22 September 2020

David Morrison
City Strategy Officer
City of Melbourne

By email: David.Morison@melbourne.vic.gov.au

Dear David

Submission: Macaulay Structure Plan Refresh

The Urban Development Industry of Australia, Victoria Division (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 congratulates the City of Melbourne (CoM) on the preparation of the draft Macaulay Structure Plan (the Structure Plan). The Structure Plan represents a large body of work and stakeholder involvement. It provides a vision and framework for the growth and development of this important precinct that will spark investment and provide opportunity for more intensive development in the area.

Key Issues

This submission is structured around the following key issues, which are discussed in detail:

Policy Issue 1: Affordable Housing.

UDIA Victoria supports a broad-based affordable housing levy to fund Government investment that is gradually introduced, rather than heavy imposts on specific development.

UDIA Victoria does not support the Structure Plan's proposed requirement for new development to provide between 6% and 10% of new housing as affordable housing. We attach our submissions (refer **Attachment 1**) and established policy positions as articulated to the City of Melbourne and the Victorian Government's Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing.

Policy Issue 2: Infrastructure Funding.

UDIA Victoria does not support the application of an Infrastructure Contribution Plan (ICP) to the Arden Precinct, as we are not confident that the ICP System for Strategic Development Areas is workable at all.

We attach our submission (refer **Attachment 2**) to the Minister for Planning regarding the strategic redevelopment area ICP system.

UDIA Victoria supports the preparation of a mechanism that applies longstanding principles which would ensure appropriate cost sharing for clearly defined Council led projects.

Policy Issue 3: Cumulative Cost Impact

UDIA Victoria is concerned about the cumulative cost impact of planning policy and regulation being applied to new development, and housing in particular. We refer to our recently released research *The Hidden Cost of Housing* (refer **Attachment 3**) which demonstrates that up to 34% of the cost of a new home is attributable to government taxes and charges.

Policy Issue 4 – Vision for Director of Housing Land

Several strategic sites within the Structure Plan area are owned by the Director of Housing and comprise outdated buildings, in some case they are more than half a century old. UDIA Victoria submits that the Structure Plan should provide a more detailed vision for the redevelopment of that strategic land which can then be realised through additional actions over time. The Structure Plan is neutral around the future potential of these strategic sites, yet they present a significant opportunity.

Delivery Issue 1: - Crimped Development Opportunity

The Structure Plan notes the strong market interest for major residential re-development within the precinct. Indeed, the Structure Plan outlines a fear of the area being 'overwhelmed' by market demand with more than 2,000 dwellings already in the planning pipeline. Rather than embrace and harness this demand to create a more dynamic ad vibrant vision, the Structure Plan effectively seeks to unduly stifle and crimp demand to create a subdued outcome. Given the strategic location of the site close to the CBD, this approach is too restrictive and it is UDIA Victoria's view that a much more progressive approach is required.

Delivery Issue 2: - Mandated Employment Development

The Structure Plan proposes to mandate that 20% of all development be employment. While we understand Council's desire to retain an employment mix in the area as it is redeveloped – this blunt regulatory approach cannot be supported.

Delivery Issue 3: - ESD Design Requirements

We appreciate Council's desire to make new buildings more sustainable. We would encourage this as a collaborative conversation that lead to a gradual adjustment to regulations to avoid regulatory shock to our industry. This is as area where we feel ongoing meetings are required to workshop and create mutually acceptable approaches. The UDIA Victoria is developing a more detailed submission around this issue for Council in addition to the submissions summarised here.

Delivery Issue 4: A stronger vision is required for the Rail Station Redevelopment

The Structure Plan proposes Council advocacy around boosting rail frequency and grade separation of the rail line generally. The plan would be improved if it included a stronger vision for redeveloped station and environs as a key catalytic project.

Delivery Issue 5 – Permanent Built Form Controls

The Structure Plan proposes that the existing interim built form controls be adjusted through a new suite of controls outlined. While we have provided a response, we submit that a working group be formed between Council and our industry to collaboratively develop the final controls.

Design Issue 1: Urban Context and Design Gaps

The Structure Plan can benefit from greater detail around its development context and additional placed based outcomes. Each of these key broader integration opportunities are described in more detail later in the submission.

Policy Issue 1: Affordable housing requirement

UDIA Victoria does not support the Structure Plan's proposed requirement for new development to provide between 6% and 10% affordable housing. UDIA Victoria has proposed a balanced approach that we believe has the best chance of delivering affordable housing outcomes at scale without compromising supply or the median house price. A copy of our previous submission to the CoM is provided at **Attachment 1**.

UDIA Victoria proposes:

- A low, flat rate, broad-based Affordable Housing Contribution, like the Fire Services Levy, transitioned over a period not less than 5 years, to replace all other affordable housing provisions.
- Affordable housing delivery targets supported by an Affordable Housing Delivery Toolkit of funding and incentive measures that can be applied to fund the gap between the cost of delivering and the Affordable Housing Contribution.
- A whole-of-government Affordable Housing Strategy rather than seeking to introduce affordable housing requirements at the Council level.

In summary, the Structure Plan proposes:

- Between six and ten per cent of all housing in Boundary, Melrose and Stubbs Precincts will be affordable housing (one in sixteen to one in ten dwellings).
- Where it is agreed that providing affordable housing within the development is not practical or appropriate, a cash contribution to the same value should be made instead.

There is no ability under the Planning and Environment Act to tax development for Government to deliver affordable housing – as some form of cash in lieu scheme. There is no power to force developers to make the form of contributions proposed. Therefore, these proposals should be removed from the Structure Plan. Developers may elect to enter into a voluntary agreement with Council to deliver on such proposals – should they elect to. In any event, it is entirely inappropriate for Council to propose to take financial contributions voluntary or otherwise without providing a proper implementation framework.

Policy Issue 2: Infrastructure Funding

UDIA Victoria does not support the application of an Infrastructure Contribution Plan (ICP) to the Arden Precinct. We rely on our separate submission (refer **Attachment 2**) to the Minister for Planning regarding the ICP system for Strategic Development Areas.

UDIA Victoria supports the preparation of a Development Contributions Plan (DCP) that applies longstanding principles to ensure any charging regime is fair and equitable. This would be a seamless transition from the interim Development Contribution Plan Overlay that was put in place by the Minister for Planning through Amendment C295.

UDIA Victoria proposes:

- Government acknowledges that any infrastructure contributions are just that - a 'contribution' toward local infrastructure and not a system designed for full cost recovery.

- That any infrastructure contribution should remain designed for the collection a contribution toward local infrastructure requirements and should exclude State infrastructure.
- Mechanisms provide certainty for immediate development and certainty of costs.

In the absence of a workable ICP system, UDIA Victoria supports use of the DCP system.

UDIA Victoria would be pleased to work with Council around what projects should be considered for a DCP for the Macaulay Structure Plan area. We understand that the Council is currently undertaking this work, or soon will be.

It would be a very useful exercise to develop a draft list of projects, their costs and apportionment to allow the industry to better understand projects that might be funded and which they might be able to deliver as works in kind projects.

Policy Issue 3: Cumulative Cost Impact on Housing Affordability

UDIA Victoria is concerned about the cumulative cost impact of planning policy and regulations being applied to urban development, and housing in particular. A copy of the UDIA Hidden Cost of Housing Report can be found at: https://www.udiavic.com.au/hidden-cost-of-housing and is at **Attachment 3**.

We challenge the idea that new taxes or costs will only affect asset owners through offsetting land values. History has shown that the introduction of such new costs, such as the Growth Areas Infrastructure Contribution, discourages and or delays development and leads to significant unintended consequences. Melbourne already has some of the most expensive prices in the world for new housing. The high cost of housing in Victoria pushes lower income segments out of the private buyer and rental market and into the affordable housing market.

The high cost of producing housing does not drive a reduction of underlying land values. In contrast, where the cost of producing housing is high, residential development may no longer be the highest and best use, and the land may continue to be used for another purpose despite a residential zoning. This drives an overall reduction in the supply of new housing.

High taxes, charges and delays through the planning and development approval process reduce housing supply by increasing risk, reducing returns and making certain types of development unfeasible.

If the cost of producing housing is so high that the system reduces overall supply, Government will need to play a greater and more deliberate role in funding and supporting infrastructure as new areas of Melbourne are developed.

The Hidden Cost of Housing Report highlights the following costs of producing new housing in established areas of Melbourne:

State Government

- Land tax
- Stamp duty
- Foreign purchaser surcharges on stamp duty and land tax
- Vacant residential land tax

- GST
- Metropolitan Planning Levy
- Statutory utility charges
- Cladding Rectification Levy
- State government infrastructure contributions
- Better Apartment Design Standards

Local Government

- Permit fees and charges including for extensions of permits
- Plan checking and supervision fees
- Local infrastructure contributions including local water authority fees, electrical authority fees, NBN deployment fees
- Council rates
- Open Space Levy
- Passive open space requirements

In addition to these requirements, the Macaulay Structure Plan proposes:

- A 6% to 10% affordable housing requirement.
- Design recommendations, floor area controls and built form controls.
- All new buildings to achieve 20% employment use.

We are concerned about development proponents being forced into 'voluntary agreements' in order for Council to progress the planning assessment and approvals. Any vagueness relating to securing development or other contributions via an agreement means it is unclear whether these contributions constitute 'works in kind'. And it can also create a grey area regarding whether conventional compensation mechanisms should apply prior to the completion of the costings underpinning the Development Contributions Plan.

The Interim Development Plan Overlay does not appear to nominate the development contributions per dwelling or per sqm of office / retail floor space. This lacks certainty hampers development progression to construction.

At this interim stage, it is also important for Government agencies to avoid 'double dipping' with an open space contribution i.e. when a road is created and then later on when the apartments / retail floor space is created via an application for subdivision. A full and transparent framework and implementation mechanism and process would be required. Annual reporting of development requirements, and agreements should occur and should be made public for the sake of public accountability and transparency. This will also avoid the system to be abused or and shield against improper conduct.

The Structure Plan also proposes to "*Investigate the optimum mechanism/s and locations to consolidate parking supply and avoid an oversupply of off-street parking. This will be achieved through precinct parking facilities, unbundling of car parking bays, or a combination of both*." If Council wishes to enact a car parking precinct plan that there are planning mechanisms available to pursue that. However, a full feasibility and assessment would need to occur early and it would need to be available for public review through a separate planning scheme amendment. The longer it takes Council to pursue this action, the less viable the proposal would be.

The Structure Plan proposes that new open spaces will be delivered in Macaulay by reallocating some roadway and parking to create additional public open space and through contributions from private developments. Buncle Street Reserve will be upgraded and potentially expanded as part of the development of a new community hub in Melrose Precinct. The UDIA Victoria seeks clarification around whether this open space would form part of a site's public open space contribution under the Subdivision Act?

Policy Issue 4 – Vision for Director of Housing Land

A significant portion of the land within the Structure Plan area is owned by the Director of Housing and comprises outdated built form. The Structure Plan could be developed further and would be a more significant document if it provided a long-term vision for how that housing stock could be repurposed – including expansion of modern social housing stock. These sites could add considerably to the future urban fabric.

Delivery Issue 1 – Crimped Development Opportunity

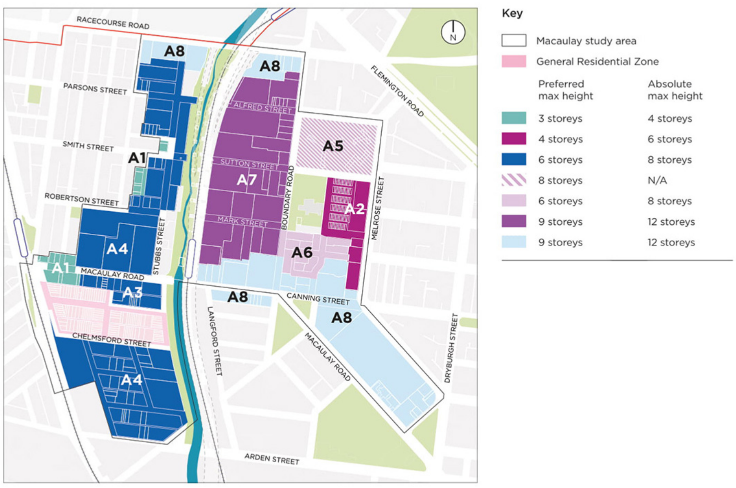
The Structure Plan notes the strong market interest for major residential development within the precinct with more than 2,000 dwellings already in the planning pipeline including large scale redevelopment proposals. The Structure Plan seeks to severely crimp the sites underlying development potential. In a wider metropolitan context, anchored by an existing station, this site should be fully harnessed to direct its market potential into rich, dense outcomes.

The Structure Plan provides for an increase from 3,150 people to 10,00 people which at 2.2 people per new household provides for an extra 3,100 houses as well as an extra 6,000 jobs. Our view is that the market could sustain, over a period of time, more than double that residential yield.

The Structure Plan is too timid when it provides the following objectives:

- *"To provide for a medium density, mid-rise, human-scaled neighbourhood with a diverse range of building types and some higher built form in specified areas.*

The Structure Plan's proposed building heights are shown on the following plan:



There are large sites on the north side of Macaulay Road within the 200m range of the station which could sustain significantly greater development potential than is proposed to be permitted through the proposed DDO. We would welcome the opportunity to hold discussions around this further with Council.

Delivery Issue 2: - Mandated Employment Development

The Structure Plan proposes to mandate that 20% of all development be employment. This blunt regulatory approach cannot be supported. There are very few examples within the City of Melbourne of new purpose-built buildings that are based on a model of combining employment and residential in a single building. To mandate that across all individual developments is highly unusual and will stall development. Our architect and experienced development members raised this issue as being an impractical requirement that will not be able to be implemented. The functional requirements of office development for example clash with residential and introduce excessive costs into the proposed building form.

Council sources its concerns around its view that purely residential development driven by strong market demand will undermine the historic role of the area and future vision for a mixed use precinct that supports the transition to more knowledge-intensive, retail and service-based employment. On the contrary, it reflects market demand and the repositioning of this precinct for the future.

The Structure Plan proposes to use the Special Use Zone (or an equivalent) to support mixed use development. The UDIA Victoria does not support the use of a blunt zoning tool for that purpose. This is an improper use of the Special Use Zone and we would seek confirmation from DELWP planning systems that they support such a proposal.

Delivery Issue 3: - ESD Design Requirements

We appreciate Council's desire to make new buildings more sustainable. Amongst other things, the Structure Plan proposes boosting energy efficiency and reducing greenhouse emissions from new buildings, reducing requirements for potable water and new green infrastructure.

The UDIA Victoria would welcome the opportunity for a workshop to discuss and work through these issues with a view to devising mutually acceptable approaches. Close collaboration between Council and our members to review, test, revise and develop any proposals and allow for their progressive implementation would provide a suitable foundation for their implementation.

Delivery Issue 4: A stronger vison is required for the Rail Station Redevelopment

The Structure Plan does propose some upgrade to the station:

> *"Action 43: Advocate for accessibility, amenity and safety upgrades at Macaulay and Flemington Bridge Stations."*

The UDIA Victoria considers that the Structure Plan would provide for a more visionary outcome if it proposed the complete redevelopment of the station and environs. The site is complex and unusual, with the adjacent creek and freeway structures, however, Council can lead the way and devise a clever and unique design response.

Delivery Issue 5 – Permanent Built Form Controls

The Structure Plan proposes to implement a Minister for Planning requested a review of the built form controls. These include management of density through the development of a Floor Area Ratio control. The interim controls were recently extended until 30 September 2021. The Structure Plan raises the issue that the current interim controls are resulting in developments with high densities. The concern is that if this trend continues the cumulative effect would lead to a future population that is significantly higher than current population forecasts. This would place additional pressure on existing and proposed infrastructure.

Building heights for much of Macaulay can only exceed the preferred maximum height if they:

- Are exceptional quality of design
- make a positive contribution to the quality of the public realm
- provide high quality pedestrian links where needed
- demonstrate good solar access to the public realm.

There are issues with how the benefits have been defined. This includes a lack of measurable criteria, use of subjective terms and benefits which are minimum design requirements under the Melbourne Planning Scheme.

It is critical that we get the key planning and development parameters right. Given Council's concerns and our members anxiety with the proposals – some collaborative working through the issues together to devise suitable solutions is suggested.

The Structure Plan also anticipates new urban design approvals processes. While we appreciate that Council wishes to actively engage in the design process, these proposals overreach into the domain of private development. Instead, Council can develop these approaches through the redevelopment of Government land in the first instance.

Design Issue 1: Context and Design Gaps

UDIA Victoria submits that the Structure Plan should both support and leverage the existing urban fabric, nodal points, transit, pathway and open space networks. While acknowledging the Structure Plan does include context maps and analysis around context - the narrative is missing an explicit recognition of the opportunity to integrate Macauley with planning strategies for the wider neighbourhood and joining the dots of investment on the western edge of the CBD and to precincts to the north.

More contextualisation of this precinct in its context would be welcomed. The separate planning processes for Arden and Macauley are recognised on P14, however this serves to highlight the importance of ensuring the structure planning and delivery of both precincts is still integrated, rather than separated, if the best place outcomes for the broader community are to be achieved. Appendix III – Projects In The Area effectively only lists the other metropolitan and local planning and infrastructure projects occurring within the City area, rather than demonstrating how Macauley integrates with these initiatives.

More explicit recognition of how the Structure Plan relates to the planning of and integration with the remaining parts of North Melbourne (with Arden particularly) and south and east (through existing fabric to the edge of the city and Docklands) to provide an opportunity for a more holistic outcome.

Further opportunities that could be associated with the local context (recreation, education, cultural hubs, established main street character and local business) include:

- Royal Children's Hospital / McDonalds House immediately east.
- Royal Melbourne/ University Innovation Hub to the south east, and the broader university / knowledge corridor through Carlton (along the Macauley Road and Flemington Road links).

- Errol Street, being the current main street in North Melbourne. This is a street with long established businesses and strong coffee culture drawing people from across Melbourne and it is still popular (e.g. Amiconi, Town Hall Hotel, Auction Rooms). Mapping should consider connections to and the relationship with Errol Street, via Arden.
- Meat Market / Arts House (events and cultural spaces), Lithuanian Club/ Comedy Club (which draws regional crowds, supported by other smaller performance spaces through Comedy Festival and North Melbourne Festival).
- Small business and startups in warehouses and back street locations in North/ West Melbourne – how can this local grit, activity and culture be kept. This could this be the point of difference to Fisherman's Bend.
- Could the opportunity for animal health and research, emerging through the existing Lost Dogs Home, the Lort Smith Hospital (to the south east of the precinct), emergency vet hospital to west of rail line, Flemington Zoo/ Flemington Races be explored as a place differentiator?

Conclusion

UDIA Victoria congratulates the City of Melbourne for completing significant strategic planning work which will ultimately enable further development in the Macauley Structure Plan Area.

Our members provide in-depth expertise and experience in urban development, and work in an environment of ever-increasing regulation. They strive to increase the quality of urban development, infrastructure, community and livability outcomes.

Rising standards and calls for more financial contributions such as those evident in the Structure Plan need to be carefully weighed and balanced against critically important objectives including housing affordability, development feasibility and overall deliverability.

Please contact me directly at danni@udiavic.com.au to arrange a suitable time to discuss this submission in detail.

Yours sincerely

Danni Hunter
Chief Executive Officer

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Attachment 1: UDIA Submission to City of Melbourne Affordable Housing Strategy

Attachment 2: UDIA Victoria Submission regarding Strategic Redevelopment Areas ICP

Attachment 3: UDIA Victoria Report *The Hidden Cost of Housing* (July 2020)

4 May 2020

Emma Appleton
Director, City Strategy
City of Melbourne

By email: affordablehousing@melbourne.vic.gov.au

Dear Emma,

City of Melbourne Affordable Housing Strategy – UDIA Victoria Submission

The Urban Development Industry of Australia, Victoria Division (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.

The building, construction and development industry contributes almost half of the state Government's tax base, employs almost 300,000 Victorians and is a major contributor to the Victorian economy.

UDIA Victoria commends the City of Melbourne on the deep work and consultation done to date which supports the draft Affordable Housing Strategy 2030 (**the Draft Strategy**). We welcome the opportunity to work with the City of Melbourne to explore how affordable housing can be delivered and increased and note that we have participated in two important workshops with the City of Melbourne and members of our Board of Directors and policy committees.

Demonstrating our longstanding commitment to finding real solutions to the affordable housing challenge faced by Victoria, UDIA Victoria has been an active member of the Affordable Housing Industry Advisory Group (AHIAG) since its establishment in 2016. In 2019 we delivered the *Introduction to Property Development Economics for Affordable Housing* course, on behalf of the Department of Environment, Land, Water and Planning's (DELWP).

Our mutual objectives to boost housing supply and to make it more affordable, are aligned. Where we differ, is where the responsibility for funding affordable housing should lie and what is the most appropriate strategy is to increase affordable housing stock.

From the early 1980's when social housing comprised around 10% to 15% of new dwellings, Government investment has dwindled to now represent around 2% to 3% of new dwellings. Historically, social housing was seen in public policy as being a welfare issue rather than an economic issue. The real reason for our inadequate supply of affordable housing, has been the lack of priority given by successive state Governments to investing in social and affordable housing.

We appreciate that Councils, being at the community frontline, experience the societal consequences of there not being sufficient affordable housing supply, and have to find real solutions for the implications of inadequate Government investment.

The current housing affordability crisis cannot be solved through Victoria's planning system alone, or by having various arrangements in place at the Council level. The solution requires a whole of Government approach underpinned by significant capital investment from the state Government.

Affordable housing is social infrastructure that is a broader community issue; the solution to which should not be isolated to the private sector. Significant underinvestment by governments over time cannot be successfully remedied by leveraging the new housing markets in a way which will directly result in further price lift and reduced affordability.

The urban development industry is ready, willing and able to deliver affordable housing in partnership, but not at the expense of investment certainty and project feasibility. Further, the failure to adequately transition any new controls in recognition of market cycles, will result in a reduction in housing supply and, perversely, an increase in median house prices.

Our most experienced members strongly believe that the measures proposed by the Draft Strategy will make investment and development in the City of Melbourne unattractive, leading to less housing supply. Asset owners will respond in ways that will constrain residential development opportunities. They will shift and pivot their strategies toward other asset creation opportunities, rather than reduce land values as has been assumed by the City of Melbourne. Where developments do proceed, they will do so only when retail prices lift to allow cost to be passed on future home buyers, making housing less affordable.

An alternative approach

Noting the clear direction of the City of Melbourne, as well as the Victorian Government to address affordable housing through the planning system, UDIA Victoria has proposed a balanced approach that we believe has the best chance of delivering affordable housing outcomes at scale without compromising supply or the median house price.

The approach comprises:

- a low, flat rate, broad-based Affordable Housing Contribution, similar to the Fire Services Levy, transitioned over a period not less than 5 years, to replace all other affordable housing provisions;
- affordable housing delivery targets, supported by an Affordable Housing Delivery Toolkit of funding and incentive measures that can be applied to fund the gap between the cost of delivering and the Affordable Housing Contribution; and
- a comprehensive capacity building program targeting all stakeholders – all levels of government, development and community housing industries, financiers, and the community — to create common shared understanding of interests of the various parties, and outline the various ways in which affordable housing outcomes can be delivered to meet the varied needs of very low, low and moderate income households including key workers.

Going forward

We strongly urge the City of Melbourne to consider:

1. The industry experience and depth of knowledge represented in the solutions put forward by UDIA Victoria;
2. Calling on the Victorian Government to establish a whole-of-government Affordable Housing Strategy rather than seeking to introduce affordable housing requirements at the Council level;

3. Avoiding unworkable and unnecessary duplication at various levels of government and to include the City of Melbourne's approach in the state-government led strategy;

UDIA Victoria has written to the Minister for Planning requesting a moratorium on any new policy settings or increased fees and charges that would have a material impact on the cost of producing housing, until the COVID-19 pandemic period has passed. As such, we strongly urge the City of Melbourne to:

4. Give proper consideration to the difficulties facing the building, construction and development industry as well as the housing market, as a result of the COVID-19 pandemic and to delay progressing the Draft Strategy until at least 1 July 2021.

Finally, we again commend the City of Melbourne on the work done to develop and consult on the Draft Strategy. Just like the City of Melbourne, we are committed to finding real, tangible and meaningful solutions to Victoria's affordable housing crisis.

Our objectives are aligned; let us work more closely on positive solutions.

We look forward to continuing to work closely with the City of Melbourne. Please contact me directly at danni@udiavic.com.au to discuss this submission further.

Yours sincerely

Danni Hunter
Chief Executive Officer
Urban Development Institute Australia (Victoria)

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Submission to City of Melbourne Draft Affordable Housing Strategy

Introduction

UDIA Victoria's positions on the provision of affordable housing through the planning system have been developed through a broad and deliberate program of member consultation led by our CEO and Board of Directors and involving our member Committees including our Planning Committee, Greenfield Developers Committee and Apartment and Urban Renewal Committee.

In 2019, UDIA Victoria prepared two key submissions to the Ministerial Advisory Committee on Planning Mechanisms for Affordable Housing.

These submissions are at **Attachment A** and **Attachment B**.

> ***UDIA Victoria has a deeply established position that the planning system is not the appropriate mechanism through which Government should seek to access additional affordable housing, and that a more sophisticated framework of funding and a 'Toolkit' approach is in fact required.***
>
> ***A real solution for Victoria's shortage of affordable housing at volume will require a whole of government response predominantly driven by fiscal initiatives.***

The urban development industry is not responsible for funding a crisis that has built over several generations and successive Governments. A whole of Government approach is required. A broad-based levy, for example the Fire Services Levy, could be used to help fund affordable housing, and we note that property related taxes already deliver close to half of all Government revenue.

Having reviewed and visited international examples, the 'Toolkit' approach is evidenced to be the most effective in delivering the highest number of new dwellings. Adding to this approach, is the need for a necessary funding stream so that affordable housing dwellings can in fact be acquired by appropriate community housing providers, with certainty.

Impact of COVID-19

The COVID-19 crisis needs to be resolved before any further policy change or cost imposts can be considered. UDIA Victoria is working with the Victorian Government and the Building Victoria's Recovery Taskforce to support the building, construction and development industry through the COVID-19 pandemic period, and to save jobs and grow jobs on the other side.

UDIA Victoria has written to the Minister for Planning asking that the Government consider establishing a moratorium on policy changes and additional costs which would impact the cost of producing new housing, until mid-2021. A copy of this letter is provided at **Attachment C**.

These including but are not limited to:

State Government

- Any proposal on foot to implement a state-wide Social and Affordable Housing Levy.
- Any proposal for a new infrastructure contribution for strategic redevelopment areas.
- Annual indexation and increase of the Growth Areas Infrastructure Contribution (GAIC).

- Adjustment and Indexation of the Melbourne Strategic Environmental Mitigation Levy (EML).
- Better Apartment Design Guideline amendments which are currently the subject of consultation.

Local Government

- Proposals for new design standards and requirements. Councils continue to work on ad hoc planning scheme amendments that apply new local policies to development in their municipalities.
- Proposals for social and affordable housing. More than 40 Councils have various proposals on foot to prepare planning scheme amendments that will support new local policies for social and affordable housing which may include imposing Section 173 Agreements in exchange for development approvals.
- Proposals to increase public open space levies. A number of councils have planning scheme amendments generate proposals to increase open space contributions in established suburbs under the Subdivision Act. As an example, Amendment C186 to Darebin Planning Scheme proposes to double the public open space contribution on development to 10%.

Cost of producing new housing

Taxes and charges that contribute to the cost of producing housing, either increase the price of the end housing product, or reduce the land price a developer can pay from the original owner.

We challenge the idea espoused in the Draft Strategy, that new taxes or costs will only affect asset owners through offsetting land values. History has shown that the introduction of such new costs, such as the Growth Areas Infrastructure Charge, discourages and or delays development and leads to significant unintended consequences. Melbourne already has some of the most expensive prices in the world for new housing and the proposals in the Draft Strategy will reduce supply further thereby exacerbating the very issue that we are trying to solve.

The business model supporting residential development reflects significant project risk and high costs of finance that developers must assume to deliver a project, as well as often low margins that are achieved on residential development projects.

The high cost of producing housing does not drive a reduction of underlying land values. In contrast, where the cost of producing housing is high, residential development may no longer be the highest and best use, and the land may continue to be used for another purpose despite a residential zoning. This drives an overall reduction in the supply of new housing.

High taxes, charges and delays through the planning and development approval process reduce housing supply by increasing risk, reducing returns and making certain types of development unfeasible.

The high cost of housing in Victoria pushes lower income segments out of the private buyer and rental market and into the affordable housing market.

If taxes and charges are increased further due to bracket creep or new taxes and charges being introduced, residential development may not be the highest and best use of the land and urban renewal areas and priority precincts may lay dormant.

If the cost of producing housing is so high that the system reduces overall supply, Government will need to play a greater and more deliberate role in funding and supporting affordable and social housing.

Portfolios such as justice, health and education can also be impacted as can the cost of delivering these services to the community if housing needs are not met due to a lack of affordable housing supply.

There is limited opportunity for new levies to be introduced for value capture, priority precincts and affordable housing, without a material impact on the affordability of housing in Victoria. However, these measures cannot afford to be applied retrospectively or in a broad-brushed manner without significant consequences to the overall sector.

The cost of producing new housing in established areas of Melbourne comprise the following costs imposts as a result of state and local government policy, taxes and direct charges:

State Government

- Land tax
- Stamp duty
- Foreign purchaser surcharges on stamp duty and land tax
- Vacant residential land tax
- GST
- Metropolitan Planning Levy
- Statutory utility charges
- Cladding Rectification Levy
- State government infrastructure contributions
- Better Apartment Design Standards

Local Government

- Permit fees and charges including for extensions of permits
- Plan checking and supervision fees
- Local infrastructure contributions including local water authority fees, electrical authority fees, NBN deployment fees
- Council rates
- Open Space Levy
- Passive open space requirements

The role of Government investment

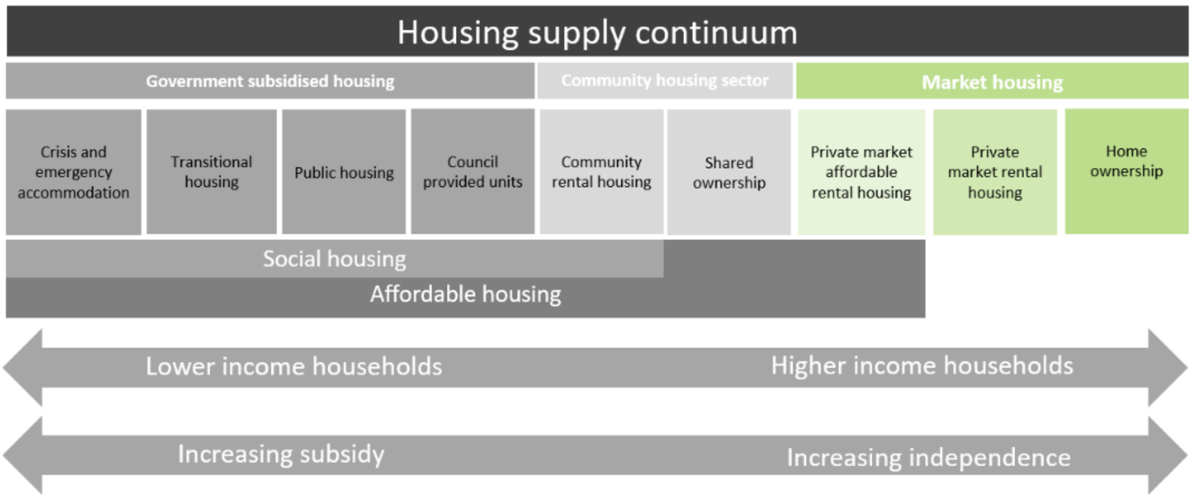
We commend the City of Melbourne's advocacy intent expressed in the Draft Strategy and note the pivotal importance of federal and state Government investment in affordable housing to increase the supply and accessibility of affordable housing.

In early 1980s social housing was perceived to be an essential economic infrastructure; commencements were around 15,000 per year (~10% to 15% of new dwellings starts). Later that decade social housing policy morphed to a welfare discussion.

New social housing investment has declined since, except only for the National Rental Assistance Scheme (NRAS) investment in 2009 and 2010 as the Commonwealth sought to mitigate the GFC crisis. Today Commonwealth funding delivers about 2,500 net new homes per annum and this figure continues to fall.

State governments have followed the trend of reducing investment. The Andrews Government is investing to create 1,000 new social housing dwellings in this term, some of which are in the City of Melbourne. However, some estimates are that about 1,700 net new homes are required in Victoria every year to maintain the current 3.5% share of new dwellings. There is not yet any clear long-term vision as to the volume of affordable housing government policy seeks to deliver.

The following diagram produced by the City of Sydney depicts the various forms of housing supply providers and the role of government across the spectrum of housing products:



Source: City of Sydney, 2015, Housing Issues Paper.

Streamlining and improving the planning and development approval system

Federal and state Governments should use their existing tax base to fund and invest in social and affordable housing. At a local level, Councils should work to find significant efficiencies in the planning and development approval process, to modernise the planning scheme framework and to build in market-based incentives to provide affordable housing stock. Where Councils own land, they could choose to include an affordable housing requirement.

Councils need to ensure that any local level policy is compatible with broader state government policy to eliminate any policy conflict and make certain that the planning delivery mechanisms do not restrict or delay the further provision of housing.

Inclusionary zoning is a relatively blunt tool which does not address the needs of all participants in the process of delivering a significant volume of new affordable housing across different market segments.

UDIA Victoria's submission to the Commissioner for Better Regulation as part of the *Planning and Building Approvals Process Review* highlights several key proposals for streamlining the planning and approval system at the local level. We encourage the City of Melbourne to review UDIA Victoria's suggestions here: https://www.udiavic.com.au/getattachment/Policy-Committees/Policy-Submissions/UDIA-RED-TAPE-REVIEW-submission-August-2019-(1).pdf

Market impacts of new taxes, charges and cost imposts resulting from policy changes

UDIA Victoria notes the background work done by SGS Economics and that we have had the opportunity to meet with the City of Melbourne and advisor Marcus Spiller to better understand the thinking and assumptions that underpin the Draft Strategy.

Our analysis and review of the SGS Economic reports, and the underlying assumptions used have led us to form the following view:

- The SGS model is too simplistic and fails to appreciate the full market dynamic and the competitive nature of land acquisition for development purposes;
- SGS Economics have used extremely simplistic assumptions and modelling to justify the role they believe the development sector should play in providing affordable housing dwellings;
- SGS Economic have long been an advocate for inclusionary zoning, and as such, they have not provided a balanced view of the arguments for or against inclusionary zoning, and have relied too heavily upon this strategy as a solution for providing more affordable housing;
- The peer review of SGS Economics work is not available on the City of Melbourne website, and as such, is not able to be validated.

We make the following specific comments relating to the market fundamentals of the property and development industry in response to the SGS Economics report:

- The supply of development sites is not elastic; it is highly constrained. The market does not respond in the way the economic models suggest. New costs and imposts are built into development costs, are passed on to the end consumer and are reimbursed to the developer in the form of retail price increases.
- If the retail housing market does not accept higher end prices, supply will stall, as was seen initially after the GAIC was introduced, as development projects will be shelved until such time as consumers can afford the higher cost of housing.
- Development margin does not and cannot get squeezed. If the market cannot find a suitable margin, the project will not attract necessary investors and bank funding and therefore development will not proceed.
- Most developers are looking at a pipeline of development sites that need replenishment and this process is highly competitive. Sites need to be in suitable locations, and also supported by suitable planning and infrastructure frameworks to make the project attractive to the end user.
- The planning scheme and the planning processes itself puts a lot significant of risk into projects and strong restrictions on much large portions of land that is are otherwise considered developable.
- The market, in reality, does not support the theory that landowners will simply accept a

reduced price for their land, and that a supply of development sites will continue to flow into the pipeline. Instead, landowners are more likely to pursue other asset development strategies – for example, commercial or retail development – or pursue asset refurbishment and leasing strategies, or they simply will not sell their land.

- The notion of a requirement to "gifting" completed dwellings will significantly impact the viability of most development sites and cripple the delivery of new housing supply.

9 July 2020

Joel Twinning
Planning Systems
Department of Environment, Land, Water and Planning

By email: joel.twining@delwp.vic.gov.au

Dear Joel,

UDIA Victoria Submission: Strategic Development Areas Infrastructure Contributions System

The Urban Development Industry of Australia, Victoria Division (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 welcomes the opportunity to provide a submission to the Department of Environment, Land, Water and Planning (DELWP)'s discussion paper on an Infrastructure Contribution Plan System (ICP System) for Strategic Redevelopment Areas (SDAs).

Our key positions are as follows:

1. The Victorian Government should pause the consultation and development of the ICP system for SDAs until the COVID-19 pandemic period has passed;
2. Infrastructure Contributions are a contribution toward local infrastructure and a system for ICPs for SDAs needs to be designed with this principle at the forefront;
3. UDIA Victoria strongly opposes collection of state infrastructure levies through the ICP system that was, is and should remain designed for the collection a contribution toward local infrastructure requirements;
4. Insufficient analysis, impact assessment, research and interrogation has been done to support the proposed ICP system for SDAs and this must be done before a system can proceed;
5. A standardized ICP system for SDAs will be difficult to achieve due to the unique nature of these urbanized, redevelopment precincts or sites;
6. In the meantime, the well-established system of using Section 173 Agreements and Development Contribution Plans should continue to be utilized;
7. The proposed two-tiered system that is proposed presents significant difficulties and does not adhere to the standardization principle;
8. A cap on Supplementary Levy amounts should be introduced for all development settings, including SDAs, to combat exponential rises in charges and housing cost impost from Supplementary Levy items; and
9. A more rigorous, industry supported process for developing this important system is required if

it is to be done properly and effectively to support the local infrastructure needs of Melbourne's Strategic Development Areas into the future.

Impact of COVID-19

The COVID-19 crisis needs to be resolved before any further policy change or cost imposts can be considered. UDIA Victoria is working with the Victorian Government and the Building Victoria's Recovery Taskforce to support the building, construction and development industry through the COVID-19 pandemic period, and to save jobs and grow jobs on the other side.

UDIA Victoria has written to the Minister for Planning asking that the Government consider establishing a moratorium on policy changes and additional costs which would impact the cost of producing new housing, until mid-2021. A copy of this letter is provided at **Attachment A**.

These including but are not limited to:

State Government

- Any proposal on foot to implement a state-wide Social and Affordable Housing Levy.
- Any proposal for a new infrastructure contribution for strategic redevelopment areas.
- Annual indexation and increase of the Growth Areas Infrastructure Contribution (GAIC).
- Adjustment and Indexation of the Kingston Strategic Environmental Mitigation Levy (EML).
- Better Apartment Design Guideline amendments which are currently the subject of consultation.

Local Government

- Proposals for new design standards and requirements. Councils continue to work on ad hoc planning scheme amendments that apply new local policies to development in their municipalities.
- Proposals for social and affordable housing. More than 40 Councils have various proposals on foot to prepare planning scheme amendments that will support new local policies for social and affordable housing which may include imposing Section 173 Agreements in exchange for development approvals.
- Proposals to increase public open space levies. A number of councils have planning scheme amendments generate proposals to increase open space contributions in established suburbs under the Subdivision Act.

Cost of producing new housing

UDIA Victoria is concerned about the mounting costs of new and increased taxes, charges and regulation that comprise the cost of a new house in Victoria.

Taxes and charges that contribute to the cost of producing housing, either increase the price of the end housing product, or reduce the land price a developer can pay from the original owner.

We challenge the idea that new taxes or costs will only affect asset owners through offsetting land values. History has shown that the introduction of such new costs, such as the Growth Areas Infrastructure Charge, discourages and or delays development and leads to significant unintended consequences. Melbourne already has some of the most expensive prices in the world for new housing. The high cost of housing in Victoria pushes lower income segments out of the private buyer and rental market and into the affordable housing market.

The business model supporting residential development reflects significant project risk and high costs of finance that developers must assume to deliver a project, as well as often low margins that are achieved on residential development projects.

The high cost of producing housing does not drive a reduction of underlying land values. In contrast, where the cost of producing housing is high, residential development may no longer be the highest and best use, and the land may continue to be used for another purpose despite a residential zoning. This drives an overall reduction in the supply of new housing.

High taxes, charges and delays through the planning and development approval process reduce housing supply by increasing risk, reducing returns and making certain types of development unfeasible.

If taxes and charges are increased further due to bracket creep or new taxes and charges being introduced, residential development may not be the highest and best use of the land and urban renewal areas and priority precincts may lay dormant.

If the cost of producing housing is so high that the system reduces overall supply, Government will need to play a greater and more deliberate role in funding and supporting infrastructure as new areas of Melbourne are developed.

There is limited opportunity for new levies to be introduced for value capture, priority precincts and affordable housing, without a material impact on the affordability of housing in Victoria. These measures cannot afford to be applied retrospectively or in a broad-brushed manner without significant consequences to the overall sector.

The cost of producing new housing in established areas of Melbourne comprise the following costs imposts as a result of state and local government policy, taxes and direct charges:

State Government

- Land tax
- Stamp duty
- Foreign purchaser surcharges on stamp duty and land tax
- Vacant residential land tax
- GST
- Metropolitan Planning Levy
- Statutory utility charges
- Cladding Rectification Levy
- State government infrastructure contributions
- Better Apartment Design Standards

Local Government

- Permit fees and charges including for extensions of permits
- Plan checking and supervision fees
- Local infrastructure contributions including local water authority fees, electrical authority fees, NBN deployment fees
- Council rates
- Open Space Levy
- Passive open space requirements

Principles of an ICP System

The concept of an ICP System for SDAs was first proposed by the Standard Development Contributions Advisory Committee in 2012 and 2013. Since then, numerous iterations of the System have been workshopped, and a commitment has been made by the Andrews Government to deliver an ICP System for SDAs including Fishermans Bend.

The Standard Development Contributions Advisory Committee's two key reports – 'Setting the Framework' (Dec 2012) and 'Setting the Levies' (May 2013) – outlined the following key principles:

- **Need:** The planning unit across which a charge is levied must have a demonstrated need for the proposed infrastructure. The degree and level of detail to which this principle must be demonstrated will inevitably vary according to the development setting and the nature of the infrastructure needs which exist in that setting.
- **Nexus:** There must be a reasonable nexus between the infrastructure that is levied for, and the planning unit across which it is intended to impose the levy. It may not be necessary to demonstrate that an individual development causes the need for the infrastructure, but that it forms part of a wider planning unit that will need the social and physical infrastructure. How need and nexus are demonstrated in a development setting with a standard charge is addressed further in this report.
- **Apportionment:** Levies should be fair and represent a reasonable apportionment of the cost of delivering infrastructure, having regard to the quantum of development and its likely use as a percentage of the overall use of the facility. The concept of 'user pays' underpins this principle but in the context of overall metropolitan development over time and complex usage patterns, this is a difficult concept to operationalise fairly or precisely.
- **Simple, flexible, provide certainty and be fair:** Fairness has the following dimensions:
    - A significant contribution by new residents to the basic and essential infrastructure that they generate a need for;
    - Existing residents in growth areas make a contribution through their rates to infrastructure delivered to address the needs of new residents, but which they are also likely to benefit from;
    - Some contribution through grants and other contribution from the revenue base of the State and Commonwealth governments for infrastructure that is provided State and

Australia wide;

- New residents pay a contribution over time through their rates for some of the infrastructure they require; and
- Fairness is a matter of judgment and not a matter of objective assessment.

Need for Solid Policy Development

UDIA Victoria has broadly supported the reform of local development contributions as they apply to Melbourne's Greenfield Precinct Structure Plan (PSP) areas. The ICP System designed for Greenfield areas was done so as to solve well-defined and agreed problems. All stakeholders agreed that the Development Contribution Plan system needed to be overhauled. Despite this, the reformed ICP System has proven complex in the Greenfield areas and further improvements and refinements are necessary to ensure the principles of need, nexus, apportionment and fairness are indeed achieved.

Our most recent submission regarding the Greenfield ICP System identified further important changes that are required, some requiring legislative refinements. This submission is included at **Attachment B**.

We are concerned that, unlike the Greenfield ICP System, the work to support the system's development for the Strategic Development Areas has not been done. The supporting research by Urban Enterprise is dated and new analysis about the potential impact of costs needs to be done to properly support the proposed policy approach.

Considerable work was undertaken by the Government, Councils and the industry to devise the original ICP concept, and to establish the details of the Greenfield System. There were many years' worth of Development Contributions Plans (DCPs) to test, analyze and interrogate to demonstrate the likely charging outcomes for the new system. Years of data was available and carefully scrutinized. Transport, Community, Recreation and other items, were assessed across many Greenfield ICPs. The information was shared with industry and we participated in numerous forums and considered discussions. This comprehensive process based on research and analysis built the case for the reform and formed a broad consensus between the stakeholder groups.

We have very carefully considered the material provided by DELWP and considered the application of an ICP system for SDAs and have attended a meeting of the Industry Reference Group. We have consulted our most experienced members and their advisors around the proposals. But we are yet to sight a working model that would show how an ICP, as now proposed, would work for an SDA. We are yet to see detailed analysis of existing or proposed precincts.

The proposals provided by DELWP around allowable items and supplementary levies are very broad and loose. There is very little structure to how the proposal would work and what infrastructure, in a more detailed sense, would be included. This will create great uncertainty for investors and developers.

More detailed work has to be done by in order to fully understand the impact of the proposed System and must be a pre-requisite for further industry consultation.

Our view is that at the very least the DELWP should demonstrate, with perhaps half a dozen fully worked examples, how the ICP would be applied, in a complete sense. This would we think demonstrate the issues we are describing, in detail. This should have been done and presented to stakeholders.

Unlike greenfield areas which are more consistent, the strategic redevelopment areas are diverse, their immediate settings are diverse, and the planned developments vary considerably, as does their likely timing. Each site has its own bespoke needs. One site might need a road traffic network upgrade, where another site may have good traffic access and may need a new major tram stop or bus prioritisation lanes. Each site will have very different requirements.

Development can be quite variable and the market for different development forms is not as predictable as greenfield areas. A large mixed-use development could include a range of development types. The demand for such buildings can vary over time, making forecasting complex. This work would need to be carried out for each strategic redevelopment area, in concert with structure planning work.

Unlike in the greenfield settings, in almost all cases considerable infrastructure existing in the strategic redevelopment areas. This is one of the key tenants of urban consolidation policy – for many decades. Government policy over generations has encouraged redevelopment to occur – as the infrastructure costs to Government are less.

The Standard Development Contributions Ministerial Advisory Committee focused more on the greenfield areas and is nearly a decade old. UDIA Victoria recommends that a new process is established to properly research, interrogate and assess an ICP System for SDAs, in partnership with the urban development industry.

Please contact me directly at danni@udiavic.com.au to arrange a suitable time to do so.

Yours sincerely

Danni Hunter
Chief Executive Officer

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28 April 2020

The Hon. Richard Wynne
Minister for Planning

By email: Richard.wynne@parliament.vic.gov.au

Dear Minister

COVID-19 – Temporary Moratorium on Residential Development Levies and Policy Changes

The Urban Development Industry of Australia, Victoria Division (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 welcomes the opportunity to work with the Andrews Government to support the residential development industry during this time. Further to our previous correspondence regarding our COVID-19 Action Plan and shovel ready projects, we are seeking your support to enable industry to continue to deliver residential projects during these unprecedented circumstances.

Significant risks are emerging as the Stage 3 lockdown continues and will remain even if Victoria reverts back to Stage 1 and 2 lockdown measures. These include:

- A good portion of the current residential construction activity was generated from property sales which occurred over the past two years. Following a period of historically lower activity due to several factors, sales had only recently started to build again.
- Now COVID-19 has crushed buyer confidence and access to finance, and new home sales have dropped up to 90%.
- These low sales volumes will flow through to reduced civil and home building construction activity, which is likely to result in thousands of jobs being lost over the coming months.
- Residential property and land sales - which drive construction - may be soft for some time.
- Immigration has been the single biggest driver of residential market sales in recent years. For obvious reasons, immigration has ceased and may not normalise for some time. Overseas student intake change will be a second factor that will impact some markets.
- There is a risk that when buyer confidence starts to recover, the impact of the stalled immigration will be felt, which will mean residential markets make take an extra 12 to 18 months to recover.

In response to these risks, we seek your urgent support to impose a moratorium on proposed new or amended fees, levies and taxes (Local and State Government level) or planning scheme amendments that will increase the cost of residential development, until <u>30 June 2021.</u>

Local Government Imposts

There are currently various proposals for fees, strategies, policies or planning scheme amendments at different stages of consultation and implementation. These all serve to increase development costs and the cost of delivering new residential land and dwellings.

Examples of these proposed or impending charges and policies include:

- **Proposals to increase public open space levies.** A number of councils have planning scheme amendments proposal to increase open space contributions in established suburbs under the Subdivision Act. As an example, Amendment C186 to Darebin Planning Scheme proposes to double the public open space contribution on development to 10%.

- **Proposals for social and affordable housing**. We understand that more than 40 Councils have various proposals on foot to prepare planning scheme amendments that will support new local policies for social and affordable housing which may include imposing Section 173 Agreements in exchange for development approvals.

  The most significant known proposal is the **Draft Affordable Housing Strategy for the City of Melbourne,** which is seeking to phase in a requirement that developers must gift 10% of new housing stock at no cost for affordable housing. This would decimate the residential market in the City of Melbourne.

  Given you are considering recommendations from the Ministerial Advisory Committee for Affordable Housing for a state policy approach, we urge you to put a moratorium on approving any local planning scheme amendments of this nature.

  When the economy recovers and the residential market normalises, a State mandated standard should be enacted to provide certainty across Victoria. We will write to you separately about this issue in the near future.

- Proposals for **new design standards and requirements**. Councils continue to work on ad hoc planning scheme amendments that apply new controls, requirements and local policies to development in their municipalities.

  We request you to enact a moratorium on approving any planning scheme amendments during this time that will increase the cost of delivering new residential land and dwellings to market.

State Government Imposts

State agencies from time to time progressively review requirements, standards and charges. We urge you to set aside all of these processes until the Victorian economy and residential market normalises. Examples of proposals include:

- Any proposal on foot to implement a state-wide Social and Affordable Housing Levy.
- Any proposal for a new infrastructure contribution for strategic redevelopment areas.
- Annual indexation and increase of the Growth Areas Infrastructure Contribution (GAIC).
- Adjustment and Indexation of the Melbourne Strategic Environmental Mitigation Levy (EML).
- Better Apartment Design Guideline amendments which are currently the subject of

consultation.

There may well be more proposals being considered within government that we are not aware of yet.

We welcome the Government's decision to delay implementation of the Environmental Protection Authority Regulations 2020 until 1 July 2021 and note our specific concerns with respect to the changes to the classification of fill material as industrial waste which will immediately increase costs of development.

Your support to enact a moratorium on any of the issues noted will reassure industry and provide us with some certainty, at least for a few years, on costs.

The state of Victoria is facing uncharted territory and we recognise the situation is changing daily. We believe it is critical for industry to work closely with State and Local Governments to ensure the residential development sector is well placed to contribute to the Victorian economy when the situation normalises and work ramps up again.

Please contact me directly at danni@udiavic.com.au to arrange a suitable time to do so.

Yours sincerely

Danni Hunter
Chief Executive Officer

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February 2020

UDIA Victoria response:

Metropolitan Melbourne Greenfield Growth Areas Infrastructure Contribution Plan Review Recommendations for the VPA (Mesh, 4 February 2020)

Introduction

The Mesh report is a sound document with well-reasoned discussion and recommendations. UDIA Victoria supports most of the recommendations, however we do seek some important modifications. We have also included some additional submissions not couched by Mesh which will improve Infrastructure Contribution Plans (ICPs).

Response to Mesh Recommendations

Land Valuation Methodology (R1 to R3)

1. **R1 is supported**. We agree that R1 introduces necessary refinements to the site-specific land valuation methodology to guard against inflated land values. These refinements ensure that inner public purpose land is valued on a reasonable basis and will reduce typical land equalisation charges by 10% to 15%.
2. **R2 is supported**. We agree that it is not appropriate to make the land valuation changes retrospective. Despite the attraction of a single system, the existing approved ICPs have been through a lengthy process and have allowed planning permits, sales and construction to proceed. If the changes were retrospective affected development projects would stall, impacting housing supply.
3. **R3 is supported**. This makes a consequential recommendation to adjust the Ministerial Direction to clearly reflect R2.

   While not addressed in the Mesh recommendations around land valuations, we urge the Government to:

   - Make land valuation reports public when the ICP is exhibited. There is no reason for the valuations to be considered confidential. We feel this is a principal that should be legislated.
   - Provide any party, including 'under providers', with the opportunity to make submissions around land valuations – recognising that these will be determined by the Valuer General rather than through a planning panel process.

   These changes would ensure natural justice and transparency and allow under providers to challenge any inflated land values to ensure they are not overcharged. This is important as once the ICP is approved the values are locked in except for indexation and because Public Land Equalisation Methodology (PLEM) charges can be significant. This also ensures ICPs are not opaque and will boost confidence in the process.

Supplementary Levy Criteria and Use (R4 to R7)

4. **R4 is supported, with modification**. We agree that the planning authority should be required to document how they have addressed the supplementary levy criteria. However, we submit that this documentation should occur in the Explanatory Report which is available when the Amendment is exhibited. The Part A submission timing proposed is too late to be helpful for persons preparing submissions to the amendment. The Part A submission can then elaborate as required.

5. **R5 is supported with modification.** We support the proposed assessment process and criteria which emphasise the need for the planning authority to identify potential savings in project scope to avoid the imposition of a supplementary levy. This would be a significant improvement to the process.

   The UDIA proposes one modification – the reference to PSP and ICP preparation costs (refer R6) should be a separate standard levy being 1% of the standard monetary contribution.

6. **R6 is supported with modification**. Our members already routinely fund PSP preparation costs through a standard VPA funding agreement. Presently these costs cannot be recouped by the developer. This means that non fundees get a free ride – which is plainly unfair. R6 ensures that the PSP preparation costs can be offset against the ICP by the funder when they develop their land. It also ensures that all developers pay their share of the PSP preparation costs.

   However, the UDIA requests several modifications:

   - A new separate standard levy should be created for 'PSP preparation'. The levy should be struck at 1% of the standard monetary component. This way the plan preparation (PSP and ICP) cost will be separate, removing argument and concern from Councils that PSP costs might trigger a supplementary levy. A separate standard levy is also desirable as it separates what will usually be a Council managed standard levy for roads and community / recreation items from the plan preparation costs which would normally be instigated by the VPA.
   - Council's should be encouraged or even required to credit the PSP preparation costs up front by moving funds between the different levy buckets (plan preparation, transport etc). This can ensure that the fundee receives a credit for the PSP costs in the first stages of their development or at least within their project timeframe. The risk otherwise is that fundees are not paid out until the completion of development within the PSP area which could be 25 years after the PSP costs are funded. Early credit is reasonable as the PSP preparation costs which could be $1-$2mn are funded up front by the developer and should be reimbursed early as the project is complete.

7. **R7 is supported.** Each component, including the PSP preparation costs would be considered in the 5-year review.

Standard Transport Levy Rate (R8 to R9)

8. **R8 is supported.** We strongly support this recommendation. This is especially important as the new criteria to be implemented through R5 should see the number and value of supplementary levies reduce. It would be premature for the existing transport charge rates to be reviewed now. This also would allow additional time and experience in implementation costs associated with the various

standard costs and templates which will provide for a more considered review process. We also point out that there should be less risk of cost overrun in future as each project is scoped in detail, is indexed and incudes 15% contingency.

9. **R9 is supported.** We strongly support this recommendation. The new criteria for imposition of a supplementary levy will assist to reinforce the principles that ICPs are not expected to be full cost recovery mechanisms.

General Direction Review (R10 to R11)

10. **R10 is supported with modification.** We support the changes to the Ministerial Direction provided changes are made as per our submissions regarding R5 and R6 relating to the PSP preparation levy.

    The other modifications we request are:

    - We submit that the separate walking and cycling infrastructure that may now be included separate to arterial roads and intersections should only include 'essential links'. This recognises that Council or the Growth Area Infrastructure Contribution (GAIC) should still fund major links between communities or to other areas outside the PSP. Without this clarification there is a risk that Council's may seek to include large cycle projects that provide benefits to the wider network in ICPs. Council may also seek elaborate pedestrian bridges at close intervals which are unreasonable, and which will drive up costs.
    - We agree that a 1.75m2 culvert for a pedestrian crossing may lead to unsafe narrow, dark pedestrian tunnels. However, the criteria should be tempered to allow for culverts to be fit for purpose. A specific measurement is not required. If one is included it should measure between 5m2 and 10m2, rather than introduce new 10m2 minimum dimension with no supporting evidence and without an understanding of the cost implications.
    - We do not support funding for rail grade separations, including cycle / pedestrian culverts of any size to be included in ICPs. These should be funded from other sources, like the GAIC. It should not be possible to create a supplementary levy to fund these items. If they don't fit in the Standard Levy, then they should not be permissible.
    - We agree that exclusion of land for an indoor recreation facility is an oversight and has formed a standard part of the former Development Contribution Plan (DCP) process prior to the introduction of the ICP system.
    - We strongly support inclusion of the costs of each allowable item in the ICP. This will provide a sound basis for the implementation phase. This will provide improved signalling to developers around expectations of the broad scope of each project.

    We also submit that the Government should legislate to require Council's, separate to the ICP, to:

    - Make a scoping sheet for every ICP project available to the public, including the estimated cost of each item.

- Prepare an annual report to Council providing an implementation strategy, including priorities, for the ICP.
- Provide for Council to advertise the draft implementation and make the final report public.

These modifications will provide for a transparent implementation process and provide clear signals to developers around likely timing of ICP credits which can be built into project cashflows. Requiring a strong implementation framework from Councils is not unreasonable given the ICPs will collectively deliver tens of billions of dollars of land and infrastructure – they need a corresponding level of implementation rigor. This approach will also ensure probity and reduce likelihood for opaque decisions.

11. **R11 is supported.** Industry and Council communication is paramount.

Impact of Changing Government Policy (R12 to R14)

12. **R12 is supported.** There needs to be stability in the ICP charging system within the 5-year review periods. It is true that Government policy around infrastructure scope changes from time to time. However, these changes tend to happen slowly, the consequences take time to fully emerge and implementation is usually progressive. Government policy changes should be picked up in the 5-year review process.

    The three-year-old kindergarten changes are an example of a Government policy change. In that case the State Government allocated funds to upgrade kinder facilities in the established and regional areas with a view to accommodating the three-year-old kinder policy changes. Government, not future homeowners, should cover increased costs arising from new policy.

    Programming and design and delivery efficiencies (including multi-storey community and school facilities) should be explored to minimise any additional capital cost requirements to fulfil the policy commitment. DET policy intent for early learning provision on primary school sites and shared facilities, and the opportunities for the VSBA to address any deemed infrastructure shortfall in their delivery program.

    Increasing ICPs should be a last resort and not the first point of call.

13. **R13 is supported.** Per discussion around R12.
14. **R14 is supported.** Per discussion around R12.

Planning and Environment Act Related Matters (R15 and R16)

15. **R15 is supported.** This is a very important change. It was industry's expectation that this was a cornerstone of the new system. We were surprised when the ICP legislation did not allow for pooling between land and infrastructure. This change will deliver vast improvements in ICP project implementation.

16. **R16 is supported.** The VPA should create a standard expectation around funds transfer between the collecting agency and development agency. This could be written into the ICP template and varied where necessary, for example if the Council and another development agency agreed on an alternative arrangement. As per our submission on R6, the Council should credit the PSP preparation costs upfront for the relevant developers so that it is refunded before their project is complete.

Early Acquisition of Land (R17 to R20)

17. **R17 is supported.** This should occur as a matter of course when every PSP and ICP is prepared. This would greatly assist in the smooth implementation of greenfield land development and infrastructure delivery. The industry has understood that there would be no need for a PAO under the new system, however, that expectation did not flow through to the legislation.
18. **R18 is supported**. As per comment on R17.
19. **R19 is supported.** As per comment on R18.
20. **R20 is supported.** In addition to application of a PAO, it is already possible under s36 of the Subdivision Act for developers to compulsorily acquire an easement that is essential for the orderly and economic development of land. This can be a lengthy process. It may be possible for an amendment to be made to the relevant legislation so that developers can acquire inner public purposes land in a straight-forward process through the Subdivision Act and in accordance with the relevant ICP land at the relevant PLEM land value. Equally, it should be straight forward for Councils to do the same under a new head of power for Councils to take the land without delay and to the value set in the ICP.

Implementation Related Matters (R21 and R22)

21. **R21 is supported.** We would reinforce that one of the fundamental principles of the DCP and ICP systems for decades has been that it is not a full cost recovery system. Council have other funding sources at their disposal and the State also assists from time to time. Any review of the recreation and community charge should not result in major increases to the charge and there should be no ability to have a supplementary levy for these projects.
22. **R21 is supported.**

The attachment provides some further comment on the Ministerial Direction.

Attachment – Comment on Ministerial Direction regarding ICPs

Table 4: Transport construction supplementary levy allowable items

Supplementary levy allowable item Criteria for applying a supplementary levy	***Supplementary levy allowable item Criteria for applying a supplementary levy***	UDIA Victoria comment
Arterial roads *This includes:* *• upgrades to existing local roads to arterial road standards; and* *• new arterial roads.*	*At least one of the following apply:* *• The Precinct Structure Plan or equivalent strategic plan requires:* *• arterial road spacing above the standard set out in Table 3; or* *• the interim construction of two through lanes in each direction.* *• Construction costs of the council arterial road cannot be wholly or partially funded from the standard levy because:* *• of the topographical, geographical, environmental or other physical conditions of the land; or*	Design standards Longstanding apportionment principles must continue to apply. If there is a need for an arterial road larger or more frequent than the standard in Table 3 (Standard allowable items), then in order for the supplementary levy to be triggered, it must be demonstrated that the additional demand is being generated entirely by the new PSP. For example, in Minta Farm, demand for the upgraded arterial road standard was created by the surrounding area, rather than by development within the PSP area. In such examples, alternative funding sources should be identified, or costs apportioned.

Attachment 1

UDIA Victoria comments on allowable items from November 2019 submission:

Supplementary levy allowable item Criteria for applying a supplementary levy	***Supplementary levy allowable item Criteria for applying a supplementary levy***	UDIA Victoria comment
	• *the road is designed to primarily service industrial development; or* • *the area of the precinct in net developable hectares is limited.*	
Intersections with council and declared State arterial roads *This includes:* • *arterial and arterial road intersections; and* • *arterial and connector road intersections.*	*At least one of the following apply:* • *The Precinct Structure Plan or equivalent strategic plan requires:* • additional number of intersections above the standard set out in Table 3; or • intersection design requirements above the standard set out in Table 3. *Construction costs of the intersections cannot be wholly or partially funded from the standard levy because:* • of the topographical, geographical, environmental or other physical conditions of the land; or	We note that the realities of land availability must be considered when determining intersection design, and what constitutes creditable works. Flexibility around staging of works should occur, especially when the stages provide for medium term traffic capacity. This is another reason to facilitate developers or Councils top take land as per the ICP to facilitate development.

Attachment 1

UDIA Victoria comments on allowable items from November 2019 submission:

Supplementary levy allowable item Criteria for applying a supplementary levy	***Supplementary levy allowable item Criteria for applying a supplementary levy***	UDIA Victoria comment
	• the road is designed to primarily service industrial development; or • the area of the precinct in net developable hectares is limited.	
Road bridges (including rail overpasses)	*The constructions costs of the bridge cannot be wholly or partially funded from the standard levy.* *The bridge forms part of the council arterial road network.*	Rail and Freeway overpasses – road and ped/cycle - are higher order items that should be eligible for GAIC funding and for GAIC – WIK agreements.
Pedestrian bridges and accessways	*The constructions costs of the pedestrian bridge or accessway cannot be wholly or partially funded from the standard levy.* *The pedestrian bridge or accessway is required to provide access across a railway, arterial road, waterway corridor, major easement or other major obstacle.*	There are currently items that should be considered higher order infrastructure therefore appropriately funded by GAIC rather than ICPs – such as overpasses and pedestrian bridges to rail and freeways. Recent examples of this include but are not limited to the following: - Donnybrook-Woodstock ICP: Cameron Street Bridge – railway overpass in ($22million project adding $11,000/NDHa)

Supplementary levy allowable item Criteria for applying a supplementary levy	***Supplementary levy allowable item Criteria for applying a supplementary levy***	UDIA Victoria comment
		- Mt Atkinson & Tarneit Plains ICP: Hopkins Road Level Crossing upgrade at Melbourne-Ballarat rail corridor $938,000 - Plumpton & Kororoit ICP: $7.7m Ped/Cycle bridge over Western Freeway Alternative funding sources for these items must be identified (and committed to) during the PSP stage. -
Major culverts	*The constructions costs of the major culvert cannot be wholly or partially funded from the standard levy. The internal cross-sectional area of the culvert is at least 1.75 square metres.*	Support the increase of the cross section area to ‘5 to 10 square metres”.

Table 5: Other supplementary levy allowable items

Supplementary levy allowable item Criteria for applying a supplementary levy	***Supplementary levy allowable item Criteria for applying a supplementary levy***	UDIA Victoria comment
Other local works, services or facilities	• *The item is essential to the development of the area;* • *The item is not listed as a standard levy allowable item; and* • *The Minister agrees to the item being funded from a supplementary levy.*	This provision is vague and should be deleted.

Early delivery of works, services or facilities	*The early delivery of the item is essential to the orderly development of the area; and*
	• *The financing costs are:*
	  • *incurred by the development agency responsible for providing the item; and*
	  • *associated with the early delivery of the item which is listed as a standard levy allowable item or a supplementary levy allowable item; or*
		Financing costs for State agencies should not be eligible for supplementary levies.
		
		The role of the development industry in delivering local infrastructure under works in kind agreements must be acknowledged.
		
		Financing costs should only be considered where a Council has a seriously entertained and well defined proposal and has passed a

Attachment 1

UDIA Victoria comments on allowable items from November 2019 submission:

Supplementary levy allowable item Criteria for applying a supplementary levy	***Supplementary levy allowable item Criteria for applying a supplementary levy***	UDIA Victoria comment
	• *associated with the early acquisition of public purpose land referred to in section 46GV(8) of the Act which is required for the early delivery of the item.*	resolution to borrow funds to finance a project.
Intersections with council local roads	*The intersection is on or adjoins land in fragmented ownership.*	

Attachment 1

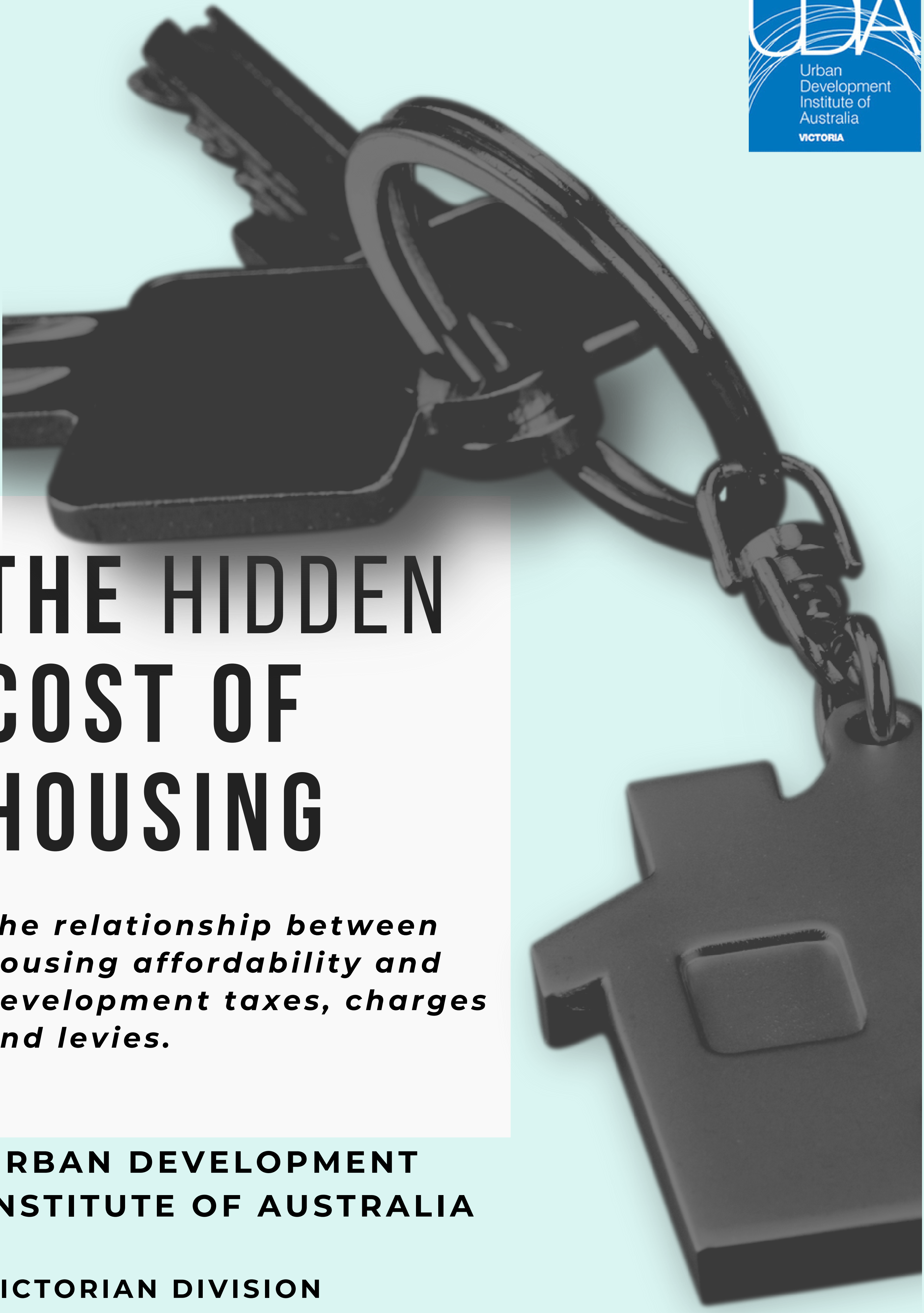
UDIA Victoria comments on allowable items from November 2019 submission:

Supplementary levy allowable item Criteria for applying a supplementary levy	***Supplementary levy allowable item Criteria for applying a supplementary levy***	UDIA Victoria comment
Local or collector roads; *• Local road or pedestrian bridges; or* *• Local pedestrian accessways.*	*• The item, normally provided by a developer to develop the land for urban purposes, is on or adjoins land in fragmented ownership;* *• The fragmented land ownership makes the delivery of the item by the developer difficult;* *• The item is essential to the orderly development of the area;* *• The relevant municipal council has agreed to be the development agency for the item; and* *• The cost of the item can be fairly levied amongst the developers who will benefit from the delivery of the item.*	Only benefiting owners within the fragmented area should contribute to such local roads or other facilities.

Table 6: State infrastructure supplementary levy allowable items

Note: In accordance with 46GH of the P&E Act, this only applies in GAIC areas where the Council is the development agency

<table>
<tr><td colspan="2">Supplementary levy allowable item Criteria for applying a supplementary levy</td><td>Supplementary levy allowable item Criteria for applying a supplementary levy</td><td>UDIA Comment</td></tr>
<tr><td>Transport infrastructure</td><td>Construction of declared State roads, including intersections and bridges, and public transport infrastructure</td><td rowspan="3">The infrastructure is identified in a growth corridor plan or equivalent State or local strategic plan adopted by a Minister, government department or a planning authority;
• The development generates a need for the State infrastructure;
• The provision of State infrastructure through the infrastructure contributions plan complies with section 46GH of the Act; and
• The State or State government agency has agreed to be the development agency for the infrastructure item.</td><td rowspan="3">Even where Councils are the Development Agency, UDIA Victoria considers that State infrastructure must not be funded by ICPs in GAIC areas.</td></tr>
<tr><td>Community facilities</td><td>Construction of state education, health or emergency facilities</td></tr>
<tr><td>Other State works, services or facilities</td><td>Construction of infrastructure that is essential to the development of the area</td></tr>
</table>



THE HIDDEN COST OF HOUSING

The relationship between housing affordability and development taxes, charges and levies.

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

VICTORIAN DIVISION

JULY 2020

ABOUT UDIA VICTORIA

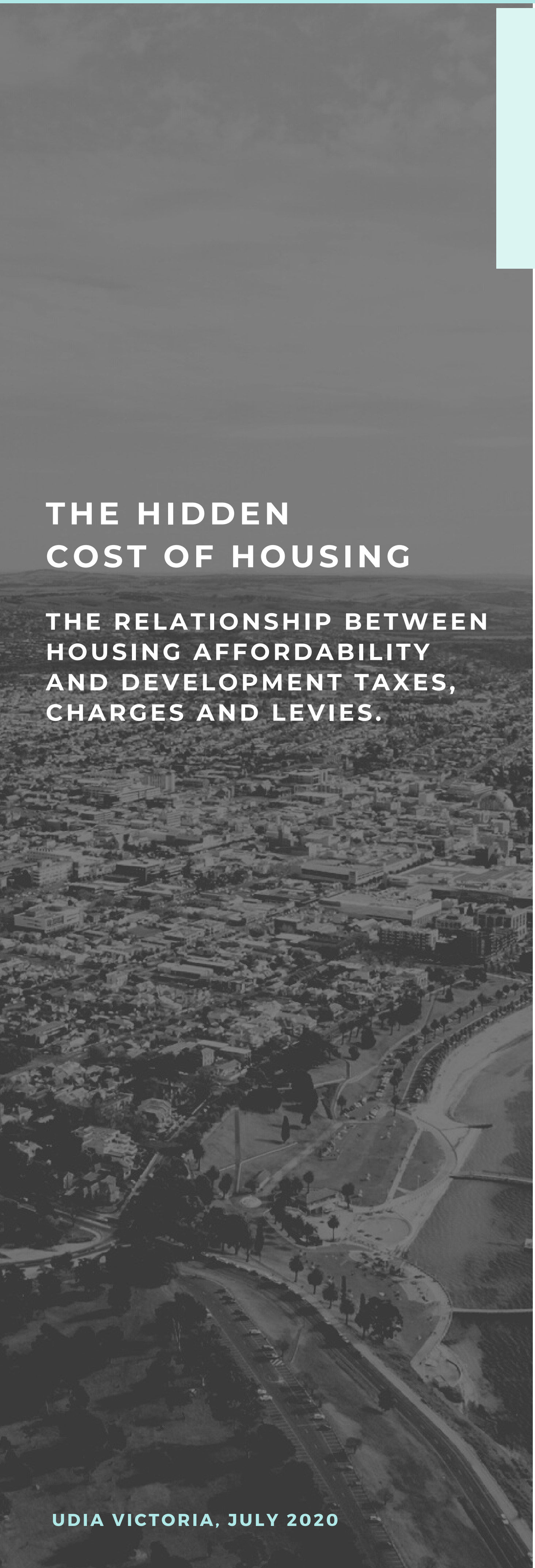
The Victorian Division of the Urban Development Institute of Australia (UDIA Victoria) is a non-profit advocacy, research and educational organisation. We are supported by a membership of land use and property development organisations across the private sector and Victoria's public service. We are committed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

UDIA Victoria considers housing affordability to be essential to Victoria's productivity and liveability. Our efforts to improve housing affordability seek to support secure home purchases and guarantee ongoing employment for hundreds of thousands of Victorians – those working in the building, construction and development industry, as well as in related service industries including the planning, legal, financial, environmental management, engineering and consulting sectors.

The cost of housing is one of Victoria's biggest challenges, but it doesn't have to be that way. We are committed to influencing bold, forward-thinking Government policy that reduces the cost of new housing for all Victorians.

HOUSING IS OUT OF REACH FOR TOO MANY VICTORIANS. WE ARE WORKING HARD TO CHANGE THAT.

#MakeHousingAffordable



THE HIDDEN COST OF HOUSING

THE RELATIONSHIP BETWEEN HOUSING AFFORDABILITY AND DEVELOPMENT TAXES, CHARGES AND LEVIES.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

WHEN VICTORIANS BUY A NEW RESIDENTIAL PROPERTY, **19-34%** OF THEIR PURCHASE PRICE IS DRIVEN BY GOVERNMENT TAXES AND CHARGES.

- UDIA Victoria's ***The Hidden Cost of Housing*** research highlights how much of a new home purchase price is attributable to Commonwealth, State and Local Government taxes, charges and levies.
- The research shows that **government charges cost up to 34% of a local homebuyer's purchase price** of a new residential lot or dwelling, depending on the circumstances of the homebuyer and the property they are buying.
- Taking **interest costs** into account, the research finds that the large up-front cost impost then sits in the homebuyer's mortgage, adding significantly to the length and cost of their mortgage.
- In most cases, the total cost of government taxes, charges and levies on homebuyers is **higher than the developer's profit** – a finding that disproves the view that home prices are high because developer profit margins are high.
- **Foreign homebuyers pay up to 40% more in taxes and charges** than domestic homebuyers in the examined scenarios. This is an issue particularly if the foreign buyer later sells to a domestic purchaser at a price that reflect the higher price they paid.
- The approach in this report has been deliberately conservative with **several taxes and charges excluded**. The cost to buyers and pressure on development feasibility is therefore expected to be much higher in many circumstances.
- In conclusion, **government taxes and charges have a real impact on the cost of housing in Victoria.**

#MakeHousingAffordable

CURRENT SYSTEM IS NOT CONDUCIVE TO HOUSING AFFORDABILITY

The residential development industry creates homes for Victorians and delivers important economic activity across the state.

This activity is reliant on two key factors:
1. Development must be commercially viable; and
2. The residential product (homes) delivered to market must be relatively affordable for homebuyers with different incomes.

UDIA Victoria's research shows these key factors are not being achieved in large segments of the market. One of the key drivers of this imbalance is the hidden cost of housing, imposed by taxation, regulatory charges and development delays which reduce feasibility and increase the purchase price.

UDIA VICTORIA RECOMMENDATIONS

Reform development taxes, charges, levies and fees

The findings of this research clearly demonstrate that the current tax mix hurts homebuyers at all income levels and circumstances.
We urge the State Government to consider targeted adjustments to taxes, which may achieve two goals by stimulating greater transactions through a demand response, while reducing the cost of housing. Cost reduction measures should be considered for buyers and the development process. Additionally, in considering reform options, Government should apply a whole-of-government approach by acknowledging the total range of cost drivers impacting on housing, including GST, local government charges, delays in approval processes and various new planning policy measures.

Moratorium on new taxes and charges

Government must recognise that the development industry is unable to absorb any additional taxes or charges, without passing the added cost impost straight onto homebuyers. Any additional taxes and charges imposed by governments should therefore be considered a cost to homebuyers. Given declining purchasing power, there is a strong case for a moratorium on new taxes and charges.

Plan for growth

In the current environment we risk facing a dramatic reduction in housing supply, that could feed into the following two or three years. This will impact on housing choice and affordability when population growth and immigration stabilise following the COVID-19 pandemic period.

RISKS TO VICTORIA OF NOT REDUCING THE HIDDEN COST OF HOUSING

01 Affordability, buyer behaviour and housing choice

Ongoing increases to the cost of development, driven by taxes and charges, cannot feasibly be carried by the development sector, Therefore, many government taxes and charges on development are ultimately paid by homebuyers. This has impacts on affordability, buyer behaviour, housing choice and creates financial stress for many Victorians.

02 Government's tax revenue base

A high property tax base makes an increasing number of projects unfeasible. High taxes act as a halt on development, weakening the tax revenue base used to fund state services and infrastructure.

03 Key workers

High taxes and charges that drive up the cost of housing lead to uncompetitive home prices and rental accommodation. This could limit affordable housing that meets the needs of population growth which could constrain the numbers of key workers coming to Victoria, including teachers, nurses and emergency service workers.

04 Domestic and foreign students

High housing costs driven by taxes and charges impacts on the attractiveness of Victoria for domestic and foreign students – one of our key export markets and a primary industry sector for the state.

05 Public housing and human services

Growing housing costs will indirectly drive up costs across a range of State Government portfolios – for example, unaffordable housing is likely to cause an increasing number of people to require Government support through the public housing and human services system.

HOME BUYER PROFILES

The Hidden Cost of Housing research is based on different buyer profiles that represent a cross-section of Victoria's home buyers.

29%

MARIA: 1ST HOMEBUYER, SINGLE PARENT, KEY WORKER

- Income: **$90,000 pa**
- Buying: **200m2 lot in growth areas**
- Approx. purchase price: **$200,000**
- Taxes & charges: **$62,480 + interest**
- Developer profit: **$25,136**
- **29% of Maria's purchase price is driven by taxes and charges.**

34%

TOM & EMILY: 2ND HOMEBUYER, FAMILY OF 4

- Income: **$135,000 pa combined**
- Buying: **400m2 lot in growth areas**
- Approx. purchase price: **$315,000**
- Taxes & charges: **$106,314 + interest**
- Developer profit: **$36,050**
- **34% of Tom and Emily's purchase price is driven by taxes and charges.**

19%

SAM: SINGLE DOWNSIZER, RETIRED

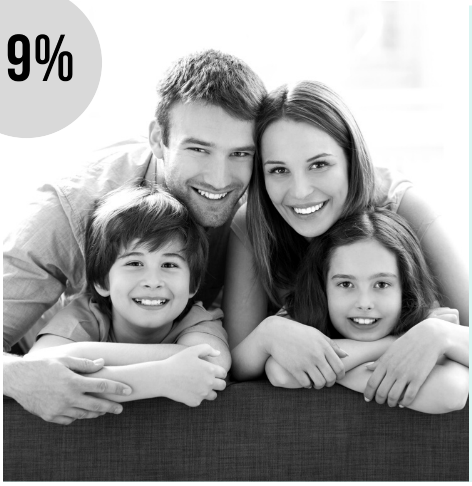
- Income: **$50,000 pa (super)**
- Buying: **Off-the-plan 2 bed, 1 bath apartment**
- Approx. purchase price: **$685,000**
- Taxes & charges: **$131,765 + interest**
- Developer profit: **$77,363**
- **19% of Sam's purchase price is driven by taxes and charges.**

Victorian homebuyers are paying too much in government taxes and charges.

#MakeHousingAffordable

BUYER PROFILES

19%



STEVE & MELISSA: INVESTOR FAMILY

- Income: **$160,000 pa (combined)**
- Buying: **Off-the-plan 2 bed, 2 bath investment apartment**
- Approx. purchase price: **$685,000**
- Taxes & charges: **$131,765 + interest**
- Developer profit: **$77,363**
- **19% of Steve and Melissa's purchase price is driven by taxes and charges.**

21%

CON: OWNER/BUILDER, BUILDS 2 TOWNHOUSES PER YEAR

- Buying: **Site in an established suburb; fund construction himself**
- Approx. purchase price: **$1.4m**
- Taxes & charges: **$299,491 + interest**
- Developer profit: **$159,685**
- **21% of Con's purchase price is driven by taxes and charges.**

+40%

FAITH: FOREIGN STUDENT

- **Buying:** Off-the-plan 2 bed, 2 bath investment apartment
- Approx. purchase price: **$685,000 + $55,000 surcharge duty = $740,000**
- Taxes & charges: **$183,958**
- As a foreign resident, **Faith will pay 40% more on taxes and charges than an Australian investor family** purchasing the same property.

Victorian homebuyers are paying too much in government taxes and charges.

#MakeHousingAffordable

HOUSING AFFORDABILITY

HOUSING AFFORDABILITY WILL BE CRITICAL TO KEEPING VICTORIANS OWNING AND RENTING THEIR OWN HOMES – AND OFF THE GOVERNMENT'S SOCIAL AND AFFORDABLE HOUSING WAITING LISTS.

#MakeHousingAffordable

COVID-19 has exacerbated the existing housing affordability challenges faced by Victoria's homebuyers. As unemployment and under-employment rises, and purchaser finance becomes harder to obtain, it is time for Government to address the massive financial hurdles blocking Victorians from buying a home.

The cost of housing is significantly increased by government taxes and charges on the developer, in addition to taxes and charges paid by homebuyers as part of their acquisition and ongoing ownership of a property.

Other costs include land acquisition costs, construction and financing costs, project profit and marketing.

Through this research, we have found that government taxes and charges can cost the equivalent of **one third of the purchase price** of a new home in Victoria. These costs are often hidden, and have to be funded by a homebuyer's mortgage and paid back over time.

There's never been a better time to get real about the high cost of housing in Victoria. We need radical change to the state taxation system – change that supports homebuyers and the building, construction and development industry so it can continue to support our economy and welcome Victorians into the housing market.

Housing affordability will be critical to keeping Victorians owning and renting their own homes – and off the government's social and affordable housing waiting lists.

HOMES FOR VICTORIANS

VICTORIAN GOVERNMENT, 2017

THE HOMES FOR VICTORIANS STRATEGY RELEASED BY THE VICTORIAN GOVERNMENT IN 2017 STATES THE FOLLOWING:

Recent data shows the problem is growing. Median house prices in Melbourne have risen by over 40 per cent since 2012.

Metropolitan Melbourne house prices have risen to $610 000 and unit prices to $490 000 for the June Quarter 2016.

Melbourne continues to have the highest home prices after Sydney. From 2005 to 2015, the median sale price of housing across regional Victoria increased 49 per cent, from $206 000 to $307 500.

At the same time unit prices in regional Victoria rose 32 per cent, from $190 000 to $251 000. These increases are having a real impact on the ability of Victorians to buy a home.

From 1994-95 to 2013-14, home ownership rates dropped from 76 per cent to 69 per cent of Victorian households.

The price growth is having the biggest impact on our young, with the decline in home ownership rates steepest among Victorians aged 25 to 34.5.

IMPACT OF CORONAVIRUS

"On the 2018-2019 year for net overseas migration, we're expecting just over a 30 per cent fall in 2019-2020, the current financial year. And in 2020-2021, an 85 per cent fall-off those 2018-2019 levels as well."

SCOTT MORRISON, PRIME MINISTER OF AUSTRALIA, 2 MAY 2020

As a major plank of the Victorian economy, the housing sector has been negatively impacted by COVID-19 and the pandemic has drastically changed the market and business conditions as follows:

- A good portion of the current residential construction activity was generated from property sales which occurred over the past two years.
- Following a period of historically lower activity due to several factors, sales had only recently started to build again. Now COVID-19 has compromised buyer confidence and their ability to access finance. New home sales have dropped significantly; this will flow through to reduced civil and home building construction activity, which may result in thousands of jobs being lost in the 2020-21 financial year. Residential property and land sales - which drive construction - may be soft for some time.
- Immigration has been the single biggest driver of residential market sales in recent years. For obvious reasons, immigration has ceased and may not normalise for some time. Overseas student intake change will be a second factor that will impact some markets.
- There is a risk that when buyer confidence starts to recover, the impact of the stalled immigration will be felt, which will mean residential markets make take an extra 12 to 18 months to recover.

KEY CONCLUSIONS

UDIA Victoria's ***Hidden Cost of Housing*** report demonstrates that government taxes, charges and levies imposed on the production of new housing, have a tangible and significant impact on housing affordability.

Key conclusions:

- The mix of existing taxes and charges levied on development and on homebuyers, has a material impact on the ability of different buyers to enter the housing market and buy property that suits their needs and financial circumstances.
- The cost of taxes and charges sit within a mortgage and is paid back over time. This adds significantly to the size of the homebuyer mortgage.
- While interest rates are currently at record lows, any movement upwards to normalised interest rates would have a large impact on the interest payable on a mortgage, and on the component of costs which comprise government taxes and charges.
- Foreign buyers pay additional taxes and charges. For example, a foreign buyer purchasing an off-the-plan 2 bedroom, 2 bathroom apartment will pay approximately $52,193 more than a domestic investor would pay for the same property. If the foreign buyer sells to a domestic purchaser at a later date, the sale price could be higher to reflect the price paid by the foreign buyer on the original purchase.
- State and local governments should be cautious about assuming that major infrastructure can be funded with new taxes on property, or other measures such as value capture without significantly increasing the cost of housing.
- The key drivers of high home prices are the cost of development, brought on by taxation, regulatory charges and development delays which reduce feasibility and increase the purchase price.

- The current tax system is significantly compromising economic activity by locking more Victorians out of the housing market.
- Taxes and charges that contribute to the cost of producing housing, either increase the price of the end housing product, or reduce the land price a developer can pay from the original owner.
- The business model supporting residential development reflects significant project risk and high costs of finance that developers must assume to deliver a project, as well as often low margins.
- The high cost of producing housing does not automatically reduce underlying land values. In contrast, where the cost of producing housing is high, residential development may no longer be the highest and best use, and the land may continue to be used for another purpose despite a residential zoning. This drives an overall reduction in the supply of new housing.
- High taxes, charges and delays through the planning and development approval process reduce housing supply by increasing risk, reducing returns and making some types of development unfeasible.
- The high cost of housing in Victoria pushes lower income segments out of the private buyer and rental market and into the affordable housing market.
- If taxes and charges are increased further due to bracket creep or new taxes and charges being introduced, residential development may not be the highest and best use of the land and urban renewal areas and priority precincts may lay dormant.
- If the cost of producing housing is so high, that the system reduces affordable housing supply, Government will need to play a greater and more deliberate role in funding and supporting affordable and social housing.
- Portfolios such as justice, health and education can be impacted (and the cost of delivering these services to the community), if housing needs are not met due to a lack of affordable housing supply.

METHODOLOGY AND ASSUMPTIONS

This report seeks to quantify the typical government taxes, charges and levies associated with delivering new residential lots in Melbourne's growth areas, or new dwellings (townhouses and apartments) in established areas. It is a conservative estimate, and does not extend to all taxes, charges, levies and costs associated with the planning and development approval process. This is because it is difficult to achieve uniformity across all taxes, charges, levies and costs.

The report calculates government taxes, charges and levies as a percentage of the total cost of the land or dwelling to demonstrate the affordability impacts across various buyer profiles. These buyer profiles are examples only and do not represent all buyer profiles.

Five buyer profiles are depicted that:

- Are broadly representative of segments of the residential purchaser market in Victoria; and
- Represent a range of scenarios from purchasing new residential land in Melbourne's growth areas, to new dwellings in established areas.

The buyer profiles and broad assumptions are related to examples located within 40km from CBD. The cost inputs into each buyer profile have been peer reviewed for accuracy by residential development practitioners operating in Melbourne's growth areas and established areas.

This process confirmed the figures used for the taxes, charges and levies, and that the detailed assumptions, are a reasonable representation of real projects.

INCLUSIONS AND EXCLUSIONS

GOVERMENT TAXES AND CHARGES

UDIA Victoria has taken a deliberately conservative approach in quantifying the total amount of government taxes and charges. **This should assure government decision-makers that our scenarios in no way resemble a worst-case scenario**, and in fact represent an optimistic depiction of the impact that taxes and charges have on homebuyers.

We have not included the impacts of all taxes and charges. Particularly, we have excluded those that are relatively variable in nature and in application to individual development sites, some that have recently been introduced, and those which are expected to be introduced or take effect in 2020.

Government taxes and charges included in this study:

- Developer land tax
- Stamp duty (twice being paid once by the developer and once by the homebuyer)
- Foreign buyer surcharge on stamp duty
- GST
- Growth Area Infrastructure Contribution
- Infrastructure Contributions
- Developer council rates
- Open Space Levy
- Metropolitan Planning Levy
- Statutory utility charges

Samples of some of the items we have excluded include:

- Infrastructure Contribution Plans for Strategic Development Areas
- Impacts of the Better Apartment Design Guidelines
- Cost increases assocated with the Melbourne Strategic Assessment and Biodiversity Conservation Strategy
- Cladding Rectification Building Permit Levy
- An amendment to the Duties Act 2000 which means Development Agreements attract stamp duty (2019)
- An amendment to the Land Tax Act 2005 changed the method for applying land tax to primary production land (2019)
- Taxes and charges that apply post homebuyer acquistion

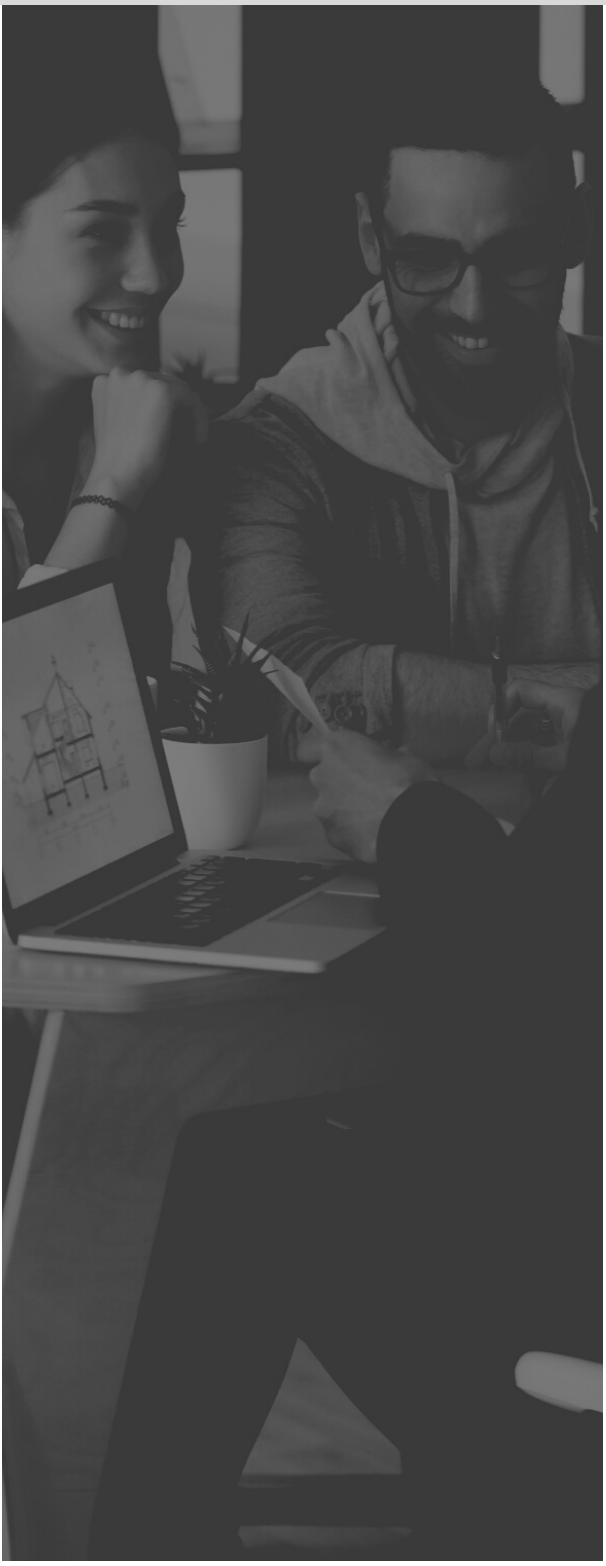
OVERVIEW OF KEY ASSUMPTIONS

Profile	Developer Costs	Developer taxes & charges	Buyer taxes & charges	Purchase Price
Maria (resident FHB)	$149,500	$43,210	$19,271	**$211,980**
Maria (foreign resident FHB)	$149,500	$43,210	$42,414	**$235,124**
Tom & Emily (resident FHB)	$211,025	$65,364	$27,639	**$304,028**
Tom & Emily (resident not FHB)	$211,025	$65,364	$40,951	**$317,339**
Tom & Emily (foreign resident)	$211,025	$65,364	$62,422	**$338,811**
Steve & Melissa (resident)	$556,543	$36,570	$95,195	**$688,307**
Steve & Melissa (foreign resident)	$556,543	$36,570	$147,388	**$740,501**
Sam (resident)	$556,543	$36,570	$95,195	**$688,307**
Sam (foreign resident)	$556,543	$36,570	$147,388	**$740,501**
Con (resident)	$1,121,250	$102,999	$196,492	**$1,420,741**
Con (foreign resident)	$1,121,250	$102,999	$304,226	**$1,528,474**

- Developer costs includes land acquisition, construction, and developer margin
- FHB = First homebuyer

BUYER PROFILES

THE AMOUNT THAT TAXES, CHARGES, LEVIES AND FEES ADD TO THE COST OF HOUSING IS SIMPLY TOO MUCH FOR HOMEBUYERS TO CARRY.



UDIA Victoria has analysed the impact of government taxes, charges and levies on a range of different buyer profiles to demonstrate the cost of these charges to the real people who are buying new homes.

The report includes five buyer profiles which are broadly representative of segments of the residential purchaser market being:

- The first home buyer, who is a single parent and a key worker;
- A family with two key worker parents;
- A single downsizer;
- An investor family; and
- A builder.

Foreign buyers are also considered in the analysis under various scenarios, and the sixth buyer profile focuses on a foreign buyer.

In addition, the assessment considers the impact of taxes and charges on the size of a mortgage and long-term interest costs.

These buyer profiles are intended to provide context for the debate regarding housing supply, housing affordability, and key policy settings impacting the cost of delivering new dwellings.

This research quantifies how these costs compare to the overall initial cost of buying a lot or dwelling.

BUYER PROFILES

MARIA

Maria is a single parent and key worker who earns an annual income of $90,000.

Maria is a first homebuyer; buying a 200m2 lot in the growth areas with a budget of $200,000 for the lot.

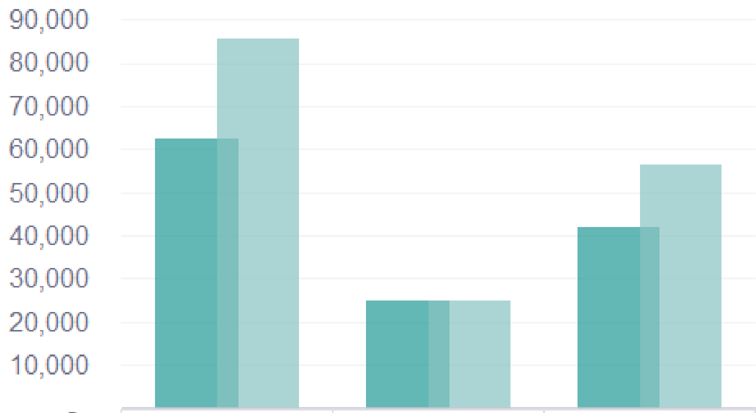
29%

The equivalent of **29% of Maria's purchase price is** driven by taxes and charges.

As part of Maria's acquisition of a 200m2 block of land in the growth areas at a price of approximately $200,000, she will face a total mix of costs including:

- $43,210 of taxes and charges paid by the developer and passed on to the buyer.
- $19,271 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $62,480.**
- These costs are significantly higher than the **developer profit of $25,136** on this project.

TAXES & INTEREST PAID BY MARIA (1ST HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
1st home buyer	62,480	25,136	42,123
Foreign Buyer	85,624	25,136	56,392

1st home buyer   Foreign Buyer

- In addition, to fund the total taxes and charges, she would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $42,123.**
- **What if?** If Maria was not a first homebuyer, the total tax cost directly paid by her and passed on by the developer amounts to $70,269.
- **What if?** If Maria was a foreign resident, she would face a total tax and charges cost of $85,624.

BUYER PROFILES

TOM & EMILY

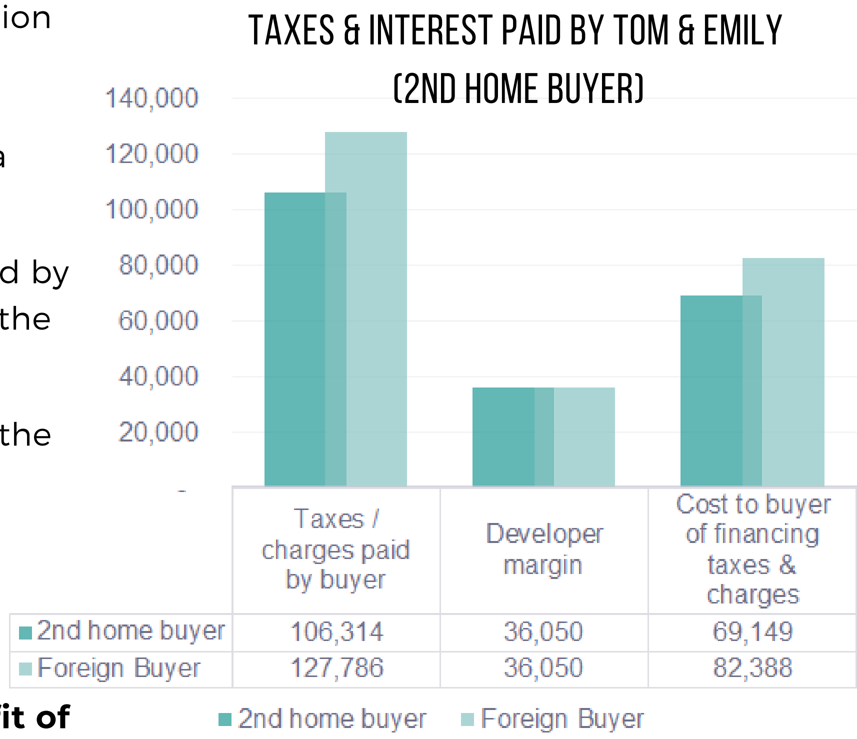
Tom and Emily are schoolteachers with two kids and a combined annual income of $135,000.

They are purchasing their second home; a 400m2 lot in the growth areas with a budget of $315,000 for the lot.

34%

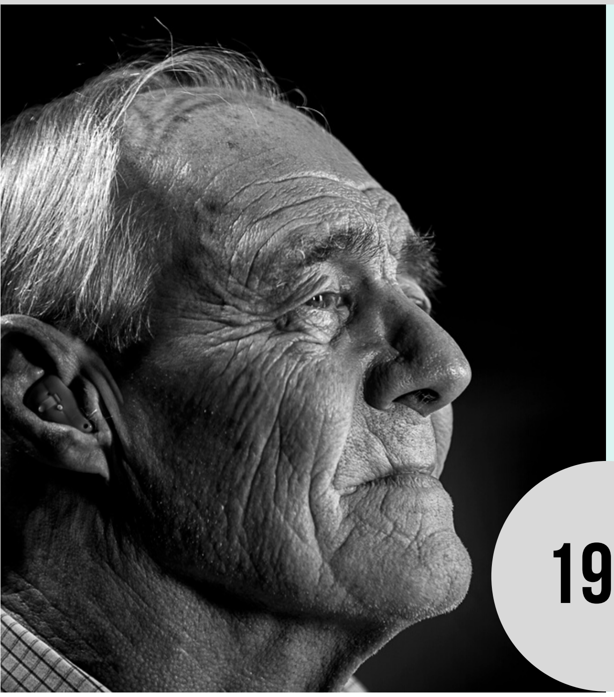
The equivalent of **34% of Tom and Emily's purchase price is driven by taxes and charges.**

- As part of Tom & Emily's acquisition of a 400m2 block of land in the growth areas at an approximate price of $315,000, they will face a total mix of costs including:
- $65,364 of taxes and charges paid by the developer and passed on to the buyer.
- $40,951 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $106,314.**
- These costs are significantly higher than the **developer profit of $36,050** on this project.



- In addition, to fund the total taxes and charges, Tom & Emily would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $69,149.**
- **What if?** If they were first homebuyers, the total tax cost directly paid by them and passed on by the developer amounts to $93,003.
- **What if?** If they were foreign residents, they would face a total tax and charges cost of $127,786.

BUYER PROFILES



SAM

Sam is a single downsizer with an annual income of superannuation of $50,000.

Sam is looking for an off-the-plan 2 bedroom, 1 bathroom apartment with a budget of $685,000.

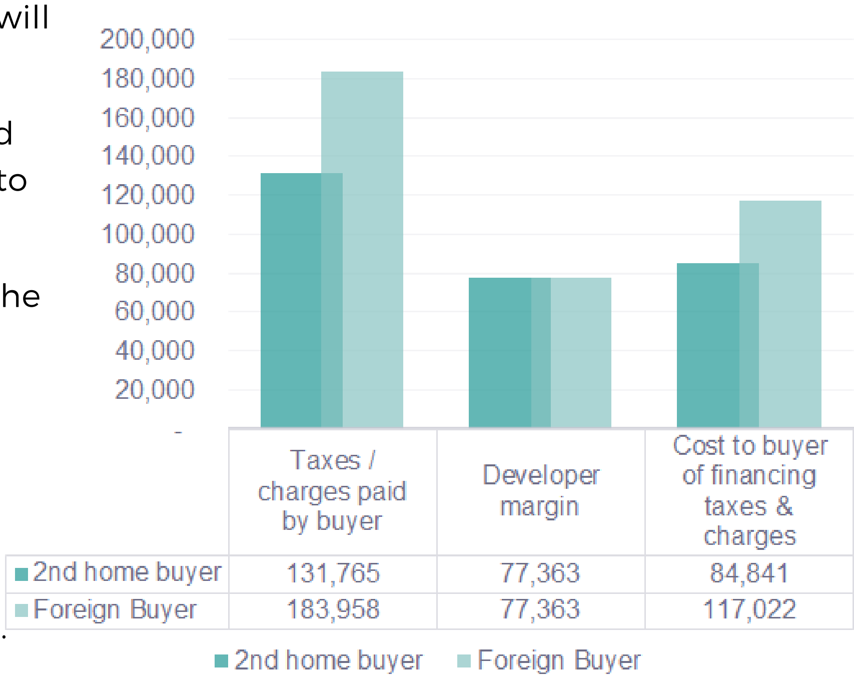
19%

The equivalent of **19% of Sam's purchase price is driven by taxes and charges.**

As part of Sam’s acquisition of a 73m2 unit in an established area at an approximate price of $685,000, he will face a total mix of costs including:

- $36,570 of taxes and charges paid by the developer and passed on to the buyer.
- $95,195 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $131,765**
- These costs are significantly higher than the **developer profit of $77,363** on this project.

TAXES & INTEREST PAID BY SAM (2ND HOME BUYER)



- In addition, to fund the total taxes and charges outlined above, Sam would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $84,841.**
- **What if?** If the new stamp duty provisions on Development Agreements applied, it is estimated that the total taxes and charges faced by Sam would increase to $134,701.
- **What if?** If Sam was a foreign resident, he would face a total tax and charges cost of $183,958.

BUYER PROFILES

STEVE & MELISSA

Steve and Melissa are a couple with kids, looking for an investment property.

On a combined annual income of $160,000, they are looking for an off-the-plan 2 bedroom, 2 bathroom investment apartment with a budget of $685,000.

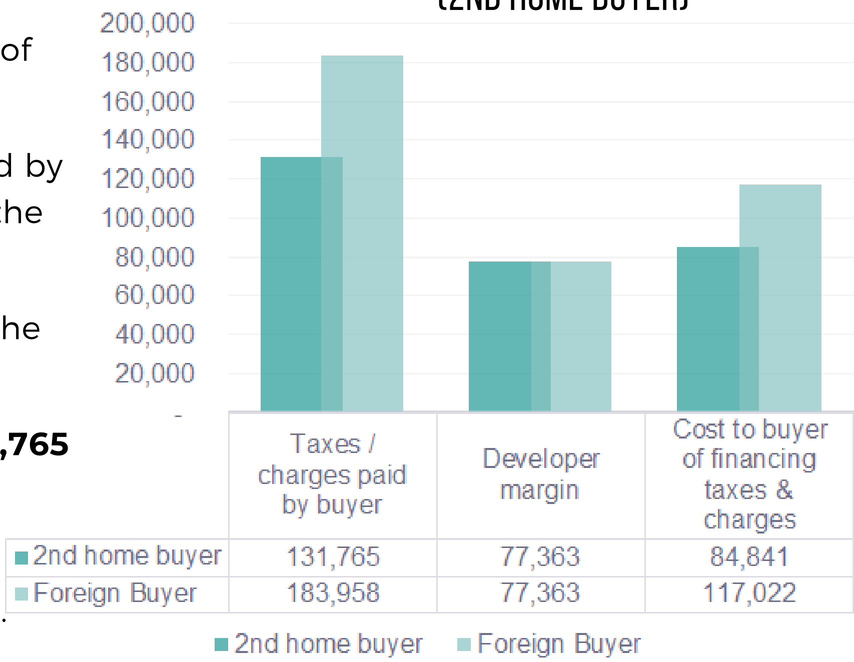
19%

The equivalent of **19% of Steve & Melissa's purchase price is driven by taxes and charges.**

As part of Steve & Melissa's acquisition of an investment unit in an established area at an approximate price of $685,000, they will face a total mix of costs including:

- $36,570 of taxes and charges paid by the developer and passed on to the buyer.
- $95,195 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $131,765**
- These costs are significantly higher than the **developer profit of $77,363** on this project.

TAXES & INTEREST PAID BY STEVE & MELISSA (2ND HOME BUYER)



- In addition, to fund the total taxes and charges outlined above, Steve & Melissa would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $84,841.**
- **What if?** If the new stamp duty provisions on Development Agreements applied, it is estimated that the total taxes and charges would increase to $134,701.
- **What if?** If the buyer was a foreign resident, they would face a total tax and charges cost of $183,958.
- It is worth noting that Steve and Melissa would also incur a land tax cost of approximately $1,500 each year post acquisition.

BUYER PROFILES

CON

Con is an owner builder who builders two townhouses per year.

Con's business model is to acquire a site in established suburb at a cost of $1 million and fund the construction himself for approximately $400,000.

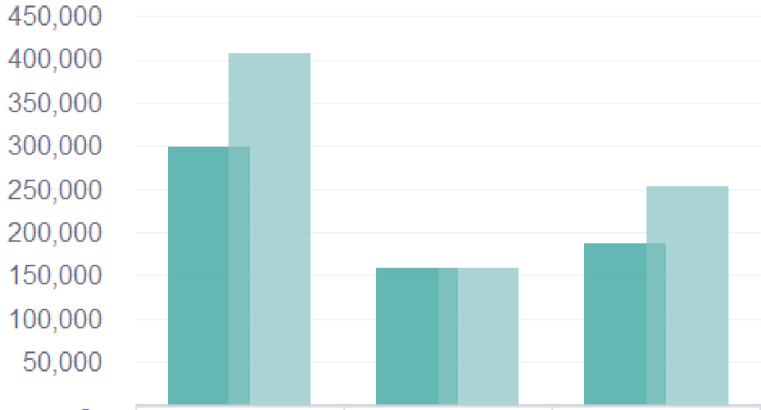
21%

The equivalent of 21% of Con's purchase price is driven by taxes and charges.

As part of Con's buyer acquisition of a townhouse at an approximate price of $1.4m he will face a total mix of costs including:

- $102,999 of taxes and charges paid by the developer and passed on to the buyer.
- $196,492 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $299,491.**
- These costs are significantly higher than the **developer profit of $159,685** on this project. .

TAXES & INTEREST PAID BY CON (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	299,491	159,685	188,254
Foreign Buyer	407,224	159,685	254,679

- In addition, to fund the total taxes and charges outlined above, Con would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $188,254.**
- **What if?** If the new stamp duty provisions on Development Agreements applied, it is estimated that the total taxes and charges faced by the buyer would increase to $312,703.
- **What if?** If the buyer was a foreign resident, they would face a total tax and charges cost of $407,224.

BUYER PROFILES

FAITH

Faith is a single student looking to buy a property that she can use when she studies in Melbourne.

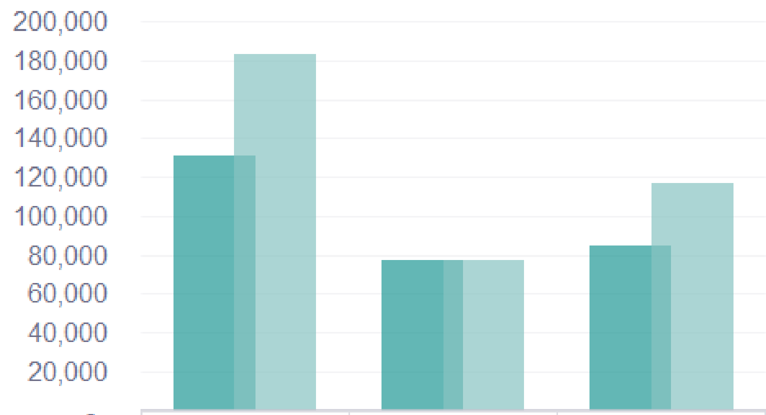
She is looking for an off-the-plan 2 bedroom, 2 bathroom apartment with a budget of $740,000.

+40%

As a foreign resident, Faith will pay **40% more on taxes and charges than an Australian investor family** purchasing the same property.

- As a foreign resident, Faith would face total **tax and charges cost of $183,958.**
- As an Australian investor family, Steve and Melissa would face total taxes and charges of $131,765 when buying exactly the same property as Faith.
- That means **Faith would pay $52,193 more** in taxes and charges, than Steve and Melissa (39.6% more).
- If Faith later sells to a domestic purchaser, the sale price could be higher to reflect the higher price she paid on the apartment.

TAXES & INTEREST PAID BY FAITH (FOREIGN BUYER), COMPARED WITH STEVE & MELISSA (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	131,765	77,363	84,841
Foreign Buyer	183,958	77,363	117,022

■ 2nd home buyer ■ Foreign Buyer

GROWTH AREAS VS ESTABLISHED AREAS

COST OF TAXES AND REGULATION BY BUYER PROFILES IN THE GROWTH AREAS

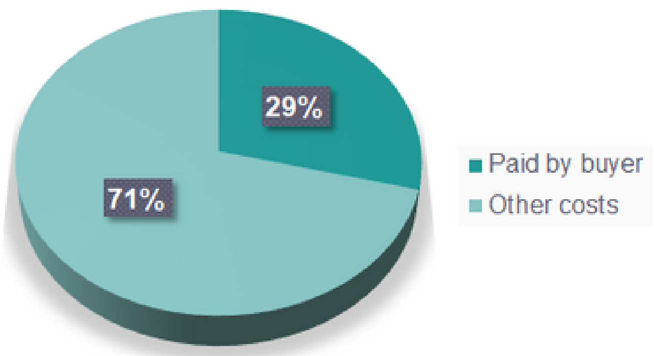
Summary of impacts

The outputs below summarise the mix of costs paid by a buyer as part of their property acquisition in a growth area. The costs include taxes and regulatory charges paid by the developer and passed on to the buyer including costs of delayed planning. These are combined with stamp duty, land tax, GST and rates.

It should be noted that other costs including the impact of recent changes to planning regulations together with environmental offsets and additional development contributions in priority precincts are not included. **We are therefore presenting a conservative picture of the impacts.**

MARIA

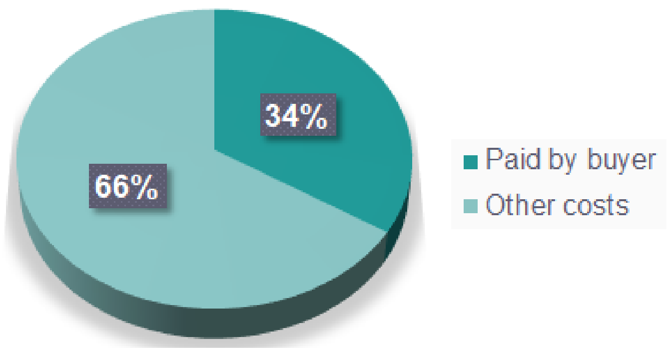
1ST HOMEBUYER, SINGLE PARENT, GROWTH AREA



The equivalent of 29% of buyer costs (purchase price plus transaction costs = $62,480) is driven by taxes and charges.

TOM & EMILY

2ND HOMEBUYER, FAMILY OF 4, GROWTH AREA



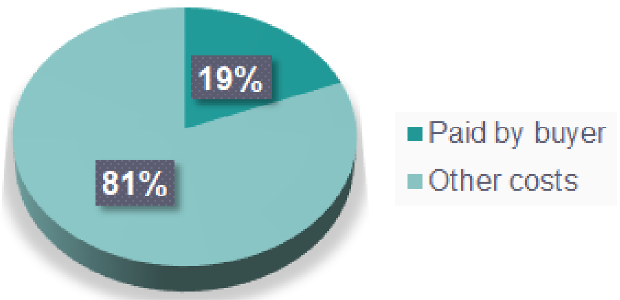
The equivalent of 34% of buyer costs (purchase price plus transaction costs = $106,314) is driven by taxes and charges.

COST OF TAXES AND REGULATION BY BUYER PROFILES IN ESTABLISHED AREAS

Summary of impacts

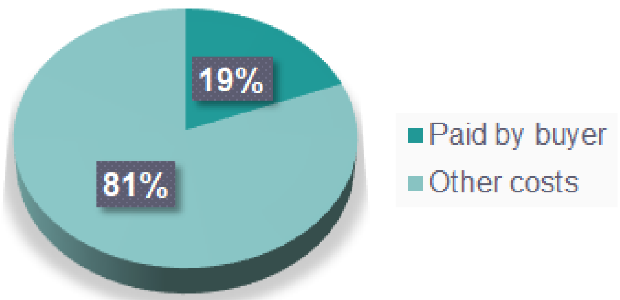
The outputs below summarise the mix of costs paid by a buyer as part of their property acquisition in an established area. The costs include taxes and regulatory charges paid by the developer and passed on to the buyer including costs of delayed planning. These are combined with stamp duty, land tax, GST and rates.

STEVE & MELISSA: APARTMENT INVESTORS



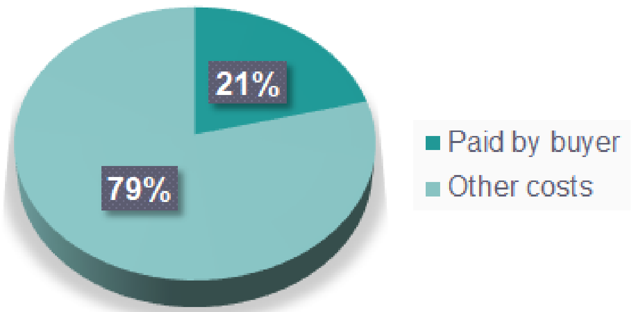
The equivalent of 19% of buyer costs (purchase price plus transaction costs = $131,765) is driven by taxes and charges.

SAM: DOWNSIZER, APARTMENT



The equivalent of 19% of buyer costs (purchase price plus transaction costs = $131,765) is driven by taxes and charges.

CON: OWNER/BUILDER, TOWNHOUSE



The equivalent of 21% of buyer costs (purchase price plus transaction costs = $299,491) is driven by taxes and charges.

POLICY CONTEXT

The current taxes and charges applied to residential development in Victoria are best understood in the context of incremental policy changes since 2016 relating to housing policy, fiscal policy, and planning policy. These are set out in the following pages.

HOUSING POLICY

The Victorian Government policy framework for affordable housing ***Homes for Victorians,*** 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 the policy framework 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.

A fundamental component of this policy framework is the removal of off-the-plan stamp duty concessions for investors and an increase in stamp-duty-concessions for first homebuyers.

A significant decline in approvals for building permits for all dwellings across Victoria since June 2017 indicates 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, resulting in a lower supply of new dwellings in the coming two to three years.

FISCAL POLICY

The Victorian Government also increased existing taxes in 2019, specifically the foreign purchaser duty and the absentee land tax surcharge. Compounding this, the State Government introduced two significant amendments to state taxes in 2019, and a new levy. The amendment to the Duties Act 2000 now means Development Agreements attract stamp duty, and the amendment to the Land Tax Act 2005 changed the method for applying land tax to primary production land. Both taxes increase the cost of purchasing, and holding, land in greenfield areas prior to residential development starting.

Additionally, a new levy on building permits to fund the rectification of combustible cladding, is applicable to apartment and mixed-use development projects and came into effect on 1 January 2020; also expected to increase the cost of delivering these projects.

Amendments to fiscal policy include the following:

Federal Government Initiatives

- Restriction of lending to foreign property buyers without a domestic income by Australian banks (2016)
- APRA limits on interest-only loans with a loan-to-value ratio above 80% (2017)
- APRA instructions to authorised deposit-taking institutions to limit interest-only loans to 30% of new residential loans (2017, however this was removed in 2018)
- Introduction of a New Dwelling Exemption Certificate by the Federal Government (2017)
- Introductions of a 50% cap on the sale of new apartments to foreign investors (2017)

Victorian Government Initiatives

- Removal of off-the-plan stamp duty concessions for investors (2017)
- Introduction of the Federal Annual Vacancy Fee for foreign investors (2017)
- Introduction of the Vacant Residential Land Tax (2017)
- Introduction of Absentee Owner Surcharge (2017)
- Increase of Foreign Purchaser Duty (2019)
- Increase of Absentee Land Tax Surcharges
- Introduction of the building permit levy for the rectification of combustible cladding of 0.82% of the cost of the work where the cost of the building is more than $1,500,000 (2019)
- An amendment to the Duties Act 2000 which means Development Agreements attract stamp duty (2019)
- An amendment to the Land Tax Act 2005 changed the method for applying land tax to primary production land (2019)

PLANNING POLICY

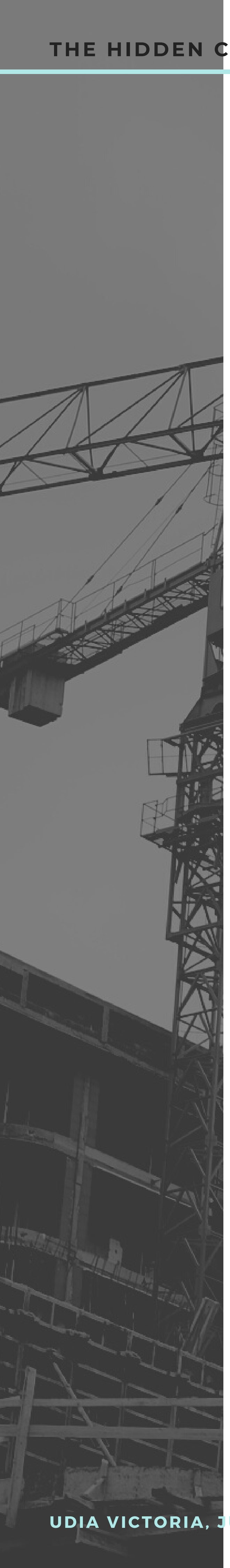
UDIA Victoria commends the State Government for acknowledging the challenges faced by the development industry within planning and development approval processes. The Government took action with the appointment of the Commissioner for Better Regulation who undertook a major review of the system in 2019. Industry submissions highlighted the challenges faced across layers of planning policy and regulation, creating uncertainty and making investment decisions increasingly difficult.

There has also being an increasingly heavy reliance on the Victoria Planning Provisions to deliver a range of State Government policies, including the delivery of affordable housing. It was expected that the Victorian Government will seek to address these issues in 2020 and major reform is being called for by industry members, which would be widely welcomed if implemented by the Government.

The viability of infill apartment developments in inner Melbourne has been impacted by planning scheme amendments restricting height and urban form, while middle ring developments have been impacted by uncertainty and limited information regarding the State Government proposed Suburban Rail Loop.

Apartment developments have had to adjust and respond to the Better Apartment Design Standards which were introduced in 2018 and have been the subject of review since 2019. The standards are designed to increase the quality and amenity of apartment projects but have also had an impact on production costs due to size and other design requirements.

In Melbourne's growth areas, the Precinct Structure Plan process is steadily delivering approximately 13,000 to 14,000 development ready lots annually. However, the revised developer contributions system introduced in 2018 continues to have significant impacts on the development approval pathway and consequently the time it takes to deliver houses to market.



COVID-19 MEASURES

The policy amendments outlined above must be considered and reviewed in context of the Federal and State Government responses to COVID-19 and the consequential economic impact.

It has never been so vitally important for the Victorian Government to work with industry to consider improvements and changes to the taxes, charges and levies that contribute to the cost of producing housing in Victoria.

UDIA Victoria has commended the State Government for establishing a dedicated taskforce to keep the building and development industry running through the coronavirus crisis. The ***Building Victoria's Recovery Taskforce*** (BVRT) is overseen by the Planning Minister and Treasurer and supported by the co-chairs of the BVRT – Roger Teale, Jude Munro AO and Stan Krpan.

UDIA Victoria has been appointed to sit on the BVRT Steering Committee with other key industry associations, and several of our Board members represent the industry on the Industry Working Groups.

The BVRT's purpose is to provide advice to the Victorian Government on issues impacting the industry to ensure we can continue to operate in a manner that supports Victorian jobs, housing and infrastructure throughout the pandemic.

The immediate focus of the BVRT is to oversee the fast-tracking of planning approvals for shovel-ready projects where decisions have been delayed due to coronavirus related impacts on the Victorian Planning System. The Government will also seek BVRT's advice on a pipeline of building and development projects over the longer term, including initiatives that further expand social housing options.

UDIA Victoria is now urging the Victorian Government, and potentially through the BVRT, to reform several taxes, charges and levies that increase the cost of housing across Victoria.

SHORT-TERM REFORM

Victoria is facing uncharted territory in the face of the COVID-19 pandemic, and the situation is changing daily. It is critical for industry to work closely with State and Local Governments to ensure the residential development sector is well placed to contribute to the Victorian economy when the situation normalises and the state needs building, construction and development work to ramp up again.

UDIA Victoria has recommended that State Government impose a moratorium on proposed new or amended fees, levies and taxes (Local and State Government level) or planning scheme amendments that will increase the cost of residential development, until 30 June 2021.

These include but are not limited to:

State Government

- Any proposal on foot to implement a state-wide Social and Affordable Housing Levy
- Any proposal for a new infrastructure contribution for strategic redevelopment areas
- Annual indexation and increase of the Growth Areas Infrastructure Contribution
- Adjustment and Indexation of the Melbourne Strategic Environmental Mitigation Levy
- Better Apartment Design Guideline amendments which are currently the subject of consultation

Local Government

- Proposals for new design standards and requirements
- Councils continue to work on ad-hoc planning scheme amendments that apply new local policies to development in their municipalities
- Proposals for social and affordable housing
- More than 40 councils have various proposals on foot to prepare planning scheme amendments that will support new local policies for social and affordable housing which may include imposing Section 173 Agreements in exchange for development approvals
- Proposals to increase public open space levies. For example, Amendment C186 to Darebin Planning Scheme proposes to double the public open space contribution on development to 10%.

LONGER-TERM REFORM

While short-term measures are necessary, they can't supersede longer-term reform. Bold, forward-thinking government action that reduces the cost of new housing will support secure home purchases and guarantee ongoing employment for hundreds of thousands of Victorians – those working in the building, construction and development industry, as well as in related service industries including the planning, legal, financial, environmental management, engineering and consulting sectors.

As a first step, the Government must understand that **developers cannot absorb increases to development taxes, charges and levies.** Therefore, added government charges flow through to the end price of new housing, which impacts affordability for many buyer segments.

We **need a whole-of-government approach** when introducing new taxes and charges; or increasing existing government taxes, charges and levies. This is critical to ensure government fully understands the **cumulative impact of various policy and legislative changes across departments, local councils and statutory authorities.**

The Victorian Government housing policy goal of improving housing affordability, should inform the above. Further, the Victorian Government should consider whether the mix of existing or proposed taxes and charges impact on the state's ability to achieve appropriate housing supply.

In response to the coronavirus pandemic, it is vital that the Victorian Government consider both supply and demand. UDIA Victoria's Roadmap to Recovery sets out a range of measures relating to planning and fiscal policy, and greenfield and infill development settings.

On the supply side, we need targeted adjustments to taxes that could achieve two goals by stimulating greater transactions through a demand response, while reducing the costs of housing. For example, reducing the cost of stamp duty on residential transactions could encourage a greater volume of transactions, thereby returning the equivalent revenue to the State Government (as a lower number of transactions with a higher stamp duty cost would).

On the demand side, the Victorian Government should consider how buyers and the industry can be incentivised to re-enter the market with targeted tax relief. Again, a targeted change to stamp duty could increase transactions and be revenue neutral.

THE HIDDEN COST OF HOUSING

WE MUST GET REAL ABOUT THE HIGH COST OF HOUSING IN THIS STATE.

IT HAS NEVER BEEN MORE APPARENT THAT EVERY PERSON DESERVES SUITABLE HOUSING, WHICH IS AFFORDABLE RELATIVE TO THEIR INCOME.

THERE'S NO SILVER BULLET TO FIX OUR HOUSING AFFORDABILITY CHALLENGES, BUT THERE IS A COMPELLING CASE FOR RADICAL CHANGE TO THE STATE TAX AND PLANNING SYSTEMS – CHANGE THAT SUPPORTS HOMEBUYERS AND THE BUILDING, CONSTRUCTION AND DEVELOPMENT INDUSTRY AT A TIME WHEN WE NEED IT MOST.

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THE HIDDEN COST OF HOUSING

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