Property Council of Australia

Inquiry into the impact of the state government's decision to change the Urban Growth Boundary

A submission to the Outer Suburban/Interface Service and Development Parliamentary Committee October 2009

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PROPERTY COUNCIL of Australia

Our Interest in this Review

The Property Council of Australia represents the broad interests of the property industry. The Property Council is the largest and most influential industry organisation within its sector and has in excess of 2000 member companies throughout Australia, with approximately 500 of those in the Victorian Division, representing property assets of over $300 billion nationally.

Members of the Property Council represent the entire property investment cycle; the financing, design, development and maintenance of property and the services that underpin the industry.

In response to the parliamentary inquiry into the expansion of the Urban Growth Boundary (UGB) and the impact of the Growth Areas Infrastructure Contribution (GAIC) the Property Council's Residential Developers Committee have reviewed the following terms of reference:

- The likely quantum of collections by the government;
- Mechanisms to ensure the contributions are directed only to intended purposes;
- The likely impact on housing and development industries;
- Any unintended consequences including the impact on all landholders and purchasers to be impacted;
- Any displacement or replacement of government spending likely to result from the increased collections; and
- Any alternative options, including any used in other jurisdictions.

The Property Council has prepared a range of submissions on these issues over the last 12 months and they have formed the basis to of our response to this inquiry.

Executive Summary

Victoria is coming out of the global financial crisis in a relatively strong position and Melbourne is the stand-out capital city. Our population is continuing to boom and demand for housing is at levels last experienced in 2007.

The Property Council supports a balanced approach to planning and development. Land supply needs to be increased to allow for 15 years zoned land to ensure development in our urban areas keeps pace with demand. The planning system also needs to be reformed so the process to develop in Melbourne's inner and middle ring suburbs is quicker and less bureaucratic.

Expanding the UGB to increase land supply is necessary for Victoria to maintain its competitive edge over our eastern seaboard counterparts. One of the features of Melbourne's housing market is the provision of affordable house and land packages in our growth areas. Melbourne has been one step ahead of Sydney and Brisbane with regard to the provision of affordable housing options. This competitive advantage is one of Victoria's economic strengths and expanding the UGB responsibly will allow Victoria to maintain this position.

However, the Property Council is concerned that tying the GAIC to the increase in land supply could seriously impact our housing market and the ability to provide an affordable product. The current proposal to implement the GAIC as an upfront charge is not supported by the Property Council. An upfront charge will cripple the development industry and seriously impact housing affordability. Our submission outlines a model for implementing the GAIC at the gazettal of the Precinct Structure Plan (PSP) and the State Revenue Office to collect the revenue once titles are registered.

Our submission also reviews the impact of all proposed developer charges, including the proposed Growth Area Council Infrastructure Contribution (GACIC). The combination of the GAIC and the GACIC will potentially increase the provision of housing in Melbourne's growth areas to above the cost of housing in Sydney and Brisbane.

Extending the Urban Growth Boundary (UGB)

Not all of Melbourne's growth can be accomodated within the existing UGB and accordingly, the government has acknowledged this through its review of the UGB and subsequent proposal to expand the boundary primarily in the north and west of Melbourne. The proposed new boundary rebalances growth in Melbourne, which has traditionally focused on the east to south-eastern suburbs.

Population projections in the government's planning update *Melbourne@5 Million* identifies a further 600,000 new dwellings will be required in Melbourne to cater for our population growth over the next 20 years.

The Property Council has been lobbying the government to ensure a minimum of 15 years of appropriately zoned land is supplied to cater for Melbourne's growing population. The announcement to extend the UGB to cater for an additional 284,000 dwellings is a positive step toward providing greater certainty for greenfield developers in the provision of land available for residential and commercial development.

This latest decision to expand the UGB, and to rebalance Melbourne by increasing land supply in the north and west of Melbourne raises a number of planning issues that will need to be addressed to ensure Melbourne and Victoria is in a position to be able to accomodate the future growth of Melbourne.

As a planning tool, the UGB will loose relevance if the government continues to revise and expand the boundary. While the Property Council is aware that when introduced the UGB was designed to be flexible and move over time, public perception of the UGB is that it is a boundary beyond which growth should not proceed. The more often the UGB is extended without thorough investigation the less relevant it becomes as a planning tool. Frequent changes to the boundary disillusions the public, which views every extension of the boundary as a failure on the government's part to meet one of the main objectives of *Melbourne @ 5 Million* – which is to contain Melbourne's outward expansion and sprawl.

Our review of the expansion of the UGB considers that a natural physically defined UGB is in place in Melbourne's eastern suburbs, contained by the Yarra Valley region to the North East and by the Dandenongs to the east. Similarly, consideration should be given to defining the UGB in Melbourne's west and north in a similar pattern that has contained growth sucessfully in Melbourne's east. The proposed outer metropolitan ring road provides a 'hard boundary' in part of the proposed UGB expansion. However other parts of the boundary appear to be based on the governments discretion. Creating boundaries which coincide with the natural environment will decrease any speculation about the need to further expand the boundary in at least the upcoming 5 – 10 year period. For the UGB to be retained and to be an effective planning tool, it should be redefined to relate to environmental, landform and/or physical features and contraints. This approach has been succesful in Melbourne's east and can also be applied to the west and north of Melbourne. The Property Council recommends consideration be given to how this current expansion of the UGB could potentially decrease the effectiveness of the UGB as a planning tool if the boundary is not aligned to 'defined' reason.

Extending the UGB to provide for an additional 284,000 dwellings can only be successful if there is significant consultation with the industry to ensure the type of urban development that occurs within the extended boundary is truly sustainable. A fundamental shift in the density and form of residential and urban development will be required to create sustainable communities and to limit the need for further expansion to the UGB. Factors that need to be considered include providing more housing choice, with affordable housing, delivering on commitments for truly transit oriented development, employment opportunities in growth areas through mixed use development and develop more compact and socially and economically independent communities.

These are fundamental strategic planning matters that need to be answered to ensure Melbourne's long term economic primacy and liveability is maintained. There is a need for a long term review (fifty year) of future growth and development of metropolitan Melbourne with short term realistic incremental review periods to assess progress and change. There is also a need for a state wide approach to manage population growth. Victoria's growing population demonstrates a need to encourage development in major regional centres such as Geelong, Ballarat, Bendigo, Shepparton and the La Trobe Valley. These too will need to be included in future planning and settlement strategies. It will be vital that these strategies are prepared in coorporation with the development industry and the local communities.

Developer charges

Growth Areas Infrastructure Contribution (GAIC)

The Property Council does not support the GAIC in its current form. However, we recognise the government will implement the GAIC in some form and we are willing to work with the government to ensure that the GAIC is implemented in a way that has a minimal impact on the development sector, housing affordability and job creation.

This proposal recommends the government implement the GAIC when the land is ready to be developed. We recommend the GAIC should be levied after the time of the gazettal of the Precinct Structure Plans (PSPs), with as of right deferral of payments indexed to the Building and Construction Index. Charging the GAIC at this stage in the development process will ensure the GAIC is charged at the time the value uplift occurs, there is certainty over developable and non-developable land and the infrastructure required to service the community has been identified.

One of the Property Council's primary concerns is the premise that bringing land into the UGB will automatically result in significant value uplift. In theory this concept works, however market realities mean this will not happen in practice.

In principle, the concept of charging the GAIC as an upfront payment to capture the uplift in land values has some merit. However, this fails to consider the market realities of supply and demand and relies on the market operating in a pure manner which is contrary to the way the property market behaves. Value uplift generally occurs at the Precinct Structure Plan (PSP) stage. It is at this point that the land is ready for development and the true value of the land is realised.

We believe the current proposal for the charge to be levied upfront is based on a lack of understanding with regard to when the uplift in land value occurs. Land that is included in the UGB, but is between 10 - 15 years from development, does not undergo value uplift. Land on the outskirts of the UGB may not be worth the $95,000 per hectare charge until it is closer to being development ready. An upfront charge will also affect land that is included in the UGB earmarked for employment or industrial land. One of Victoria's competitive advantages is the volume of well priced industrial land. This will be jeopardised if an upfront charge is levied. The Property Council is concerned that a charge upfront could make it uneconomical and unviable for land transactions to take place in growth areas.

Since the announcement in December 2008, anecdotal evidence shows that broad hectare land transactions have stalled due to uncertainty in the marketplace. It is anticipated that landholders will delay sales until prices cover or offset the impact of the GAIC, a further impact on supply and in turn housing affordability. It should also be noted that the delay in these land transactions will also impact on the revenue the government is expected to earn from the GAIC, and in turn stamp duty, due to a slow in transactions.

As mentioned previously, the Property Council's initial acceptance of a development charge in 2005 was based on a number of conditions; one being there was a clear nexus between the collection of funds and the delivery of infrastructure. Under the model that is currently proposed, there appears to be no nexus between the collection of funds and the delivery of infrastructure and this is problematic for the development sector. The Property Council believes the 50 percent of revenue collected by the government to go toward a new Growth Area Fund should have a nexus attached to ensure infrastructure is delivered into the community where the revenue has been generated.

The government has indicated that money collected from the GAIC can be used to fund infrastructure in any of the growth areas. This means there will be no nexus between where the funds are collected and the delivery of infrastructure for local communities. The Property Council understands that state significant infrastructure for growth areas, such as the proposed regional rail link and the outer metropolitan ring road and projects identified for growth areas in the *Victorian Transport Plan*, will be part funded by money collected from the GAIC. While funding for projects of this stature in growth areas is supported by the Property Council, we are concerned that there is no plan for the delivery of local infrastructure, such as schools, hospitals and community hubs, vital for delivering sustainable communities.

Levying the GAIC at the PSP stage with as of right deferral of payments indexed to the Building and Construction Index, as recommend by the Property Council, will provide certainty amongst developers about how the money collected from the GAIC will be spent and will be collected at a time in the planning process when there is a clear understanding of the kind of infrastructure that needs to be delivered for the local community. This process will also allow for the developer to provide for 'works in kind' and identify infrastructure the developer can deliver in lieu of the full GAIC payment.

The Property Council is also concerned about the impact the GAIC, in its current form, will have on housing affordability and the impact on the provision of employment opportunities in growth areas.

We have already seen increasing taxes and charges on the residential property sector having an adverse impact on housing affordability in New South Wales and it is essential that Victoria does not go down this path. The Vendor's Tax in New South Wales was abolished after an intensive campaign by the Property Council, supported by the CFMEU. In short, the principle underpinning the Vendor's Tax had a number of failings, including:

- not achieving its revenue target,
- costing the Government revenue from reduced sale volumes,
- hurting low income, homebuyers and property investors,
- driving investment interstate, and
- harming housing affordability.

The Vendor's Tax was structured as an upfront charge through additional stamp duty. As soon as it was introduced, the residential property market stalled and property investors started investing their money interstate with the property market in Sydney coming to a grinding halt. This will be the case in Victoria if the landowners refuse to accept the GAIC and simply pass it on to the consumer as part of the value creation chain. An upfront charge will impact the englobo market in Victoria as land owners will refuse to accept the GAIC and land transactions will stall. As outlined in our case studies below, we have already seen a slowing of the market since the GAIC was announced in December 2008.

The final concern the development sector has with the government's current proposal is the lack of certainty around the deferral mechanism for upfront payments of the GAIC. While paying the GAIC upfront is not the preferred model advocated by the Property Council, we note the government has acknowledged concerns about the upfront payment of the charge in their announcement on 17 June 2009. The government has committed that larger developments with a GAIC of more than $2 million, it may be possible for payment to be staged, but only if approved by the Planning Minister. While this recognises industry concerns, it does not provide certainty to developers.

Paying the GAIC as a staged payment throughout the development cycle should be 'as of right' and not subject to another approval process. This simply adds further uncertainty and makes it almost impossible for developers to purchase with confidence and for the finance institutions to lend with confidence.

Recommendations

The Property Council proposes a number of changes to the proposed implementation of the GAIC. These recommendations, if implemented by the government, would result in industry support and buy-in for the GAIC:

- The GAIC should be levied at the time of the gazettal of the PSP.

- Ensure there is a nexus between the area the GAIC is collected and the delivery of infrastructure to the local community. This can only occur after the completion of the PSP.

- Recognise the provision works-in-kind by developers toward state infrastructure as part of the GAIC liability.

- Allowing land owners to make staged payments should be as of right, indexed to the Building and Construction Index.

A simple process, whereby the State Revenue Office (SRO) collects the levy as the titles are registered, is an efficient mechanism, with little administrative burden, for collecting and administering any development contribution. The SRO would be notified by local councils upon completion of Precinct Structure Plans for land identified for future development and can notify the SRO in preparation for the collection of the charge upon the registration of titles. This could be done following the gazettal of the PSP.

Summary

Our proposal to levy the GAIC after the time of PSP gazettal solves a number of unintended consequences that have been identified by the Property Council. Our proposed model will:

- Ensure the GAIC is charge at a point in the development cycle when it is known what land is developable;
- Ensure there is a nexus between the money that is collected from the GAIC and the delivery of infrastructure to communities;
- Provide certainty to developers that works-in-kind can be taken into consideration as part of their GAIC liability;
- Allow payments (over $2 million as already stipulated by the government) to be deferred as of right, indexed to the Building and Construction Index;
- Have a minimal impact on housing affordability, job creation and employment opportunities in growth areas; and
- Allow for land transactions in growth areas to continue amongst land owners until the land is ready for residential development.

Levying the GAIC at the gazettal of the PSP will also deliver a number of time, cost and efficiency saving for the government. Our proposed model will result in:

- The elimination of the need for a land information system;
- Allow the government to dispense with the hardship panel; and
- Remove any need for pre-emptive environmental analysis to determine developable and non-developable land.

Growth Area Council Infrastructure Contribution (GACIC)

As well as the introduction of the GAIC, the Growth Area Authority (GAA) is working with councils and developers to simplify the current process of local developer contributions currently referred to as Developer Contribution Plans (DCPs). Originally proposed as a flat monetary contribution, the Property Council is concerned the proposed model will result in developer charges in Victoria surpassing Sydney's exorbitant costs and seriously impacting housing affordability.

The GAA proposed that the GACIC will comprise of two components:

1. A flat monetary contribution set in legislation for construction of works, services and facilities; and

2. A land contribution levied in accordance with the requirements of the PSP for both active and passive open space to provide local community facilities arterial roads. In some cases this will be a cash contribution and in other cases specific areas of land will be required.

The two components outlined by the GAA represent different funds and will need to be accounted for separately. The proposed GACIC recognises two different rates for residential and employment land:

1. $90,000 per net developable hectare for land other than employment land – residential or standard land; and

2. $40,000 per net developable hectare for employment land.

The fixed monetary component will be set by the Planning Minister and the Minister will have the authority to vary this amount. The contribution will be indexed to the Building and Construction Index. The fixed monetary contribution will be paid once by the land owner at the following trigger points:

- Subdivision (Statement of compliance)
- Building (Building permit)

Responsibility for collecting, administering and spending the GACIC will lie with the growth area council. Funds can only be spent on items identified in the PSP.

The Property Council has reviewed the component identified as a land contribution against the Cardinia Road PSP. Based on the infrastructure list provided by the GAA, in Cardinia Road, the additional cost of the land component (open space) is estimated at $92,500 per net developable hectare **. It should also be noted that the percentage of land required for public open space in the Cardina Road PSP is 18 percent. The recently announced PSP Guidelines stipulate that the land component will be capped at 10 percent.

Based on the Cardinia Road PSP, with an open space contribution of 18 percent, this brings the total GACIC charge to $182,500 per net developable hectare, additional to the $95,000 GAIC.

Research from the Residential Development Council (RDC) estimates the total developer charges as follows:

Melbourne: $95,000 (GAIC) + $90,000 (GACIC) + $92,500 (**GACIC-open space at 18 percent) = $277,500.

Sydney: $264,000 per hectare. **Brisbane:** $300,000 per hectare.

These figures are based on case studies prepared for the RDC taxes and charges report using broad hectare case studies assuming a density of 12 lots per hectare.

The Property Council is concerned about the increasing development charges and the impact this will have on housing affordability and development opportunities in Melbourne's growth areas.

Conclusion

For Melbourne's future growth to be sustainable it must be based on a comprehensive and integrated plan that focuses on the whole of Melbourne and regional Victoria, and considered in context of all of issues - not in a piecemeal fashion.

The Property Council supports the expansion of the UGB. Land supply is vital to ensure the property sector can meet the demand of increasing population. However, expanding the UGB to cater for Melbourne's growing population is only one part of the solution. The Property Council has been urging the government since it announced *Melbourne 2030* that there needs to be an equal amount of attention, if not more, paid to how we increase development in inner and middle ring suburbs. A balanced approach to planning for all of Melbourne must be a priority. This will enable Melbourne to maintain its competitive advantage in the provision of affordable housing and provide options in inner, middle and outer suburbs.

Central to getting the planning equation right will be ensuring the GAIC and GACIC are implemented so they do not cripple the development sector and negatively impact housing affordability.

Further information

The Property Council would be pleased to meet with committee to discuss the details in this submission. For further information please contact:

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