February 2019

Urban Development Institute of Australia (Victoria) Pre-Budget Submission

1. Overview

The Victorian Division of the Urban Development Institute of Australia (UDIA Victoria) is a non-profit advocacy, research and educational organisation supported by a membership of land use and property development organisations, across the private sector and Victoria's public service. We are committed to working with both industry and Government to deliver housing, infrastructure and liveable communities for all Victorians.

UDIA Victoria considers affordable housing to be critical economic infrastructure essential to Victoria's productivity and liveability. Indeed, housing affordability is a key element of our current Advocacy Agenda, which seeks to ensure policy and planning decisions prioritise housing affordability by facilitating development and healthy housing supply.

In our view, the supply and cost of housing is one of Victoria's biggest challenges. Despite record low interest rates, short-term government incentives like NRAS and a once-in-a-generation capital injection of $5.2 billion under the Nation Building Program, housing remains out of reach for too many Victorians. For this reason, UDIA Victoria is actively working to support the delivery of new dwellings to meet demand and ensure housing for purchase and rent is accessible and affordable for all.

UDIA Victoria commends the Andrews Government's record in contributing to steadily increasing new dwelling supply which reached a high of 66,245 dwellings in FY17-18[1]. This record number of new dwellings was absorbed by the unprecedented population growth Victoria experienced in recent years, and a consistent forward pipeline of new dwellings is required to continue to meet the ongoing demand generated by population growth.

We also commend the Andrews Government contribution to the record number of planning and building approvals for dwellings issued in the financial years 2016-17 and 2017-18. Despite this, and the record high new dwelling supply, we consider that there will be a significant shortfall between dwelling supply and demand within the coming two to three years based on a range of pipeline indicators for the current financial year.

These indicators reveal a substantial decrease in building approvals for dwellings across Victoria - including a considerable drop in approvals for the City of Melbourne, City of Port Phillip and City of Yarra, a significant fall in new residential lot sales in growth areas, and a decline in dwelling commencements compared with the same period for FY17-18. Concurrently, population inflows to Victoria continue at an

[1] Australian Bureau of Statistics, Dwelling Completions, 8752.0 - Building Activity, Australia (87520038), 16 January 2019.

unprecedented rate, with an increase of 138,159 people in the twelve months to June 2018[2]. Overall, we predict these market conditions will contribute to worsening housing affordability.

Key factors impacting on the current deteriorating state of both the greenfield and apartment markets include:

- Regulatory and policy changes which have discouraged investors from buying dwellings off-the-plan and new residential lots in growth areas;
- Weaker purchasing power of consumers due to increasing cost of living and stricter bank lending standards; and
- Strong underlying demand due to population growth and low levels of unemployment, which is not translating into real demand because of weaker purchasing power, price growth and reduced options for new dwellings.

The fiscal levers immediately available to the State Government to moderate the sharp decline in the delivery of new dwellings in the coming two to three years include the following:

1. Reinstate the stamp duty concession for investors purchasing dwellings off-the-plan;
2. Remove the foreign purchaser stamp duty surcharge;
3. Maintain the existing Land Tax Rate without an increase;
4. Exclude new dwellings from the Vacant Residential Land Tax where they have not sold or failed to settle;
5. Bring forward the Victorian Government’s capital investment in the Social Housing Growth Fund and expand the program to fund more projects sooner;
6. Provide additional funding to the Victorian Planning Authority (VPA); and
7. Release Growth Area Infrastructure Contribution funds to enable the construction of essential infrastructure projects.

An overview of the residential development sector is provided below, including a summary of the recent policy and regulatory changes that are having a direct impact on the pipeline of new dwellings in Victoria in general and Melbourne in particular.

[2] Australian Bureau of Statistics, 3101.0 - Australian Demographic Statistics, June 2018, 20 December 2018.

2. Background

2.1. Housing Policy Context

The Victorian Government policy framework for affordable housing – Homes for Victorians: Affordability, Access and Choice – was introduced in March 2017 with the intention of securing a supply of affordable housing as the State's population grows. The stated aim of Homes for Victorians is to give every Victorian every opportunity to find a home, and to ensure housing accommodates population growth by facilitating the construction of more than 50,000 new dwellings each year.

Whilst UDIA Victoria supports the stated intention, and aims, of this important policy, we raised significant concerns at the time regarding the longer-term impacts of changes to the taxing of purchasers of new dwellings. Of particular concern was, and remains, the removal of OTP stamp duty concessions for investors which was intended to fund the tax exemption for first home buyers.

While this approach offers a significant "leg up" for some, it does so at a significant cost to the rental and apartment markets. As these markets provide the bulk of affordable options, the medium and long term outcomes of this policy are likely to conflict with its stated objectives.

Specifically, we noted at the time that we anticipated the impacts on the residential development market would include a retreat in investors which would lead to a decrease in the supply of new dwellings available for purchase and rent, a less affordable rental market, and a reduction in the overall contribution of the residential construction sector to the Victorian economy, especially jobs.

There is evidence that this initiative, combined with other policy interventions and an overall tightening of availability of project and retail finance for residential projects, has had the perverse outcome of contributing to the reduction in the pipeline of new dwelling supply which will result in a lower supply of new dwellings in the coming two to three years.

2.2. Financial Market Context

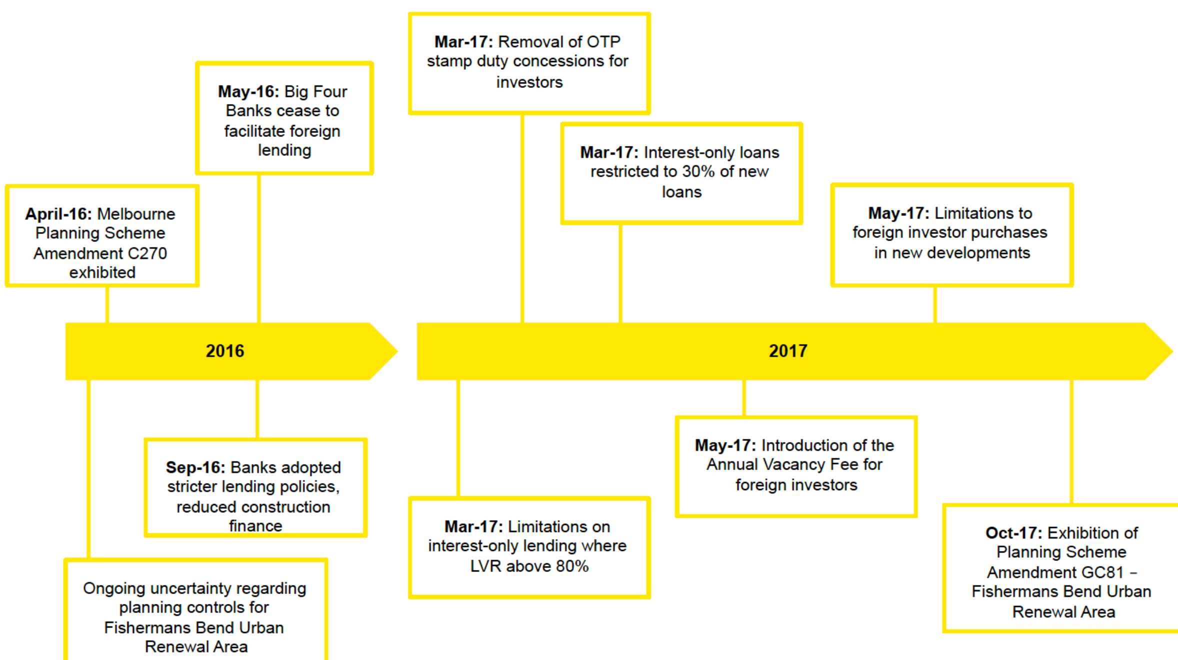
Wide ranging changes to policy and regulation since April 2016 have directly impacted on confidence in the housing and urban development markets and the ability of Australian and international buyers to acquire either project or retail finance for residential products.

These changes include the following:

- Restriction of lending to foreign property buyers without a domestic income by Australian banks.
- Banks adopting stricter lending policies has reduced the level of construction funding available to the industry.
- The Australian Prudential Regulation Authority's (APRA) introduction of strict limits on interest-only loans with a loan-to-value ratio above 80% in addition to strong scrutiny of interest-only lending for loan-to-value ratios above 90%. This has primarily impacted investment loans as these are more commonly interest-only loans.

- APRA issued instructions to Authorised Deposit-taking Institutions to limit their exposure to interest-only loans to 30% of new residential loans (however this was removed in December 2018).
- Removal of the stamp duty concessions for investors purchasing dwellings off-the-plan by the Victorian Government.
- Introduction and increase of stamp duty and land tax surcharges on foreign purchasers of Victorian residential property.
- Introduction of the Annual Vacancy Fee for foreign investors by the Victorian and federal governments.
- The introduction of a New Dwelling Exemption Certificate, and a 50 percent cap on the sale of new apartments to foreign investors which was introduced in the 2017 Federal Budget.
- Decreased height allowances and constraining built form controls introduced through the Melbourne Planning Scheme Amendment C270 in 23 November 2016.
- Uncertainty regarding the planning controls, planning processes and government investment in Melbourne's urban renewal precincts including the Fishermans Bend Urban Renewal Area.

Timeline of Regulatory Changes



2.3. Role of Investors in the Supply of New Dwellings

Investors are vital to securing finance for apartment projects

Investors play an important role in securing finance for apartment projects and therefore the supply of new dwellings in an infill context. In particular, investors purchasing off-the-plan apartments enable the vast majority of apartment projects to progress from the concept stage to securing project finance to completion stage which can take two to three years. Without investor capital, many projects are simply not viable.

In the past few years, increasing the number of OTP sales has been an effective tool in meeting more stringent finance requirements to commence new apartment projects. Significant OTP sales assist in mitigating some of the cost, time, and risk involved in meeting finance requirements to commence construction.

Charter Keck Cramer provided evidence that between 2001-2009 in the CBD there were 35 projects, or 29% of all projects, that commenced construction with less than 60% pre-sales. Between 2010-2017 this number fell to just 7 projects or 6% of all new releases. In the 2017-18 financial year, approximately 50 – 60% of purchasers in the off-the-plan market were investors.

Removing the financial incentive to purchase off-the-plan for investors, coupled with further restrictions on access to finance, has negatively impacted on demand for apartments which has in turn reduced the number of apartment projects progressing to building approval stage.

Importance of private investors in the rental market

Australia's rental market is underpinned by private investment in private rental stock. According to the to the Australian Housing and Urban Research Institute's (AHURI) paper *Understanding what motivates households to become and remain investors in the private rental market*,[3] the private rental market is critical to supporting Federal and state housing policy which relies heavily on many low-income households being able to access affordable rental housing in the private sector.

The private rental market is a fundamental component of housing provision in Australia, and has become especially significant in the context of the slow down in the expansion of social housing provision (Seelig et al, 2009). According to the AHURI paper *Motivations of investors in the private rental market*[4], the private rental market:

[3] Seelig, T., Thompson, A., Burke, T., Pinnegar, S., McNelis, S., Morris, A. (2009) *Understanding what motivates households to become and remain investors in the private rental market*, AHURI Final Report No. 130, Australian Housing and Urban Research Institute Limited, Melbourne.

[4] T, Seelig., T, Burke., A, Morris. (2006) *Motivations of private investors in the rental market*, AHURI Positioning Paper No. 87, Australian Housing and Urban Research Institute Limited, Melbourne.

- Houses approximately one-fifth of the population nationally, with a higher proportion in specific urban locations;
- Accommodates a greater number of lower income households than the public housing system;
- Performance in providing affordable and stable housing can impact tenants' well being physically and psychologically;
- Rental cost and supply may affect national and state social policy programs such as increased access to labour markets, spatially-specific employment generation, and reduced public expenditure on public housing;
- Functions in a wider housing system context. What happens in the private rental market in terms of cost can have an impact on entry to home ownership and demand for public housing; and
- Acts as an important market for development, construction, finance and real estate industries.

As detailed above, the removal of OTP stamp duty concessions has contributed to a decrease in the number of new dwellings being built, especially apartments. As property prices increase, apartments tend to be the most affordable housing opportunities in appropriate locations i.e. close to existing infrastructure assets and services. The decrease in supply forecasted in response to this policy, and evidenced by the latest ABS data, will limit the number of dwellings available as affordable rentals, and fuel what is already a very competitive rental market.

As owner occupiers and first home buyers do not rent out their homes, the removal of OTP stamp duty concessions favours either those who fall within the social/affordable housing market or those who can afford a deposit for a home in the short term. Those who cannot afford a deposit but do not qualify for social housing will find it even more difficult to access affordable rental properties, including key workers and those who want to live close to their employment. Further, the average time to save a deposit for full ownership will significantly increase.

Increasing Rents and Homelessness

Demand for Melbourne's rental market continues to remain strong, with the significant supply of new apartments that came on to the market in recent years being taken up by the unprecedented population growth. The most recent data released by Domain shows the median weekly rent for houses increased 3.5% year on year (YoY)[5]. Hot spots within greater Melbourne included the Inner South, which increase 8.3% YoY, and the Inner East, which increased 5.4% YoY, both of which were above the median[6].

The combination of increasing rent and limited supply of new rental dwellings is creating a situation where an increasing number of people with full or part time employment are having difficulty securing a rental property or paying rent without assistance. More than 8000 working Victorians were seeking assistance

[5] Domain Rental Report, December Quarter 2018.
[6] Domain Rental Report, December Quarter 2018.

to avoid sleeping rough in 2017-18, with 2971 people in full-time work seeking assistance from homelessness services, representing a rise of 31 percent over the past three years.[7]

The Productivity Commission's *Report on Government Services* reveals clear evidence of increasing homelessness in Victoria which we consider to be linked to the increasingly competitive rental market. Almost 40 percent of people who were homeless or at risk of homelessness in Victoria were refused assistance when seeking help last year. [8]

Current figures reveal the size of Victoria's social housing stocks marginally declined over the past few years. During the same time, the number of people who sought homelessness services – and whose needs went unmet - grew consistently each year, from 14,546 in 2014-15 to 19,805 in 2017-18.[9]

Victoria requires an ongoing pipeline of social housing to ensure people aren't turned away when they seek accommodation assistance.

3. Key Indicators of the Residential Development Sector

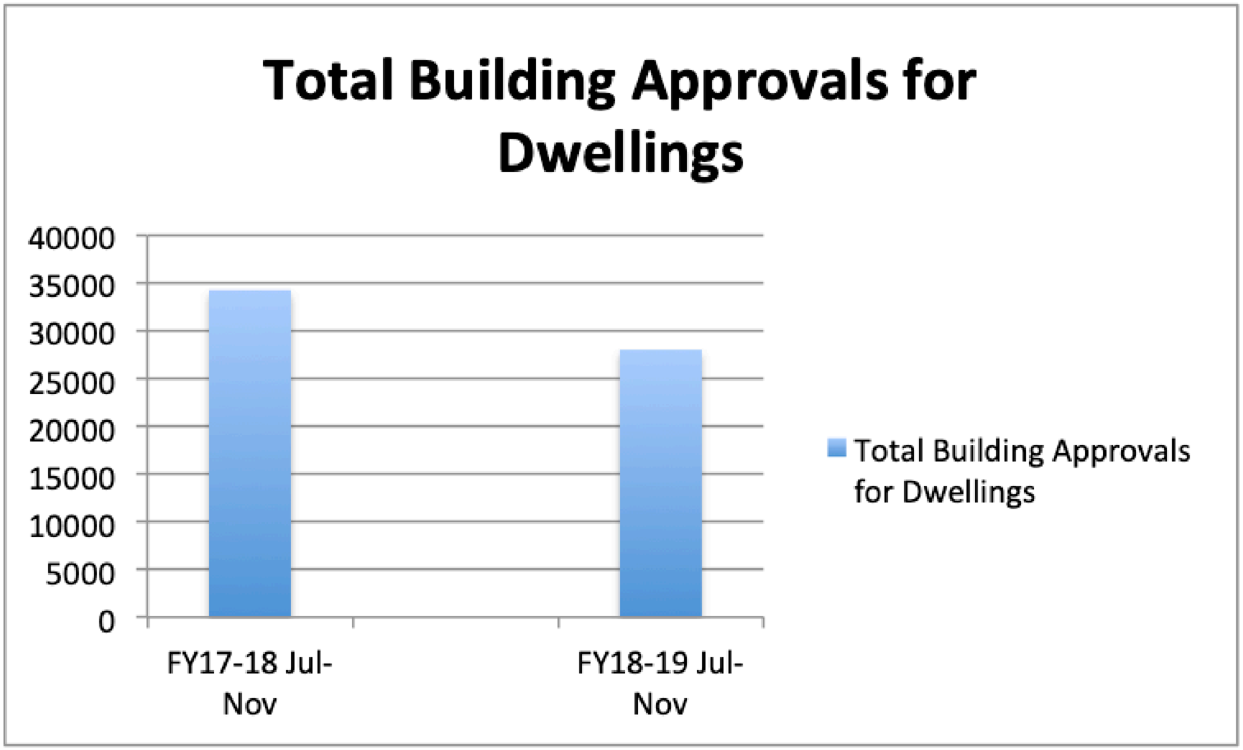
The Australian Bureau of Statistics (ABS) data shows there was a record high number of dwelling completions in FY17-18 of 66,245[10], which were the result of very high numbers of planning and building approvals for both the greenfield and apartment markets issued up to three to four years prior. A robust pipeline of planning approvals, greenfield residential lot sales, building approvals, and construction commencements is required to ensure that a sufficient, consistent supply of new dwellings will be delivered in the coming two to three years.

The most recent data relating to building approvals, dwelling commencements, and greenfield residential lot sales indicates that future dwelling supply will sharply decline, which will be compounded by the unprecedented population increase in Victoria in general, and Melbourne in particular.

3.1. Building Approvals

The ABS data clearly indicates a general downturn in total building approvals for dwellings across Victoria in the current financial year. A comparison of the same period in 2017 and 2018 reveals a drop of 18 percent: there were 34,286 building approvals for dwellings issued from July to November 2017 and this fell to 28,020 for July to November 2018[11].

[7] Heagney, Melissa. "Working but homeless: Higher rents hitting Victorians with jobs." Domain, 2 February 2019.
[8] Productivity Commission, *Report on Government Services 2019*, Chapter 19 Homelessness Services, page 19.10.
[9] Productivity Commission, Report on Government Services, Chapter 19 Homelessness Services, Table 19A.7.
[10] Australian Bureau of Statistics, 8752.0 - Building Activity, Australia, Dwelling Completions, 16 January 2019.
[11] Australian Bureau of Statistics, 8731.0 - Building Approvals, Australia, Dwelling Units Approved, 16 January 2019.



Of particular interest is the downturn in building approvals in FY18-19 compared with FY17-18 for the apartment market in the inner city which has, until recently, been a key location for apartment projects.

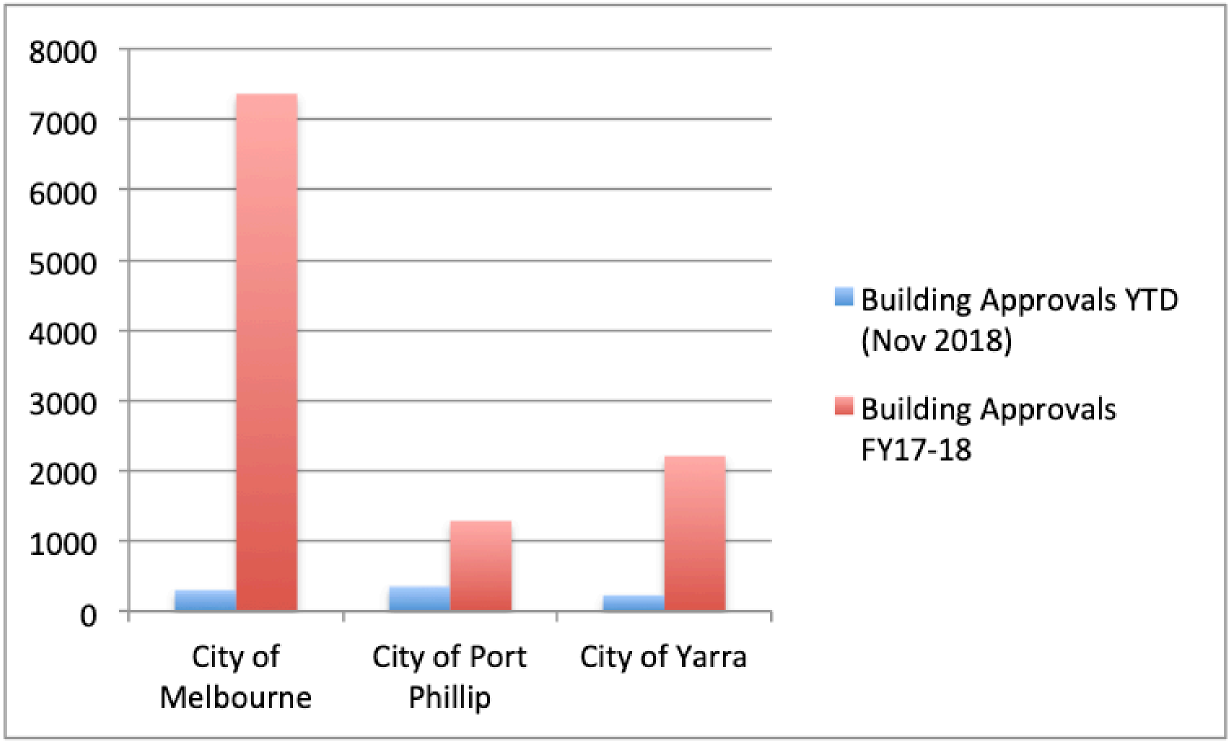
The data released for the financial year to date (up to and including November 2018) shows, for example, 301 new dwellings received building approval in the City of Melbourne local government area (LGA) compared with a total of 7,360 building approvals for the financial year 17-18[12]. This represents four per cent of the total building approvals of the previous financial year in this LGA and is a clear indication of the sharp decline in the number of apartment projects moving from concept stage to building commencement.

Similarly, building approvals for dwellings in the City of Yarra and the City of Port Phillip are low as a proportion of the overall activity in the previous financial year. The City of Yarra recorded 228 building approvals to November 2018 compared with 2,209 for the financial year 2017-2018, and the City of Port

[12] Australian Bureau of Statistics, 8731.0 - Building Approvals, Australia, Data Cubes Vic 2017-2018 and 2018-2019FYTD, 9 January 2019.

Phillip recorded 352 approvals against a total of 1,284 for the previous financial year. These represent 10 percent and 27 percent respectively.

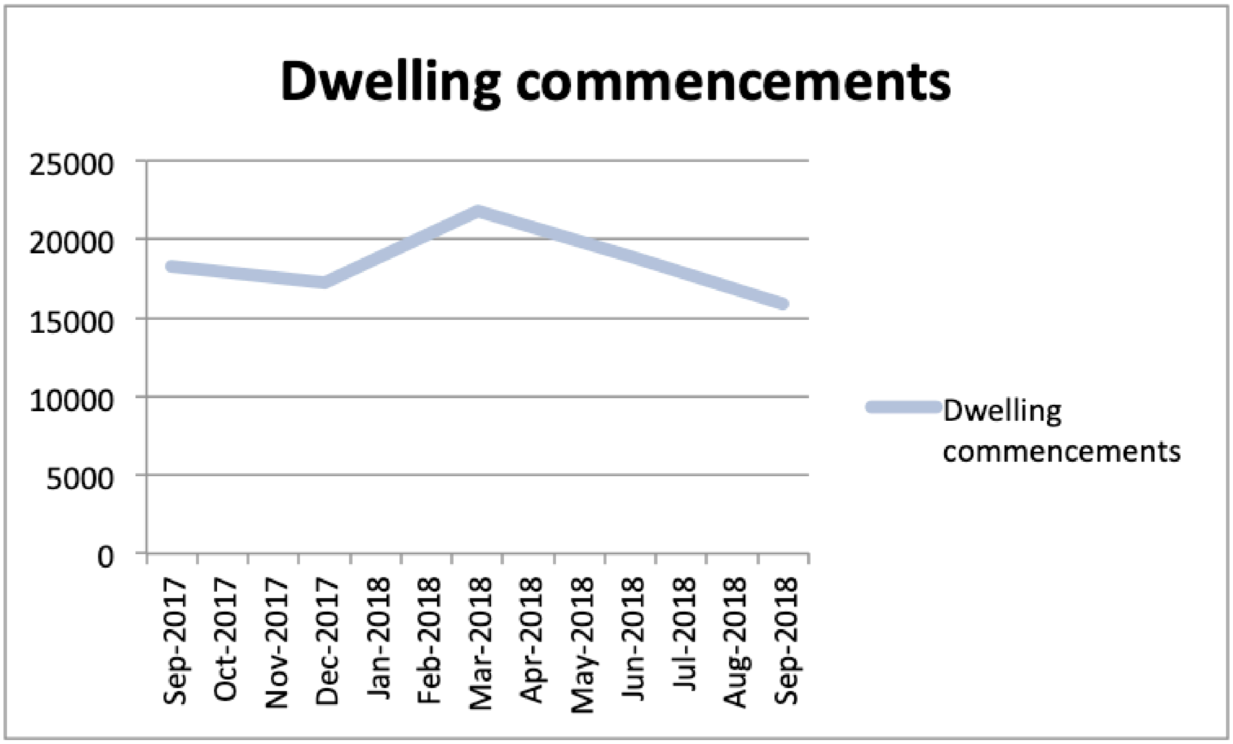
Whilst we consider this to be the result of a number of factors, including uncertainty regarding planning controls in the City of Melbourne and the City of Port Phillip, a retreat in the investor market, restrictions on access to finance, and an increase in the provision of apartments in the middle ring of Melbourne, these figures are of significant concern and indicate a weak pipeline of dwelling supply in the coming two to three years.



3.2. Dwelling Commencements

The ABS data shows dwelling unit commencements for Victoria peaked in Q3 of FY17-18 (January to March 2018) and have been declining since then. Of relevance, a comparison of the September quarter 2018 with the equivalent quarter in 2017 shows a reduction of 2,459 dwelling commencements[13].

[13] Australian Bureau of Statistics, 8752.0 - Building Activity, Australia, 16 January 2019.



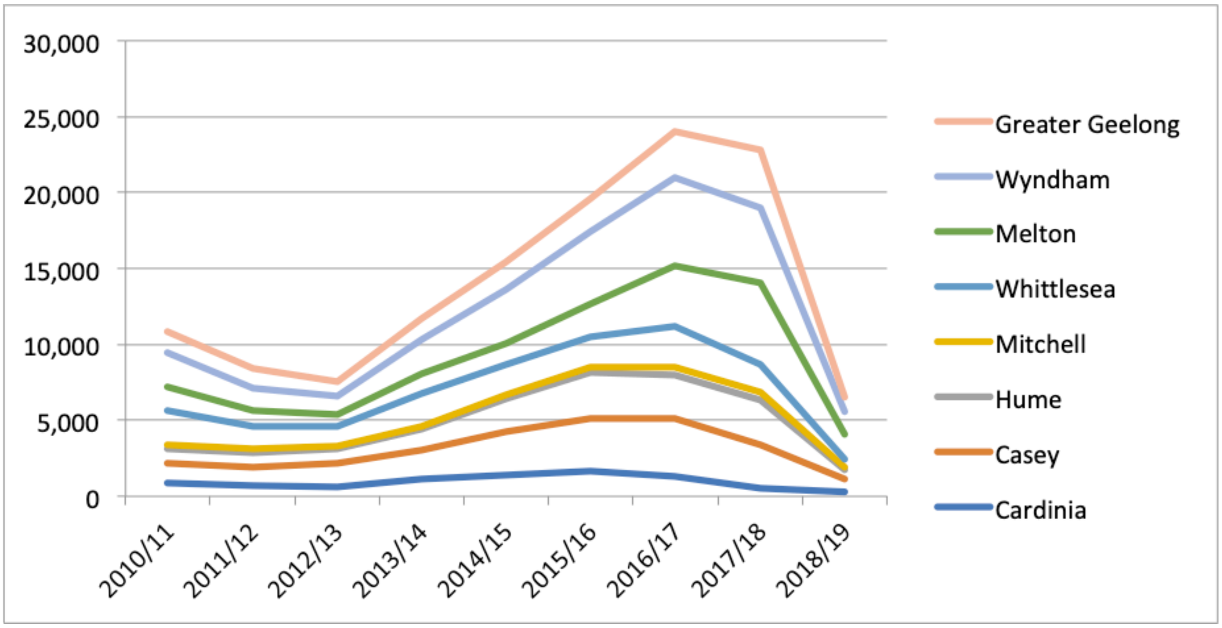
3.3. Greenfield Market Lot Sales

Melbourne's designated growth areas have consistently been providing a supply of roughly 22,000 new lots annually over the past three years, however this is forecast to fall by up to 10,000 in 2019 based on the most recent lot sales data[14].

The latest data provided by RPM Real Estate Group shows that new residential lot sales in the growth areas peaked in September 2017 with the sale of 2,712 lots for the month. This has declined significantly, falling 80 percent by December 2018 to 550 lots for the month. The lot sales in December 2018 were the lowest single month since December 2012.

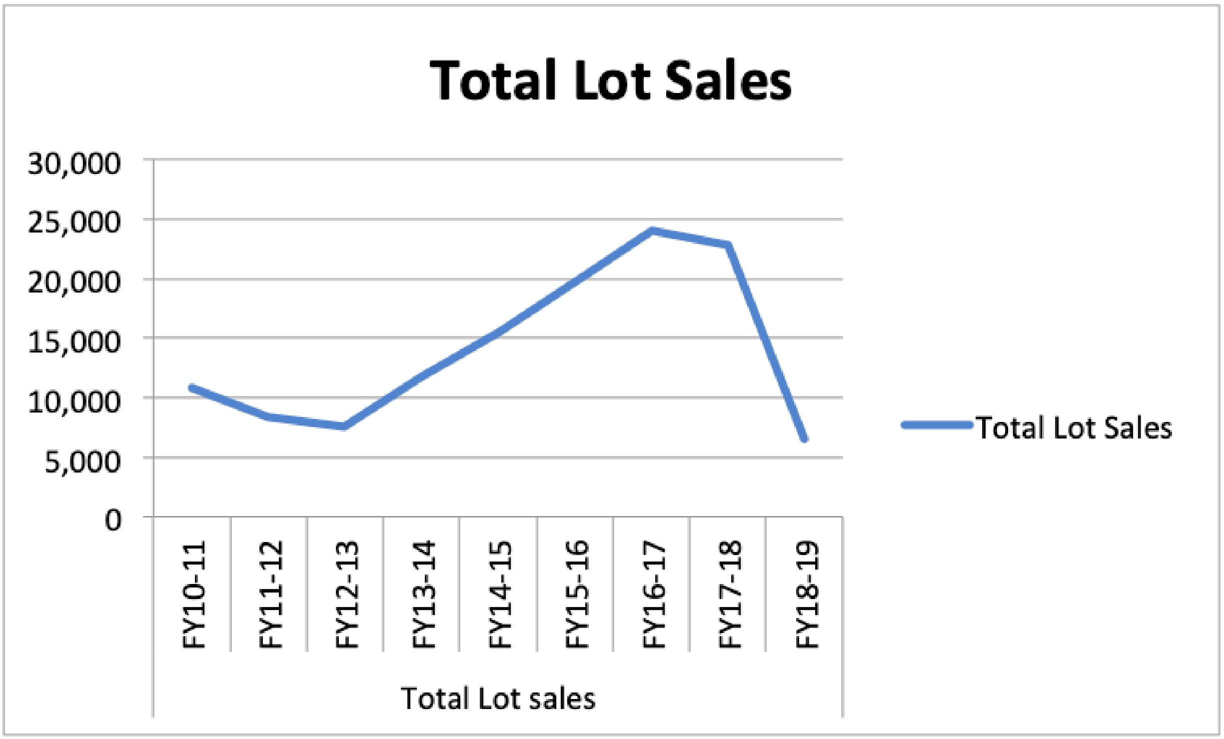
The graph below represents the residential lot sales in growth area corridors from FY10-11 to FY18-19. Overall, there is a clear peak from December 2016 to December 2017 followed by a sharp decline. We note that the data for FY18-19 includes June to December 2018 and is incomplete, however a downward trend is evident.

[14] RPM Real Estate Group, 25 January 2019.



The chart below aggregates the data to represent the total new residential lot sales across all growth areas, including greater Geelong. A clear overall downward trend in FY18-19 is evident, with 6,535 lot sales for the first half of FY18-19 compared with a total of 22,770 lot sales in FY17-18, which is well below half[15]. Extrapolating the sales to date, we estimate the total lot sales to be approximately 13,000 for FY18-19, almost 10,000 less than the previous financial year.

[15] RPM Real Estate Group, 25 January 2019.



Land sales are being negatively impacted by:

- A retreat in investor activity due to the removal of off-the-plan stamp duty concessions for house and land packages as well as a reduction in speculative investment;
- Changes to bank lending criteria resulting in a falling share of available lots that are within the budget of a first home buyer;
- High land prices;
- Insufficient trading projects; and
- Falling prices for established houses which makes them more competitive with the new residential lots in growth areas.

There is clear evidence that confidence in the greenfield land market has fallen. However we consider that a clear State Government pipeline of infrastructure delivery for the growth areas would contribute to a greater sense of stability and restoring confidence in these markets.

3.4. Understated Population Forecasts

The State Government has consistently underestimated population growth for Victoria in general, and Melbourne in particular, going as far back as the Victoria in Future (VIF) publication in 2004.

The table below shows the 2031 population projections for each VIF release from 2004 until the last release in 2016. The Table shows that for each VIF release, population projections have been revised upwards due to significantly understated projections.

In 2004, VIF projected that Victoria's population would reach 4.5 million by 2031. However, the following VIF release (2008) revised the 2031 population forecast; projecting that the State would reach approximately 5.3 million by 2031; representing a difference of approximately 740,000 people.

Furthermore, the 2008 VIF projection for Victoria's population by 2031 has since been revised, both in 2012 and 2016. The most recent population forecast for 2031 is approximately 6.1 million, which represents a difference of 1.5 million people compared with 2004 projections. This equates to a dwelling demand shortfall of approximately 600,000 dwellings over the fifteen years from 2016 to 2031.

Findings relevant to revised VIF population projections are provided in the table below.

TABLE 6 REVISED POPULATION PROJECTIONS – VIF – 2004 TO 2016

VIF RELEASE	2031 POPULATION PROJECTIONS	REVISION OF 2031 COMPARED WITH 2004 (DIFFERENCE)	REVISION OF 2031 COMPARED WITH 2008 (DIFFERENCE)	REVISION OF 2031 COMPARED WITH 2012 (DIFFERENCE)	UNDERESTIMATED DWELLINGS TO 2031
2004	4,540,000				
2008	5,280,000	740,000			296,000
2012	5,410,000	870,000	130,000		52,000
2016	6,058,786	1,518,786	778,786	648,786	259,514

Source: Victoria in Future 2016, derived by Urban Enterprise 2018

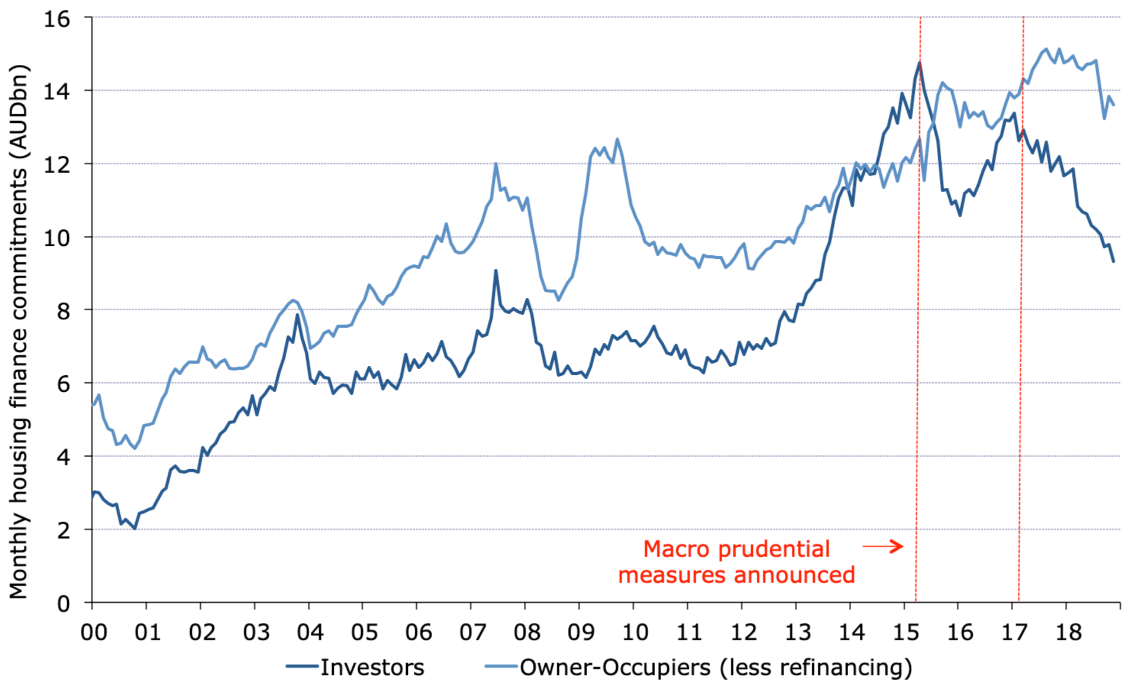
The most recent data indicates that in the twelve months to June 2018, Victoria's population increased by 138,159 people[16]. The current State Government goal of ensuring housing accommodates population growth by facilitating the construction of more than 50,000 new dwellings each year would meet the need of these new residents. However, as previously noted the current pipeline of new dwelling supply is showing signs of a sharp contraction and we consider that is will be difficult to achieve this goal in the coming two to three years.

3.5. Lending to investors

There is clear evidence that investor activity in the residential property market (new and existing) has cooled with the share of investors in Australia's home loan market dropping to its lowest level since October 2009. Investor mortgage lending fell 4.5 per cent in November, sending the total to $9.3 billion

[16] Australian Bureau of Statistics, 3101. 0 – Australian Demographic Statistics, June 2018, 20 December 2018.

from $9.9 billion in October. Investor lending is now down 22.6 per cent on the same time last year[17]. The chart below represents the total lending to owner-occupiers and investors and clearly shows the decline in investor lending since November 2017.



Further, the most recent NAB Quarterly Australian Residential Property Survey (Q3 2018) noted that the share of total house sales to foreign investors fell to a 7-year low 8.1% in new markets and a survey low 4.1% in established markets.[18]

4. Cost Impacts to the Victorian Economy

The residential development sector is a significant driver of the Victorian economy, having contributed in the order of $25 billion in the past financial year. However this contribution is expected to fall around $21 billion in 2018-19 based on an expected slowdown in residential building construction. Current trends based on data to December 2018 point to a 15% decline in the likely value of residential building

[17] Cranston, Matthew. "Investor home loans hit lowest level in nine years." Australian Financial Review 17 January 2019.
[18] https://business.nab.com.au/nab-quarterly-australian-residential-property-survey-q3-2018-31621/

construction based on trends in the value of building approvals relative to the same period the previous year.

The residential development sector sustained almost 222,000 jobs in Victoria in 2017-18. This figure includes jobs sustained directly in the sector (approximately 49,000 jobs) as well as in support industries such as property and business services, financial services, transport and distribution, manufacturing and other sectors (approximately 173,000 jobs).

In 2017-18 the value of building approvals for the construction of four or more storey buildings are expected to make a contribution to the Victorian economy of almost $7 billion. This contribution is expected to fall by almost half to $3.5 billion based on expected trends in 2018-19. The timing of the impact on the economy will depend on the length of projects and when they are built, therefore impacts are likely to be also felt in 2019-20.

The construction of four or more storey buildings directly sustained over 13,000 jobs and a total of 60,000 jobs in Victoria in 2017-18. The decline in expected construction of four storey plus apartments in 2018-19 will have a significant adverse impact on employment generated in this market segment.

5. Recommended Government Interventions

The ABS data clearly indicates a general downturn in total building approvals for dwellings across Victoria in the current financial year of approximately 18 percent, including a drop of up to 90% in apartment projects in the City of Melbourne moving to construction in FY18-19 compared with FY17-18.

Further, the latest growth area lot sales data indicates the total sales may be down to just 13,000 for the entire current financial year, a fall of approximately 10,000 lots against the previous financial year. This will directly impact on the number of new dwellings being constructed in growth areas in the next two to three years.

These indicators combined suggest that the pipeline of new dwelling supply will be significantly lower than FY17-18 and that State Government is unlikely to achieve the goal of an additional 50,000 new dwellings annually in the coming two to three years to accommodate population growth, meet underlying demand, and ensure every Victorian has every opportunity to find a home.

UDIA Victoria considers that specific State Government interventions can assist in reversing this trend and moderate the predicted sharp decline in the supply of new dwellings.

The fiscal levers immediately available to the State Government include the following:

1. Reinstate the stamp duty concession for investors purchasing dwellings off-the-plan;
2. Remove the foreign purchaser stamp duty surcharge;
3. Maintain the existing Land Tax Rate without an increase;

4. Exclude new dwellings from the Vacant Residential Land Tax where they have not sold or failed to settle; and
5. Bring forward the Victorian Government's capital investment in the Social Housing Growth Fund and expand the program to fund more projects sooner.
6. Provide additional funding to the Victorian Planning Authority (VPA).
7. Release Growth Area Infrastructure Contribution funds to enable the construction of essential infrastructure projects.

7.1 Discussion

Reinstatement of off-the-plan stamp duty concessions for investors

In our view, the reinstatement of the off-the-plan stamp duty concessions will encourage pre-sales to investors. As we noted previously, investors typically comprise 60% of the total sales in an apartment project and are critical to meeting the new thresholds to acquire project finance. Without project finance, projects cannot progress form the concept (pre-sales) stage to building approval and construction. Further, this measure is expected to attract investors to purchase new residential lots in growth areas, thereby facilitating new dwelling construction and an overall increase in the supply of new dwellings.

Exclusion from the Vacant Residential Land Tax

UDIA Victoria supports the overarching purpose of the vacant residential land tax which is to encourage landowners to make dwellings available for purchase or rent.

However, we consider that newly constructed dwellings that have either failed to settle or failed to sell at the time a certificate of title is issued should be excluded from this tax. We also consider that the existing twelve-month exemption period is insufficient given the declining market conditions and the increasing numbers of dwellings failing to settle.

We believe this exclusion is reasonable on the basis that developers are in the business of delivering new dwelling supply, with the vast majority of developers seeking to sell the dwellings by the completion of the project. This is consistent with the purpose of the vacancy tax. Forcing developers to convert sale stock to rental stock to avoid the tax doesn't actually increase the number of new dwellings entering the market, it simply offers the dwelling to a different segment of the market.

Social Housing Growth Fund

We also encourage the State Government to bring forward the capital contribution to the Social Housing Growth Fund (Growth Fund) already incorporated into the Budget Forward Estimates. This would stimulate both the provision of affordable housing in particular, and the residential construction sector in general.

We understand that the State Government has received many high-quality submissions from the Community Housing Sector, and its finance and development partners, for access to the Growth Fund, and that these projects are ready to progress as soon as funding is confirmed.

Further, we understand that the Growth Fund has been over-subscribed with high-quality applications that currently can't be funded which means some great projects in ideal locations will be lost to the sector forever and those communities will continue with high levels of unmet needs. On this basis, we also encourage the State Government to consider extending the funding to all suitable projects.

The approval of the accelerated delivery would:

- Provide a new home for 5% of the households on the State's Housing Register. The biggest single reduction since the Rudd Governments social housing stimulus.
- Provide the biggest single boost to community housing since the Rudd governments social housing stimulus.
- Attract $1.2 Billion in private and community investment into social and affordable housing.
- Create 1,375 direct FTE jobs and nearly 2,000 associated jobs.
- Build the capacity and balance sheet of the Community Housing sector in the State enabling further leverage.
- Provide homes in great locations protecting and enhancing social and economic inclusiveness.

Additional funding to the Victorian Planning Authority (VPA)

The capacity of the VPA to deliver Precinct Structure Plans (PSP) and other strategic planning outcomes is key to unlocking land for development in the designated growth areas, urban renewal areas and regional areas. As such, we consider that the VPA requires additional funding to deliver the Victorian Government's mandate and to:

- Improve the delivery timelines of planning outcomes including PSPs and other strategic planning frameworks;
- Ensure costs are not inappropriately passed onto the private sector but rather maintained as positive government investment in appropriate planning and approval outcomes; and
- Ensure funding for key policy and process improvements such as Streamlining for Growth is maintained.

6. Outlook

Overall, the underlying residential development sector fundamentals remain strong and Victoria is experiencing continued population and employment growth which is reflected in the high employment to population ratio of 62.4 per cent. These are both supporting strong underlying demand which is currently not being converted into sales of new dwellings or new residential lots.

Threats to the sector include the significant retreat of investors from both the greenfield and apartment markets, weak purchasing power due to low wage growth, the increasing cost of living, and a reduction in the availability and volume of project and retail finance. These threats are combined with an unstable regulatory environment including uncertainty associated with the impacts of the Financial Services Royal Commission.

In response this forecast, UDIA Victoria has already provided to the Andrews Government the top five priorities for the State Government to focus on in the next 12 months to support the urban development industry. These priorities focus on the State Government facilitating the delivery of new housing supply and are consistent with the specific government interventions identified above. The five priorities are set out below:

1. **Secure Victoria's immediate housing supply pipeline** by taking early action to assess the current Precinct Structure Plans and planning permit applications in the Fishermans Bend Urban Renewal Precinct awaiting approval.
2. **Establish a medium-term course of action to address the declining supply of new housing**, including through the re-introduction of stamp duty incentives for investors and the removal of tax surcharges for foreign purchasers.
3. **Promote Victoria as an investment destination for the property and development industries** and take early steps to outline the industry's role in major infrastructure projects including the Suburban Rail Loop so that planning controls and value capture mechanisms are known early and investment can be made with certainty.
4. **Continue to address post-planning delivery constraints** by working with State agencies and service delivery authorities, and local government, to enable the development industry to convert land supply into new lots for housing in our growth areas.
5. **Undertake an evidence-based review of built form design controls** including the Central City built form controls and the Better Apartment Design Standards to assess their cost impost and affordability impacts of any proposed changes.

There is a clear need for State and Local Governments to use the policy and regulatory levers available to them to facilitate increased investment in new dwelling supply and stimulate the residential construction sector to ensure that the development industry can deliver the strong pipeline of new housing, jobs and economic value to develop Victoria in a positive way for future generations.

7. Contact

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