

Australia's property industry

## Creating for Generations

20 December 2019

Department of Environment, Land, Water and Planning

By email: [planning.implementation@delwp.vic.gov.au](mailto:planning.implementation@delwp.vic.gov.au)

Dear Sir or Madam,

### Melbourne's Industrial and Commercial Land Use Plan

Thank you for the opportunity to make a submission on the draft Melbourne Industrial and Commercial Land Use Plan (**Plan**).

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

The property industry accounts for 13 per cent of Australia's GDP, employs 1.4 million Australians – more than mining and manufacturing combined – and helps secure the future of 14.8 million Australians who invest in property through superannuation funds.

In Victoria, property contributes \$41.7 billion to Gross State Product (11.7 per cent), employs more than 331,000 people and supports more than 400,000 workers in related fields.

The Property Council's members drive the economy. They conceive of, invest in, design, build and manage the places that matter most to Australians – our homes, shopping centres, office buildings, industrial areas, retirement villages, education, research and health precincts, tourism and hospitality venues and more.

The Property Council's Victorian Division has more than 500 members representing all aspects of the industry. Its members are architects, urban designers, town planners, builders, investors and developers.

The Property Council supports smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which enable its members to make a lasting contribution to the economic prosperity and social well-being of Australians.

### Industrial Land Supply

The industrial sector plays a vital role in the economic prosperity of our state. While the sector in Victoria has long benefited from an abundance of industrial land at values that are far more competitive than interstate counterparts, the changing nature of business requirements is transforming this landscape.

The phenomenon of e-commerce and the decline of traditional manufacturing in Australia has resulted in a different role for industrial property, with large distribution centres and warehousing close to key road infrastructure supported by a strong workforce. In addition, Melbourne's population growth and housing supply shortage has resulted in a reduction in

new industrial land that is the right size, in the right locations (including strategically located last-mile freight facilities) and shovel-ready.

It is important that the right economic and planning levers are developed to ensure industrial property has its place in the broader land use framework. As our dependence on the timely delivery of goods grows, Melbourne's modern way of life cannot exist without the industrial sector to underpin it.

In late 2018, the Property Council commissioned Urbis to test market sentiment that suitable industrial sites are scarce (**Industrial Report**). The property industry is concerned that Victoria risks losing economic investment and jobs to other states unless a strategy is in place to plan for future industrial property needs. However, the right information is crucial to develop this strategy.

The Industrial Report analysed the State Government's assumptions about the supply of industrial land. The Government's data, known as the Urban Development Program (UDP), reports remaining land supply and annual take up, implying the balance of land supply remaining by number of years.

At the time of the Industrial Report, the most recent data implied 23 years supply of industrial land (i.e. 6,669 Hectares supply divided by the three-year average annual take up of 290 Hectares).

The Industrial Report tested this data, by applying transactional market data and tenant requirements in terms of both the type and location of industrial property. The results of Urbis' analysis shows that industrial land supply can be refined from 23 years to only 5.3 years.

A copy of the Industrial Report is enclosed at **Annexure A**.

The Property Council is disappointed that the assumptions and data that underpin the Plan ignore the true state of future industrial land supply in Victoria. The Plan is based on a number of assumptions that cannot be tested or that do not hold true. For example:

- The method used to calculate demand and supply is not clear. If demand has been calculated on the basis of consumption of industrial land, then that calculation is flawed in that the consumption of industrial land is as much a factor of supply as it is of demand. That is, consumption of industrial land will decrease as the available supply of that land decreases, even though industrial land in that area may be highly desirable.
- Annual average demand for industrial land cannot be taken as a guide. For example, in Melbourne's west the long-term average for demand is 131,000 square metres NLA per annum. In 2019, current demand is running at approximately 5 times the annual average, with approximately 600,000 square metres NLA from pre-leases. If this trend continues, then obviously future supply will be exhausted much quicker than forecast.
- Although large areas of industrial land are identified as State significant, large tracts of this land will not be "development-ready" for a long time because they would require trunk infrastructure that may not be delivered by servicing agencies (mainly sewer, water and power) for 10 or 15 years. Pages 31 and 32 of the Plan provide no strategy to outline the Government's role to help service this land. There needs to be greater recognition and strategies to make employment land "development-ready" following the completion of the PSP / rezoning process.
- On page 35, the Plan contemplates zones that the Government could utilise to assist in planning for State significant, regionally significant and local industrial precincts. In

addition to Industrial and Commercial Zones, the Comprehensive Development Zone (CDZ) provides an additional planning provision that provides greater flexibility in the delivery of employment outcomes. One of the great threats to delivering successful employment generating communities is the rigidity of Victorian Planning Provisions, especially “off the shelf” zones. The application of a CDZ, underpinned by an overall strategic plan to guide the types of employment outcomes sought, will enable maximum flexibility without eroding key employment outcomes.

- Current UDP figures do not reflect the reality in Melbourne’s south-east because those figures capture areas like Officer, Pakenham and Hastings. The market reality is that only around 250 hectares of developable industrial land exists in the south-east, much of which is not in a contiguous form suitable for the development of large, commercially feasible footprints. As a result, a trend of major occupiers relocating to Melbourne’s west and north is developing, with two recent examples being:
  - a national Third-Party Logistics company which initially sought a purpose-built warehouse of approximately 15,000sqm in the Keysborough/Dandenong South region. After an exhaustive six month search the scarcity of viable options led it to relocate its operation to Truganina in Melbourne’s west; and
  - an ASX listed automotive parts company which sought development options across metropolitan Melbourne to consolidate its various facilities into a new mega distribution centre of 48,000sqm (GLA). With a wide geographical spread of existing facilities, this entity had no preference on location. Due to its large land requirement (circa 10ha), no development options were presented in Melbourne’s south-east, with the company only shortlisting options in the north and west.
- On page 45, the Werribee NEIC is mentioned as a distinct precinct within the Western state-significant industrial precinct, despite the expression of interest process for the sale of the 775-hectare site being terminated in July 2019. Market sources have rumoured that much of this site may instead be developed as residential land in years to come.
- On page 46, the South West Quarries Industrial Node is mentioned, which sets aside approximately 1,400 hectares of land for industrial purposes. However, the reality is that developing industrial land in a quarry is either impossible or, at the very least, commercially unviable. This again reflects a lack of market reality in the UDP data.

We also note that the Plan makes minimal reference to Geelong or the availability of industrial land in this region. This is despite the fact that Geelong is the second largest city in Victoria and the second fastest growing region in Australia, serviced by Avalon Airport, Geelong Port and will be close to a new second container port at Bay West, and will be the recipient of fast rail to and from Melbourne, drastically reducing commute times. Its omission from the Plan is odd.

Separately, there are some areas in the Plan that repeat matters that have already been proposed by Government, in some cases years ago. For instance, promises have previously been made to develop a business case for the development of the WIFT. As has been acknowledged with the release of the Plan, there needs to be clarity and certainty around how industrial and commercial areas are planned to ensure they operate efficiently and remain viable. Industrial occupiers make decisions for the long-term and consideration needs to be given to how roads and other infrastructure is delivered to service industrial land in a manner that is different to residential land (buffers, roads of sufficient size and scale to handle freight, heavy rail, etc). Unfortunately, delays like those encountered while waiting for the development of the WIFT business case fail to address this need for certainty.

The Property Council recommends that the Plan be amended to reflect the market realities described in the Urbis report. Without this, the Plan's value is limited, and its conclusions cannot be relied upon. With the true state of Melbourne's industrial land supply closer to 5 years than the Government's projections of over 20 years, there is an urgent need to unlock new supply and bring it to market. A failure to do so will see industrial rents rise – in fact, the price of a 1.6 hectare Melbourne lot increased 22.8 per cent in the 12 months to March 2019, compared with an average 5.3 per cent increase recorded nationally across the major capital city markets.<sup>1</sup> In turn, this will erode Melbourne's competitive advantage compared to Sydney and result in a loss of jobs and investment.

### Commercial Land Supply

The Property Council has been vocal in its advocacy to promote an adequate supply of commercial land, particularly in Melbourne's CBD. In November 2018, the Property Council released a report, *Unlocking Melbourne's CBD (CBD report)*, prepared by Urbis. The CBD report confirmed that:

- Melbourne's CBD provides \$67 billion in annual economic output, houses 82,000 residents and supports 317,500 jobs;
- based on population and employment growth projections, an additional 9.1 million square metres of floorspace (comprising an additional 4.4 million square metres of office floorspace and 3.7 million square metres of residential floorspace) will be required in Melbourne's CBD by 2036 – representing a 50 per cent increase on today's figures;
- the economic impact of constraining Melbourne's CBD – that is, by not delivering the required floorspace – will be as much as \$7 billion;
- only two commercial and two residential buildings have been approved, as assessed against C270, in over two years since its introduction;<sup>2</sup> and
- almost every major office building constructed in Melbourne's CBD since 2000 – with a combined value of approximately \$5.8 billion and accommodating approximately 34,500 Victorian jobs – would not comply with C270 and, consequently, could not be built today.

The report concludes with a series of recommendations, each of which the Property Council put to the Minister for Planning. The recommendations are to:

- immediately introduce interim CBD planning controls to increase flexibility and support employment growth;
- prepare an economic strategy for the CBD to ensure it remains a key economic hub;
- conduct a comprehensive review of current CBD planning controls to support the economic strategy;
- improve the efficiency and certainty of the current CBD planning approval processes; and
- promote and enhance transport infrastructure in line with anticipated CBD employment growth.

The Property Council recommends that the Melbourne Industrial and Commercial Land Use Plan address with urgency the handbrake to CBD commercial development that has been put in place since the introduction of C270 planning controls. Without this, Melbourne's liveability and economic output will suffer significantly. We continue to engage with DELWP and the

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<sup>1</sup> <https://www.afr.com/property/commercial/melbourne-industrial-land-values-up-22-8-per-cent-in-a-year-20190522-p51pzn>

<sup>2</sup> As at the date of the CBD report.

Minister's office on this issue, as well as the offices of the Premier and Treasurer, and are happy to brief any other relevant people in the Department on the matter.

A copy of the *Unlocking Melbourne's CBD* report is enclosed at **Annexure B** and a copy of our previous submission to the Minister for Planning on the C270 planning controls is enclosed at **Annexure C**.

Separately, we note that the Plan considers all non-industrial and non-residential uses as commercial. As a result, commercial offices, retail (both strip and centre) and other uses like medical and childcare are considered as one. These uses should not be combined given the different employee to square metre ratios they each represent.

We would be delighted to meet with you early in 2020 to discuss this submission in greater detail. Please contact me on 9650 8300 if you require further information on any of the matters raised in this submission.

Yours sincerely,



Cressida Wall  
Executive Director

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Annexure A – Industrial Land Supply De-bunked, Urbis, 2018.

Annexure B – Unlocking Melbourne's CBD, Urbis, 2018.

Annexure C – Property Council submission to the Minister for Planning on C270 Planning Controls, February 2019.