



VICTORIA'S ECONOMIC RECOVERY STIMULUS PLAN



Working Together for Victoria's Economic Recovery and Long-term Prosperity

The Victorian State Government has taken decisive action in responding to the biggest public health crisis in a century. As a community, we have all changed how we live, work and interact. Together, we have so far avoided the terrible health outcomes seen in other countries.

But the swift action to protect the health of Victorians has taken its own serious economic toll. The Victorian Department of Treasury and Finance's own [modelling](#) predicts that 270,000 jobs will be lost by September 2020, Gross State Product will fall by \$32 billion and property prices will fall by 9 per cent by the end of 2020.

Resetting the Victorian economy will require the same strength of leadership and decision making as was shown in the face of the health crisis.

In Victoria, we need government and industry to work together to get Victorians safely back to work, enhance confidence in business, households and consumers and set the State on a permanent high-productivity trajectory.

The property industry will play an important role in Victoria's economic recovery and ongoing prosperity. In Victoria, property contributes \$41.7 billion to Gross State Product, employs more than 331,000 people and supports more than 400,000 workers in related fields.

The Property Council of Australia presents this plan to help stimulate Victoria's economic recovery and secure long-term prosperity. Consistent with the Property Council's national plan, *A Seven-Point Plan for Economic Recovery*, it outlines specifically how the Victorian Government can best create stimulus measures which will make vital, additional property development and investment more likely as well as speeding up projects which have been threatened by COVID-19.

This document focuses on not just business as usual but which stimulus measures would make a difference to a developer's decision making and how the State Government can get the most from its stimulus spend, focusing on measures which would create economic activity that wouldn't otherwise happen in accordance with seven main themes:

1. A housing construction economic kickstart.
2. Catalyse projects to accelerate growth.
3. Resetting the housing affordability equation for Victorians.
4. Tax settings to drive productivity.
5. Remove the brakes on development activity.
6. Ensure Victoria is open for business
7. Supercharge planning to support Victorians' new way of life

Taken together, at a cost of \$1.7 billion, the measures in this Victorian Plan could stimulate \$24.4 billion worth of economic activity and create or protect 315,000 jobs – as much as those at risk from the COVID-19 crisis.

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A housing construction economic kickstart

Purpose

Use the huge economic multiplier of the construction industry to help get the economy moving again.

Challenge

Housing construction risks being a drag on economic recovery, not a driver of it.

While industry, governments and workers have ensured that current construction projects have continued, the pipeline beyond this is dwindling alarmingly.

Real demand for new housing construction is set to 'fall off a cliff' in the face of economic uncertainty, the leap in unemployment and population declines.

Housing construction represents a powerful economic multiplier. The Australian Bureau of Statistics has established that every \$1 of residential construction generates \$3 activity across the broader economy. Conversely, the Commonwealth Bank estimated that every \$1 million reduction in spending on residential construction cuts seven jobs on a full-time equivalent basis.

Creating new homes, apartments and retirement living units together constitute one of the most powerful job keepers and job multipliers in the Australian economy.

The Plan

1.1 Tripling the First Home Owners grant for new dwellings for 6 months

This crucial part of the market will be hard hit by the current crisis. Based on historical experience, we would expect additions to the First Home Owners grant to materially increase sales by incentivising new entrants to the market. Boosting the grant will provide new jobs and homes for Victorians across the state.

1.2 Deferral of stamp duty for purchasers of new dwellings

By allowing purchasers of new dwellings to pay their stamp duty over the course of three years in instalments, the initial buying decision is made easier. This proposal would support residential purchasers struggling to afford fees and charges associated with home ownership and dealing with uncertainty in the current climate.

1.3 Increasing pensioner duty exemption or concession for downsizing by increasing home valuation threshold from \$330,000 to \$450,000

While the total volume of sales affected by this measure is modest, it would stimulate sales by a customer segment that may be revisiting decisions in light

of the COVID-19 crisis and would otherwise be positioned to make purchase and sales decisions.

1.4 Provide mortgage insurance via VMIA for the first two years of a loan for a new dwelling where a person had otherwise always had a job but had lost their job due to COVID-19

With an expectation that people who would otherwise have qualified for mortgages will now have more difficulty securing finance, subsidising mortgage insurance would assist in the decision to proceed.

1.5 A new tranche of HomesVic, for first home buyers to purchase a home and qualify for a home loan with a deposit of 5% or more. 400 more applications available only for off the plan sales

This scheme is now well tested and has had strong take-up. Allowing people to enter the housing market with a smaller deposit helps purchasers who would otherwise struggle to become home owners.

1.6 New Home Buyer Grant - \$20,000 cash incentive for people buying new homes

This measure would directly influence demand for new homes and help support purchasers in what for most people is the largest purchase of their lives. It is likely to materially influence the likelihood of a range of development projects going ahead.

Catalyse projects to accelerate growth

Purpose

Fast-track property projects that have the greatest potential to catalyse further economic growth.

Challenge

As the largest employer in Victoria, it is critical that the job creating power of private sector construction is appropriately harnessed to support an economic recovery.

Public sector stimulus is important, and the recent announcement of the Government's \$2.7 billion Building Works package is welcomed. However, even a government's record-breaking infrastructure program can only go so far without the additional support of private sector projects keeping Victorians employed.

Melbourne's CBD is the engine room of Victoria and a vital component to the State's ongoing economic success. In 2016, the CBD produced \$67 billion towards the national economy. Melbourne's attractiveness as a 24/7 city is apparent in the continuing growth in employment and the number of businesses seeking to locate in the CBD. 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.

Of course, catalysing major private sector construction in the CBD will promote the long-term vibrancy of our capital city. Importantly, though, many major commercial construction projects under consideration would become feasible with government support – and quickly produce economic activity, including thousands of direct and indirect jobs.

The Plan

2.1. Fast track major developments to unlock economic potential

There are a large number of projects which have been bogged down in red tape. The work of the Building Victoria's Recovery Taskforce in fast tracking these projects, will facilitate economic activity in Victoria. Across the spectrum of development – from major CBD developments to suburban areas, there are important projects which will make a difference to local jobs and businesses.

2.2. Relaxing C270 controls to provide discretion on set backs

Without changes to the current C270 CBD Planning regime, the annual economic output of the State could be reduced by as much as \$7 billion per annum and thousands of jobs that would otherwise be possible, will never materialise. Providing some flexibility in relation to building setbacks in the

CBD would unlock development at this crucial time and see commercial projects built which otherwise will not be.

2.3 Provide \$500,000 to Cladding Safety Victoria to assist in the administration of commercial cladding remediation

While the Victorian Government has identified a way forward for residential cladding issues, there is a large amount of activity in the property sector in relation to cladding on commercial buildings which is outside the current scope of Cladding Safety Victoria. There is no specific pathway for this work to navigate its way through government and there have been significant delays. By providing a specific pathway for this work, the State Government can enhance safety as well as facilitating the economic activity associated with this work.

2.4 Provide a State Government guarantee for up to 10 per cent of a new development's floorspace (at market rents) for the first two years after completion of a building, limited to buildings built in the next 12 months

Given the pressure on pre-commitments that is likely to occur and the complex environment for commercial development, guarantees of space would dramatically accelerate commercial development. It is likely that many of these guarantees would never be called on.

While we acknowledge the complexity around implementation and the likely necessity to account for guarantees under Accounting Standards, this measure would have a significant material effect on commercial development.

Resetting the housing affordability equation for Victorians

Purpose

To permanently address the causes of Victoria's artificially high housing prices by stimulating the residential market to drive housing affordability in Victoria.

Challenge

Projections suggest that Melbourne will require at least 1.6 million new homes over the next 35 years, approximately 50,000 per year.

In the past 20 years, Melbourne's median house price has tripled, from \$195,000 to \$845,000, locking many Victorians out of the housing market.

An essential part of addressing the growing demands on housing availability and affordability is to increase supply. Victoria needs diverse housing stock to meet all segments of the market – through a mix of greenfields development, urban infill, medium-density development, and affordable and social housing.

It is not enough that lots are released; the real measure is how many houses are actually available for purchase. The planning system must be simplified, the speed and complexity of approvals cut significantly and red tape slashed. To create jobs and improve affordability for Victorians, major planning reform is needed to lock in productivity gains for the future

The time associated with the technical aspects of planning approvals right through to the connection of utilities is considerable and is not coordinated by any central entity within Government. While the VPA has some capacity to make proposals for areas (predominantly greenfields) it lacks the power to implement its plans.

Current planning processes are highly problematic. For example, for a single development in some cases:

- Council Departments are included 10 times.
- State agencies are included 9 times.
- Stakeholder groups are included 12 times.

The reduction of red tape eases the time and cost of doing business, lifts productivity across our industry and allows innovation. The property industry incurs significant administrative and holding costs when complying with inconsistent and poorly designed regulations. This cost is difficult to estimate, however, if it represents even 1 per cent of the 2018 value of building permits in Victoria, the amount lost to red tape in the State's property sector is \$396 million every year.

The Plan

3.1. **Code assessment in Residential Growth Zones**

Creating a system whereby projects which fulfil certain mandates have a streamlined, and in some cases, automatic approval process in residential growth zones would have significant effects across the market, reducing end costs to consumers. Reducing approvals hurdles will enable more developments to proceed where it may not have been possible previously, creating long term economic benefits.

3.2. **Equalise Build to Rent land tax to encourage projects to commence within a fixed window of time**

Build to Rent is a development which is relatively new in Australia in which developers create projects for the purpose of retaining them to operate with a single landlord. In doing so, economies of scale can provide a better environment and more affordable housing. Land tax on these projects penalises a single owner as they are assessed differently to multiple individual owners for a building of the same size. Equalisation of that arrangement so single owners pay no more than individual owners would facilitate these important developments for the long term. These projects are, in many cases, well advanced and together with the fast tracking of planning mentioned above, will provide a positive outcome for supply, affordability and economic stimulus. We also encourage State Government to consider Built to Rent as a use class accepted in business and other zones that usually would not be possible for residential development, in order to stimulate this asset class at this challenging time.

3.3. **Underwriting 5% sales for residential project finance for projects over 50 dwellings: if the vendor cannot sell them before completion, State Government purchase of dwellings for key worker housing to be administered by a community housing provider**

This measure would materially improve the likelihood of apartment buildings proceeding and would have the benefit of earmarking buildings for affordable housing which the government may intend to provide in any event. Limiting the measure to larger buildings (so as to make the affordable housing easier for community housing providers to administer) would have the positive benefits in creating a mixed tenancy environment as well as providing the scale to make administration viable.

3.4. **Provide a government rent guarantee to key worker housing developments**

For affordable (key worker) housing developments, we would also encourage the government to consider providing an underlying rent guarantee to the

developer on the whole building. This would assist in getting these projects financed. As soon as the building reached a pre agreed level of occupancy the guarantee could be removed. Given the high demand for affordable housing if rents are priced in accordance with affordable guidelines, there should be low vacancy, even in an otherwise increased vacancy market.

3.5. Allow developers to create affordable housing responsive to market demand

In other States of Australia, smaller dwellings (often with high design values and larger shared spaces) can be created which enable developments that create more affordable housing. In Victoria, such development is prohibited by overly restrictive design standards.

There have also been recent calls for the State Government to impose a statewide mandatory inclusionary zoning target. Mandatory inclusionary zoning dictates that developers must devote a percentage of their buildings to sell dwellings at below market prices. It operates as a tax on at-market dwellings and can result in consequences that are counter to the policy objective of providing more affordable housing.

Mandatory inclusionary zoning effectively devalues sites currently held, commonly resulting in:

- sites not being sold or developed, limiting housing supply and further hampering the delivery of affordable housing and reducing affordability; or,
- additional costs being borne by other purchasers in the development through increased purchase prices to maintain project viability and secure finance.

At such an uncertain time, additional taxes in the form of mandatory inclusionary zoning will place new developments at significant risk. We urge the State Government not to impose such a measure at this time and Local Government to refrain from imposing local requirements at a time when viability of projects is already significantly threatened.

Tax settings to drive productivity

Purpose

Reshape the Victorian tax system to drive productivity and economic growth.

Challenge

Over the last five years, Victoria has had a total of 21 adverse tax changes – either the implementation of new taxes or increases to existing taxes – that have added to the cost of doing business.

During Australia's economic recovery from the impact of COVID-19, Victoria's tax system needs to be reviewed to ensure our state does not put up unintended barriers in front of businesses looking to create jobs, housing, and workplaces.

Our economic recovery will be boosted by stimulus measures that unlock future development and restore confidence in Victorians to make big decisions such as purchase their first home, or to invest in the creation and growth of their business.

The Plan

4.1 Reinstatement of the off the plan stamp duty concession for investors for projects commencing in the next 12 months

Concessions for "off the plan" sales directly stimulate the construction market. Creating incentives for consumers – whether owner occupiers or investors – to purchase off the plan increases the likelihood of significant developments proceeding.

This concession operated until July 2017, when it was removed. The benefits of reinstating the concession include that it:

- Materially affects the feasibility of large apartment buildings because of both cash flow timing and total volume of sales;
- Provides a competitive advantage to Victoria in relation to alternative investments in other states or overseas (particularly with overseas investors); and
- Would result in more projects getting off the ground.

With any off the plan concession, it is critical that it is extended to projects which are currently out for sale (but unsold), otherwise, the prospect of selling new completed stock diminishes significantly. If the concessions are extended to new (never previously sold) stock, developers will be able to sell stock straight away and then redeploy the funds into other pipeline projects.

4.2 Create off the plan stamp duty concession for purchasers of new dwellings for six months

Complementing the investor stamp duty concession, a wider but time-limited purchaser concession will provide further confidence to prospective purchasers and help bring forward purchasing decisions.

4.3 Stamp duty COVID-19 rollover relief

For large projects, where a development on a landholding needs to be activated by bringing in additional investment due to COVID-19, there should be discretion regarding stamp duty to allow transactions to take place without additional fees and charges.

There are a number of developments which can be unlocked by relaxing the rules around restructuring to facilitate post COVID-19 investment, allowing money to be spent on economic development creation rather than tax which would prevent developments.

In many cases, in the absence of such relief, these developments simply will not go ahead due to large stamp duty bills for on-paper restructuring. If the transaction can proceed without stamp duty, the State Government loses no revenue (because the transaction would not otherwise have happened) but the exemption facilitates faster investment and economic development.

Remove the brakes on development activity

Purpose

Remove impediments to job creating economic activity that will shape our communities.

Challenge

The Victorian Department of Treasury and Finance's modelling predicts that 270,000 jobs will be lost in Victoria by September 2020, Gross State Product will fall by \$32 billion in the first half of 2020 and property prices will fall by 9 per cent by the end of 2020, as a result of the coronavirus pandemic. It is clear from these figures that it is not "business as usual".

Some policies exist that were introduced with good intentions but in the current economic environment put economic activity at risk.

At present, there is no point at which the economic benefits of projects are given any weight in the planning process. Arguably, if these benefits were more accurately assessed, planning controls would be viewed quite differently.

Victoria has a generational opportunity to assess its current policy measures and ensure that they remain fit for purpose. The spirit of partnership between government and industry requires that the private sector pulls its weight to bring the Victorian economy back from the challenges it is facing. To do this, roadblocks to activity must be removed and laser like focus should be had to ensure no new roadblocks are put in their place.

The Plan

5.1 Relax Market Led Proposal guidelines

While State Government can and must always maximise value for the state, allowing more flexibility in market led proposals at the present time could provide significant benefits. Given the size of such proposals, a single proposal succeeding now when it would ordinarily have failed would be significant to the economic recovery period.

5.2 Remove cladding levy for any project which has 85% or more local content

The cladding levy has had a number of unfair consequences. An alleviation of this measure which balances local stimulus would be helpful to industry, facilitating projects and stimulating local manufacturing

5.3 Remove or suspend the Congestion levy

Car park owners subject to the congestion levy have had virtually no income during the COVID-19 period.

Car park owners and operators have paid the congestion levy since 2005 in an effort to reduce traffic congestion in inner Melbourne. The Property Council has been a strong and consistent opponent of the congestion levy for many reasons: it hasn't been effective in reducing congestion; it has added to business and individual costs; and it detracts from our competitiveness as a business and tourism destination.

Regardless of its ongoing impact, the congestion levy should be temporarily suspended to provide needed relief to car park owners and operators and accurately reflect the current reduced traffic conditions.

Further, as people contemplate coming back to work, without dramatic increases to public transport services, more vehicle use is virtually inevitable to maintain safe distances during transport. In light of current circumstances, retaining the levy (which is passed on to consumers) is unfair and inappropriate.

5.4 Remove Vacant Residential Land Tax (VRLT)

The VRLT applies if a property is vacant for more than six months cumulatively in the preceding calendar year. It was introduced to stop the deliberate banking of property at the expense of those genuinely seeking to enter the property market, a situation which is clearly not currently the case. Given the current challenges facing the residential real estate market, more properties risk being left unsold and remaining vacant upon completion of a development, even despite a developer's best efforts to sell them.

The Government should:

- Permanently change the VRLT to exempt new apartments that have been developed and are actively being marketed; or
- Create a discretion which could be exercised by the State Revenue Office if the land is vacant through no fault of the developer.

5.5 Delay the introduction of the Better Apartment External Amenity Standards

The Property Council understand the Better Apartment External Amenity Standards are likely to be finalised in the second half of the year. The introduction of these additional design standards during a period of economic recovery would place an unnecessary burden on the financial feasibility of projects. In particular, the open space requirement could have the unintended consequence of limiting housing diversity and creating a cost burden for owners.

Ensure Victoria is open for business

Purpose

Make it clear that Victoria is open for business and open for investment.

Challenge

Some key competitive advantages that have made Victoria an attractive investment destination for years – our population and growth rates – will be significantly weakened because of the crisis.

Furthermore, over the last few years, Victoria has created additional hurdles for global investors, making it difficult for global capital to invest in Australia, and sending the wrong message to those seeking to promote Victoria overseas.

The Plan

6.1 Removing the Absentee Owner Surcharge

The Absentee Owner Surcharge is a charge which applies to developments where the owner is not resident in Victoria. Given that Victoria is the only state in Australia (other than Queensland) to extend this tax beyond the residential sector, it is unarguable that removing it at this time would remove this disincentive to investment in Victoria and allow local entities to raise capital more easily. Removing this surcharge would facilitate global investment in Victoria at a time when we need it most.

6.2 Removing Foreign Purchaser Additional duty

Without global investors, fewer projects can be commenced, meaning less housing and other development for local purchasers. The full removal of this tax on new development would be a significant positive for development in the State.

6.3 Payroll tax incentives to sustain Victoria's population

Victoria's strong population growth has played a significant role in sustaining its economic growth over recent decades. The COVID-19 pandemic has quickly impacted national and state/territory borders, restricting the flow of individuals. Consequently, net overseas migration to Victoria will fall materially. This fall threatens demand for housing, retail trade and office space across Victoria.

One important buffer to mitigating these negative economic effects will be employing strategies to attract interstate migrants to Victoria. These measures may include direct grants to companies who may relocate head offices to Victoria or otherwise offering payroll tax concessions to those

businesses. Attracting new businesses to Victoria will bring an existing workforce and boost local demand, while also creating new jobs for Victorians.

6.4 Encouraging interstate students to Victoria

Given the constraints on international students returning to Victoria in the short-term, increased consideration should be given to how to best attract interstate students to Victoria's world-leading education institutions. Attracting interstate students can take many forms: directly marketing Victoria as an attractive destination to current and future university students; providing Victorian universities with financial and non-financial support to attract students in their own capacity; and supporting the property industry in providing world-class student accommodation that will provide students with a safe, connected and vibrant home while they study.

6.5 Encouraging the return of international students

Facilitating the return of international students is vital in supporting economic benefits of a vibrant university sector and the student housing market. The Victorian Government could facilitate the staff return of international students through:

- Encouraging the National Cabinet to investigate opening international borders for returning international students; and
- Continuing to provide Government-funded 14-day quarantine for returning students.

This proposal would also enhance employment opportunities for Victoria's hard-hit hotel market.

Supercharge planning to support Victorians' new way of life

Purpose

Put economic development at the heart of planning and development, promoting world-class precincts combining social amenity and economic development.

Challenge

Historically, planning has sometimes been perceived as a brake on development. The Property Council rejects this notion. At this time, the role of planning could not be more different. It is to maximise the positive outcomes for the state in terms of Victorians' way of life but importantly, also economic development.

It is crucial that any conceptualisation of proper planning – especially for precincts – places economic outcomes as one of the highest priorities, particularly as part of a COVID-19 recovery effort.

This underpinning requires a change in thinking; it cannot just be business as usual. It requires that policy settings (in the form of planning amendments or legislative instruments) include reference to economic outcomes front and centre and it requires that there are specific staff involved in any precinct teams / authorities, whose role is to consider at every step whether the mechanisms and processes are maximising the economic potential of the relevant project.

That is not to say that public safety, public amenity, affordable housing, environmental considerations, and design are not important. They are. It is simply that economic considerations appear often to have come last in the role that planning has played and this approach is sub-optimal.

Not only does planning need to facilitate economic outcomes, but it also must maintain flexibility to maximise those outcomes.

One of the key areas for economic development is industrial projects. This part of the property sector has had a number of opportunities associated with this challenging period.

The way in which Victorians live and shop has been in transition for some time, although this was forced forward at a rapid pace when physical distancing restrictions impacted personal movements. More Victorians have migrated to online channels to purchase clothes and household goods, as well as groceries, medications, and other essential items.

Omni channel retailers will likely continue to prosper.

The delivery process has come under increased pressure from the volume of demand during the COVID-19 period. Extensions to hours of operation have been helpful. There remains significant demand from consumers to have their products delivered to them quickly.

It is critical that Victoria remains equipped to meet these increasing delivery needs and that sufficient industrial land is made available for distribution centres and last mile freight deliveries.

The Plan

7.1 Promoting economic activity in all State planning considerations

The property industry is the State's largest economic contributor. It follows that land-use planning is a critical driver of economic growth. In light of the significant role that property will play in Victoria's economic recovery from the COVID-19 pandemic, economic considerations should be promoted in planning decisions and the hierarchy of the Department of Environment, Land, Water and Planning. A position similar to that of a "Director of Economics" could be created to promote the importance of economic activity and job creation in the planning process and to ensure appropriate coordination between agencies to ensure that bureaucratic processes are streamlined.

7.2 Prioritising Government surplus land disposal, including small, medium and large sites / precincts, and commit to timeline/pipeline

There is no question that Government land supply, particularly for significant precincts has a significant stimulatory effect, creating new communities and opportunities with jobs and economic activity.

7.3 \$40,000 grant to any industrial project which can demonstrate 51% or more local content in materials and labour

Providing a grant for the use of locally sourced materials and content works to strengthen local industry, while encouraging more developments to get off the ground and into action.

7.4 Release 1,000 hectares of land for industrial projects and fast track facilitation of those projects

Australia's eastern seaboard industrial vacancy rate was already at low levels before the impact of COVID-19, and nearly half of an increased Melbourne industrial land supply pipeline has already been pre-committed. Appropriate sites for future industrial development in Melbourne are becoming scarce and accelerated demand caused by the rapid rise of e-commerce will only heighten this lack of supply.

The Melbourne Industrial and Commercial Land Use Plan launched in April 2020, must be implemented quickly and efficiently to ensure supply continues to meet growing customer demand. The Plan identifies 6,900 hectares of unzoned land identified for suitable industrial purposes. Where possible, this pipeline should be accelerated, and opportunities identified for the creation of more zoned land in the tightest areas of the Southern and Western State Significant Industrial Precincts.

7.5 Permanently relaxing noise curfews around key distribution centres

The State Government took decisive action in March to temporarily suspend night time curfews (until 21 September 2020) to aid the freight of essential items to supermarkets and other key retailers, to ensure stores could receive new stock and re-stack shelves quickly to meet the increased demand.

Beyond this peak in purchasing activity, it is clear that more permanent trends may emerge from this crisis, such as the increase of e-commerce activity. Many Victorians, especially in vulnerable categories, have relied more on e-commerce to deliver essential household items, while retailers have been able to continue operating through the lifeline of online channels. It is likely e-commerce will remain at high levels, so curfews need to be accordingly reviewed and relaxed on a medium to long term basis to ensure no unnecessary freight delays.

In the medium to long term, buffer zones need to be considered carefully to balance the needs of the community for essential deliveries with local residents' needs.

7.6 Support short-term industrial leasing to meet sudden supply chain challenges

Separately, lessons have been learned from the COVID-19 outbreak across the world. In the industrial, freight and logistics sector, previously smoothly operating global supply chains have been significantly disrupted. While Australia has thankfully been shielded from the worst impacts, we remain susceptible to supply chains from key import markets being disrupted again at short notice.

At different times, key ports may find it difficult to move essential products in or out. In the United States among other places, we've seen food waste rapidly increase due to a lack of storage solutions. Future shortages and blockages are possible, and the industrial sector will need to create as much flexibility as possible to respond effectively. This trend will create a need for more short-term tenancies and leases. To ensure that all existing capacity in the industrial sector is used efficiently, we encourage the Government to consider providing

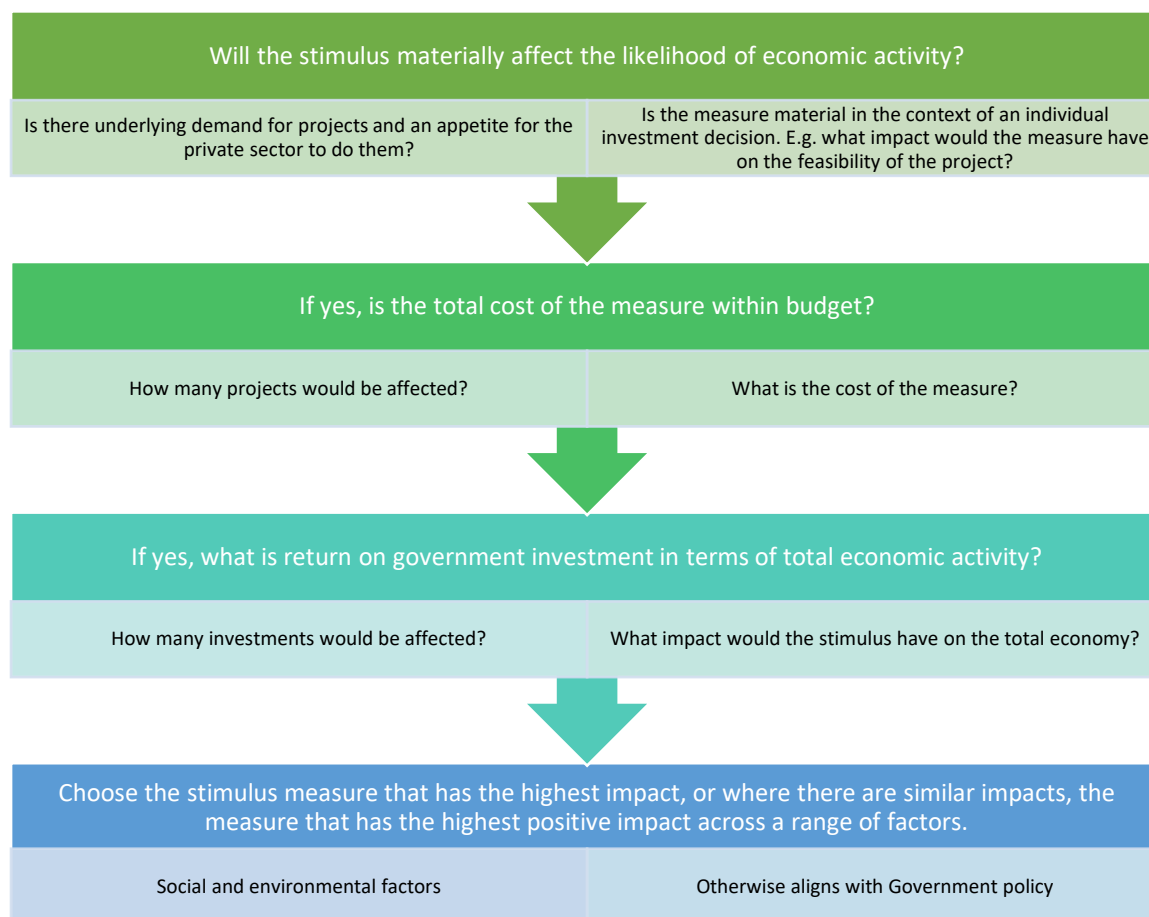
support to facilitate those short-term leases, including short-term land tax holidays on relevant properties.

7.7 One year land tax holiday for industrial land where a VBA permit has been sought

To facilitate growth in this sector at a time when it is most needed, a land tax holiday could make a difference to projects which are currently facing additional red-tape through long delays with the Foreign Investment Review Board. These delays increase holding costs, putting project viability at risk.

Evaluation framework

The following process has been used to consider which government measures are the most useful in the COVID-19 recovery environment.



How does State Government increase the likelihood of projects going ahead?

While virtually all Government stimulus spending will make a difference to the State economy, some is better than others. Economic multiplier effects are well known (if sometimes contested). The real issue is, if State Government is considering a stimulus measure, how can one stimulus measure be prioritised relative to another for maximum impact?

In establishing which stimulus measure will have the most impact, it is useful to consider the process by which a developer makes a decision. A developer's decision to proceed is usually the product of two main factors:

1. The overall feasibility of the project. Feasibility is subject to detailed modelling which takes account of costs and forecast revenue to estimate the likely margin for a project.
2. If the project provides a suitable return on investment, the developer will also turn their attention to the overall confidence level in the project which touches on sentiment issues such as:
 - a. How difficult will it be to attract consumers of the product?
 - b. How long will it take to sell?
 - c. How easy or difficult will it be to raise capital for the project?
 - d. Are there specific community or location based issues that will complicate the project?

These two factors are clearly interrelated and recursive.

What measures are material to various types of projects?

In the context of an individual investment decision, what can government do that would impact the feasibility of the project sufficiently to make a difference?

As outlined above, the likelihood of a project going ahead is ultimately the product of a feasibility study which makes certain assumptions about costs of the project and internal rate of return (IRR). Naturally, the assumptions of any project (even the same project but done by a different developer) can vary significantly. For example, one developer may have access to internal capital and require less debt.

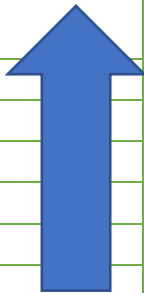
The second significant aspect which affects whether a project will be able to secure finance or internal approval will be one of confidence and the view taken about demand for the project.

So, State Government action impacts in two ways:

1. The overall policy settings dictate a developer's level of confidence that their product will "sell". This confidence can be influenced by many things but will certainly be influenced by the likelihood of individual consumers to purchase or tenants to lease. Demand side stimulus has significant effects.
2. Any direct cash contribution which sufficiently increases the IRR to be material to the assessment of the project.

Using VBA data, we can predict which projects will have the lowest materiality threshold for Government impact. The following table focuses on the size of an average project. The lower the average size of a project, the more impactful State Government direct stimulus will be on the feasibility of each individual project.

Work permits in Victoria sorted by average size of project

Category	Value of Work (\$)	Permits (#)	Average Project (\$)	Cost of improving feasibility
Hotel/student accommodation/retirement villages	1,991,973,521	802	2,483,758	
Hospital/Health	776,236,879	522	1,487,044	
Commercial	6,437,409,679	7,028	915,966	
Public Buildings	3,225,850,445	4,107	785,452	
Industrial	822,841,712	1,265	650,468	
Retail	2,174,390,352	4,320	503,331	
Domestic residential	22,829,014,105	83,910	272,065	

Source: [VBA Building Permit Data 2019](#)

The average value of the projects in the domestic residential sector is lowest, meaning that government stimulus applied at an individual project level to this sector is most likely to be material to any particular development progressing.

That is not to say that only domestic residential projects should be part of a stimulus package. To the contrary, as average project size becomes larger, policy measures and other non-cash measures become more crucial.

Approach

This Plan prioritises stimulus measures which ensure the greatest impact and return on Government investment.

The measures have, accordingly been evaluated in terms of a number of factors including:

- **Materiality:** How material would the measure be to the decision to proceed in a particular project or projects?
- **Speed:** Would the measure speed up a project?
- **Implementation:** How difficult would the measure be for Government to implement?
- The total **number of projects** affected by the measure.
- The total number of projects which could be said to be **attributable to the measure** being implemented (ie which projects would be “additional” to business as usual).
- The **impact per project** in dollars.
- The amount that would be “material” to a project of this size (ie would be likely to change the feasibility of the project for a developer).
- The **average size of development** in this category.
- The likely **cost to government**.
- The **number of jobs** estimated to result from this measure and the **estimated economic benefits** that flow.

The measures listed have been modelled by the Property Council and each hold their own unique value proposition boosting the Victorian economy through targeting different sectors within the property industry.

Economic benefits and costs assumptions

This work has estimated costs to government based on publicly available sources but we acknowledge the true cost to State Government is difficult to estimate in some cases.

A conservative approach has been taken to the economic benefits using a very simple multiplier in the form of the [ABS Construction multiplier for both jobs and spending](#). It is likely that this multiplier significantly underestimates the possible economic flow on effects from indirect stimulus and the virtuous circle that exists from improving demand and sentiment in relation to property.

It is likely that some measures could result in a net positive for State Government, taking account of state revenue over the medium term including stamp duty, land taxes, rates, and absentee owner taxes, depending on which measure is being contemplated. The net position has *not* been calculated in the economic benefits and represents upside risk.

There are other flow on effects not captured by the economic multiplier used. For example, demand stimulus for 'new build' will have a multiplier effect with the education industry given purchasing decisions are often connected to education related migration.

Summary of measures and economic impact

Measures		Economic Impact (\$B)	Jobs Created
A housing construction economic kickstart			
1.1	Tripling the First Home Owners grant for new dwellings for 6 months		
1.2	Deferral of stamp duty for purchasers of new dwellings		
1.3	Increasing pensioner duty exemption or concession for downsizing by increasing home valuation threshold from \$330,000 to \$450,000		
1.4	Provide mortgage insurance via VMIA for the first two years of a loan for a new dwelling where a person had otherwise always had a job but had lost their job due to COVID-19	6.1	78,994
1.5	A new tranche of HomesVic, for first home buyers to purchase a home and qualify for a home loan with a deposit of 5% or more.		
1.6	New Home Buyer Grant - \$20,000 cash incentive for people buying new homes		
Catalyse projects to accelerate growth			
2.1.	Fast track major developments to unlock economic potential.		
2.2.	Relax C270 controls to provide discretion on set backs		
2.3	Provide \$500,000 to Cladding Safety Victoria to assist in the administration of commercial cladding remediation	5.2	67,063
2.4	Provide a State Government guarantee for up to 10 per cent of a new commercial developments for the first two years		
Resetting the housing affordability equation for Australians			
3.1.	Code assessment in Residential Growth Zones		
3.2.	Equalise Build to Rent land tax to encourage projects to commence within a fixed window of time		
3.3.	Underwriting 5% sales for residential project finance for projects over 50 dwellings with surplus to affordable housing	3.9	49,950
3.4.	Provide a government rent guarantee to key worker housing developments		
3.5.	Allow developers to create affordable housing responsive to market demand		
Tax settings to drive productivity			
4.1	Reinstate off the plan stamp duty concession for investors for projects commencing in the next 12 months		
4.2	Create off the plan stamp duty concession for purchasers of new dwellings for six months	5.2	66,600
4.3	Stamp duty COVID-19 rollover relief		
Remove the brakes on development activity			
5.1	Relax Market Led Proposal guidelines		
5.2	Remove cladding levy for any project which has 85% of more local content		
5.3	Remove or suspend the Congestion levy	1.4	18,500
5.4	Remove Vacant Residential Land Tax (VRLT)		
5.5	Delay the introduction of the Better Apartment External Amenity Standards		
Ensure Victoria is open for business			
6.1	Removing the Absentee Owner Surcharge		
6.2	Removing Foreign Purchaser Additional duty		
6.3	Payroll tax incentives to sustain Victoria's population	1.1	14,727
6.4	Encouraging interstate students to Victoria		
6.5	Encouraging the return of international students		
Supercharge planning to support Victorians' new way of life			
7.1	Promoting economic activity in all State planning considerations		
7.2	Prioritising Government surplus land disposal, including small, medium and large sites / precincts, and commit to timeline/pipeline		
7.3	\$40,000 grant to any industrial project which can demonstrate 51% or more local content in materials and labour		
7.4	Release 1,000 hectares of land for industrial projects and fast track facilitation of those projects	1.5	19,639
7.5	Permanently relaxing noise curfews around key distribution centres		
7.6	Support short-term industrial leasing to meet sudden supply chain challenges		
7.7	One year land tax holiday for industrial land where a VBA permit has been sought		
Total		24.4	315,473

About the Property Council of Australia

The Property Council of Australia champions the industry that employs 1.4 million Australians and shapes the future of our communities and cities.

Property Council members invest in, design, build and manage places that matter to Australians: our homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism and hospitality venues and more.

On behalf of our members, we provide the research and thought leadership to help decision-makers create vibrant communities, great cities and strong economies.

We support smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which underpin the contribution our members make to the economic prosperity and social well-being of Australians.

Please send all queries to the Property Council of Australia
(Victorian Division)

136 Exhibition St, Melbourne VIC 3000

www.propertycouncil.com.au

vic@propertycouncil.com.au

(03) 9650 8300

