SUBMISSION BY THE

Housing Industry Association

to the

Outer Suburban/Interface Services and Development Committee

on their

Inquiry into the State Government's decision to change the Urban Growth Boundary.

October 2009

CONTENTS

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1 About HIA

HIA is Australia's peak residential building industry association, representing over 42,000 members nationally, including 13,000 members in Victoria.

HIA members comprise a diversity of residential builders, including all Top 100 builders, all major building industry manufacturers and suppliers as well as developers, small to medium builder members, contractors and consultants to the industry. In total HIA members construct over 85% of the nation's new housing stock.

HIA exists to service the businesses it represents, lobby for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building and development industry.

HIA has noted the Committee's Terms of Reference to the Inquiry and has provided a response to each.

2 HIA's Comments on the Inquiry Terms of Reference

HIA would like to take the opportunity to comment on the Committee's objective to investigate the following:

"the impact of the State Government's decision to change the Urban Growth Boundary on landholders and the environment and plans announced by the Government to introduce an increased development contribution for land in designated growth areas"

2.1 State Government decision to change the Urban Growth Boundary (UGB)

HIA supports the Government's intended UGB expansion and refers to our national policy which states that the primary function of Government in relation to land supplies should be:

- *Streamlining the planning process;*
- *Providing key infrastructure to facilitate residential growth; and*
- *Ensuring adequate land supply to meet growing demands for new housing.*

In line with national policy, HIA is also of the view that governments should, through their metropolitan strategies:

- *Identify a rolling minimum 15- 25 year forward land supply to meet long term demand.*
- *Within this long term strategy for land supply, government should ensure adequate zoned or designated and serviceable land to meet medium term demand (eg. 10 years supply; and*
- *Within this medium term land supply, government should work with industry to ensure adequate land with development approval to meet short term demand (eg. 5 year supply).*

In light of the above, HIA believes that the Government's land supply strategies should be long-term to create certainty of land supply and should facilitate opportunities for an appropriate mix of allotments in good locations at an affordable cost.

The Government's policy is to maintain 15 years supply and the move to expand the Boundary is an attempt to achieve this.

HIA supports the Government's intention to increase residential land supply however, HIA's land forecasts reveal the Government's proposed UGB expansion will not provide enough residential land to meet the demands of Melbourne's growing population.

The Victorian Government's own population figures are projecting high intensity growth, indicating that Melbourne's population will hit five million faster than originally forecast. Long term HIA forecasting figures tend to support this, suggesting Melbourne will step over the 5 million population mark at June 2026.

The Governments forecasts, as outlined in *"Delivering Melbourne's Newest Sustainable Communities"* and associated fact sheets show that Melbourne will require **600,000** new dwellings in the next 20 years consisting of **316,000** in established areas and **284,000** in Growth Areas.

In analysing these forecasts, HIA made the assumption that the Government's figures focus on additions to the housing stock only, as opposed to including demolitions (knock down-rebuild). It is unclear how the Government arrived at the split of housing requirements for 316,000 dwellings in existing areas and 284,000 in the Growth Areas.

HIA's estimations of new dwelling requirements are significantly higher than Governments.

HIA's calculates that Melbourne will require **647,000** new dwellings by 2028 with **315,000** in the Growth Areas and around **332,000** dwellings in existing areas. HIA has assumed a requirement for about 200,000 townhouses/medium density dwellings plus about 30% of Melbourne's total demand (for detached dwellings) of 440,858.

HIA's figures therefore show the balance of around **315,000** new detached dwellings will be required in the Growth Areas of Melbourne over the next 20 years – which is also ahead of the Government's figure of **284,000**, see Table 1 below for a breakdown.

Table 1 **HIA Projections**

Population Growth (millions)*

	2008	*2018*	*2028*	*Avg Growth pa*
Melbourne	3.88	4.53	5.21	1.48%
RVIC	1.42	1.54	1.646	0.74%
Victoria	5.3	6.07	6.856	1.30%

* ABS population projections

Dwelling Growth (millions)*

	2008	*2018*	*2028*	*Avg Growth pa*
Melbourne	1.533	1.834	2.18	1.78%
RVIC	0.633	0.712	0.785	1.08%
Victoria	2.166	2.546	2.965	1.58%

* ABS population projections and family projections

^ HIA assumed half the household size shrinkage of the ABS[1]

New Dwelling Requirement (Excl Demolitions) to 2028

	Detached	Other	Total
Melbourne	440,858	206,142	647,000
RVIC	140,419	11,581	152,000
Victoria	581,277	217,723	799,000

Melbourne Land Requirement to 2028

440,858 dwellings * average land size 561sqm

24,732 ha (10,000sqm per hectare)

1. Shrinkage observed between the 2001 and 2006 censuses. This is more conservative than ABS household projections. 3236.0 - Household and Family Projections, Australia, 1996 to 2021

So in terms of land to be made available to cater for this growth - the Government has proposed 41,663 hectares of land to be brought into the UGB. Of this amount, 26,093 hectares is considered suitable for development, both residential and employment development. The Government estimates half of the 26,093 hectares is to be allocated for a range of community purposes, such as shopping centres, health facilities, schools, public infrastructure and open space.

This leaves approximately 13,046 hectares for housing and employment development over the next 20 years.

HIA's data suggests there is a minimum land requirement of around 16,000 hectares of land to cater for anticipated residential growth alone.

The Government's apparent 13,046 hectare allocation for both housing and employment land appears to be low on the Government's own numbers and falls even shorter based on HIA numbers.

HIA's view is that on the Government's figure of 284,000 new homes in Growth Areas (assuming 95% detached dwellings and 5% medium density) Melbourne will require an additional 16,070 hectares of land. HIA calculations are based on an average block size of 561sqm (HIA land report Dec 08).

Three thousand (3,000) fewer (at least) hectares could translate into a dwelling shortage of up to 50,000 or 60,000 dwellings which would be a significant concern in 20 years.

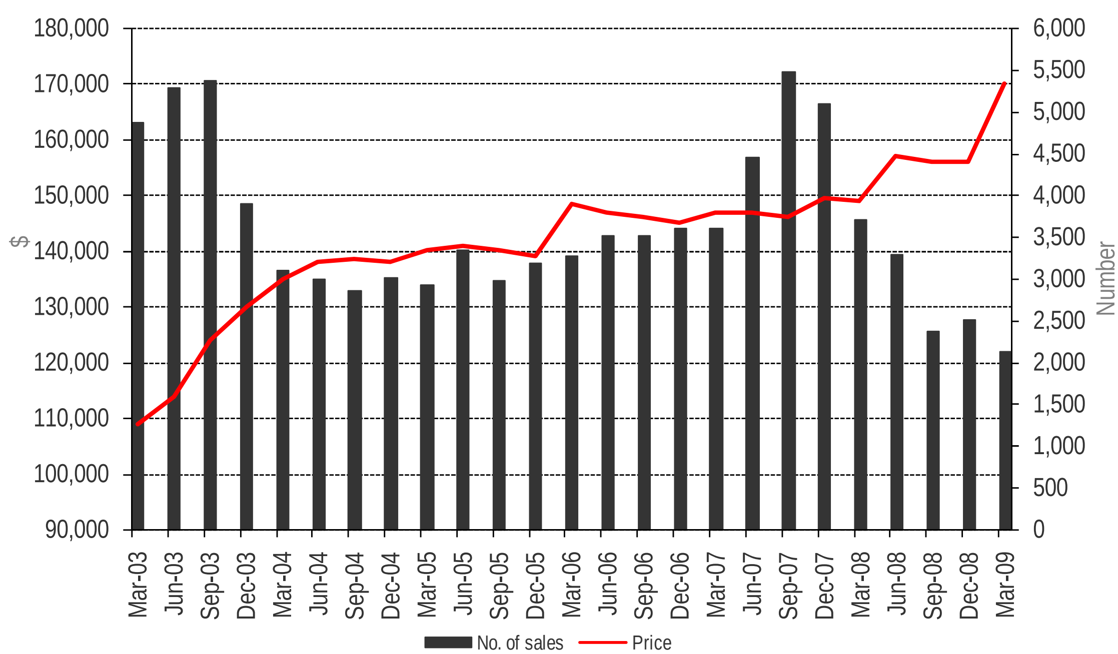
The shortfall leaves nowhere for the Government to move if there is stronger than expected population growth or if there are any unforeseen land constraints that could prevent urban development from occurring.

HIA's overriding concern with any lack of land supply into the future, is the effect it could have on the price of land. HIA's latest land data from the March quarter of 2009 shows that growth in median land prices accelerated and at $170,000 the price was the highest on record. Whilst HIA would like to see a stabalisation of land prices through 2009, recent reports of a substantial shrinking in the pipeline of available 'land for market' renders this a questionable hope. Continued regular review of land supplies and future changes to the UGB would hopefully alleviate this by shifting expectations and closing the gap between the demand and supply of residential land.

The chart below shows land price trends in Melbourne.

Median Residential Land Prices - Melbourne

Source: RP Data



In concluding, HIA offers the following comments on the overall adequacy of the proposed expansion of Melbourne's UGB:

1. Based on HIA calculations, Government assertions that the proposed changes to the UGB allow for at least 20 years supply of land for dwellings and sufficient land for 10 years of broad acre industrial land are low.

2. HIA estimates show that an additional 315,000 new detached dwellings will be required in the growth areas of Melbourne over the next 20 years - ahead of the Government's figure of 284,000.

3. In relation to the Government's figure of 284,000 new homes in Growth Areas, assuming 95% detached dwellings and 5% medium density, HIA calculates that Melbourne would require an additional 15,670 hectares for detached housing and around 400 hectares for medium density development units - a grand total of 16,070 hectares.

4. The Government's apparent 13,046 hectare allocation for both housing and employment land therefore appears to be low on both the Government's own numbers and falls even shorter based on HIA numbers.

5. An adequate assessment of the proposed UGB extension is difficult as the Government combined estimates of employment and residential land requirements. Aggregating this land data makes the residential land supply proposed unclear.

6. Whilst understanding that this level of detail can only be answered once the very detailed Growth Area and Precinct Structure Planning processes have been undertaken, forming an independent view as to the overall adequacy of the proposed UGB expansion for

residential development is difficult. HIA has been required to make a number of key assumptions in forming its conclusion.

7. Melbourne has long enjoyed an affordability advantage over Sydney, Brisbane, and Perth. Adequate and timely land supply will be important in maintaining and extending this affordability advantage.

8. The consequence of rental accommodation shortages in existing areas could mean an increase in the demand for land in the Growth Areas. It is unclear whether the Government in its estimations has taken this into account.

2.2 Impact of proposed development contributions for land in designated growth areas

HIA assumes that the Committee's Term of Reference are referring to the proposed collection of the Growth Areas Infrastructure Charge (GAIC).

In June 2009, the Government outlined its decision to introduce a Growth Area Infrastructure Contribution (GAIC) in its report *"Delivering Melbourne's Newest Sustainable Communities"*.

HIA has not supported the GAIC or current proposed methods of implementation. HIA also does not support Government's linking of the GAIC to the expansion of the UGB as outlined in a Government press release dated 17 June 2009.

As a basic philosophy, HIA believes that community and social infrastructure should be borne by the whole community and funded from general rate revenue and borrowings as appropriate. As part of HIA's national policy on "*Government Fees and Charges on Development*", specific infrastructure which provides essential access and service provision, without which development could not proceed, are considered to be core requirements for housing development and should be legitimately provided by developers and home builders as part of the cost of development.

On the other hand, broader community and social infrastructure, such as that which would be provided by the GAIC, should be borne by the whole community and funded from the general rate revenue and borrowings as appropriate.

Only as a means of last resort should governments have the option to impose an upfront levy for the provision of such facilities. In the interests of housing affordability and fairness, HIA believes that where levies are imposed, they should always adhere to the principles of need and accountability whilst being transparent, justified and subject to scrutiny.

Industry has concerns with GAIC in its current form and unless it is modified, it will have the effect of slowing land release and residential development in Melbourne by driving up the cost of land and housing. HIA's key points on GAIC are as follows:

1. Public consultation, details of calculation or review of the proposed amounts has never occurred. The rates of $80,000 and $95,000 are linked to the rates announced in November 2005. But there has been no review of the 2005 figures and no validation of the $95,000 per hectare.

2. There has been considerable concern expressed from farmers and landowners who are trying to come to terms with the significant price increase they will have to gain when they sell to cover the GAIC. Effectively this may take some land from the supply chain if there is an unwillingness (or inability) of prospective purchasers to pay the new asking price.

3. Some of the land for residential growth has already been purchased by land developers so in this instance, the cost must be incorporated into the development costs for a project, thereby becoming part of the final sale price for new land to consumers? (ie homebuyers will pay it).

4. The current proposal for timing of the payment is grossly unfair to the land holder. With the payment trigger being the first sale of land or its subdivision or the building permit for major building projects – essentially a change in title will means the payment of GAIC is due well before any income can be generated from the land. This also fails to take into account the variances in land ownership. A 200 hectare land holding with multiple titles may be able to stage their payment as opposed to a 200 hectare land holding on one title, which would be required to pay the full contribution upfront. Government assurances that they will accept staged payments with an unknown interest rate and additional charges are unacceptable.

5. Securing funding from banks is extremely difficult. Therefore the holding costs on the land due to the early payment of the contribution will escalate dramatically. It is an unaffordable option for developers and will have the effect of delaying subdivisions or potentially developers abandoning current projects which become unfeasible. There are long lead times for many projects - as relevant permits and permissions are gathered.

6. There are grave fears around the transparency and expenditure of GAIC. It is unclear how the funds collected will be held. It appears there is no guarantee that funds collected will be expended in the area from which they were collected. The Growth Areas Authority (GAA) and State Government need to be able to demonstrate the highest level of transparency around the fund but HIA is not satisfied that a process is in place.

7. The transition to GAIC has not been considered and how Government will prevent multiple charging of GAIC if a subsequent transfer of land occurs after the levy has already been collected. (ie from a previous transaction).

8. It is unclear why the GAA intends to charge GAIC by all land not net developable hectare. There are a number of items which are excluded from land for development – including open space and native vegetation retention requirements.

9. There is little guidance provided as to the status of land which is subject to current agreements under Section 173 of the Planning and Environment Act.

10. It is not clear if works in kind are to be allowed. Industry insists they should be so and that a full credit can be applied against the allocated cost of the project.

11. Industry is concerned that 50% of the funds raised by GAIC will be paid into a Growth Areas Development Fund to be allocated to unspecified infrastructure projects. The money should be expended on infrastructure in Growth Areas only and it should not fund administration of the GAA.

12. Industry does not support the linking of the GAIC to the UGB expansion. The announcement by the Minister for Planning that there will not be one without the other is wrongly premised. The expansion of the UGB is a separate issue and needs to be treated as such. If the State Government wants to signal its commitment to residential development as a result of population growth - it should not make it dependent on support or otherwise for the GAIC. If the UGB expansion is not processed then Melbourne will quickly lose its relative affordability advantage over other states. The need for additional urban land arises from the increased population: a population that needs to be housed.

HIA is of the view that the Victorian Government should be directing its policies towards supporting the private residential market – increasing the supply of available and zoned land for development, whilst investing in the provision of key items of infrastructure in a timely manner to support new residents in growth areas. Instead, the housing and land development industry appears to be viewed as a source of revenue to offset government planned expenditure.

2.3 HIA's Recommendations to Improve GAIC

The Growth Area's Authority (GAA) state that the GAIC:

> *"aims to tap part of the value increase directly caused by rezoning as a result of government decisions to extend the Urban Growth Boundary and consequential rezoning of the land."*

The real rise in land values, which the GAIC is supposed to tap into, will occur when the land has undergone a detailed Precinct Structure Planning process and the owner can apply for a planning permit to develop the land. Only at this time will the owner of the land realise the "uplift" and be able to afford to pay the levy. Collection of the GAIC should therefore be at the latest time before development actually occurs and not as an upfront payment when land is first sold after rezoning. The solution for Government is to charge the levy later, either after the gazettal of the Precinct Structure Plan, or preferably ensure that it can be paid as land is developed in stages after subdivision approval.

The announcement that the levy is payable at the earliest stage of the process has already damaged broad-acre sales in Growth Areas. Developers and farmers have become aware of the amounts required and have held off on sales transactions. There will no doubt be a flow-on effect on land in developers hands in the coming months and years.

Other key areas where GAIC could be improved include:

1. Ensure GAIC is only charged by "net developable hectare" not on all land – the true extent of developable land can only be known after the Precinct Structure Plan (PSP) is prepared so that step makes the approach workable and fair, avoiding the need for any refunds from government at a later stage;

2. Make provision in the legislation for works in lieu of the payment of GAIC;

3. Develop a prescribed list of infrastructure items GAIC will cover;

4. Apply basic rules of transparency with respect to expenditure including an assurance that the funds will be spent in the area where they are garnered;

5. Implement an annual reporting of expenditures to Parliament;

6. Ensure that the percentage of monies collected to fund the GAA administration costs are instead used to further forward the PSP process and

7. As already mentioned extension of the UGB should not be linked to the introduction of GAIC and HIA urges the Government to consider these items separately. The expansion of the UGB is in response to housing Victorians and should not be contingent on a new infrastructure levy being introduced.

3 Other Terms of Reference items for consideration

HIA also offers the following comments in response to the specific items raised by the Committee:

(a) *the likely quantum of the collections by Government*

The rates of $80,000 and $95,000 are linked to the rates announced in November 2005. There has been no review of the 2005 figures and no validation of the $95,000 per hectare. Despite repeated questioning, HIA has not been informed about how the GAA arrived at these figures.

GAA research shows that the average price per hectare is around $365,000 across Melbourne's growth areas (ranging from $225,000 to $450,000 or more). The GAA says these prices are to be compared with the underlying value of rural land outside Melbourne's growth areas often around $15,000 to $35,000 per hectare to indicate the extent of the uplift. The average value used by the GAA has no regard for the incremental increase in land as it becomes suitable for development.

The GAA says that these values are to be compared with the GAIC rates of either $80,000 per hectare for land brought into the UGB in 2005 and $95,000 per hectare for land to be brought into the UGB in 2009.

Part of the GAA justification for the high rates is that the sum received by government will contribute only approximately 10% - 20% of the cost of providing infrastructure in the Growth Areas. The inference is that the Government will continue to fund the majority of infrastructure and services and that developers should therefore satisfied.

The State Budget 08/09 listed an amount of $85 million to be collected from it.

The Minister for Planning, Justin Madden was quoted in the Age on 8 September 2009 as saying that he expects the growth areas tax of up to $95,000 a hectare to raise $2 billion over the next 20 years.

Whatever the value - it will impact negatively on housing affordability.

(b) ***mechanisms to ensure the contributions are directed only to the intended purposes***

There are grave industry fears around the transparency and expenditure of GAIC.

It is unclear how the funds collected will be held and then spent in the areas from where they have been collected.

Industry's view is that the collection and expenditure of the levy should be done in an open and transparent manner with funds spent in the area from which they are collected. There could be a list of items of infrastructure that could guide expenditure. Annual reporting to Parliament on expenditure should be mandatory.

Also funds collected should be expended on infrastructure rather than any administrative costs of the GAA.

(c) the likely impact on the housing and development industries;

There has been considerable concern expressed from farmers and landowners who are trying to come to terms with the significant price increase they will have to gain when they sell to cover the GAIC. This may take some land from the supply chain if there is an unwillingness (or inability) of prospective purchasers to pay the new asking price.

The announcement that the levy is payable at the earliest stage of the process has already damaged broad-acre sales in Growth Areas. Developers and farmers have become aware of the amounts required and have held off on sales transactions. There will no doubt be a flow-on effect on land in developers' hands in the coming months and years.

Some of the land for residential growth has already been purchased by land developers so in this instance, the cost must be incorporated into the development costs for a project, thereby becoming part of the final sale price for new land to consumers? (ie homebuyers will pay it).

The difficulty is that not all land in the UGB will be valued equally. Land closer to the development front will always be of higher value.

(d) any unintended consequences including the impact on all landholders and purchasers to be impacted;

The proposed levy will ultimately borne by home buyers and provide a significant deterrent to first home buyers from entering the market.

(e) any displacement or replacement of Government spending likely to result from the increased collections; and

The money paid through GAIC is a contribution only - there will be a need for Government to commit on an ongoing basis to the delivery of much needed infrastructure on an ongoing basis.

Payment of the GAIC should not be a substitute for the Government's expenditure or an excuse to lower expenditure. An ongoing commitment to items of infrastructure which are for the public good is required.

(f) any alternative options, including any used in other jurisdictions; and to report by 30 November 2009.

HIA is fearful that with the introduction of this levy that Victoria will move down the path of NSW where charges were increasing and much of the money remained unspent.

In December 2008, the NSW Premier announced a review of development contributions in NSW and set a $20,000 per lot threshold for local government levies. Councils were given an opportunity to apply to the Minister for Planning for an exemption to this threshold. As expected, every council (28 out of 152) that currently charges over the $20,000 per lot threshold, applied to the Minister for an exemption.

Twenty-two of the twenty-eight councils were granted an exemption to the threshold, permitting them to charge above the $20,000 per lot threshold. With no upper limit imposed, those councils given an exemption to the threshold have continued to charge over $60,000 in some new release areas. Six councils were directed by the Minister to reduce their levy to $20,000 – none of which are located in new land release areas where relief is needed.

As part of the review of development contributions in NSW, the Government agreed to introduce a deferral of payment mechanism for the State Infrastructure Contribution (SIC) which is charged in new release areas of Sydney. This new mechanism will allow the deferral of the SIC payment from the subdivision certificate stage of development to the point of settlement/sale of individual lots. A caveat on the individual lot or a bank guarantee is expected to provide security of payment at a later date. HIA urged the NSW Government to fast-track its introduction in order to alleviate the financial pressure being placed on developers at the subdivision stage. The introduction of the deferral of payment mechanism in NSW is imminent.

The Victorian Government must be mindful that excessive (up to $100,000 per lot in some cases) State and local infrastructure levies have stifled residential land development and caused a serious land supply issue for the housing industry in NSW.

4 Conclusion

HIA welcomes the opportunity to provide a submission to the Outer Suburban/Interface Services and Development Committee's inquiry into the State Government's decision to change the Urban Growth Boundary.

HIA supports Government's proposed expansion of the UGB but has concluded that the overall allocation of land available for residential development will be too low.

By investigating the data provided in "*Delivering Melbourne's Newest Sustainable Communities*" and associated fact sheets, HIA's view is that the Government's figure of 284,000 new homes in Growth Areas is low. HIA considers that 315,000 new detached dwellings will be required in the Growth Areas of Melbourne over the next 20 years.

HIA's data suggests there is a requirement for around 16,000 hectares of housing land to cater for projected residential growth. The Government's figures show an allocation of around 13,000 hectares of land available for residential and industrial land development which leaves nowhere for the Government to move if there is stronger than expected population growth or if some of the allocation is not developable for various reasons. At least 3,000 fewer hectares could translate into a dwelling shortage of around 50,000 - 60,000 dwellings which would be a significant concern in 20 years.

HIA opposes the foreshadowed Growth Area Infrastructure Charge (GAIC) but has put forward a number of suggested alternatives to improve the levy – based around making payments later in the development process, avoiding the need for a large upfront payment.

HIA also disagrees that the extension of the Urban Growth Boundary is contingent on the successful introduction of the GAIC. The announcement by the Minister for Planning that there will not be one without the other is wrongly premised. The expansion of the UGB should only be linked to population growth and the need for more residential land.

Finally, HIA suggests the Government ensure regular land monitoring and review of supplies in conjunction with population figures. HIA also contends that a plan to build up existing areas of Melbourne is constrained by a range of costing issues which need to be addressed before any wholesale changes can occur in these areas.