UDIA Victoria Pre-Budget Submission 2021

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ABOUT UDIA VICTORIA

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.

INTRODUCTION

Working closely with our Board of Directors and expert committee members, UDIA Victoria is consciously ensuring that the initiatives outlined in this submission are targeted, proportionate and reasonable.

The urban development industry is a critical driver of jobs and economic activity, both of which are vital to Victoria's economic recovery. Our members work hard to deliver homes and communities that can comfortably accommodate a diverse range of demographics. We remain committed to working in partnership with the Victorian Government in each respect.

STATE OF THE RESIDENTIAL DEVELOPMENT MARKET

UDIA Victoria's flagship research publication, the UDIA Victoria Residential Development Index (UDIA RDI), measures the health of the industry. The most recent UDIA RDI was released in December 2020 and reviews the impacts of the coronavirus pandemic and border closures on Victorian population growth, and the flow-on effects for the residential construction sector. A copy of the UDIA RDI is set out at **Attachment A**.

The UDIA RDI details significant headwinds facing the industry in the absence of immigration and population growth in the next two years, showing that the demand for new housing and employment in the residential development industry will be significantly reduced if immigration and population inflows are delayed until late 2022.

Until March 2020, Victoria's population was growing by around 115,000 people per year, which was generating a need for approximately 55,000 to 60,000 new homes per year. This level of activity is estimated to have created 740,000 direct and indirect jobs (180,000 direct jobs), and $5.8 billion in economic activity.[1]

Depending on when immigration normalises, the research shows that over the next few years the demand for new homes could halve to around 20,000 to 30,000 new homes per year, and jobs in the residential development industry could plummet by 20,000 per year.

The greenfield residential development sector was able to continue to provide employment, stimulus and government revenue with sensible management measures limiting the full impact of COVID-19 restrictions through 2020, in part due to the positive impact of state and federal stimulus measures directed to the sector, as well as the impact of the Commonwealth's JobKeeper program.

We commend Victorian Government's commitment to social and affordable housing through the historic $5.3 billion *Big Housing Build* investment, to be spent over four years from the 2020-21 financial year. This will support around 12,000 new dwellings, or approximately 3,000 per year. Although a positive contribution, it is important to note this will only offset between 15 and 20 per cent of the expected decline in private sector stock volumes.

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1 https://www.abs.gov.au/Ausstats/abs@.nsf/94713ad445ff1425ca25682000192af2/ed6220072793785eca256b360003228f!OpenDocument ; based on an assumed development cost per dwelling of $333,000.

The residential greenfield market is currently experiencing strong demand, driven largely by government stimulus and record low interest rates. That said, there remains concern about the ability of the market to withstand the challenges that the second half of 2021 will bring. UDIA Victoria members indicate that sales enquiries in the greenfield market are still being driven by government stimulus considerations. With the recent end of the JobKeeper program, the end of the Commonwealth's HomeBuilder Scheme and the currently proposed end to the State Government's stamp duty waiver, we caution against a complete withdrawal of stimulus to this important market segment.

Distinct from the residential greenfield market, the apartment market in inner Melbourne faces enormous challenges. The impact of COVID-19 has been most evident in the rental market, particularly in central Melbourne, as the closure of international borders resulted in the collapse of overseas migration and student and tourism inflows. As a result, both traditional and short-stay rental demand suffered at a time when apartment completions remained relatively robust.

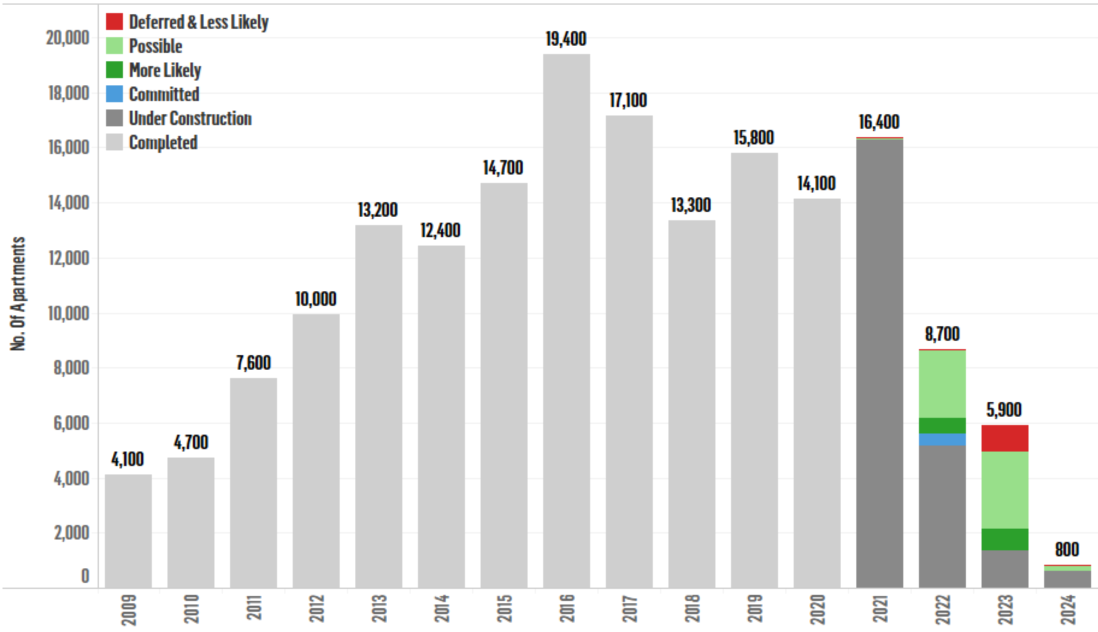
Analysis by SQM Research illustrates the significant impact of COVID-19 on the apartment market across the CBD, Southbank and Docklands.[2] Between March 2020 and March 2021 across these three postcodes, rents fell by 33 per cent (from $619 per week to $417), rental yields dropped by 31 per cent (from 5.8 per cent to 4.0 per cent) and vacancies more than doubled from 4.97 per cent to 10.03 per cent.

Since peaking in 2015-2016, off-the-plan (OTP) apartment sales have been in steady decline, with investors continuing to retreat from the market since then. While early signs of a return in investor demand emerged towards the end of 2019, this stalled following the onset of the pandemic, with declining rents and increasing vacancies dampening investor interest.

Analysis by leading property research consultancy, Charter Keck Cramer, clearly illustrates the dramatic decline forecast for apartment completions in metropolitan Melbourne to 2024. From a peak of nearly 20,000 new apartments in 2016, prior to the removal of OTP concessions, the number of new completions is forecast to fall to just 8,700 in 2022 and 800 in 2024, assuming all marketed stock proceeds.[3]

[2] https://sqmresearch.com.au/index_property.php

[3] Charter Keck Cramer, *State of the Market, Residential Apartments Metro Melbourne H2 2020*, March 2021.



GOVERNMENT COSTS AND DELAYS ARE LESSENING THE NET IMPACT OF BUDGET STIMULUS

UDIA Victoria has welcomed a number of the State Government's initiatives over the past 12 months, in the face of significant health and economic challenges. Not only has the building and construction industry been permitted to remain largely open for business throughout extended lockdowns, the 2020 State Budget provided welcome stimulus. Notwithstanding, there remain several factors that negatively affect housing supply and otherwise serve to diminish the stimulatory impact of announced measures.

Of particular concern, is the fact that the cost to develop new housing continues to rise, through direct costs of Government fees and charges and the indirect cost of red tape.

In the case of greenfield developers, they are required to pay five different groups of charges to four different agencies at various stages throughout the development process. The complexity of various charges requires time for discussion with the relevant agencies or in some cases, outsourcing management of these charges, resulting in an increased internal cost to the developer. This complexity also often gives rise to approvals delays, resulting in slower delivery of lots and housing to the market.

With increasing frequency, councils are implementing social and affordable housing strategies that seek a percentage of the dwellings to be provided as social and/or affordable housing. This significantly impacts on the feasibility of developments and negotiations can take many months.

Civil construction costs continue to rise (i.e. constructing roads, footpaths, drains and wetlands) due to increasing standards required by the relevant Authorities. For example, the EPA recently released a policy for stormwater management that will see drainage costs significantly increase when it is fully implemented.

Separately, the development industry is concerned by the lack of costings in Regulatory Impact Statements and other costs that appear to be unknown or relatively misunderstood by the Government's central economic agencies but proposed and implemented by arms of Government – for example the costs of Cultural Heritage Management Plans, the proposed Dja Dja Wurrung Land

Use Activity Agreement (informing broader First Nations policy for Victoria), or the increased costs that will arise from the implementation of the proposed Better Apartment Design Standards (estimated at up to $20,000 per apartment, plus ongoing maintenance fees).

UDIA Victoria recently commissioned Urban Enterprise to conduct research into development contributions and other property development taxes and charges in Victoria and to analyse the impact that these charges have on the property industry.

Its investigation and analysis of levies within the sample groups of Development Contribution Plans (DCPs) and Infrastructure Contribution Plans (ICPs) across metropolitan Melbourne greenfield growth areas between 2010 and 2020 shows that:

- development contributions levies increased substantially (in real terms) from an average of $351,000 per ha for early DCPs to $540,000 per ha for ICPs;
- the Transport levy has increased significantly over time and continues to increase despite the introduction of standard levy caps through the ICP system; and
- overall, the ICP system has standardised Community and Recreation levy and equalised Public Land contributions, but there has been a failure of the ICP system to contain or standardise transport construction costs and levies. Frequent use of the Supplementary Transport levy is enabling levies to continue escalating.

A copy of the Urban Enterprise Research is set out at **Attachment B**.

THE IMPORTANCE OF THE URBAN DEVELOPMENT INDUSTRY TO THE VICTORIAN ECONOMY

Residential development directly contributes a total of $6.7 billion annually to the Victorian Budget through the following:

- $2.5 billion of development charges; and
- $4.2 billion of taxes on residential development.[4]

Modelling prepared for UDIA Victoria shows combined average greenfield charges and taxes are $2,480,000 per hectare. This equates to $146,100 per lot or 44 per cent of the median greenfield lot price. In established areas, the combined taxes and charges equate to approximately $178,000 per dwelling or 30 per cent of the dwelling price.

This leaves aside the broader importance of the urban development industry to the Victorian economy as a job creator, enabler of economic activity and by delivering new homes for Victorian families.

Taxes on property represent approximately 44 per cent of the State Government's taxation revenue and 14 per cent of its total revenue. The broader urban development industry is a fundamental plank of the Victorian economy, employing 300,000 Victorians, with approximately 194,000 of those jobs in residential construction.[5]

In 2019-20, residential construction expenditure generated $25.5 billion in the Victorian economy.

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[4] UDIA Victoria, *Development Contributions, Fees and Charges*, March 2021.

[5] UDIA Victoria, *Residential Development Index*, December 2020.

For every three dwellings built, 37 jobs are created along with $2.9 million in economic benefits.[6]

There is no doubt that the delivery of new housing supply will support Victoria's economic recovery.

Now, more than ever, the sector is critical to Victoria's ongoing prosperity. UDIA Victoria and the urban development industry have long partnered with the State Government to deliver liveable and connected communities, create jobs and economic activity. We continue to work with the Victorian Government to put Victorians into jobs, and into homes.

UDIA VICTORIA BUDGET RECOMMENDATIONS

The following measures are of immediate importance to the urban development industry, and as a means of creating economic activity and helping to repair the Victorian Budget.

RECOMMENDATIONS:

1. **Extend the 50 per cent stamp duty waiver on new homes until 30 June 2023.**
2. **Reinstate 100 per cent off-the-plan stamp duty concessions for new central city apartment builds for 24 months.**
3. **Extend the Vacant Residential Land Tax waiver until 30 June 2023.**
4. **Provide a 24-month holiday from the Foreign Purchaser Additional Duty, to encourage investment into Victoria's apartment market.**
5. **Provide funding to the Victorian Planning Authority and local government to support the timely approval of planning applications, reduce red tape and support the supply of new homes throughout Victoria's suburbs and regions, until planning system reforms take effect.**

Recommendation 1: Extend the 50 per cent stamp duty waiver on new homes until 30 June 2023

Given the likelihood that Victoria's population growth will be subdued for some time, continued support for the inner-Melbourne apartment market is necessary.

In the 2020-21 State Budget, the Victorian Government announced stamp duty discounts of 50 per cent on new residential properties and 25 per cent on existing residential properties, and increased the dutiable value threshold to $1 million.

Operating in parallel to the Commonwealth's HomeBuilder Scheme, these discounts have served to support the greenfield residential sector. However, given the marketing and campaign timeframes

[6] Based on an assumed development cost per dwelling of $333,000.

required to support a new inner-city apartment development and secure off-the-plan sales, the discounts have not had enough time to support the delivery of this type of stock.

UDIA Victoria calls for the Victorian Government to extend the existing 50 per cent stamp duty waiver on new (and previously unsold homes) for a further 24 months, until 30 June 2023, to reflect the longer planning, marketing and development timeframes faced by the apartment sector and to support the delivery of additional housing supply to address increasing house prices.

UDIA Victoria does not propose that the current 25 per cent stamp duty waiver on existing homes be extended beyond 30 June 2021. Although the continuation of stamp duty waivers on new homes will support economic activity and construction jobs, the expiration of the waivers on existing homes represents a natural tapering of the Government's November 2020 announcement and targets stimulus to where it is needed most.

Recommendation 2: Reinstate 100 per cent off-the-plan stamp duty concessions for new central city apartment builds for 24 months

Since the removal of OTP stamp duty concessions on 1 July 2017, apartment completions in Victoria have fallen from 19,400 to 16,400 (over 15 per cent), while through the same period and despite the negative impact of the coronavirus pandemic on population growth, Victoria's population has increased from 6.323 million to 6.680 million (over 5.5 per cent). Research by Charter Keck Cramer forecasts apartment completions to plummet to 800 by 2024, which represents a decline of 96 per cent from the peak in July 2017.

Based on an assumed median dwelling input cost of $333,000 and the Australian Bureau of Statistic's construction multiplier for jobs and spending,[7] the fall in apartment completions between 2016 and 2024 represents a decrease to state economic output of over $17 billion and a loss of around 230,000 jobs.

Concessions for OTP sales directly stimulate the construction market. Creating incentives for consumers – whether owner occupiers or investors – to purchase off-the-plan increases the likelihood of significant developments proceeding. The benefits of reinstating the concession include that it:

- materially affects the feasibility of large apartment buildings because of both cash flow timing and total volume of sales;
- provides a competitive advantage to Victoria in relation to alternative investments in other states or overseas (particularly with overseas investors); and
- will result in more projects getting off the ground.

With any off-the-plan concession, it is critical that it is extended to projects which are currently out for sale (but unsold), otherwise the prospect of selling new completed stock diminishes significantly. If the concessions are extended to new but unsold stock, developers will be able to sell stock straight away and then redeploy the funds into other job-creating pipeline projects.

7 https://www.abs.gov.au/Ausstats/abs@.nsf/94713ad445ff1425ca25682000192af2/ed6220072793785eca256b360003228f!OpenDocument

Recommendation 3: Extend the Vacant Residential Land Tax Waiver until 30 June 2023

The Vacant Residential Land Tax (VRLT) took effect on 1 January 2018. It is levied on residential properties in Melbourne's inner and middle suburbs which are unoccupied for more than six months either continuously or in aggregate in a calendar year.

In September 2020, the Government announced a waiver of the VRLT for properties that are vacant in 2020. With travel restrictions in place and property inspections not possible throughout much of 2020, many properties were vacant that would be otherwise occupied.

UDIA Victoria welcomed this announcement, however we note that (save for the ability to now attend property inspections) the market dynamics have not changed since it was made.

Despite apartment rents having declined by 7 per cent in the twelve months to December 2020, the vacancy rate more than doubled, increasing from 2.1 per cent in December 2019 to 4.7 per cent in December 2020. This is particularly so in Melbourne's CBD and inner suburbs owing to:

- international and interstate border closures;
- the inability of international student to come to Melbourne; and
- heightened levels of unemployment and underemployment.

Rather than a tax to discourage owners of new housing stock from leaving it vacant in the face of escalating rental demand and rental costs, the VRLT now serves to operate as a punitive measure where developers are unable to sell stock because of market conditions outside of their control. The current waiver should be extended, while market conditions remain difficult.

Recommendation 4: Provide a 24-month holiday from the Foreign Purchaser Additional Duty, to encourage investment into Victoria's apartment market

Victoria's Foreign Purchaser Additional Duty (FPAD) increases the cost for global capital to invest in Victorian residential property by 8 per cent. This serves as an obvious disincentive to investing in Victoria.

Australia's handling of the coronavirus pandemic, particularly viewed against Europe and the United States, places it in a unique first-mover position. Low case numbers and relative freedom of movement allow Australia and, in particular, Victoria to cement its economic recovery before our economic competitors. To maximise advantage, Victoria should be welcoming global capital that will create Victorian jobs and support the State's economic output.

Research from AEC Group in 2019 examined the contribution of foreign investors purchasing residential and non-residential property on the Victorian economy, and the impact the introduction of surcharges on foreign investors has had on this contribution. The assessment reviewed historic levels of foreign investment as a share of total investment in residential and non-residential property, and compared this to previous AEC modelling on the economic contribution of property to the Victorian economy, to estimate the level of economic activity supported by foreign investment in 2015-16. Implications of the surcharge were estimated based on the observed reduction in foreign investor levels between 2015-16 and 2016-17 in Victoria (and other states) from the introduction of a surcharge. In 2019, and before the further increase of the FPAD to 8 per cent, AEC predicted the imposition of the surcharge had cost the Victorian economy up to $7.4 billion in lost investment and employment.

By adopting our recommendation to provide a 24-month waiver on the FPAD, the Victorian Government can decide that investment, no matter from where it originates, will continue to support the supply of new housing in Victoria, create jobs and boost economic activity.

Recommendation 5: Provide funding to the Victoria Planning Authority and local government to support the timely approval of planning applications, reduce red tape and support the supply of new homes throughout Victoria's suburbs and regions, until planning system reforms take effect

An essential part of addressing growing demands on housing availability and affordability is to increase supply. Victoria requires diverse housing stock, through a mix of greenfield developments and urban infill to take advantage of existing infrastructure and community services.

UDIA Victoria recognises and commends the Government on its efforts to reduce red tape and reform the planning and building systems, as well as the system for infrastructure contributions throughout Victoria. Despite good intentions and recommendations for reform:

- the benefits of reform are unlikely to be felt by the development community for some time; and
- the systems responsible for delivering new homes is constrained by the capacity of the VPA and local governments to deal with strategic planning decisions and planning applications.

To realise the benefits of State Government reforms (including Victoria's *Big Housing Build*), the VPA and local councils must be fully equipped to carry their load. By doing so, it allows by the industry and Government to operate at their highest capacity. We recommend that the State Government commit $10 million each year to better resource the VPA and planning departments within local government to support improved planning and enable much needed housing supply across Melbourne and regional Victoria.

NON-FISCAL MEASURES TO SUPPORT THE URBAN DEVELOPMENT INDUSTRY

Separate to the initiatives outlined above, which require direct budget support, there are further non-budgetary initiatives that we encourage the Government to commit to in support of Victoria's economic recovery.

First, a critical driver of our recovery relies on the return of international students to Victoria. These students support CBD activation, the retail sector and the property industry through the purchase and rental of apartments. Although UDIA Victoria acknowledges that international borders are a matter for the Commonwealth, we encourage the Victorian Government to work decisively and collaboratively with the Commonwealth and educational institutions to devise ways to bring back international students in a safe manner, as quickly as possible. Separately, we encourage the Victorian Government to work with Victorian universities to encourage the return of domestic students to on-campus learning, in a manner similar to the way it has encouraged the return of employees to office-based work, as a means of supporting thousands of small businesses that rely on the patronage of these students.

Second, we encourage the Victorian Government to partner with the City of Melbourne and others (such as industry associations) to actively promote and encourage the central city as a great place to reside. The central city will remain a critical component of the state's housing equation for many years to come, and a joint marketing and communications strategy will help to reactivate the CBD and surrounds to return it to a 24/7 city.

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