1. Overview

The Victorian division of the Urban Development Institute of Australia (UDIA Victoria) welcomes the opportunity to provide further feedback regarding the proposed Infrastructure Contributions Plans for Regional Greenfield Areas (RGAs).

UDIA Victoria acknowledges some form of development contribution is required for RGAs. We reiterate that this contribution should not be expected to fully fund all the infrastructure required, and that the contribution should be fair and equitable to the extent that is reasonably possible.

On this basis, we have taken the opportunity to provide details about the regional greenfield development context that have informed our position during this consultation in general, and our specific responses set out below.

In our view, Tier 1 and Tier 2 markets in regional centres are quite different, and we support the creation of a new Tier 1 representing metropolitan scale regional greenfield growth areas which is considered equivalent to metropolitan Melbourne greenfield growth areas.

Tier 2 serviced greenfield lots in key regional cities such as Bendigo have a market price in the range of $130,000 to $150,000 and are selling at the rate of three to five lots per month per site. By way of comparison, serviced lots in metropolitan Melbourne greenfield areas have an average market price of $330,000 and are selling at the rate of 12 lots per month per site.

This comparison demonstrates why the metropolitan Melbourne greenfield growth area markets are capable of absorbing higher levies, and why Tier 2 regional markets are extremely price sensitive (noting that Tiers 2 – 4 have been conflated into a single Tier 2).

Further, the proposed levies are justified based on the findings of the *Impact of Proposed ICP Levies on the Viability of Regional Greenfield Residential Development* (SGS Economics and Planning). There are two key findings that do not appear to have been sufficiently taken into consideration in proposing the most recent levies.

The first is the impact of a drainage levy. Where a drainage charge was included in the feasibility analysis, 30% of the case study sites were no longer viable (p. 10). The second is the finding that regional greenfield developers are "price taking agents", where the sale price of land or dwellings are set by the operation of the broader market. In this situation, higher development costs are passed back to the land sellers (developers).

Both of these findings support our position that the markets in RGAs are significantly different from the metropolitan Melbourne greenfield growth areas, and further, that there is a difference between Tier 1 and Tier 2 within RGAs. For these reasons, the approach to setting standard levies and nominating supplementary levies must be tailored to the market and take into consideration the ability of these markets to accommodate additional charges.

Setting the levies too high will have an immediate adverse impact on the viability of delivering serviced lots to market. This outcome would be in direct conflict with Government's policy intention to encourage growth in regional Victoria, which is supported by the First Home Owner Grant of $20,000 for regional centres, double that of metropolitan Melbourne.

2. Responses and Recommendations

Our feedback to the responses provided by the Department of Environment, Land, Water and Planning (DELWP) is outlined below. For ease of reference, and for the reasons set out above, we have separated our responses in relation to Tier 1 and Tier 2.

Tier 1

As previously noted, we support the creation of a new Tier 1 representing metropolitan scale regional greenfield growth areas which is considered equivalent to metropolitan Melbourne greenfield growth areas. In reality, Tier 1 will apply to regional greenfield development in Geelong.

In summary:

- We welcome the reduction of the Tier 1 levy for community and recreation by 10%.
- We have previously recommended a cap on the State infrastructure levy therefore we support the proposal put forward by DELWP, however we consider the proposed levy of $60,000 to be too high. In our view, the market can incorporate a State levy of $40,000-$45,000.
- We support the inclusion of a standard drainage levy of $90,000 on the basis that where the full amount is not required, this figure is reduced accordingly. In our view, this approach supports the key policy intent of ICPs providing a more streamlined process and reducing the likelihood of a supplementary drainage levy and the associated exhibition and panel process.

Tier 2

We consider the market dynamics of Tier 2 sites to be significantly different from Tier 1 sites. On this basis, we recommend the following:

- Whilst we supported the capped State levy for Tier 1 sites, we consider that Tier 2 sites are unable to support this. We note that DELWP considered it unnecessary for the previously identified Tiers 3 and 4, which have now been conflated into a single Tier 2, which is consistent with our view.
- A standard drainage levy of $45,000 per net developable hectare as proposed in October 2017. Drainage requirements in excess of the standard levy can be funded via a supplementary levy. This approach will provide a base level of drainage funding at a level that has been demonstrated to be sufficient for some of the case study sites and will support the key policy intent of streamlining the ICP process.
- The Tier 3 standard levies put forward in October 2017 are considered to be the maximum levies this market can incorporate without significant impacts on the viability of delivering serviced lots to market. These standard levies total $135,000 per net developable hectare. Given the yield in Tier 2 areas is approximately 10 lots per hectare, this equates to $13,500 per lot (which represents 9-10% of the market price of each lot).

Potential Pathway Forward

Overall, we support the proposed Option 2 but with the following amendments:

Table 6: Set rates for two tiers of growth Tier	Community & recreation ($ per NDHa)	Transport ($ per NDHa)	Total Standard Levy ($ per NDHa)	Drainage ($ per NDHa)	State infrastructure
1 - Metro scale growth	$78,100 *(cap)*	$108,700	$186,800	$90,000	Supplementary *($40-45,000 cap)*
2 - All other regional areas	$45,000	$45,000	$90,000	$45,000	NIL

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