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Australia's property industry
Creating for Generations

4 February 2019

Team Leader — Planning Policy
City of Melbourne
GPO Box 1603
MELBOURNE VIC 3001

By email: **planningpolicy@melbourne.vic.gov.au**

Dear Sir/Madam,

Planning Scheme Amendment C309: West Melbourne Structure Plan

Summary of Recommendations

The Property Council of Australia (Victorian Division) (**Property Council**) welcomes the opportunity to make a submission on Melbourne Planning Scheme Amendment C309, which seeks to implement the West Melbourne Structure Plan by introducing new planning controls into the Planning Scheme.

For the reasons set out in this submission, the Property Council **does not support** Melbourne Planning Scheme Amendment C309 and recommends that the City of Melbourne **does not proceed** with it, in its current form.

In particular, **it should be delayed until the development of an overarching Economic Strategy for Melbourne's CBD and immediate surrounds** — to ensure that the broader economic needs of the city and the economic impacts of land-use planning are fully considered and reflected.

Further, **the City of Melbourne should change the Amendment to remove any aspect of inclusionary zoning as it relates to private land until a state-wide inclusionary zoning strategy is established** — the current proposed model acts as a tax on existing land owners and will drive up the price of a two-bedroom private dwelling unit in West Melbourne by at least $6,035.

The Property Council of Australia

The Property Council is the leading advocate for Australia's property industry — the economy's largest sector and employer.

In Victoria, the property industry contributes $45.1 billion to Gross State Product (12.4 per cent), employs more than 331,000 people and supports more than 400,000 workers in related fields. It pays more than $21 billion in total wages and salaries per year, employs one in four of the state's workers either directly or indirectly, and accounts for 57.5 per cent of Victorian tax revenue.

In Victoria, the Property Council has more than 500 members. They are architects, urban designers, town planners, builders, investors and developers. These members conceive of, invest in, design, build and manage the places that matter most — our homes, shopping centres, office buildings, education, research and health precincts, tourism and hospitality venues.

This submission is informed by many of the Property Council's key member representatives and expert committee members.

Economic Strategy for Melbourne's CBD and immediate surrounds

City centres play a fundamental role in the economies of major modern cities. Just as Greater Melbourne is the driver of the Victorian economy, it is the CBD and immediate surrounds that is the engine of Melbourne.

While the CBD has always played an important role as a principal activity centre, historical growth trends were characterised by a greater percentage of population and employment locating outside the centre. Melbourne's recent spike in population has, however, combined with changes in the locational preferences of residents and businesses and is now driving a larger share of people and jobs into its centre.

Between 2001 and 2016, employment within Melbourne's CBD grew from just over 173,000 jobs to more than 317,000 jobs, representing total growth of 83 per cent over the 15-year period.[1] Since 2001, the CBD has consistently experienced stronger population growth compared to the rest of Melbourne and Victoria, recognising the low starting point.[2]

As demand for sites intensifies to accommodate employment and population growth in the CBD, it is important that we look to measures to continue to support this growth in ways that promote economic activity, as well as good planning outcomes.

As an extension of Melbourne's CBD, West Melbourne is one of the most connected locations in the country. It is proximate to Southern Cross Station and adjacent to Flagstaff Station. West Melbourne is also poised to benefit enormously from further and significant infrastructure investment — primarily the Melbourne Metro Tunnel. The completion of the Melbourne Metro Tunnel will further enhance West Melbourne's accessibility by expanding the heavy rail network capacity by over 39,000 passengers each peak period (morning and afternoon). A key argument in support of the Melbourne Metro Tunnel project is that public transport promotes growth in high-value jobs and productivity.

Given the billions of dollars of investment in public transport infrastructure in both the CBD and West Melbourne, it is essential that this investment is optimally utilised.

The Property Council supports the development of an economic strategy for Melbourne's CBD and immediate surrounds. Our members are concerned about a lack of overarching strategy to guide the future of the CBD and to optimise its economic future. Our members understand that it is not a binary choice between economic growth and a high-quality urban environment.

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[1] *Unlocking Melbourne's CBD* report, prepared by Urbis for the Property Council of Australia (Victorian Division), October 2018.
[2] Ibid.

Rather, the two should co-exist to maximise the benefits of both. Where there is a comprehensive and detailed understanding of the future needs of the city, it enables a 'fine-grain' approach in guiding future development to facilitate that development in the right locations at the right times.

Although *Plan Melbourne* sets a broad strategy for Greater Melbourne, there is no direct plan that relates specifically to Melbourne's CBD and immediate surrounds. The proposed economic strategy should:

- identify the likely growth in employment over a 30-year period and the associated demand for floorspace across the CBD and immediate surrounds;
- identify the precincts that are principally used and developed for office and associated employment and the preferred locations for new development based on accessibility and other criteria; and
- be regularly reviewed against on ground development and economic and other trends.

Figure 1 sets out factors that are considered through the planning approval process. Although worthy of consideration, these factors do not fully consider the economic impact, nor the market conditions and/or feasibility, of a proposed development. As it stands, there are a number of factors that are not considered (fully, or at all) in existing plans such as *Plan Melbourne* or any of the City of Melbourne's *Council Plan 2017-21*. It is vital that the broader economic factors set out in Figure 1 be included in an Economic Strategy for Melbourne's CBD and relevant planning controls then reflect them through the decision-making process.

Figure 1 Broader economic factors that should be considered in planning decisions

Factors currently considered in planning assessment	Factors that would be considered in an Economic Strategy
Floor area ratio (FAR)	Job creation
Building height limits	Economic activity
Setbacks	Transport integration
Pedestrian access	Infrastructure expenditure
Overshadowing	Development economics
Public open spaces	Debt finance availability
Character	Tenant demands
Built form	Agglomeration
Diversity of stock	
Sustainability	
Liveability	
Community infrastructure	
Access to building services	

A critical step following the development of any economic strategy will be to then undertake a comprehensive review of the planning policies and development controls as they relate to the future development of the CBD and immediate surrounds. It is not clear what, if any, consideration has been given to this fundamental policy requirement in the development of the proposed Melbourne Planning Scheme Amendment C309. It is entirely sensible that any changes to planning controls to implement the West Melbourne Structure Plan be reconsidered with the aid of a holistic economic strategy to avoid the need to later review and (potentially) amend them to reflect the recommendations of that strategy.

The Property Council has advocated to the State Government that it prepare an Economic Strategy for the CBD as an immediate priority. This process should include a partnership with the City of Melbourne, as well as input from business and community groups. On this basis, we do not consider that a relatively short delay to the Planning Scheme Amendment process, to properly ensure a collaborative and comprehensive outcome, is unreasonable.

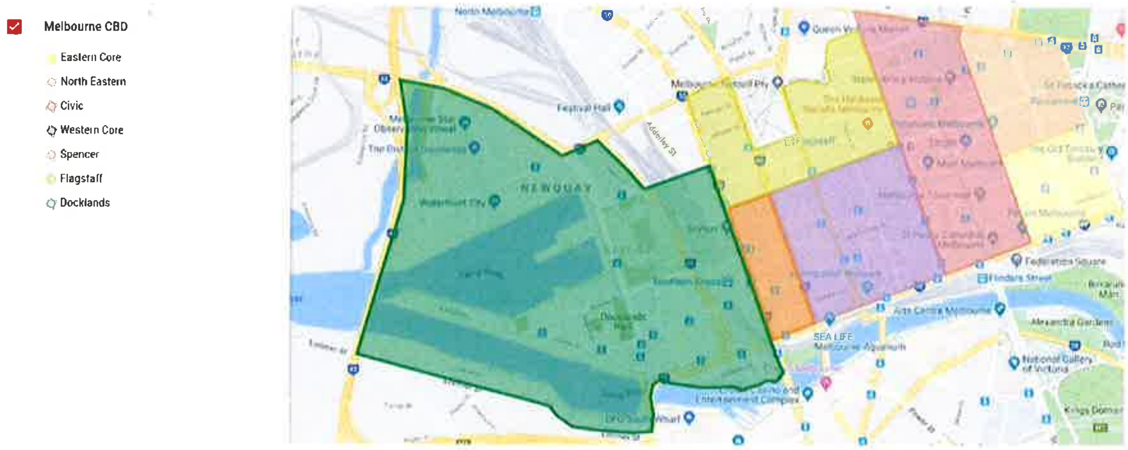
Non-accommodation uses

For land located in the Adderley, Flagstaff, Spencer and Station Precincts, the proposed Schedule 6 to Clause 37.01 Special Use Zone includes a "minimum floor area requirement for use other than accommodation." The Property Council acknowledges the functionality of mixed-use developments and their capacity to assist in activating spaces. Requirements in relation to the use of land should, however, be viewed through a holistic lens and considered in the broader context of market trends.

The conditions for non-accommodation uses and affordable housing requirements (see below) prescribed in Amendment C309 place considerable constraints on the scope for design and innovation in new developments.

The Property Council's Office Market Report (**OMR**) is a comprehensive inventory of all useable office space in over 25 office markets across Australia. This inventory is used to make calculations of total stock, vacancy, supply, withdrawals and absorption. Figure 2 sets out the Melbourne CBD precincts considered by the OMR.

Figure 2 Office Market Report's Melbourne CBD precincts



In July 2018, Melbourne's CBD recorded its lowest vacancy rate in 10 years, at 3.6 per cent.[3] The Flagstaff Precinct, which commences at Lonsdale St and stretches north toward Dudley St, has a vacancy rate of 4.2 per cent (above the average rate captured across the Hoddle Grid and Docklands).

When evaluated by tiers of stock, the OMR identified the following vacancy rates for the Flagstaff precinct:

- **B Grade:** 5.0 per cent
- **C Grade:** 7.8 per cent

[3] Office Market Report, Property Council of Australia, July 2018.

- **D Grade:** 24.5 per cent

Tenant demand has skewed heavily toward Premium and A Grade stock in and along the Collins and Bourke St corridor, including their reach into Docklands. There is little evidence to suggest that an appetite for B, C, and D Grade office stock exists in the precinct in the west and northwest of the Melbourne CBD. The Property Council is concerned that overlaying rigid, prescriptive controls for non-accommodation development in Flagstaff and neighbouring areas could produce unintended consequences. While there are pressures on the supply of commercial office space in the Melbourne CBD and surrounds, the market is yet to signal its intent to absorb existing stock in the Flagstaff Precinct beyond its historical patterns.

Handcuffing development proposals with a minimum of 16.6 per cent (Flagstaff and Adderley), 20 per cent (Station), and/or 25 per cent (Spencer) non-accommodation uses risks the creation of surplus commercial space in an otherwise maturing West Melbourne area.

Affordable Housing

The proposed Schedule 6 to Clause 37.01 Special Use Zone states that, for land located in the Flagstaff, Spencer and Station Precincts, "where a permit is required to use land for Dwellings, one in sixteen dwellings within the development (at least 6 per cent) should be an affordable housing dwelling unless otherwise agreed to by the Responsible Authority."

The language adopted within the Schedule (i.e. 'should' rather than 'must') does not mask the lack of flexibility in the proposed controls, nor the fact that imposing these controls is nothing more than a tax on current land owners.

The Property Council does not support compulsory affordable housing as it relates to private land on the following basis:

- it will effectively devalue sites currently held — it amounts to a tax on current landowners;
- sites may not be sold or developed, limiting housing supply and further hampering affordability; and
- the costs of providing 'below-market' price dwellings in already active projects will mean that the additional cost is borne by all other purchasers in the development through increased purchase prices; and
- there is no clearly defined implementation mechanism beyond the introduction of the proposed controls.

The proposed 1/16th (6 per cent) affordable housing guidelines, this has the potential to adversely affect housing affordability within the City of Melbourne.

Based on a project size of 50 dwellings, we calculate that the cost of a private two-bedroom dwelling in West Melbourne would increase by a minimum of $6,035.

That said, in certain circumstances, the Property Council concedes that inclusionary zoning on public land (or government-sponsored development sites) may be appropriate, provided the following principles apply:

- any inclusionary zoning requirements are clearly articulated in any master planning or bid documents issued by government for public land;

- inclusionary zoning requirements should not and cannot be varied as they relate to any currently held land, as to do so serves to devalue an existing asset;
- the inclusionary zoning requirements are economic, reasonable and appropriate given the strategic plan and requirements of each site;
- government explores innovative models such as the transfer of value beyond the precise site being put to market; and
- appropriate and commensurate uplift is made available by way of appropriate incentives.

This provides clarity and choice for the private sector that allows them to factor these requirements in through any bidding process.

The Property Council is also concerned that the onus of funding and delivering a financial feasibility study lies with an applicant, if the City of Melbourne is not satisfied with the affordable housing component within a given development. This arrangement is yet another impost placed on the industry, and places further delays on an already exhaustive permit approval process. With industry navigating economic headwinds, it is important to assess the development supply chain in its entirety.

The viability of a proposed development extends beyond headline figures or assumed margins. Lending practices have tightened across Australia and, in many cases, a minimum standard of development will be placed upon the provision of debt finance. A stringent, inflexible approach to assessing permit approvals does not appropriately reflect the state of the property market, nor does it account for the financial realities underpinning development activity.

The evidence upon which the terms of Melbourne Planning Scheme Amendment C309 have been built, SGS Economics & Planning's West Melbourne Structure Plan — Stage 2 Report,[4] includes a number of flawed assumptions. The tools applied within the feasibility analysis are entirely reliant upon an increase of 25 per cent on existing site values, with little to no material supporting this rationale. This premise, the unknown nature of a DCP for the West Melbourne area, and a broad interpretation of how demand might unfold in the precinct, warrant further scrutiny.

The scale of the affordable housing challenge is such that it necessitates a strategic, whole-of-State-Government response. Fragmented policy implementation may do a disservice to the needs of affordable housing providers and tenants and generate inconsistencies.

Affordable Housing Industry Advisory Group

The Property Council, along with a collection of its members, is represented on the Affordable Housing Industry Advisory Group (**AHIAG**). We understand that AHIAG may be making a separate submission on the proposed Planning Scheme Amendment C309.

The Property Council broadly supports AHIAG's submission to the extent that it considers matters of technicality regarding the calculation of the affordable housing component required by the Amendment. With respect to any inconsistency between AHIAG's position and

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[4] West Melbourne Structure Plan — Stage 2 Report, SGS Economics & Planning, prepared for City of Melbourne, June 2017.

the Property Council's, the City of Melbourne should consider the Property Council's position to be set out in this submission.

Next Steps

The Property Council cannot support the proposed Planning Scheme Amendment C309 while it includes any aspect of inclusionary zoning. We strongly encourage the City of Melbourne to change the Amendment to remove this aspect.

The Property Council otherwise welcomes the opportunity to work with the City of Melbourne and the State Government to develop the terms of reference for a CBD Economic Strategy Review.

If you require further information or clarification, please contact Angus Crawford, Policy Advisor, on (03) 9650 8300 or acrawford@propertycouncil.com.au.

Yours sincerely,

Cressida Wall
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