.

With greenfield development costs soaring through increased taxation; and in Geelong's case ongoing delays in land supply through biodiversity, conservation and land-use constraints, the role of infill development has become even more important and critical to housing Victoria's growing population.

This is further supported by the implementation of the Central Geelong Framework Plan, which seeks a resident population of circa 16,000 by 2050 in Geelong's city centre, but which appears not to have taken the viability of infill outcomes into account.

The Victorian Government's *Housing Statement* and recently released Plan for Victoria both highlight the State Government's desire to concentrate on established area development. A key barrier remains the absence of implementation mechanisms within the planning system to translate strategic objectives into approvable, economically feasible outcomes.

Akin to the increased costs in greenfield development costs, viability of infill development is struggling, particularly when it comes to inflexible planning frameworks, interest rates, construction and labour costs, development contributions, and provision of affordable housing. To enable established area development to meet these increased density expectations, or at least to reach parity, there needs to be more discretion and incentivisation built into planning frameworks.

Outlined below are a range of key focus areas that all levels of government need to address to facilitate greater infill development to occur in regional centres. Noting this does not constitute an exhaustive list.

Key Challenges

1. Planning discretion required to achieve viable outcomes

As it stands, planning frameworks like the Pakington North Urban Design Framework (UDF) restrict heights in areas ready to cater for densification. For example, a proposed height limit of four storeys/levels. More importantly, viability of infill development is simply not considered in the formulation and finalisation of these strategic planning documents.

Commercially when accounting for the current market conditions projects of this height is unlikely to achieve viability for financing meaning they will not be progressed. Such areas are therefore less likely to contribute to the urgent need for increased housing supply to improve affordability outcomes.

One method of increasing the likelihood of success is to allow for discretion where specific circumstances apply.

For example, this might include where site consolidation creates larger lots; where superior or more sustainable design outcomes are proposed; or where delivery of affordable housing is incorporated into the development.

We note that:

- Discretion can mean building height flexibility (true discretionary building heights are preferred over maximum building heights by industry).

[2] Department of Transport and Planning, Plan for Victoria, 2025, pp. 28–29, 74

- True discretion can result in the delivery of planning requirements based on a permitted viable building height above a nominated discretionary building height.
- Planning requirements such as expectations around ESD, high-quality design, and affordable housing delivery are logical and reasonable requirements for infill development, but only where discretion is firmly built into the planning framework and clearly articulated.

If developers are not ready to enter central Geelong (given costs and/or a lack of incentives) and the market is not prepared to purchase this product (due to price point), the political and policy intent to increase the role of infill development in the region's cities and towns will not be achieved. If the planning system is not equipped to deliver viable project outcomes, even well-located and strategically aligned sites will remain undeveloped.

A more nuanced policy approach that reflects market and viability constraints is critical to deliver on housing supply and affordability outcomes, this is one avenue that is available to enable this.

2. Apartment development is often not viable at less than six-levels

We understand apartment development at three to five levels is often favoured to provide for increased housing density and supply while meeting desired amenity outcomes. This seems to come from the perception that such development results in improved amenity outcomes, although that may not always be the case.

Although ensuring high-amenity outcomes is critically important, apartments are typically not viable at these levels. This is because construction costs for apartments are typically twice the rate per square meter of houses (~$5,000 sqm versus ~$2,500sqm). At the same time, the revenue generated from lower-scale projects does not improve in proportion to the rising cost base. The combination of higher build costs, elevated interest rates and increased equity return expectations means these projects generally do not meet the thresholds required to secure construction finance. Where viability is more challenged, this typically results in lower quality design – the reverse of the desired outcome. To enable an uplift in housing supply in the short to medium term, planning schemes will need to provide for development heights above five levels in identified strategic locations. Areas that target development at three to five levels are unlikely to achieve the desired amenity or housing supply outcomes – this includes large areas within the Central Geelong Framework Plan, and almost all of the current urban design framework areas.

These findings highlight the need for planning frameworks to be informed by feasibility testing and cost-of-capital assumptions during their preparation. This may require increased state intervention where local engagement or approval processes result in outcomes that are unlikely to contribute positively to housing supply.

3. Housing supply and affordable housing

According to the Central Geelong Framework Plan there are 3,300 social housing dwellings in Geelong and 7,200 households that urgently need social housing – there's an identified need for social and affordable housing in Geelong with 13,500 new social housing dwellings needed by 2041.[3]

To date, it is evident that government alone will not be able to meet this need, and that the private sector will need to play a critical enabling role in both supply and diversity of product. However, apartment developments in and around Central Geelong remain difficult to finance and deliver. The economics of infill development, particularly in mid-rise formats, are extremely sensitive to cost inputs, presale thresholds, and lending conditions. When feasibility is marginal or negative, projects simply do not proceed delaying the supply of all housing, including affordable dwellings.

[3] Department of Transport and Planning, Central Geelong Framework Plan, February 2023

The worst outcome for affordability is the under-delivery of housing altogether. In this context, enabling feasible private sector development is not only about supporting growth, but also a precondition for increasing affordability and avoiding worsening inequity. To this end, policy mechanisms that support economic viability while enabling the inclusion of affordable housing are essential.

It is important to recognise that while a required funding margin typically in the other of 18 per cent may appear healthy at face value, it represents the minimum threshold typically required by financiers to underwrite construction lending in the current market. This accounts for heightened project risk, contingency allowances, interest coverage, and the opportunity cost of capital. Any erosion of this margin whether through additional taxation, mandated contributions, or the requirement to deliver discounted housing without public subsidy, risks rendering a project commercially unviable. This is not a windfall profit; it is the minimum return required for a project to obtain financing to proceed and weather any setbacks.

Geelong Apartment Feasibility Case Study

At a recent City of Greater Geelong forum on CBD revitalisation, it was reported that over 15 approved high-density permits in Central Geelong have not yet proceeded. This provides a strong real-world indication of the scale of infill feasibility challenges facing developers in the region. In terms of underlying land economics, a recent Geelong CBD transaction saw land traded at $4,900 per square metre, a price point that requires significant scale and yield to achieve viable built-form outcomes.[4]

The following scenario highlights feasibility realities of mid-rise apartment development in the Geelong context.

Scenario	Apartments	Total (NSA) Area	Revenue	Costs	Margin	Required Funding Margin	Shortfall
1. 5 Storey	31	2500sqm	$25.4M	$22.8M	11.17%	18.0%	−$1.6M
2. 6 Storey	37	3000sqm	$30.4M	$26.2M	15.96%	18.0%	−$0.5M
3. 8 Storey	44	3500sqm	$35.4M	$29.5M	19.83%	18.0%	+$0.5M

This table presents three hypothetical development scenarios in Central Geelong, each representing a different scale of apartment building using cost, revenue and delivery assumptions aligned with current market conditions. The key test is whether each scenario generates sufficient surplus to meet the funding requirements to secure finance and bring a project to market.

In Scenario 1, a 31-apartment building over five levels generates $25.37 million (after GST) against $22.79 million in costs. This results in a 11.17 per cent margin, which falls well short of the minimum required funding margin of approximately 18 per cent. The shortfall of nearly 40 per cent renders the project unable to be financed, meaning it does not proceed.

Scenario 2, a 37-apartment building over six levels, generates improved $30.35 million (after GST), but with costs rising to $26.17 million. The available margin grows to 15.96 per cent but still falls short of the approximately 18 per cent funding requirement. While closer to the feasibility threshold, the project would still be unable to proceed without either incentive support or policy-enabled uplift.

Scenario 3, a 44-apartment building over eight levels generates $35.37 million (after GST), with costs of $29.51 million. However, it produces a margin 19.83 per cent margin. This slightly exceeds the

[4] realcommercial.com.au, 26 March 2025

approximately 18 per cent required funding margin, meaning the project could be funded and may proceed.

The margin required to secure project finance is directly linked to the level of risk perceived by lenders. A higher margin reflects the lender's need to manage uncertainty across the life of a development, where returns are not guaranteed and costs can, and almost always do, escalate. This margin functions as a necessary buffer to protect against potential losses and ensure the project remains viable under a range of scenarios. Without meeting this threshold, developers are unable to access the finance needed to commence construction and therefore the dwellings never exist, regardless of how well the proposal aligned with planning policy and infill housing supply objectives. This case study reflects typical conditions faced in regard to mid-rise development in Geelong and shows that:

- Five storey development is typically not viable under current economic conditions, with construction and compliance costs outweighing achievable revenues).
- Six storey development is typically not viable, and even modest regulatory costs or additional design requirements can push these projects outside standard financing thresholds.
- Eight storey development allows greater efficiency in the delivery model and is more likely to reach the financial benchmarks required to secure funding and commence construction.

These dynamics underscore the importance of aligning planning settings with feasibility thresholds. If infill development is to play a meaningful role in solving the housing crisis, then policy frameworks must recognise the financial conditions under which projects can realistically proceed. Without proactive intervention, well-located but underutilised land will remain undeveloped, and the objectives of the Housing Statement will not be realised.

It is also important to clarify that there is little practical ability to reduce land costs in regional infill contexts. In Geelong, as in many regional cities, apartment development competes directly with single dwellings and commercial uses. If the financial return from retaining a standalone home or office exceeds what a developer can pay to develop a site, there is no transaction.

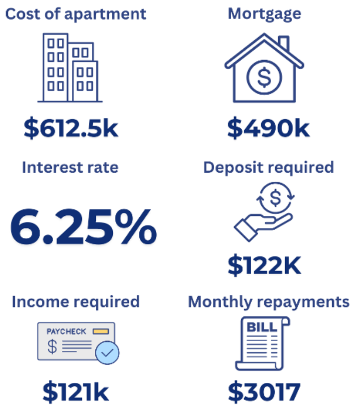
This differs fundamentally from greenfield land development, where large landholdings can be progressively optioned or staged. In established areas, the economics of infill require the landowner to give up an income-generating asset in favour of a redevelopment outcome. As this table demonstrates, such a redevelop comes with significant uncertainty and difficulty in obtaining finance. Where the numbers do not stack up, the rational decision is to do nothing.

What is also demonstrated in the table is that on a per-unit basis, the sales revenue in each scenario ranges from approximately $805,000 to $819,000. These values reflect current construction and delivery costs rather than speculative pricing. As noted earlier in this report, the borrowing capacity of the average Victorian couple has deteriorated significantly. With median apartment prices in Geelong sitting at $612,500 as of February 2025, and the borrowing power for moderate-income households capped at around $130,000 gross income, many new apartments are already out of reach for essential workers, younger households and first-time buyers.

These cohorts represent a key market for centrally located apartments due to their need for access to jobs, education, and services. However, without supportive policy settings, new supply risks being priced out of reach. Commercial feasibility depends on planning controls that support scale, predictable costs, and adequate returns. Without this, infill development in Geelong will stall, limiting the private sector's capacity to support the State's housing and affordability goals.

Snapshot of Victorian buyers' borrowing capacity

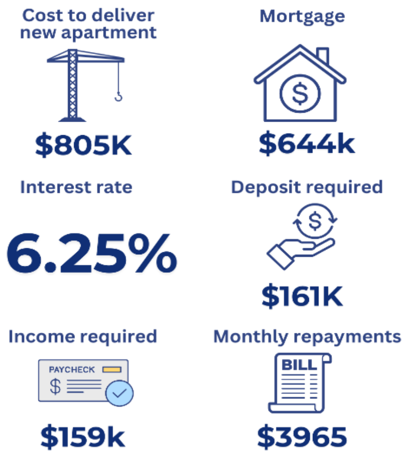
Median Existing Apartment Price



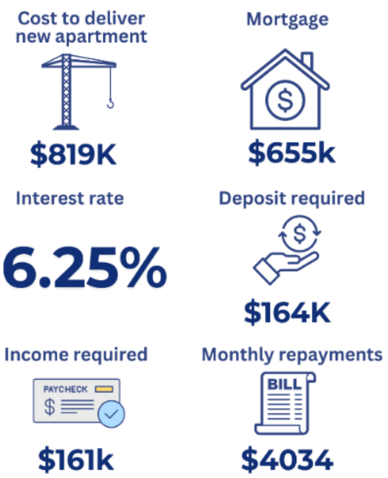
- This snapshot is based on the median apartment price in Greater Geelong, which was $612,500 as at February 2025.
- The figures assume a 20 per cent deposit and a 30-year principal and interest loan at a 6.25 per cent interest rate.
- A household would need to earn approximately $121,000 per year to meet the standard 30 per cent mortgage serviceability benchmark.
- This price point reflects established housing stock, not newly constructed apartments,
- For many essential workers, single-income households and first-home buyers, this level of borrowing is out of reach.

New Apartment Delivery: Minimum Feasibility

- This scenario is based on UDIA's feasibility modelling for an eight-storey apartment project in Central Geelong.
- It reflects the lowest viable sale price needed to deliver a new apartment, assuming current market conditions and without any government subsidies or planning incentives.
- The price includes actual land costs, current construction costs and the minimum profit margin required by lenders to approve construction finance.
- Developments priced below this level do not meet financing requirements and are unlikely to proceed, even if they have planning approval.
- This snapshot demonstrates the financial gap between what it costs to deliver new housing and what most buyers can currently afford.



New Apartment Delivery: Upper Feasibility



- This scenario reflects the higher end of the price range tested in the Geelong feasibility case study.
- It includes the same assumptions as Snapshot 2 but accounts for higher build costs and additional project delivery risks.
- These prices are not based on luxury or high-spec products. They simply represent the cost of delivering standard infill apartments in a financially viable way.
- Even at this price point, the required income level is well beyond what many moderate-income households can achieve.
- Without targeted intervention, new apartment delivery at these prices will remain inaccessible to a large proportion of the local population.

Over the past 18 months, the borrowing capacity of Victorian households has deteriorated substantially due to rising interest rates, increased living costs and tighter lending conditions.[5] In many cases, this has reduced buyer budgets by up to $300,000, making it significantly harder for moderate-income earners and essential workers to access home ownership, even in regional centres like Geelong.

The snapshots above illustrate the financial realities now facing these buyers. A household needs to earn approximately $121,000 to afford the median Geelong apartment priced at $612,500 under standard lending settings. In contrast, newly delivered apartments, which require sale prices of $805,000 to $819,000 to be financially viable, are out of reach for households earning less than $158,000 to $161,000. This growing affordability gap underscores why many feasibility-tested infill projects are not proceeding, despite being well-located and strategically aligned.

The challenge is further compounded in the rental market, where housing stress is intensifying. As of early 2024, vacancy rates across Greater Geelong had fallen below 1 per cent, while 26 per cent of rental households were spending more than 30 per cent of their income on housing.[6] Mortgage stress is also evident, with 6.8 per cent of mortgaged households allocating similarly unsustainable proportions of income to repayments. Without targeted support to improve project feasibility and housing supply, these pressures are likely to worsen.

Conclusion

The feasibility of apartment development in regional cities is extremely challenged. In Geelong's established areas is not currently aligned with the policy goals set out in Victoria's Housing Statement or the City of Greater Geelong's long-term growth strategies. Despite a clear strategic vision, strong demand, and an ample supply of zoned land, the pipeline of infill housing is not progressing to construction. The reasons are commercial and structural.

Construction cost escalation, market volatility, and a higher cost of capital have made it significantly harder to bring projects to market. These economic pressures are by strategic and statutory planning that often lack the flexibility needed to support viable outcomes, particularly for mid-rise development formats. This disconnect is especially evident in Central Geelong, where over 15 approved high-density development permits remain dormant, and where built-form outcomes are constrained by fixed height controls, prescriptive overlays, and regulatory settings that do not adequately account for delivery economics.

The result is that many well-located, strategically aligned sites remain undeveloped, and housing affordability continues to deteriorate. The viability thresholds outlined in this report are not speculative or aspirational; they reflect the financing conditions, risk parameters, and capital return requirements that currently govern apartment delivery in Victoria. Enabling private sector delivery within these parameters is not a concession, but a prerequisite for the Housing Statement's success in regional cities.

A more responsive planning system informed by economic and market condition realities is essential to unlock infill development. The recommendations presented in this report offer a pragmatic basis for state and local government action. They are grounded in feasibility modelling, developer experience, and industry data, and are intended to support the delivery of high-quality housing at scale in regional centres such as Geelong. Realigning policy ambition with financial feasibility is not only possible, but also necessary to avoid further under-delivery and to ensure that the next decade of growth is inclusive for all budgets and achievable.

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[5] realestate.com.au, Greater Region, March 2025

[6] Give Where You Live Foundation, Homelessness Assistance Data Snapshots (citing ABS data), 2024