15 September 2020

The Hon. Tim Pallas
Treasurer of Victoria
1 Treasury Place
EAST MELBOURNE VIC 3004

By email: tim.pallas@parliament.vic.gov.au

Dear Treasurer,

Urban Development Institute of Australia (Victoria)
Pre-budget Submission 2020-2021

The Urban Development Institute of Australia, Victoria Division (UDIA Victoria) welcomes the opportunity to make this special pre-budget submission to the Victorian Government.

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 broader urban development industry is a fundamental plank of the Victorian economy, employing 300,000 Victorians and delivering 45 per cent of Victoria's tax base. With State Government stimulus and support for eliminating inefficiencies from the development approvals system, this industry has the potential to support the Victorian economy through the COVID pandemic and bring the economy back to life after the pandemic passes.

UDIA Victoria considers affordable housing to be critical economic infrastructure essential to Victoria's productivity and liveability. In the current economic climate, it is crucial to supporting the economic recovery of households, businesses, and the state of Victoria. Our efforts to improve housing affordability seek to support secure home purchases and guarantee ongoing employment for hundreds of thousands of Victorians. UDIA Victoria's recently released *Hidden Cost of Housing* report demonstrated that Victorians pay up to 34% of the purchase price of a new home in government taxes and charges.

This submission builds on the important work UDIA Victoria has done with our members in developing our proposed Roadmap to Recovery for the Victorian Economy (May 2020). The Roadmap to Recovery is attached and reflects deep consultation and member-driven solutions which we have developed to assist the Victorian Government with its own recovery planning.

UDIA Victoria submits that the following key areas for consideration:

1. Urgently reopen the new housing sales pipeline to secure a pipeline of residential construction activity and jobs in 2021;
2. Housing demand stimulus measures including the halving of stamp duty for new residential property acquisition to December 2022;
3. Establish Victoria as the Homeowner State;
4. Advocate for an expanded HomeBuilder scheme for Victoria;
5. Reboot Melbourne's central city economy;

6. Reopen Victoria to the world;
7. Housing supply stimulus measures including ongoing development approval pipeline;
8. Planning and development system reform through immediate implementation of the recommendations of the Cronin review;
9. Unlock Greenfield development by making it easier and less costly to develop new housing;
10. Stimulate urban renewal and built form development by taking a proactive approach to the development of Melbourne's key precincts; and
11. Drive a social and affordable housing investment-led recovery for the betterment of all Victorians.

UDIA Victoria submits that a comprehensive, urban development led approach to Victoria's economic recovery will give Victoria the best chance at success coming out of the COVID-19 crisis.

We acknowledge the extremely difficult decisions the Victorian Government has had to take throughout the COVID-19 pandemic, and the deep and long-lasting impact the pandemic will have on the Victorian economy and on our community.

We remain committed to working with the Andrews Government in a proactive and solutions-focussed way on behalf of the urban development industry as we navigate our way through the coming months and years ahead.

We look forward to briefing you and members of the Department of Treasury and Finance on these issues prior to the finalisation of the Victorian Budget 2020. Please contact me directly at danni@udiavic.com.au to arrange a suitable time to do so.

Yours sincerely

Danni Hunter

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Attachments:

1. Roadmap to Recovery for the Victorian Economy (May 2020)
2. Hidden Cost of Housing (July 2020)
3. Joint Letter regarding the Reopening of Display Homes, Sales Suites, Land Sales Offices and Open-For Inspections (September 2020)
4. UDIA National Submission to the Commonwealth Government's HomeBuilder Scheme (September 2020)
5. A Plan for Melbourne's CBD and Central City Revival (September 2020)

1. URGENTLY REOPEN THE NEW HOUSING SALES PIPELINE

In accordance with Stage 4 restrictions, display homes, land sales offices and sales suites have been closed completely in Metropolitan Melbourne since 8 August 2020 and are open by appointment only in regional Victoria.

Under the Roadmap to Reopening announced on 6 September 2020, these settings cannot reopen until November at best. With Spring being the strongest selling season, and December and January traditionally soft, this puts the future construction pipeline for the 2021 year under extreme threat.

We are calling on the Victorian Government to immediately prioritise (from 28 September 2020) the reopening of display homes, land sales offices, sales suites and open-for-inspections, for sale and rental on an appointment basis.

Under the Roadmap to Reopening released on Sunday 6 September 2020, it is proposed that display homes, land sales offices, sales suites and other real estate services remains Heavily Restricted and Restricted through Step 2 and 3 of the Roadmap. This means that these settings will remain closed until at least 26 October 2020. Further, these settings will only be able to be accessed by consumers if case numbers remain under 5 per day, which is an extremely low threshold and may not be achieved by the end of October.

The length of time the restrictions are proposed to be in place will mean that the new home sales pipeline will have been decimated for the months of August, September, October and possibly November, before entering the two quietest months of the year being December and January.

The extended restrictions have the potential to leave the new home sales pipeline effectively non-existent for up to six months. This possibility combined with the devastating overall impact of COVID-19 on the housing sector, will mean that the new housing sector will be severely damaged and in need of longer-term government stimulus and repair.

The extended restrictions will have a deeply significant impact on the sale and purchase of new homes, the entering and exiting of rental arrangements, and the transition of residents into a retirement village or aged care facility.

For example, Victorians looking to make use of the HomeBuilder Grant and sign a contract prior to December 31 will now be required to view and purchase a home online. Generally speaking, it takes between 8-12 weeks to contract a new home once interior and exterior selections are considered. This will ultimately lead to less HomeBuilder Grant sales and stimulus for Victoria at a time when we desperately need it. When Job keeper phases out by April 2021, we will require construction supply chain activity on the ground to help fill the void. That land needs to be produced now. This will also help build government revenue streams into next year.

Recommendations

1.1. We strongly urge the Victorian Government to bring forward the opening up of display homes, land sales offices, sales suites and open-for-inspections, by appointment, from 28 September 2020, in order to give the new housing industry a chance at rebuilding the sales pipeline and lock in a forward workbook for the domestic building industry.

2. HOUSING DEMAND STIMULUS MEASURES

The demand for new dwellings and residential lots has significantly fallen since a State of Emergency was declared for Victoria on 16 March 2020. Key factors influencing this are a drop in international and interstate migration and 31 per cent decline in consumer sentiment about economic conditions over the next 12 months (Urban IQ Report, UDIA Victoria and RPM). This is evidenced by a 61 per cent fall in lot sales activity in greenfield areas in April 2020 compared with Q1 2020.

A well-timed plan for demand side stimulus is required by the Victorian Government if the building, construction and development industry is to have enough confidence to keep existing projects progressing, to commence new projects and to keep hundreds of thousands of Victorians employed in the industry throughout the COVID-19 pandemic.

The stimulus should be focused on incentivising the purchase of new housing and residential land because the production of these generates significantly more benefit to the Victorian economy as a whole through employment and government revenue. The principle of stimulus measures should be to unlock demand across all buyer cohorts, and increase transaction volumes, while getting more Victorians into a position of owning their own home.

UDIA Victoria has undertaken a cursory, high level impact assessment of the recommendation to **halve Stamp Duty for all new residential property transactions** using the following assumptions:

- In 2018/2019 and 2019/2020 there were approximately 60,000 sales of new properties;
- If the historical volume of transactions is halved, which is likely due to the impact of COVID-19, and Stamp Duty is collected at the current rates, this will amount to $519,750,000 in government revenue attributable to Stamp Duty;
- If the rate of Stamp Duty is halved to 3%, and it stimulates the transaction of +50% more new residential properties, the net Stamp Duty revenue amount is outcome is expected to be neutral;
- If this greater number of residential property transactions occurs, the multiplier effect on jobs, industry activity and economic output will be significantly higher than if the lower number of residential transactions occurs;
- The Victorian Government's increased receipts of payroll and GST as a result of higher transactions, industry activity and employment would see a high return on investment of this form of stimulus.

		Base Case current forecast	UDIA proposal	
	18/19	19/20	20/21	20/21
Sales of new properties completed	60200	58000	30000	45000
- Proportion investor & non first home buyer	65%	55%	45%	55%
Turnover of non-first home buyer	39130	31900	13500	24750
Average value	$ 700,000	$ 700,000	$ 700,000	700,000
Average stamp duty rate	5.50%	5.50%	5.50%	3%
Revenue	1,506,505,000	1,228,150,000	519,750,000	519,750,000

Recommendations

Measures to stimulate demand:

These key priority measures are expected to drive demand for a wide group of buyer cohorts and increase market turnover which will go some way to offsetting any forecasted revenue losses particular in the apartment sector.

More generally they will achieve an outcome where the Government achieves a share of value from a pool of transactions that otherwise may not occur.

2.1. Halve Stamp Duty for all new residential property acquisitions including newly completed or 'off the plan' purchases. This includes properties already contracted and those settling before 30 June 2022. Apply a sunset date of 30 June 2022 subject to review in the 2021 State Budget.

2.2. Remove foreign purchaser surcharge on stamp duty and land tax until 30 June 2022.

Measures to reduce the cost of new housing:

2.3. Bring forward future funding of social housing through the Social Housing Growth Fund and increase partnership opportunities to deliver social housing.

2.4. Revoke Victoria's Vacant Residential Land Tax (VRLT). In the event that the VRLT is retained, immediately extend the application of the VRLT for a further two years from the date of issue of a building permit before a property is considered vacant for the purposes of applying the tax.

2.5. Waive the Metropolitan Planning Levy and the Cladding Rectification Levy on building permits for planning and building permit applications lodged before 31 December 2021 with this revenue to be subsidised by the Victorian Government so the works can still continue.

2.6. Support the rapid delivery of new dwellings to market by carving out build to rent (BTR) as an asset class with financing support and modified tax treatment to enable BTR to be financially viable.

2.7. Impose a moratorium on proposed new or amended fees, levies and taxes (Local and State Government), and planning policy changes that will increase the cost of residential development until 1 July 2021.

2.8. Defer the payment of existing infrastructure charges and levies such as the Growth Areas Infrastructure Charge and Infrastructure Contributions until settlement to assist developers with cashflow challenges in a difficult market and to incentivise the activation of development-ready land which may otherwise remain stagnant.

2.9. Overhaul current bank guarantee requirements on developers to reduce the impact on developer's balance sheets which will allow more construction work to proceed.

Measures to improve Victoria's competitiveness:

2.10. Expand the threshold for payroll tax relief from $3 to $10 million. The $3 million threshold cut off for payroll tax relief excludes thousands of businesses that employ many thousands of people in the building construction and development industry.

2.11. Offer payroll tax exemptions to medium and large businesses who relocate to Victoria, and grants to businesses who expand their existing operations in Victoria.

3. ADVOCATE FOR AN EXPANDED HOMEBUILDER SCHEME FOR VICTORIA

The Commonwealth Government rightly recognised the robust contribution housing and construction make to the national economy when it introduced HomeBuilder - its flagship initiative to stimulate jobs, wages and activity across the housing and construction sector.

HomeBuilder was an essential pillar in the Government's swift response to the economic effects of COVID-19 - alongside its broader package of measures to sustain capital markets and liquidity, strong lending, income support and efforts to support businesses across the nation.

However, with the prospect of extended border closures and deterioration in economic forecasts, the time is right for the Government to commit to an extension to HomeBuilder that has the benefit of:

- Supporting the residual domestic demand for new housing construction - which still provides for 44 percent of demand in a business-as-usual market until such a time when NOM returns to more sustainable levels;
- Ensures there is no risk of a new 'cliff' in the market emerging in 2021 - when Australia is still trying to inch its way back to economic normality;
- Provides for an opportunity to capture a fuller spectrum of the new housing construction market, including by housing type, construction method and geography; and
- Underpinning an industry that adds 750,000 direct and indirect jobs to the Australian economy.

A renewed commitment to HomeBuilder can help the nation close the gap on economic growth, jobs, wages and housing affordability through a sustained pipeline of projects that run into 2022.

Victorians looking to make use of the HomeBuilder Grant and sign a contract prior to December 31 will now be required to view and purchase a home online. Generally speaking, it takes between 8-12 weeks to contract a new home once interior and exterior selections are considered. This will ultimately lead to less HomeBuilder Grant sales and stimulus for Victoria at a time when we desperately need it.

As a result, the tight timeframes applied to the HomeBuilder scheme will be exacerbated by the practical limitations of the Stage 4 restrictions on purchasers, as well as the more depressed economic outcomes to be anticipated in Victoria.

Recommendations

UDIA has made the following recommendations to the Commonwealth Government, that given the unique circumstances in Victoria, the Commonwealth and State Governments apply additional flexibility to allow:

3.1. Extend the grant's availability from 31 December 2020, for six months to 30 June 2021.

3.2. Allow for a subsequent extension of the start of construction phase for a further six months on the currents Scheme.

4. ESTABLISH VICTORIA AS THE 'HOMEOWNER STATE'

The global outbreak of COVID-19 has significantly impacted Victoria's economy and compounded the economic impact of the bushfires in early 2020. The economic impact of Victoria's severe second wave is still not fully known, although the data to date indicates it will create a long-lasting impact.

The Federal Treasury predicts that in the coming December and March quarters there will be more people on JobKeeper in Victoria than every other state combined.[1] This will have deep and long last effects on the ability of Victorians to purchase and own their own homes, which will in turn have a deep and long lasting negative impact on the activity and workforce of the urban development industry.

As a result of COVID-19 and the extended restrictions, Victoria has lost its competitive edge against other major Australian cities in attracting both talent and capital. International migration, which has been a driving force in the demand for housing in Melbourne in recent years, is expected to collapse by 85 per

[1] S. Wright, 'Virus hits the nation's economic powerhouses - Sydney and Melbourne', *The Age* (viewed 31 August 2020).

cent in 2020.[2] Interstate migration is also likely significantly decline as employment opportunities in Victoria, and Melbourne in particular, decline.

Victoria needs to re-establish a competitive advantage over other major Australian cities. We believe this can be done by delivering affordable housing for Victorians and making Victoria the pre-eminent 'homeowner state' in Australia. The positive flow on effects of attracting people to Victoria to set up their lives go beyond the residential development industry to establishing families and businesses, securing employment, and engaging in the economy.

However, the high cost of housing - in Melbourne in particular - will only serve to reduce Victoria's competitiveness in the current economic climate. Despite the more recent reduction in house values as a result of COVID-19, the median house price in Melbourne has grown by forty per cent since 2012, and Melbourne continues to have the highest house prices after Sydney[3].

As unemployment and under-employment rises, and purchaser finance becomes harder to obtain, it is time for Government to address the significant financial hurdles preventing Victorians from buying a home.

The recently released *Hidden Cost of Housing* report (UDIA Victoria) demonstrated that one of these hurdles is the combined impact of government taxes and charges on the developer, in addition to the government taxes and charges paid by homebuyers as part of their purchase costs. These taxes and charges comprise up to 34 per cent of a local homebuyer's purchase price and are paid for over the lifetime of a purchaser's mortgage, attracting interest and amounting to significant costs paid for by Victorian homebuyers.

Now is the time to review these taxes and charges to support the re-building of the Victorian economy. To support the establishment of Victoria as the 'homeowner state', the Victorian Government needs to take clear, deliberate and immediate action to stimulate the residential development industry, reform ongoing inefficiencies in the planning and development approval system and supercharge development-ready areas.

Recommendations

4.1. Drive to achieve a competitive advantage over other Australian states to attract investment in Victoria that will underpin future residential development activity and keep housing supply high and prices affordable.

4.2. Establish a whole-of-government approach to ensure taxes and charges do not accumulate to reach unsustainable levels for Victorian homebuyers.

4.3. Immediately introduce a moratorium on new taxes and charges in response to COVID-19.

5. REBOOT MELBOURNE'S CENTRAL CITY ECONOMY

The coronavirus pandemic has sharply disrupted how Victorians work, study, shop, socialise and play. The necessary measures to slow the spread of COVID-19 have had a disproportionate and devastating impact on Melbourne's CBD, central city and the city's economy. Melbourne's urban buzz has been put on hold, sharply reducing economic productivity, sociability and mobility.

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[2] S. Wright, 'Virus hits the nation's economic powerhouses - Sydney and Melbourne', *The Age* (viewed 31 August 2020).

[3] UDIA Victoria, *Hidden Cost of Housing* (2020).

Like many historical events that have gone before, the coronavirus pandemic constitutes an interruption to the evolution of our city and will undoubtedly be a watershed moment for Melbourne.

While we can be confident that the fundamentals of what make Melbourne such a successful global city will persist and will be at the core of our emergence from the pandemic, now is the time to plan for the city's future so that as restrictions start to ease, there are robust plans in place to support the reactivation of Melbourne's CBD and central city, and position the city for success going forward.

The coronavirus pandemic has decimated the local economy and activation of the Melbourne CBD, with the Melbourne economy predicted to suffer the single largest economic contraction of all Australian capital cities. The City of Melbourne expect daily visitation in 2020-21 to decrease to 64% of pre-COVID-19 figures.

Residents

The residential vacancy rate in the Melbourne CBD is projected to have increased significantly to 7.1% in June 2020 (6,609 vacancies) from 2.8% in February 2020 (2,582 vacancies).

Businesses

The latest ABS payroll jobs data shows that inner Melbourne had a 10.3% reduction in jobs from March to August – the worst affected area in Australia.

A City of Melbourne survey shows 7.5% of food businesses have closed permanently, with a further 8% considering closing.

City of Melbourne predictions estimate 31.7% of local businesses have applied for JobKeeper.

Workers

The City of Melbourne expect daily visitation of workers to decrease to 50% of pre-COVID-19 figures in 2020-21.

Google Community Mobility Data shows that even before the second wave, Melburnians were more reluctant than other Australian cities to return to their place of work.

Students

52,000 international students live or study in central Melbourne, supporting our tertiary sector and stimulating our economy. Many international students have not been unable to return to Victorian universities following border closures in March 2020.

Visitors

The ABS Overseas Travel Statistics which provides provisional statistics on international arrivals and departures, recorded a 99.1% decline in overseas arrivals to Australia in the month of July 2020 compared to the corresponding month of the previous year.

The economic impact from job losses, reduced migration, tourism and consumer spending will be immense. The time for deliberate, bold, proactive and collaborative action is now.

Recommendations

UDIA Victoria has developed and delivered a key vision for reviving Melbourne's CBD and Central City focussed on the following key recommendations:

5.1. Build confidence and trust - the Government must provide the industry and community alike, with the desperately needed clarity, certainty and confidence in how we live with the virus on our pathway forward.

5.2. Big business to return to office-based working - with clear government policies in place on how we manage to live with the virus rather than eliminate it, businesses need to plan their return to the office.

5.3. Initiatives to increase transport capacity and safety - A whole-of-network approach to public transport must be adopted that explores opportunities to increase the capacity and safety of public, active and vehicular transport networks alike. The speed of implementation will be paramount. There is a key window of opportunity to prioritise transport initiatives in the immediate term while the CBD reawakens.

5.4. Reopen borders to support immigration - Proactively advocate for the responsible and appropriate reopening of Australian borders by the Federal Government.

5.5. Leverage Melbourne's events calendar - Immediate action is required to capitalise on the Christmas trading period and spring/summer peak season in order to keep businesses and our economy alive.

5.6. Supercharge built form opportunities - the Victorian Government must provide the industry and community with much needed confidence that we have a solid pipeline of building, construction and development projects that will set the State up for long term revival.

6. REOPEN VICTORIA TO THE WORLD

Almost 60 percent of Australia's population growth - which fuels its economy, housing demand and other vital indicators - stems from Net Overseas Migration (NOM), which is now poised to stall for at least 18 months. Victoria has experienced record population growth in the recent decade, with up to 132,000 people coming to Victoria each year to call Melbourne and regional Victoria home.

UDIA Victoria and UDIA National is deeply concerned about the long-term impact of minimal immigration on our cities, our housing market and the building, construction and development industry.

We have partnered with Urbis to test the effects of reduced demand arising from lower NOM and population growth, and its implications for housing markets and the economy.

The headline findings include:

- **Australia's average annual population growth will reduce by approximately 32 percent until 2025;**
- **Net Overseas Migration (NOM) accounts for 56 percent of Australia's dwelling demand, with natural domestic population increases accounting for 44 percent;**
- **An average per annum reduction of over 50,000 homes per year will occur in the number of new homes being constructed over the next five years;**
- **It is expected that Victoria will experience a decline of 34% on recent population growth figures per annum to 2025; and**
- **$17.9 billion less direct gross value added (GVA) being contributed to the Australian economy between 2020 and 2025 from the loss in construction.**

Under the COVID-Adjusted Population Projections for Australia, Urbis forecast:

- 345,600 additional detached dwellings will be required by 2025
- 100,000 additional semi-detached dwellings will be required by 2025
- 171,700 additional attached dwellings will be required by 2025.

While this represents a 26-43% decrease (depending on dwelling type) compared to the no-COVID scenario, it is clear that there is still forecast to be significant domestic-driven demand for housing over the next five years.

Australia has always been a net importer of capital - both people and funding - to help sustain its economic and social prosperity. The recent outbreak of COVID-19 has forced governments to effectively close international borders and cease usual immigration programs.

This manifested itself across the board, from international students to skilled migration to the full menu of programs that provide a pathway for migrants to come to Australia. This has materially and directly affected a host of industries; while for others, the effect has been more indirect.

Regardless, the analysis UDIA commissioned from Urbis found Net Overseas Migration (NOM) has historically been the key driver of total population growth in Australia. Natural growth has been relatively flat in comparison.

In the early 1990s and 2000s, Australia recorded average population increases of 1.1 percent per annum. However, since 2006, the average population increase has averaged 1.6 percent. This was fueled in large part by higher NOM which accounted for approximately 60 percent of population growth.

	5-Yr Average (2015-19)		10-Yr Average (2010-19)	
	No. of Persons per Annum	% Share	No. of Persons per Annum	% Share
NOM	224,800	60%	215,050	59%
Natural	151,570	40%	151,540	41%
TOTAL GROWTH	376,370	100%	366,590	100%

** Source: Urbis*

Urbis' analysis also found NOM also has an inverse relationship with the labour market – historic recessions have had sustained periods of lower overseas migration. Birth rates have also been lower when the economic outlook is weak.

The loss of immigration and population growth due to closed borders is one element of the downturn; but it is likely to have an extended tail as the drag of higher unemployment suppresses growth.

This will leave Australia's economy - and housing markets - more dependent than ever on domestic demand in the short to medium terms.

Victoria is expected to experience significantly less population inflows in the coming years as a result of COVID-19 related border closures.

It is expected that Victoria will experience a decline of 34% on recent population growth figures per annum to 2025.

Geographic patterns

Once arrived in Australia, overseas migrants have initially settled in NSW and Victoria which accounted for an annual average of 23% and 21%, respectively, of Australia's total NOM between 2015 and 2019.

Regardless, NOM is the main driver of population growth in every state. The share, however, is substantially affected - and in some cases all but offset - by the state-based rates of natural increase and net interstate migration.

For example, Victoria's share of population growth is sourced very differently to South Australia. Victoria has enjoyed a five-year average increase of 11.1 percent sourced to net interstate migration - meaning despite taking on a large share of NOM, it represents only 59.4 percent of its population growth.

South Australia, on the other hand, has seen a net loss of 46 percent to its population growth from net interstate migration - meaning NOM notionally accounted for 98.8 percent of its population growth, despite the volume being far smaller.

However, these percentages do not present the full picture. The quantum tells a different story - with **Victoria enjoying the largest average annual increase over the past five years**, at 132,120 people per annum. NSW followed at 115,140, Queensland at 75,420 - with the rest of the states well back on volume.

State-based demand by dwelling type

To estimate the share of dwelling demand by State between 2011 and 2016 that was attributable to NOM, Urbis first took the ABS Historical NOM data by State and apportioned it into categories for each housing type (detached, Semi-Detached, Attached) based on housing type preferences of recent overseas migrants sourced from the 2011 and 2016 Censuses.

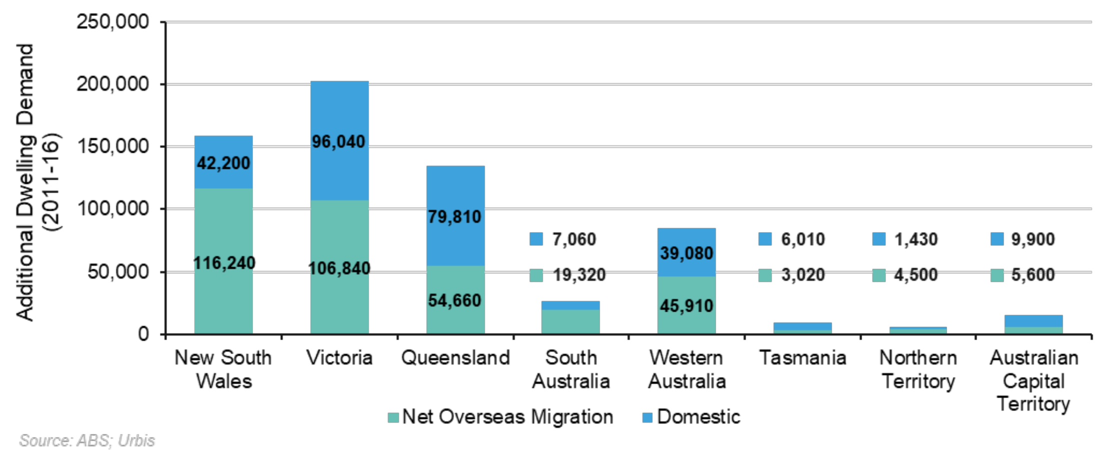
Urbis then converted this population by housing type data into dwelling demand by applying appropriate average household sizes sourced from the Censuses.

This resulted in an estimate of additional dwelling demand from NOM between 2011 and 2016 by State. Urbis then compared this estimate to the increase in occupied private dwellings observed in each State between the 2011 and 2016 Censuses to calculate the share of additional housing demand that was attributable to NOM.

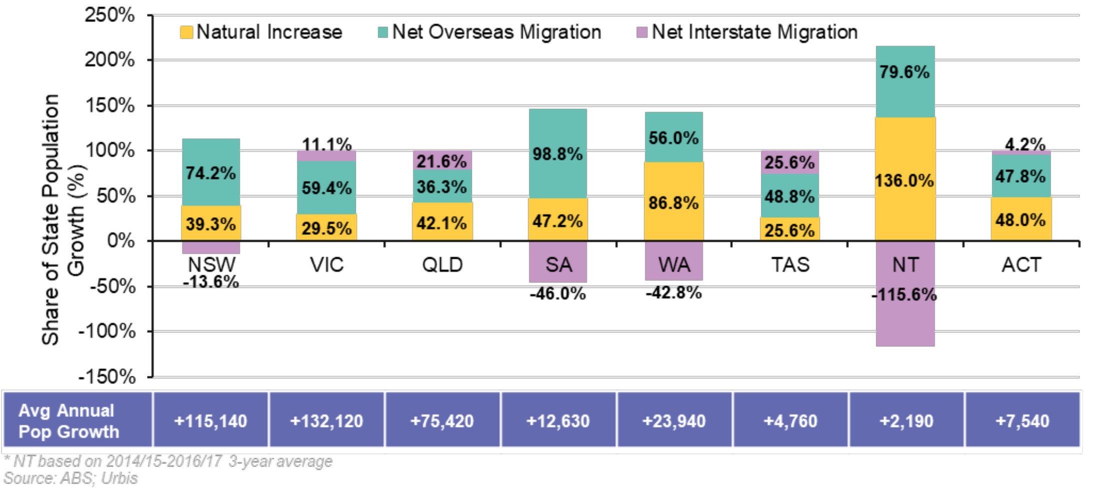
Urbis estimates that, between 2011 and 2016, NOM accounted for:

- 76 percent of NT's additional dwelling demand
- 73 percent of NSW's additional dwelling demand
- 73 percent of SA's additional dwelling demand
- 54 percent of WA's additional dwelling demand
- **53 percent of VIC's additional dwelling demand**
- 41 percent of QLD's additional dwelling demand
- 36 percent of ACT's additional dwelling demand
- 33 percent of TAS's additional dwelling demand

Dwelling Demand by Source: Domestic vs. Recent Arrival (2011-16)



State-based components of growth – 5 year average (2015-2019)



COVID-19 related projections

Urbis was tasked with seeking to assess the anticipated impacts of COVID-19 on population growth in each State and Territory between 2020 and 2025.

It did so by using the assumptions for NOM in the Government's Fiscal and Economic Update released in July. It then compared these to the Series C (low range) Population Projections published by the ABS in November 2018.

Under the Urbis projections, UDIA expects that **reduced NOM and lower birth rates** will have the following state-based impacts on population growth:

- Big falls – NSW, VIC, NT, ACT
- Medium impacts – QLD, WA, SA
- Low impacts – TAS.

UDIA also anticipate shifts to internal migration patterns, including:

- NSW - reduced outflow and higher retention
- **VIC - reduced interstate intake and higher outflow**
- QLD - continued relatively high
- WA - reduced outflow and higher retention and higher inward migration due to strength of resources sector.

	Projected Average Annual Population Growth, 2019-25 (No.)			
	ABS	Urbis	Change	
	No. of Persons	No. of Persons	*No. of Persons*	%
NSW	116,487	68,050	-48,437	*-41.6%*
VIC	119,063	78,517	-40,546	*-34.1%*
QLD	75,707	60,400	-15,307	*-20.2%*
SA	11,773	8,750	-3,023	*-25.7%*
WA	36,005	27,950	-8,055	*-22.4%*
TAS	2,285	2,583	+299	*+13.1%*
NT	3,556	1,350	-2,206	*-62.0%*
ACT	6,698	4,583	-2,115	*-31.6%*
Other Territories	106	-100	-206	*-194.3%*
AUSTRALIA	**371,680**	**252,083**	**-119,596**	***-32.2%***

Source: ABS; Urbis

Overall, the Urbis analysis projects average annual population growth will drop to 252,100 additional persons per annum between 2019 and 2025, compared to the ABS projection of 371,680 additional persons per annum.

This represents a decrease of c.32 percent at a national level, with a decline of 34 percent in Victoria.

Dwelling Demand Outlook

Urbis has forecast the demand for detached, semi-detached and attached dwellings in each State between 2020 and 2025. In doing so, two scenarios were forecast:

1. Based on the ABS Series C Population Projections
2. Based on the Urbis COVID-Adjusted Population Projections.

To convert the population projections into dwelling demand forecasts, Urbis applied appropriate housing type preferences and average household sizes for each component of population growth (i.e. NOM, interstate, natural) based on historical trends (sourced from the last three Censuses).

This approach provides an indication of the quantum of additional dwellings likely to be required over the next five years (i.e. Urbis Population Projections) compared to a no-COVID situation (i.e. ABS Population Projections).

Under the COVID-Adjusted Projections for Australia overall, Urbis forecast:

- 345,600 additional detached dwellings will be required by 2025
- 100,000 additional semi-detached dwellings will be required by 2025
- 171,700 additional attached dwellings will be required by 2025.

While this represents a 26-43 percent decrease (depending on dwelling type) compared to the no-COVID scenario, it is clear that there is still forecast to be significant domestic-driven demand for housing over the next five years – in excess of 615,000 dwellings.

Dwelling Demand Forecasts by State and Type, 2020-2025

		ABS		Urbis		*Change*	
	Dwelling Type	**Additional Dwellings (No.)**	**Avg Annual Growth (No.)**	**Additional Dwellings (No.)**	**Avg Annual Growth (No.)**	***Additional Dwellings (No.)***	***Avg Annual Growth (No.)***
NSW	Detached	112,080	18,680	70,700	11,780	*-41,380*	*-6,900*
	Semi-Detached	36,120	6,020	20,510	3,420	*-15,610*	*-2,600*
	Attached	141,370	23,560	74,990	12,500	*-66,370*	*-11,060*
VIC	Detached	149,430	24,910	103,540	17,260	*-45,890*	*-7,650*
	Semi-Detached	60,380	10,060	38,280	6,380	*-22,100*	*-3,690*
	Attached	90,100	15,020	53,390	8,900	*-36,710*	*-6,120*
QLD	Detached	110,370	18,400	93,800	15,630	*-16,570*	*-2,760*
	Semi-Detached	30,650	5,110	22,650	3,780	*-8,000*	*-1,330*
	Attached	47,170	7,860	30,620	5,100	*-16,560*	*-2,760*
SA	Detached	22,760	3,790	17,820	2,970	*-4,940*	*-820*
	Semi-Detached	2,140	360	1,220	200	*-930*	*-150*
	Attached	4,430	740	2,430	410	*-2,000*	*-330*
WA	Detached	56,410	9,400	46,560	7,760	*-9,850*	*-1,640*
	Semi-Detached	20,560	3,430	13,870	2,310	*-6,690*	*-1,120*
	Attached	10,820	1,800	6,210	1,040	*-4,610*	*-770*
TAS	Detached	4,030	670	4,910	820	*+870*	*+150*
	Semi-Detached	910	150	880	150	*-30*	*0*
	Attached	1,460	240	1,320	220	*-140*	*-20*
NT	Detached	4,070	680	2,070	340	*-2,000*	*-330*
	Semi-Detached	1,370	230	310	50	*-1,070*	*-180*
	Attached	2,690	450	330	60	*-2,360*	*-390*
ACT	Detached	8,820	1,470	6,400	1,070	*-2,420*	*-400*
	Semi-Detached	3,620	600	2,310	390	*-1,300*	*-220*
	Attached	4,380	730	2,460	410	*-1,920*	*-320*
TOTAL AUS	**Detached**	**467,990**	**78,000**	**345,620**	**57,600**	***-122,370***	***-20,400***
	Semi-Detached	**155,750**	**25,960**	**99,990**	**16,670**	***-55,760***	***-9,290***
	Attached	**302,410**	**50,400**	**171,720**	**28,620**	***-130,680***	***-21,780***

Source: ABS; Urbis
Note: Detached includes separate houses, semi-detached includes terrace houses and attached townhouses, attached includes apartments or units

Recommendations

6.1. Work with the Commonwealth Government to reopen Australia's international and interstate borders to international and interstate migrants in a safe, and well managed way as urgently as possible.

6.2. Energetically pursue interstate and international migration as a fundamental plank of the Victorian economy as Australia's borders reopen.

7. SUPPLY STIMULUS MEASURES

The residential development industry is well placed to play a crucial role in Victoria's economic recovery, and we are always ready to work with the State Government to achieve this outcome.

We welcome and acknowledge the recent major project approvals delivered by the Andrews Government and importantly, the 12-month extension of the Project Fast Track pathway within the Building Victoria's Recovery Taskforce initiative.

There are a range of supply side measures the Victorian State Government can implement to improve Victoria's competitiveness nationally and stimulate the Victorian economy to support the transition to 'COVID Normal'.

These measures largely relate to the planning and building approvals systems, which were reviewed by the Commissioner for Better Regulation in 2019. The review found that unnecessary delays in planning and building approvals processes have significant knock-on impacts such as keeping families in the private rental market for longer than necessary, increasing the costs of permit approvals, and ultimately putting upward pressure on house prices and rents.

Reforming planning permit assessment blockages, streamlining the planning permit approvals process, and implementing tax and development reform will stimulate the supply of new housing and residential land in greenfield and urban renewal sites.

Recommendations

We acknowledge the incredibly important work done by the Victorian Government through the Building Victoria's Recovery Taskforce and supporting initiatives and propose the following enhancements and continued actions:

7.1. Continue to activate a genuine pipeline of shovel-ready projects through the Building Victoria's Recovery Taskforce and Project Fast Track team.

7.2. Call in projects that are stalled or held up for minor issues that cannot be resolved due to COVID-19 but should be able to be progressed in the interest of keeping the industry operating.

7.3. Fund a permanent mechanism for fast-tracking projects using the VPA Fast Track Program and Standing Advisory Committee as a model. The fast track program will provide immediate benefits to Victoria's economy, employment opportunities and that ensure priority social and economic infrastructure remains on track for completion.

8. PLANNING AND DEVELOPMENT SYSTEM REFORM

Victoria's planning system must shift into overdrive and actively progress development applications and other approval processes in order to supercharge economic activity during the COVID-19 recovery period.

By funding and implementing the improvements and recommendations proposed by the Commissioner for Better Regulation, the Government can have an immediate and significantly positive impact on streamlining planning approvals, reducing the overall cost of delivering residential land or dwellings to market, and stimulating the residential development sector.

The Commissioner delivered her report to the Government in late 2019 and to date, it has not been released or responded to. UDIA Victoria would welcome the urgent consideration of this report and its release by the Victorian Government.

Recommendations

8.1. Make Victoria's housing market and economy competitive in the national context by funding and implementing all recommendations made by the Commissioner for Better Regulation as a part of the 2019 review and implementing a permanent fast track planning permit approvals process.

8.2. Move to online planning permit processing and tracking;

   a. reduce response times for referrals;

   b. streamline compliance with permit conditions;

   c. reduce timelines for electricity connections; and

   d. simplify the infrastructure contributions system across government agencies.

8.3. Establish a framework for ongoing accountability, review and reporting to enable the full value and economic benefit of the Commissioner's Proposed Improvements to be realised, and ensure they are:

   e. appropriately rolled out by state government, local government and referral authorities;

   f. understood and implemented by industry stakeholders and any capacity building within industry is supported and reported;

   g. assessed to understand the economic value to Victoria of streamlining the system and unlocking new efficiencies; and

   h. further developed where the Improvements could be expanded or applied more widely for even greater benefit.

9. UNLOCK GREENFIELD DEVELOPMENT

New home-buyers in greenfield areas already face increasing costs when entering and participating in Victoria's housing market prior to the onset of COVID-19, in addition to weak wage growth and difficulty obtaining finance.

The Government's response to the COVID pandemic and resulting restrictions on movement had a direct impact on the greenfield development market. Visits to display homes and sales suites dropped by 90 per cent during the first lockdown in Victoria, and as previously noted, lot sales fell by 61 per cent in April 2020 compared with the first quarter of 2020.

Many of the Government's responses to COVID-19 have exacerbated the existing housing affordability challenges faced by Victoria's homebuyers. The wide-reaching economic implications from Government-imposed restrictions have directly impacted buyer confidence, increased unemployment and under-employment, and made purchaser finance harder to obtain.

It is now critical that the State Government unlock greenfield development by investing in infrastructure that will catalyse development and bring forward and direct Growth Area Infrastructure Contribution funding to facilitate development.

Recommendations

9.1. Approve and bring forward funding for vital infrastructure delivery where it will enable development to start or continue constructing a project.

9.2. Bring forward works identified in relevant development contribution plans and infrastructure contribution plans to ease the burden on developers experiencing cash flow issues to commence these projects without further delay.

9.3. Direct Growth Area Infrastructure Contribution funding to development-enabling projects such as the acquisition of land from a non-developing third party that will enable key infrastructure to be delivered in line with development.

9.4. Bring forward all available Growth Area Infrastructure Contribution funded projects to stimulate construction activity and delivery infrastructure in growth area suburbs.

9.5. Consider the establishment of a State Government Ombudsman role (or similar) through the Essential Services Commission to monitor performance and hold utility companies accountable for performance.

9.6. Defer the payment of authority fees, bonds and Infrastructure Contribution Plan levies until after settlement has occurred.

10. STIMULATE URBAN RENEWAL AND BUILT FORM DEVELOPMENT

In our view, supercharging urban renewal and built form development will contribute to re-establishing Melbourne's competitive advantage.

The demand for residential and commercial development would normally drive investment in, and the development of, urban renewal areas. Given demand from both these sectors is forecast to decline dramatically during the remainder of 2020 and remain low in 2021, direct State Government intervention is required to kick start designated urban renewal areas.

The State Government should focus on establishing a strong pipeline of projects to support Victoria's economic recovery beyond 2022 by streamlining the approvals process which usually takes between two and six years for urban renewal and infill sites.

Direct Government action is required now to supercharge our urban renewal areas and the built form development pipeline. If done right, this industry activity could be a key plank of Victoria's economic recovery story.

Recommendations

10.1. Establish and fund a Precincts Authority (or precinct-specific Authorities) to act as planner, approver, coordinator and manage the delivery of key precincts. The authority should be tasked with structure planning then delivering planning permit approvals and coordinating authority approvals within the precinct.

10.2. Commit to a program of government investment in catalysing infrastructure to activate existing Priority Precincts. Establish a transparent program of infrastructure investment so the private sector can plan its activity effectively to maximise the value of public investment for the broader community.

10.3. Establish taxation and regulatory settings in Priority Precincts that encourage development activity, so that these areas attract investment and development activity is stimulated rather than landowners retaining existing uses or refraining from activating sites for urban development.

10.4. Establish an Industry Advisory Council to strategically engage with the urban development industry in a way that accesses the global knowledge, experience and commercial understanding of the industry to get the best outcomes possible in the precincts.

10.5. Fast track the State Government surplus government land disposal program and the approvals process for development on these surplus government sites.

10.6. Bring forward proposed public-private partnerships to develop State Government land.

10.7. Bring forward the program of works associated with cladding rectification funded by the Victorian Government.

10.8. Delay the development and implementation of a new Infrastructure Contribution Plan System for Strategic Development Areas.

11. DRIVE A SOCIAL AND AFFORDABLE HOUSING INVESTMENT-LED RECOVERY

The current economic conditions in Victoria provide an opportunity for the State Government to invest in new social housing and upgrade existing public housing. Such investment would stimulate the economy, provide employment and reduce the predicted increase in homelessness as a result of the worsening economic conditions and job losses.

Complementary with this, the State Government should actively incentivise and partner with private industry to deliver large-scale affordable housing. This approach is counter-cyclical and will keep the residential development industry operating at capacity while demand for new housing is low.

The overall benefits of the State Government investing and partnering in these initiatives are significant, including accelerating Victoria's post-COVID economic recovery while boosting flow-on market activity. It could compensate for years of underinvestment in social housing and plug the gap in between the affordable housing required in Melbourne and what is actually available.

Recommendations

Short term measures:

11.1. Bring forward future spending from the Victoria Social Housing Growth Fund to stimulate the construction of new social and affordable housing on non-Victorian Government land.

11.2. Support the delivery of affordable housing by streamlining planning approval processes and reducing red tape.

11.3. Adjust the taxes and charges applied to the delivery of affordable housing to stimulate investment from the residential development sector.

11.4. Utilise State Government surplus land to support the delivery of affordable and social housing.

Longer term measures:

In our view, addressing Victoria's affordable housing crisis requires a whole-of-government approach underpinned by significant capital investment.

The development sector is already responsible for delivering the vast majority of affordable housing across Victoria, and this contribution should be recognised in any policy settings. An approach which further increases the costs of delivery for the sector without creating incentives will have the unintended consequence of reducing supply.

UDIA Victoria's recommended approach to developing an effective affordable housing framework is set out below:

11.5. A healthy new housing supply pipeline will make more houses more affordable to rent and buy for more

Victorians.

11.6. Establish housing growth targets across the Metropolitan Region with corresponding performance and accountability measures.

11.7. Incentivise local government to plan for new housing by aligning infrastructure investment to housing growth targets.

11.8. Set clear affordable housing delivery objectives and refine household targeting.

11.9. Identify costed affordable housing delivery targets – both across the broader metropolitan region, by LGA and for redevelopment precincts.

11.10. Increase Governor in Council income brackets to include key workers.

11.11. Define a methodology for determining affordable housing price points for purchase.

11.12. Introduce a tightly defined, broad based, flat rate Affordable Housing Contribution levied through the Planning System across Metropolitan Melbourne, to avoid skewing of market activity between sectors, precincts or specific sites. The Affordable Housing Contribution must be applied to all planning permit applications for development in metropolitan Melbourne, and:

- be phased in at a low rate (i.e. 0.5% of assessed land value at the time of application) for a transition period of no less than 5 years to allow the market to adjust;
- replace all other affordable housing requirements with a delivery cost to landowners/developers – i.e. voluntary agreements, or planning controls;
- be permitted to be satisfied via cash, or delivered outcomes with the equivalent cost; and
- be collected and managed transparently by a centralised Government Authority established for that purpose.

11.13. Design an Affordable Housing Delivery Toolkit ("Toolkit"), aligning Federal, State and Local direct funding opportunities and incentive mechanisms to guarantee the gap between the Affordable Housing Contribution and cost of delivery targets.

11.14. Where delivery targets are identified through a strategic planning process, that process must also identify the Toolkit measures that will be applied by Government to guarantee the gap, to ensure a level playing field.

11.15. An example Toolkit relevant to the Victorian context is set out in the attached submission and includes (but is not limited to) direct Government capital and land allocation, taxation relief, development right uplift mechanisms, and the Affordable Housing Contribution funds.

11.16. Capacity building programs across all levels of government, development and community housing industries, financiers, and the community are essential to ensure the success of the system and can be rolled out over a five-year integration period for the Affordable Housing Contribution. These should aim for both shared understanding of interests of the various parties, 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, such as market purchase, assisted purchase, assisted rental, public and community housing and crisis housing, and set out clear processes for achieving delivery targets through the application of the Toolkit.

11.17. Seek to facilitate combined investment opportunities with NIFIC to enable maximum opportunity for affordable housing associations and industry to partner on land, finance and subsidy arrangements.

11.18. Identity and make available surplus state-owned assets for delivery of affordable housing opportunities coordinated with industry and affordable housing associations.