UDIA VICTORIA
PRE-BUDGET SUBMISSION
2024-25

UDIA
Urban Development Institute of Australia
VICTORIA

About UDIA Victoria

The Urban Development Industry of Australia, Victoria (UDIA Victoria) is a not-for-profit research, advocacy and educational organisation supported by a membership of land use and property development entities, across the private sector and Victoria's public service.

UDIA Victoria is committed to working closely with industry, local, state and commonwealth government, key housing sector stakeholders, and the community to improve access to diverse, high-quality and affordable housing in Victoria.

UDIA Victoria is a signatory to the State Government's *Affordability Partnership*, whose focus is on meeting the objectives of *Victoria's Housing Statement*: building 800,000 new homes by 2034 – 80,000 homes per year over the next decade.

In 2024¸UDIA Victoria is laser-focused on establishing the right policy, regulatory and taxation settings to enable the residential development industry to do what it does best: build great housing for the growing number of people who choose to call Victoria home.

We apply a rigorous, research and evidence-based approach to developing policy advice for decision-makers, at all levels of government. UDIA Victoria research tracks market trends, construction costs, regulatory changes, and prevailing economic conditions, providing a comprehensive picture of Victoria's development industry. Our detailed research has informed this submission.

From UDIA Victoria's CEO, Linda Allison and President, Tom Trevaskis

UDIA Victoria is pleased to be a signatory of the State Government's Affordability Partnership and is committed to working with the State Government to secure the right settings for industry to achieve the goal of delivering 80,000 homes per year over the next decade.

However, the industry is facing the toughest conditions many have seen in decades. Compared to the State's population growth, residential construction is now at its lowest ebb since the recession of the early-1990s.

More needs to be done if the Government is serious about changing the tide on housing affordability.

Residential development and the construction industry kept the lights on during the COVID-19 pandemic and it remains one of the biggest contributors to the State's economy. Residential development generated almost $14 billion in tax receipts last year and provided around 333,165 Victorian jobs – we play an important role in Victoria's prosperity and will play a leading role in meeting the State's housing targets.

UDIA Victoria's Pre-Budget Submission, 2024-25 provides considered, measured and evidence-based recommendations aimed at improving housing supply, reduce housing prices and maximising community return on government investment.

Linda Allison	**Tom Trevaskis**
Chief Executive Officer	President, Board of Directors
UDIA Victoria	UDIA Victoria

Background

The 2024-25 State Budget will be the Victorian Labor Government's 10th, and arguably most important for the development industry.

The 2023-24 State Budget promised a return to a modest operating surplus of $1 billion over the forward estimates. In order to pay down its mounting debt, the State Government pursued an increased tax take by hiking existing measures and introducing a "temporary" "10-year" levy on businesses and landowners.

Since 2014, the Victorian Labor Government has introduced a new tax, or increased an existing one, 52 times – more than 5 a year over the last decade. Despite this, the State's debt is still mounting.

Research from S&P shows **Victoria's gross debt may reach $247 billion by 2027** – continuing to remain higher than that of New South Wales (NSW), and well ahead of South Australia ($51 billion), and Queensland ($149 billion).

Victoria carries more debt than any other State and risks another downgrade to its credit-rating.

At the same time, the issue of housing and rental affordability has risen to the top of the national agenda.

For the last 30-years housing and rental affordability has been in steep decline, culminating in the current crisis. Importantly, this has disproportionately affected marginalised and vulnerable Victorians.

Inadequate access to housing is threatening to undermine the strength, stability, productivity and economic prosperity of our State.

Late-2023 saw the release of the eagerly anticipated Victorian Government's *Housing Statement*, includes measures to deliver up to 800,000 new homes before the next decade. This follows National Cabinet's commitment to deliver 1.2 million new homes over the next 5 years, to July 2029.

UDIA Victoria is encouraged by both the Commonwealth and State Government's focus on increasing supply to address the deepening housing crisis. Though, we are also experiencing some of the most challenging conditions many in the sector have ever seen.

State of the market

Victoria's population is growing at a rapid rate, outpacing every other state in Australia. Last year, Melbourne surpassed Sydney as Australia's most populace city – almost a decade earlier than previously forecast. **Victoria's population is set to reach 11.2 million by 2056**, with **Melbourne on track to becoming a city of 9 million by 2050**.

Much of the strong population growth is due to overseas and interstate migration, as more people, attracted to our prized liveability, choose to call Victoria home. Historically, population growth has fuelled Victoria's economic prosperity, however, the unchecked challenge of housing Victoria's growing population may see this reverse in coming years.

Our competitiveness and prosperity are in jeopardy as demand for housing increasingly outpaces supply, leading to unattainable house prices and a severely overheated rental market.

Rising cost-of-living pressures are crushing consumer confidence. More Victorians are locked-out of the housing market, which is putting pressure on an increasingly competitive rental market. A ferocious return to post-pandemic population growth, coupled with unattended supply shortages, has brought the State's housing shortage into stark relief.

13 consecutive cash rate hikes appear to be containing Australia's inflation rate – the fastest rate hike in decades – however, it remains stubbornly fixed above 4.1 per cent, and has had a lasting impact on consumer borrowing capacity. UDIA Victoria research shows a significant **reduction in borrowing power of around $300,000 for the average Victorian** couple, while skyrocketing house prices have seen the median home in Melbourne reach $1 million.

Ultimately, we are seeing more Victorians forced to remain in an increasingly competitive rental market, which has seen a staggering 14 per cent increase in 2024.

Research conducted by Urbis shows both vacancy and rental rates have surpassed pre-pandemic levels and are continuing to rise. In addition, it shows a significant decline in the apartment pipeline in developed areas in Melbourne.

2016-21 saw the creation of an average of 4,400 apartments annually, **2022-27 will see an average of just 2,000 apartments**. This dramatic reduction in supply within Central Melbourne, partnered with an explosive return of overseas migration, will exacerbate the existing housing supply shortage, and push more Victorians into housing stress.

Similarly, a lack of availability of zoned land in the State's designated growth areas (a result of long-term strategic and statutory planning delays) will impact supply of dwellings in what is historically, the strongest performing sector of the market. **Research shows underlying demand (27.5 years zoned and unzoned) far outstrips incoming supply (13 years)**.

The urban development industry's role in Victoria's economy

Victoria's development industry will play a pivotal role in operationalising the State Government's aspirational housing policy. It is critical that Government recognises the key role it plays and the importance of supporting industry.

In addition to this, the urban development industry is one of the biggest contributors to the Victorian economy and one of the State's largest employers. However, **2023 has seen a marked decline in construction, leading to reduced productivity, economic activity and employment opportunities.**

Research commissioned by UDIA Victoria, the Civil Contractors Federation (CCF) and the Association of Land Development Engineers (ALDE), highlights the significant impact felt across industry:

- 25 per cent of Australia's 200 largest construction companies have been operating at a loss over the last 2 years; and
- 1,709 construction businesses entered administration as of April 2023.

In 2014, property taxes were responsible for less than 18 per cent of all state government tax revenue. Over the past decade, this has risen to over half of the State's tax revenue and is forecast to remain higher than 40 per cent over the next 4 years.

Property taxes have contributed to around 50 per cent of all State taxation revenue since 2014:

- Over $57.1 billion in property-related stamp duties have been collected;
- Annual property-related stamp duty receipts have increased by over $6 billion, or more than 140 per cent;
- More than $27.1 billion in land tax has been collected; and

Annual land tax receipts have increased by over $2.5 billion, or more than 250 per cent.

In 2023-24, **residential development directly contributed a total of $14 billion to the Victorian Budget through existing taxes, fees and charges**. This represents approximately 45 per cent of State Government tax revenue for the financial year, and around 20 per cent of its total revenue.

UDIA Victoria research also shows average combined taxes and charges on greenfield development are approximately $2.48 million per hectare. This equates to $146,100 per lot, or 44 per cent of the median greenfield lot price.

In established areas, combined taxes and charges equate to approximately $178,000 per dwelling or 30 per cent of the average dwelling price.

As one of the State's leading employers, Australian Bureau of Statistics (ABS) data shows **direct and indirect employment in the residential construction sector reached approximately 333,165 jobs** in August of 2023.

The State's housing crisis demands a crisis response

Industry, Government, and the wider community are unanimously declaring the current state of housing affordability a crisis. UDIA contends that there are multiple parts to the overarching crisis:

- **Construction costs**
  Global supply chain disruptions and the State Government's record infrastructure pipeline have increased the cost and reduced the availability of construction materials and labour. It is now more expensive to build than in recent years, with no sign of any significant reductions in the near future.
- **Consumer confidence**
  Consumer borrowing capacity has severely declined in recent years, putting even the most affordable housing options out of reach for low to moderate income households. High interest rates, cost-of-living, and lack of diverse housing supply has seen a reduction in prospective purchasers entering the market.
- **Investor confidence**
  Increasing property-related taxation and new property taxes are hurting project feasibilities and forcing Victorian businesses to look interstate for development opportunities. A punitive and unpredictable taxation landscape is eroding Victoria's attractiveness as a place to invest – we are losing our competitive advantage.

The State's housing crisis demands a crisis response. UDIA Victoria is calling on the Government to explore measures, including short-term relief initiatives, aimed at reducing the cost of development; uplifting consumer and investor confidence; and jumpstarting new housing construction, at scale, to connect more Victorians with secure housing.

UDIA Victoria's Pre-Budget Submission 2024-25

UDIA Victoria's Pre-Budget Submission 2024-25 is prepared in the context of considerable headwinds facing industry, government and the community.

Despite a focus on improving housing supply, **dwelling construction is trending down and expected to be lower in 2024 than previous years.** Construction cost escalation and an uncompetitive taxation and regulatory environment is making residential development prohibitively expensive in Victoria compared to other states.

The State Government is focused on budget repair. Record investment in infrastructure, pandemic stimulus measures, and project cost blowouts have all markedly increased the State's debt.

The aim of our submission is to provide guidance to decision-makers, with consideration to prevailing conditions. Our recommendations are proportionate, responsive and consistent with the State Government's overarching objectives: improving economic output; increasing housing supply; putting downward pressure on housing prices; and creating more Victorian jobs.

We encourage the Allan Government to consider the recommendations outlined within this Pre-Budget Submission on their merit. UDIA Victoria and its members have a long history of working with government to deliver improved outcomes for industry and the community. We look forward to continuing to work with the State Government to create more jobs and homes for Victorians in 2024-25.

Key Recommendations

1. Review the existing stamp duty regime, including **consideration of a transition to a broad-based levy**; and **review existing duty rates and corresponding concession thresholds**, to account for bracket creep and runaway house prices.

2. **Remove or provide temporary relief from the Foreign Purchaser Additional Duty (FPAD)** which is throttling investment in Victoria's residential development sector and impacting the sector's ability to deliver new housing in developed areas.

3. **Review Windfall Gains Tax (WGT) and introduce a rate cap**. The extremely high potential rates of WGT is disincentivising development of established suburbs, urban regeneration areas and the regions.

4. Urgent and **priority reinvestment of the existing Growth Area Infrastructure Contribution (GAIC) funds.** There is currently around $480 million of unallocated funds that have been collected through the GAIC scheme to fund the provision of critical, population serving infrastructure and amenities in the growth area.

5. **Return funding to the State's strategic planning authority.** The Victorian Planning Authority (VPA), responsible for planning to meet Victoria's record population growth, had their operating budget slashed in 2023-24 by more than 40 per cent. Their 2023-24 Business Plan also has a substantially reduced work plan for growth area strategic planning. **It is not possible to meet the Government's housing targets without an adequately resourced and effective planning authority.**

6. **Prioritise reforming the Planning & Environment Act, 1987 and streamline the State's inefficient building approval processes.** Accelerating the implementation of the Red Tape Commissioner's 2021 Planning and Building Process Review recommendations will support the timely delivery of more housing, reduce the cost of development and provide much-needed industry certainty.

7. **Adopt the recommendations of Infrastructure Victoria's *Fast, Frequent, Fair: How Buses Can Better Connect Melbourne*, 2023, report** into improving metropolitan Melbourne's bus network, and improve connections to Melbourne's burgeoning growth area suburbs.

8. **Prioritise funding and delivery of planned infrastructure that unlocks the delivery of new housing supply**, supports existing growth area communities, and delivers a strong return on investment for the State.

1

Review the existing stamp duty regime, including consideration of a transition to a broad-based levy; and review existing duty rates and corresponding concession thresholds, to account for bracket creep and runaway house prices.

The Victorian Government's reliance on property tax revenue places the State's economy in a precarious position. With mounting inflationary pressures, and the RBA's sharpest increase in the official cash rate since 1994, property prices are under pressure, while the State's budget and expenditure program is built on construction and land release taxation.

The evidence is clear: tax reform is needed to reduce the burden on Victorian homebuyers, support housing affordability and de-risk the State's economy. UDIA Victoria recommends a crisis-response to land transfer duties on residential property, including a merit-based evaluation of:

1. Transitioning to a broad-based property tax regime;
2. Targeted, temporary relief measures to stimulate new residential development; or
3. Updating concession thresholds to better align with runaway house prices.

Transitioning from the existing regressive transfer duty to a broad-based system

Housing Australia, formerly the National Housing Finance and Investment Corporation (NHFIC), recently called for the removal of the stamp duty, as it directly impacts housing mobility, and its removal would optimise use of existing national housing stock.

Grattan Institute research shows that **transitioning to a broad-based property tax could make Victoria between $4 billion and $5 billion better off** and be more reliably accounted for than the existing stamp duty model.

UDIA Victoria's submission to the Legislative Council's Inquiry into Land Transfer Duties, tabled in Parliament in 2023, illustrated the detrimental impact of stamp duty on housing affordability and the State's economy.

Compared to every other state and territory across Australia, **Victoria is the most reliant on stamp duty, with well over 30 per cent of total tax revenue attributable to the tax**.

The State Government's overreliance on tax revenue from urban development, including through stamp duty, is limiting the State's economic productivity, and impacting the sector's ability to address Victoria's housing supply shortage.

Additionally, changes to market conditions, including to price and volume of transactions make stamp duty revenue uniquely volatile. This is especially the case with significant market events – as we are experiencing now.

Stamp duties have led to under-investment in the property sector and the insufficient distribution of property among the population. Removing stamp duty will incentivise sector investment through increased transaction volume and provide much needed economic stimulus.

The Economic Impact of Stamp Duty: Three Reform Options, a Deloitte Access Economics report, also found that **the removal of stamp duty would result in the creation of an additional 5000 construction jobs** by stimulating demand.

The additional cost of stamp duty and other government charges continue to be a defining consideration for potential purchasers.

The cost of housing, including the added cost of land transfer duties, partnered with a historic lack of supply, has pushed first-homebuyers out of the housing market and back into the rental market. This has meant critical rental stock that would have otherwise become available as this cohort transitions to homeownership, remains unavailable.

A strong return to international migration is adding even greater pressure to the housing and rental markets. Land transfer duties not only impact the homeowner market but also affect Victoria's rental availability and cost.

Review existing land transfer duty rates and corresponding concession thresholds to account for bracket creep and runaway house prices.

Stamp duty rates have failed to keep pace with runaway house prices, exacerbating the overall cost of purchasing a new home. Since stamp duty is a considerable upfront cost, it is a significant barrier to entry for first-time homebuyers and those looking to right-size.

UDIA Victoria calls on the State Government to review existing stamp duty brackets to redress decades of unchecked stamp duty bracket creep, and institute indexation in line with inflation in the housing market.

With Metropolitan Melbourne's median house price currently around $933,500, stamp duty rates are having a crushing effect on homebuyers in Melbourne. The story is the same in regional Victoria, where the median house price is $610,000.

The Planning and Environment Act defines a moderate-income couple, with no dependants, as earning between $ 71,451 to 107,170 per annum. The impact of stamp duty on housing affordability for new homeowners is sobering – a median property ($933,500) results in a Stamp Duty fee of $51,080.

A couple with no dependents, on a moderate income (defined in the Planning and Environment Act as between $71,451 to 107,170 per annum), cannot feasibly purchase a median property in Metropolitan Melbourne. Importantly, the median annual income for many essential services workers is within the defined moderate-income bracket.

With the prevailing reduction in buyer capacity, a couple at their upper annual earning threshold of $107,170would have a borrowing capacity of $497,310with a 10 per cent deposit – well below the $933,500 needed for a median home.

According to research conducted by Westpac, only 23 per cent of 25-34-year-olds (the traditional first home buyer age bracket) have up to $15,233 saved towards buying a home. In a dual-income household, this would equate to $30,466 – a third of the total deposit ($97,500) required for a median house in Metropolitan Melbourne.

In addition, UDIA Victoria considers it necessary to update corresponding thresholds for existing concession measures, including but not limited to:

- **First-home Buyer Exemption or Concession** from stamp duty for properties valued under $600,000 or an adjusted reduction for properties between $600,001 - $750,000.

  The Victorian Government temporarily increased the land transfer duty concession threshold in 2020, to under $1 million, between 25 November 2020 and 1 July 2021. This temporary measure, implemented to stimulate the market and support

Victoria's post-pandemic economic recovery, acknowledges the impacts of the existing stamp duty regime.

The PropTrack Housing Affordability Index for 2023, shows that first-home buyers have been disproportionately affected by current market conditions. It found that an average income household (approximately 120,000 annually) would require a 20 per cent bond which would take over five and half years to acquire. **Over the first half of 2023, only 80,000 first-home buyers were able to enter the market nationally**, this is half of the number accounted for only two years prior.

- **Principal Place of Residence (PPR)** Concession currently available for properties valued at up to $550,000 that are intended to be the resident's intended primary place of residence.

- **Pensioner Concession**, a one-off duty exemption or concession for a new or established home valued up to $750,000. The State Government should also consider removing the one-off limitation to this concession to encourage right sizing, particularly for older Victorians as their housing needs change over time.

2

UDIA Victoria calls on the Victorian Government to remove or provide temporary relief from the Foreign Purchaser Additional Duty (FPAD) which is throttling investment in Victoria's residential development sector and impacting the sector's ability to deliver new housing in developed areas.

Victoria's FPAD regime 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 and is making the State a less attractive place to live and work.

Research from AEC Group examined the contribution of foreign investment in residential and non-residential property on the Victorian economy, and the impact introduction of surcharges has had on this contribution.

The assessment reviewed historical levels of foreign investment as a share of total investment in residential and non-residential property and compared it to previous AEC modelling on the economic contribution to the Victorian economy.

The impacts 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, before the introduction of an 8 per cent FPAD, AEC predicted **the tax had cost the Victorian economy up to $7.4 billion in foregone investment and employment.**

When the FPAD was introduced, Melbourne's median house price was $671,000 and median weekly rents in the CBD were $410. Today, even after accounting for recent falls, that price is just shy of $1 million and weekly rents exceed $690.

Presales for apartment projects are critical to underwriting apartment development. Prior to the introduction of the FPAD, Foreign Purchaser investment approvals in new dwellings peaked at $5.41 billion and $6.87 billion in 2015 and 2016.

Investment approvals fell from their peak by 84 per cent to $1.1 billion in 2019, prior to the COVID-19 pandemic, and to $1.2 billion in 2021.

Importantly, if the existing mechanism was abolished, foreign apartment sales would need to increase by roughly 160 per cent from their current levels to be revenue neutral to the State Revenue Office (SRO). This target would remain 70 per cent below peak 2016 foreign investment levels.

Instead of lessening demand for homes, the FPAD has restricted supply. **Foreign investment has been a crucial to an active domestic apartment market.** Project feasibility relies on a threshold level of off-the-plan pre-sales. Without foreign investment, these pre-sales are made more difficult, and projects are far less likely to proceed.

Removing or suspending FPAD for a period will restimulate lagging investment and send a signal that Victoria is open for business. Investment is needed to support the construction and delivery of new housing in Victoria, create jobs and boost economic activity. UDIA Victoria notes there are existing provisions to grant exemptions to FPAD applicants.

3

Review Windfall Gains Tax (WGT) and introduce a rate cap. The extremely high potential rates of WGT is disincentivising development of established suburbs, urban regeneration areas and the regions.

Notwithstanding the UDIA's overarching opposition to WGT, a consequence of this tax is its impact on development in urban renewal areas and regional Victoria.

WGT officially came into effect on 1 July 2023 and is applicable in Victoria where there is no Growth Area Infrastructure Contribution (GAIC). As GAIC doesn't currently apply in Regional Victoria, WGT is therefore applicable to the regions on any land rezoned after the above date.

WGT has the potential to be levied at a much higher rate of tax on a per-hectare basis than GAIC. The tax has no defined cap or upper limit and is negatively impacting regional development.

Victoria's regional centres offer affordability and lifestyle options that for many, are not attainable in greater Melbourne at present. Regional Victoria will play a key role in accommodating future population growth. The regional development sector also plays a significant role in providing employment for regional Victoria.

A straightforward solution to give certainty to the regional development sector would be to impose a cap on WGT liabilities to ensure they are no higher than a GAIC equivalent. This creates parity across markets and gives the regional development industry certainty on their future tax liability.

The current situation creates significant risk and may jeopardise project viability, stymying future development. The current WGT settings in regional Victoria are further exacerbating supply issues and placing upward pressure on house prices. Placing a cap on WGT equivalent to GAIC would be a straightforward reform that would be welcomed by industry.

At present, it is possible that in some locations the WGT liability could be up to four times higher than if GAIC were applied. It is also known that the potential WGT liability, and uncertainty associated with its valuation, is impacting the feasibility of projects in brownfield settings.

Analysis by UDIA Victoria members indicates that the **uplift tax on a hypothetical 20-hectare site in regional Victoria will equate to a tax rate of approximately $250,000 per hectare. This is more than double the GAIC levy.** We agree that land subject to GAIC should be exempt from the application of the tax, although as a matter of equity, a failure to cap the rezoning tax at the GAIC rate will place many development sites at a competitive disadvantage to Melbourne's growth corridors.

4

UDIA Victoria calls for the urgent and priority reinvestment of the existing Growth Area Infrastructure Contribution (GAIC) funds. There is currently nearly $500 million of unallocated funds that have been collected through the GAIC scheme to fund the provision of critical, population serving infrastructure and amenities in the growth area.

GAIC is collected so that the State Government can provide key infrastructure and amenities to support communities in Melbourne's Growth Area Councils, including schools; health and community centres; transport infrastructure; cycling and walking routes; and public open space.

GAIC is an important part of creating thriving, liveable and well-connected new suburbs. However, it is critical that the State Government reinvests these funds back in the community infrastructure in a timely manner.

Homebuyers are aware that GAIC is a feature of, and ultimately, an added cost on new home purchases. They expect and are entitled to seeing it reinvested in valuable infrastructure and amenities the State Government collects it for.

Taxes, fees, charges, and contributions like GAIC, comprise around half of the cost of a median lot price in these growth areas. That is impacting affordability, but it is also a real issue when the revenue collected is not reinvested in the communities that are paying it.

GAIC is, on average, $120,000 per hectare. There is around **$480 million worth of funding as part of GAIC that is currently unallocated** and no new infrastructure projects have been announced as part of the last two State Budgets.

Importantly, the allocation of funding and infrastructure investment is lagging most in the northern and western growth suburbs and these are the areas that are seeing the most population and employment growth.

We are calling on the State Government to **prioritise the reinvestment of these existing GAIC funds**, and provide the critical, population-serving infrastructure and amenities these growing communities need.

5

Adequately fund the State's strategic planning authority. The Victorian Planning Authority (VPA), responsible for planning to meet Victoria's record population growth, had their operating budget slashed in 2023-24 by more than 40 per cent. Their 2023-24 Business Plan also has a substantially reduced work plan for growth area strategic planning. It is not possible to meet the Government's housing targets without an adequately resourced and effective planning authority.

Victoria's population is growing at an unprecedented rate, but we are building fewer-and-fewer homes. It is simple - we need to increase supply and appropriately plan for Victoria's long-term population growth.

To maximise the benefits of State Government initiatives including Victoria's Big Housing Build and deliver 800,000 new per the Government's *Housing Statement*, the VPA, alongside state and local government planning bodies must be adequately resourced.

We recommend the State Government recommits additional funding each year to better resource the VPA and local government planning departments; support better strategic and statutory planning; and enable the delivery of much-needed housing supply across Melbourne and regional Victoria.

Victoria is Australia's fastest-growing state, with a projected population of almost 9 million by 2050 – with Melbourne already overtaking Sydney as Australia's largest city. However, a lack of funding, resources and skilled labour are causing extensive planning delays and constraining housing supply.

Limited supply continues to be a significant issue impeding access to housing across Victoria, particularly in designated growth areas. Timely release of developable land is essential to ensuring Victoria's housing market can meet the demand of its growing population – well-resourced planning departments and a robust state planning authority are critical to achieving this.

The VPA Business Plan 2023-2024, shows the significant reduction in funding has resulted in the halving of the *Unlocking New Communities* allocation and the loss of *Streamlining for Growth* funding stream.

UDIA Victoria contends that the Government's housing targets cannot be met without a commitment to releasing sufficient Greenfield residential lots. The Government's 70/30 infill/greenfield objective should result in around 24,000 homes being delivered in greenfield settings each year. The VPA's Business Plan 2023-24 indicates that the number of lots projected to be made available for development through the Precinct Structure Plan (PSP) process is nearly half that amount.

UDIA Victoria calls on the Government to commit to a target number of lot releases per year in line with 70/30 objective. To do this, the VPA needs to be adequately resourced and clear targets and performance indicators set to provide transparency and confidence to industry and the community.

6

Prioritise reforming the Planning & Environment Act, 1987 and streamline the State's inefficient building approval processes. Accelerate the implementation of the Red Tape Commissioner's 2021 Planning and Building Process Review recommendations will support the timely delivery of more housing, reduce the cost of development and provide much-needed industry certainty.

There has never been a more important time to address the structural issues with the State's Planning & Environment Act, 1987 in addition to planning and building approval processes. The evidence is clear, planning inefficiencies are a leading contributor to the State's deepening housing supply crisis.

The Red Tape Commissioner's 2021 Review already sets out a range of recommendations for reforms. Their implementation is in line with the State Government's *Housing Statement* and will see a marked improvement to the speed of delivery of new housing – especially in established suburbs.

UDIA Victoria encourages the State Government to hasten the adoption of these recommendations. Planning reform has the capacity to **create tens-of-thousands of jobs over the next decade, and accelerate planning approvals of new dwellings, by up to 6-months on average.**

The current planning system is well-known to be inefficient and in dire need of substantive reform. Better Regulation Victoria's Planning and Building Approvals Process Review examined many of these inefficiencies, presenting a range of recommendations to the Victorian Government. UDIA Victoria was extensively engaged in this review process.

Victoria's construction sector is worth approximately $33 billion and is one of the biggest contributors to the State's economy. The economic cost of the inefficiencies in the State's planning system, identified by the Commissioner's review, ranges from $400 to $600 million per year – approximately 2 per cent of the sector's value.

The current approach to planning has ongoing challenges which lead to slower and more costly applications. In addition to this, local governments are not always adequately resourced and are often overwhelmed with the volume of planning applications required to be assessed.

The State Government has also recognised that **reforming the planning system could add approximately $7 billion to the State's economy**.

Planning system reform, cutting red tape and streamlining approvals processes will be critical to ensuring a government's ambitious housing targets can be achieved.

7

Adopt the recommendations of Infrastructure Victoria's *Fast, Frequent, Fair: How Buses Can Better Connect Melbourne*, report into improving metropolitan Melbourne's bus network, and improve connections to Melbourne's burgeoning growth area suburbs.

Infrastructure Victoria *Fast, Frequent, Fair: How Buses Can Better Connect Melbourne* report outlines how upgrading Melbourne's metropolitan bus network will improve connectivity for all Melburnians, but especially for new communities in the growth areas.

UDIA Victoria encourages the State Government to urgently consider the recommendations of the report.

Adopting Infrastructure Victoria's 10 recommendations, which include:

- Increasing the frequency of bus services, beginning with outer and growth area suburbs;
- Optimising the bus network through fast and direct routes; and
- Substantially reducing bus fares relative to other transport modes,

will not only improve connectivity to Melbourne's growth areas. it will cut congestion by **reducing the amount of private vehicle trips by up to 63,000 per day**; reduce greenhouse gas emissions by 78,000 tonnes annually; and generate substantial return on investment through social, economic and productivity uplifts.

Importantly, implementing the recommendations in full is possible within a constrained budgetary position. Compared to the relatively high costs associated with constructing new tram or train lines, optimizing the bus network will deliver high returns for a fraction of the investment.

The report finds targeted investment in high frequency bus services across Melbourne would generate up to **$2.4 to $3.3 billion worth of travel time saving benefits to public transport users over 20 years.** That's a potential return of up to $3.3 for every $1 spent.

8

Prioritise funding and delivery of planned infrastructure that unlocks the delivery of new housing supply, supports existing growth area communities, and delivers a strong return on investment for the State.

Victoria's population is set to reach 11.2 million by 2056, with **Melbourne on track to becoming a city of 9 million by 2050**. In the last decade, half of Melbourne's population growth has occurred in Melbourne's growth areas. To meet the State Government's policy target, around 24,000 additional homes will need to be built in Melbourne's growth suburbs, each year, over the next decade.

Despite the strong need to increase development density in our established areas, greenfield development will play a pivotal role in housing Victoria's growing population and providing affordable housing. Infrastructure Victoria's *Our Home Choices* report, 2023, acknowledges this important role – noting that many households would choose to live in our growth areas, even if established areas were more affordable. The report notes **that four out of five households surveyed would not trade a detached home in a new suburb for a townhouse or apartment of a comparable price, closer to a city centre**.

Long-term underinvestment in the provision of critical infrastructure and amenities, including schools, healthcare centres, community hubs, recreation facilities, public open space and transport connections is a major issue for existing growth area communities. These communities are at risk of experiencing entrenched disadvantage as a result of lagging delivery of population-serving infrastructure.

In addition, infrastructure staging and delivery is a major issue for residential development. Without timely State Government investment in enabling infrastructure, hundreds-of-thousands of new homes and jobs will fail to be delivered over the next decade.

We encourage the State Government to establish a publicly available pipeline of priority state infrastructure investments, which:

- Identifies all state infrastructure required to service Melbourne's growth areas over a 10-year period;
- Is based on an objective cost-benefit analysis with a focus on infrastructure that will enable the greatest development of housing and jobs in growing suburbs;
- Allows consideration for early funding of projects if savings can be delivered; and
- Maximises the affordable delivery of new homes to support the State's housing targets.

Thank you

UDIA Victoria thanks the Allan Government for their consideration of the recommendations as part of this Pre-Budget Submission. This is not an exhaustive list of initiatives, and we will continue to advocate for improved industry and community outcomes on a range of important issues relating to housing.

We look forward to continuing to work closely with Government, through the Affordability Partnership, and in any other capacity. UDIA Victoria and its members have a long history of working with government to deliver improved outcomes and there has never been a more important time to continue this approach.

Housing supply and affordability are national priorities, and the residential development industry will play a pivotal role in addressing these twin challenges.

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