The Property Council of Australia

# 2022-23 VICTORIAN PRE-BUDGET SUBMISSION

PROPERTY COUNCIL of Australia


PROSPERITY | JOBS | STRONG COMMUNITIES

# FOREWORD


**Over the last two years Victoria has experienced the biggest economic and social crisis in living memory. But thanks to our collective resilience and willingness to roll up our sleeves and get the jab done, 2022-23 is full of hope and opportunity as Victoria embarks on a sustained recovery.**

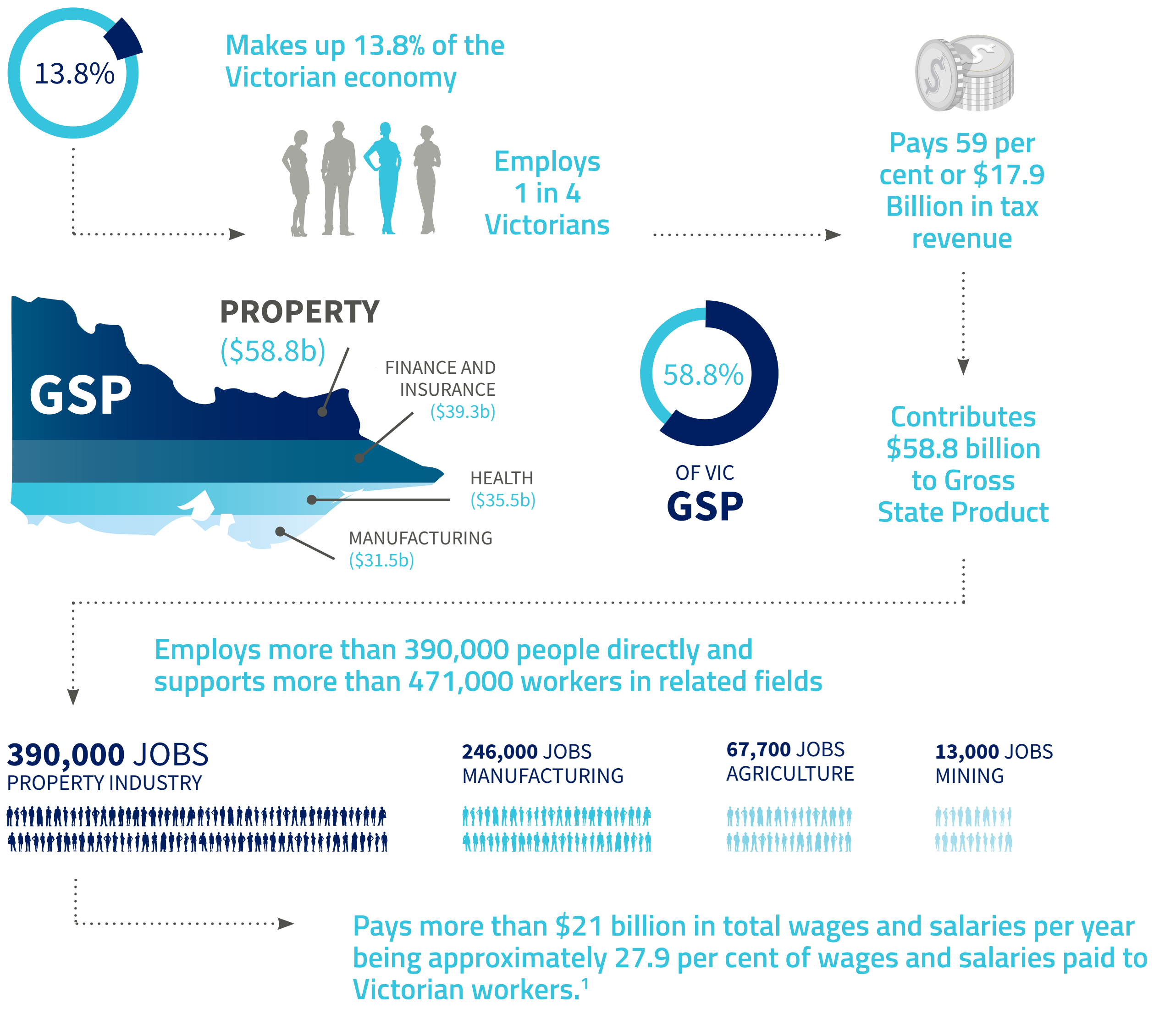
Our recovery can't be taken for granted and nor will it happen overnight. The ANZ/Property Council Survey, which tracks confidence and sentiment across the property industry, has consistently recorded Victoria as having the lowest sentiment in the country over the past two years. As of December 2021, sentiment is on the rebound and only slightly below the national average. Confidence is returning and, as the state's biggest industry by contribution to Gross State Product and employing 390,000 Victorians, the property industry will play a critical role in the state's sustained economic recovery.

The 2022-23 Victorian Budget is an opportunity to create a longer-term policy framework that flicks the switch on the Victorian economy from 'survive' to 'thrive'. Recognising the Government's already comprehensive commitment to state-shaping infrastructure projects, the Budget's focus should be on creating policy settings that address skills shortages, restore population growth, ensure the adequate supply of land for new housing and commercial development, renew the vibrancy of Melbourne's CBD, and attract investment into our state from interstate and overseas.



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

AEC Group's report for the Property Council, 'Economic Significance of the Property Industry to the Victorian Economy', shows that the property industry in Victoria:




[1] AEC, 'Economic Significance of the Property Industry to the Victorian Economy', (August 2020).

This will support the property industry to sustain the progress of and strengthen our post-COVID bounce back, putting Victoria firmly on track to regain its status as the best place in the country to live, work and play.

The Property Council of Australia's 2022-23 Pre-Budget Submission provides an overview of the current state of the property market, highlighting the key areas that require further government investment and policy attention in this Budget, and provides a suite of recommendations that can be consolidated into six themes:

- **Restore purposeful population growth;**
- **Enhance Victoria's competitiveness;**
- **Revive the Melbourne central city economy;**
- **Review and act on housing affordability and land supply challenges;**
- **Plan for regional Victoria's continued growth; and**
- **Support the pursuit of net zero emissions;**

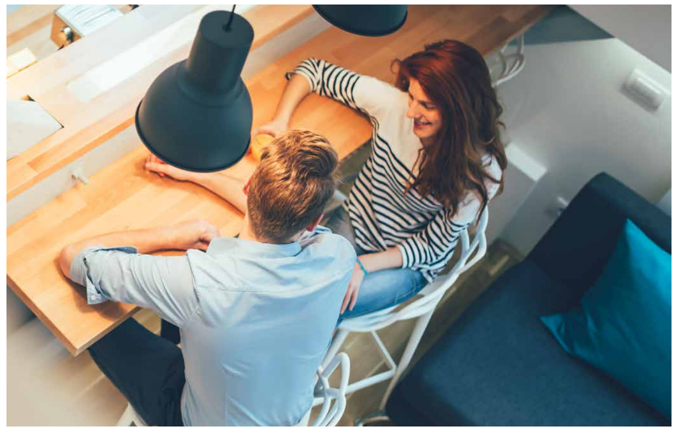
On behalf of Victoria's largest industry, the Property Council remains a committed partner, eager to work closely with Government to realise and deliver the full recovery of Victoria's economy.

**Danni Hunter**
**Victorian Executive Director**
**Property Council of Australia**

# STATE OF THE MARKET OF KEY PROPERTY SECTORS

**THE PROPERTY COUNCIL REPRESENTS ALL THE KEY PROPERTY INDUSTRY SECTORS, INCLUDING BUT NOT LIMITED TO:**

- Residential, including Build-to-Rent
- Industrial
- Commercial and Office
- Retail
- Retirement Living
- Hotels



## Residential

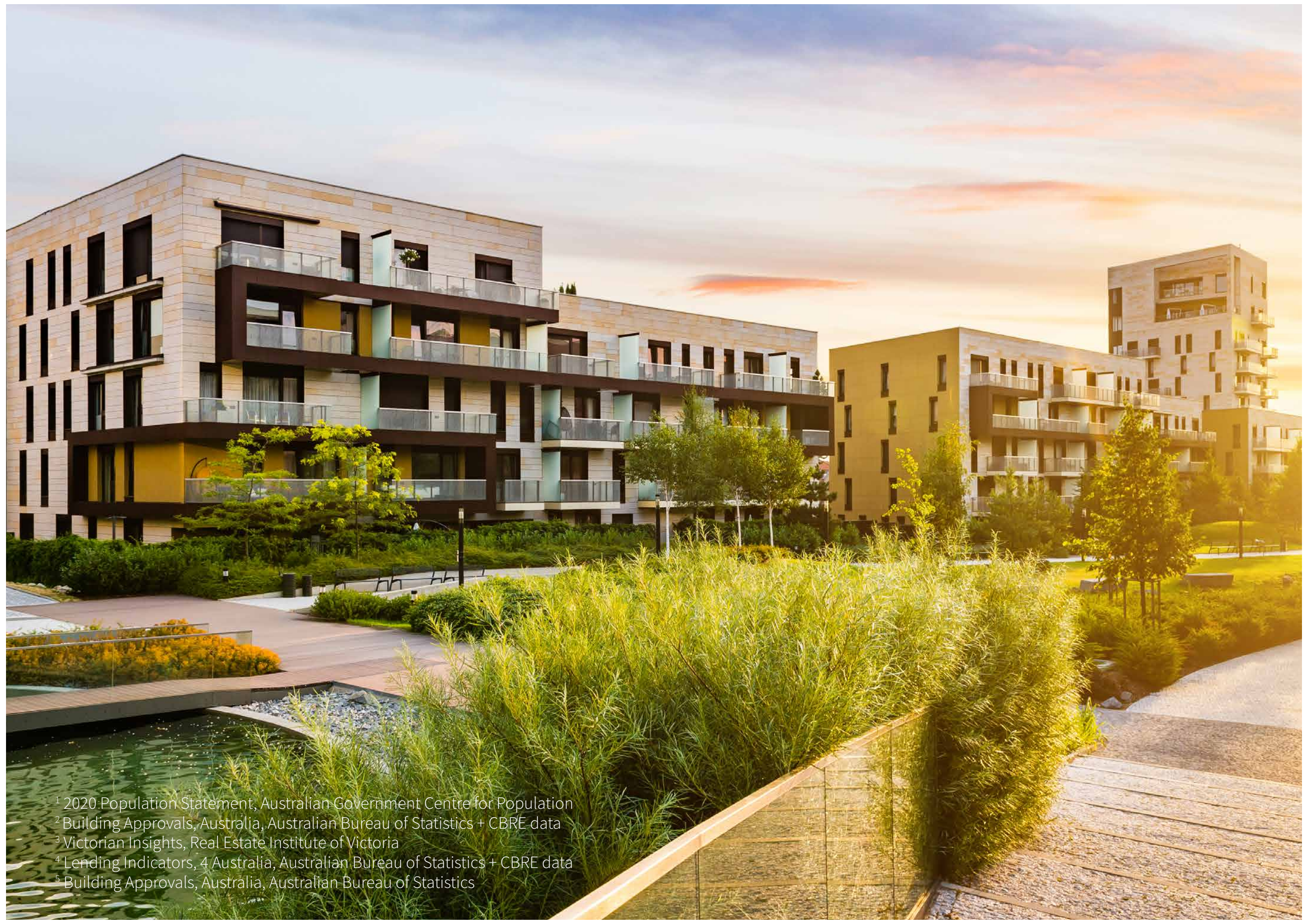
Prior to the pandemic, Victoria was the fastest growing state in the country and Melbourne was forecast to become Australia's biggest city by population well before the end of this decade[1].

Our path back to strong population growth is likely but not guaranteed, with continued instability around the status of international borders and global movement. This in turn will have a strong impact on the property industry and helps to inform a mixed picture of the current state of play.

The HomeBuilder-driven growth in residential dwelling construction has seen a 22 per cent increase in house approvals for the year to 30 June 2021[2], and residential lending figures reaching record levels, almost exclusively driven by owner-occupiers.

At the same time, the median house price tipped over the $1 million mark in Melbourne for the very first time[3] as all major Australian cities see record strong price growth. Affordability pressures are increasing, with the size of an average loan up more than 8 per cent year-on-year[4], and more than 35 per cent of





family income required on average to be devoted to mortgage repayments. The acceleration of greenfield housing development will moderate as HomeBuilder activity cycles through the market, but it points to an increasing need to accelerate supply additions as population growth picks up.

The benefits of HomeBuilder have not flowed through to the apartment market with construction activity decreasing further in 2021, and unit approvals at about half of the 2018 peak. This includes a pronounced drop off in Melbourne's inner city[5], with Charter Keck Cramer (CKC) confirming no apartment projects have been released in the CBD grid in either 2020 or 2021.

The effects of the Government's initiatives in the previous Budget to support apartment sales and development are not yet translating to the market, especially with a further extended lockdown in the second half of 2021 depressing sales further – CKC notes that about 27,000 apartments in approved projects across the central city region are yet to be launched to the market, with developers waiting for an uplift in purchaser and occupier demand. This indicates a need to extend and potentially deepen these measures in the coming year.

The widening performance gap between the detached housing and apartment markets is also challenging our growth projections and urban planning targets for future residential development. Councils within the inner ring have experienced a halving of contribution of new stock, with apartments now comprising less than one in every ten new dwellings.

The importance of a successful urban renewal and densification agenda becomes even more important to ensure we can manage future housing growth effectively.

## Build-to-Rent

EY's analysis has found the current pipeline of Build-to-Rent projects nationally could contribute $7.3 billion in total output to the Australian economy each year between 2022 and 2025, supporting around 17,610 jobs.

Pleasingly, Victoria is home to the majority of this output as the home for more than 60 per cent of current projects, adding nearly 10,000 dwellings to our housing supply. The finalisation of the Government's land tax concessions for eligible Build-to-Rent projects in November 2021 is already translating to real market activity, with construction commencements in the next 12 months expected to include around 16 towers totalling 6,500 apartments. In this space, Victoria is seen as the most attractive investment destination.

[1] 2020 Population Statement, Australian Government Centre for Population
[2] Building Approvals, Australia, Australian Bureau of Statistics + CBRE data
[3] Victorian Insights, Real Estate Institute of Victoria
[4] Lending Indicators, 4 Australia, Australian Bureau of Statistics + CBRE data
[5] Building Approvals, Australia, Australian Bureau of Statistics

## Commercial and Office

The Melbourne office market has demonstrated its resilience through the pandemic and significant supply is set to be added over the next 2-3 years, while the extended 2021 lockdown did not have nearly the same impact on leasing inquiries as the 2020 lockdowns. But remote working trends are causing a lift in vacancy rates, with the July 2021 Property Council Office Market Report finding Melbourne's vacancy rate above 10 per cent.

Large tenant briefs are resuming, and early indications are that space requirements are typically contracting by about 10 per cent on average, according to CBRE. But the increase in enquiries for space under 1000m², and the growth of emerging sectors, mean that a significant portion of this contraction is being offset.

Premium and grade A office stock is set to benefit from the 'flight to quality', as office facilities become increasingly important in incentivising workers to return to in-person work with more than 40 per cent of deals in Q3 of 2021 involved occupiers upgrading from secondary to prime grade buildings[6]. Accordingly, the secondary office market will tail off significantly and the Government would be wise to consider how to support building upgrades that not only support the development of quality office infrastructure but work to improve overall commercial building performance and emissions.

Hospitality property, normally underpinned by a combination of domestic and international travel, continues to be enormously disrupted. The number of visitors in Australia on a tourist visa have fallen to around 10 per cent of their pre-COVID levels. Average hotel and serviced apartment occupancy rates in Melbourne have fallen from 81 per cent in 2018-19, with premises achieving a nightly average of $153 per available room, to 37 per cent in 2020-21 at $52 per available room[7].

[6] CBRE analysis provided directly to Property Council of Australia
[7] Charter Keck Cramer analysis provided directly to Property Council of Australia

## Industrial

The industrial sector continues to boom, with Melbourne vacancy rates under 1.5 per cent[8], and has been the strongest performing asset class in the private sector commercial development market. The demand for larger space is accelerating, as e-commerce continues to grow rapidly, and global supply chain pressures necessitate a shift from 'just in time' to 'just in case' inventory strategies.

The demand for larger sites is causing significant industry concerns about the quantity of suitable future sites, which will necessitate a new approach to determining suitable land supply. To continue to develop, the sector also needs to be supported with prioritised infrastructure development, including local intersections and duplications, to facilitate efficient access to global markets. With the right settings, the industrial sector will continue to be a significant employment generator, especially in our growth areas.

### Supply Chain and Construction Costs

A significant factor that emerged throughout 2021 on the cost of building across all sectors was the impact of supply chain shortages on the availability of construction materials. Members calculate a 30 to 40 per cent increase in the cost of construction materials, and, combined with skilled labour shortages, are contributing to increases in purchase prices for new builds, while making feasibilities more difficult for new projects.

[8] Eastern Seaboard Industrial Vacancy Update Q2 2021, Urbis

### Outlook Event Series

Each year the Property Council brings together industry leaders, experts, and analysts as part of our Outlook Event Series. In February 2022, we will be facilitating high level discussions of key trends and market drivers across the following segments:

- Commercial Office
- Residential
- Precincts and Cities
- Retail
- Industrial
- Build to Rent
- Retirement Living

We extend an open invitation to Government representatives and advisers to these events to help inform the final development of the 2022-23 Budget.

# RESTORING PURPOSEFUL POPULATION GROWTH TO VICTORIA

**According to Australian Bureau of Statistics, Victoria is the only Australian state to record negative population growth for the 12 months to 30 June 2021, with a net loss of nearly 45,000 people leaving Victoria to live interstate or overseas.**

This can be attributed largely to the closure of international borders, with less than 20,000 people arriving from overseas in the same period. But concerning trends have emerged in interstate migration patterns that need to be urgently addressed. Net interstate migration is at negative levels in Victoria for the first time in more than a decade, with southeast Queensland the main beneficiary, despite the challenges of significant interstate border restrictions during the pandemic.

For a long time, Victoria has been able to market the state on relative affordability in the housing market, a booming employment market and fantastic lifestyle advantages. With other jurisdictions also recognising the vital importance of population growth to support their economy, we are in a post-pandemic race for talent and Victoria must respond strongly with strategies and initiatives of our own in the medium term.

Overseas migration will take years to rebound to pre-COVID levels and we recognise that Victoria only has so many levers at its disposal if the reopening of national borders does not proceed as planned. But resuming population growth is critical to our state's economic prosperity, including the size and capacity of our labour force to deliver Victoria's ambitious infrastructure agenda.

At the time of completing this submission, concern about the emerging Omicron variant of the coronavirus had delayed the reopening of national borders. We must face the reality that new variants may continue to emerge that limit the movement of people while they are assessed. It is important that we can maintain a migration pipeline through these changing circumstances, and we support the Government's delivery of a dedicated quarantine facility at Mickleham that can scale up in case of future shocks and events.

But a quarantine facility alone won't be enough to get people flowing back into Victoria, and we recommend the Government pull whatever levers it has at its disposal to quickly re-establish Victoria as a world leading destination of choice.

To ensure we get the biggest return on human investment, efforts should be focused on attracting people with in-demand skills, including skills sought within the property industry.

## RECOMMENDATIONS

**01** **Introduce a specific Victorian population policy** like the one used by the Bracks Government in the 2000s, which plans for future sustainable population growth and identifies specific strategies for long-term skilled migration.

**02** **Implement an interstate and overseas talent attraction program** targeting current areas of key skill shortages, based on advice from the Victorian Skills Authority, including $15,000 grants for relocation, half of which is payable 18 months after relocation if Victoria remains their primary place of residence.

**03** **Ensure provision for the expansion of the dedicated Mickleham quarantine facility** to ensure the arrival of migrants from interstate or overseas can continue in the event of further shocks such as the discovery of new coronavirus variants.

**04** **Launch a new round of the popular Travel Voucher Scheme** but targeted exclusively at interstate tourists to drive visitation to Victoria, with provision to increase the vouchers for those who spend in our CBD and/or in our regions.

**05** **Ensure that key property industry job classifications, such as facility managers, are included on official skills shortage lists** to address currently significant shortages across the industry.

# ACCELERATING THE RETURN OF INTERNATIONAL STUDENTS TO VICTORIA

The closure of international borders at the onset of the pandemic was a significant blow to the international education sector in Victoria and across the country. In the year to September (the latest available data), higher education commencements in 2021 have decreased by 50 per cent on the corresponding pre-COVID period in 2019. Notably, enrolments in ELICOS study (English Language Intensive Courses for Overseas Students), which are a precursor for many overseas students ahead of Higher Education study, are down by 77 per cent, suggesting further downside to Higher Education international student commencements in the short term. The decrease in Vocational Education (VET) commencements in the same period was only 11 per cent. This reflects a high level of student visas granted within Australia to temporary migrants already in Australia as a means of remaining in Australia through the COVID pandemic.

The City of Melbourne has 64,000 fewer international students in Victoria than a year ago. Research conducted by the Property Council shows that a further year of border closures will see the number of international students in Australia remain 50 per cent below pre-COVID levels until at least 2024.

Almost a third of Australia's international students live, work and study in Melbourne and contribute around $11.25 billion to Victoria's broader economy. International education itself was Victoria's largest pre-pandemic export, generating $13.7 billion in export revenue for the state in 2019; the same year the University of Melbourne was awarded Victorian Exporter of the Year at the 2019 Governor of Victoria Export Awards. Notably, the Higher Education sector represents the key market for purpose-built student accommodation.

The benefits of our international student community extend beyond economic considerations. The presence of a diverse community of international students from all corners of the world helped to power the cultural development of Victoria, helping Melbourne maintain its position as Australia's cultural capital.

A significant proportion of the CBD workforce was comprised of international students pre-pandemic, with employers noting difficulties in filling key roles in the retail and hospitality sectors with the near evaporation of international education because of closed borders. Some of this will be alleviated with the gradual reopening of international borders, but it is clear a sustained, long-term effort, with accompanying investment, is required to restart our international education industry and reclaim our title as the Education State.

# RECOMMENDATIONS

**01** **Work with the higher education sector** to facilitate the return of students in a seamless way.

**02** **Provide a guarantee of quarantine-free entry** for fully vaccinated holders of student visas in time for the start of the 2022 academic year.

**03** **Undertake a significant marketing campaign in international markets**, seeking to attract international students at the enrolment levels reached in 2019 .

# ENHANCING VICTORIA'S COMPETITIVENESS

**Victorians have shown their persistence and resilience throughout the impact of three extended greater Melbourne lockdowns over the last two years to stop the spread of COVID-19 in the community. The extended lockdowns have required high levels of stimulus, business, and industry support and broader economic assistance to help businesses keep their lights on, across a whole range of sectors.**

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## PRIORITISING PLANNING AND REGULATORY REFORM

The Property Council wholeheartedly supports the intent of the Government's planned $111m planning and red tape reform package, originally announced in the 2020-21 Budget. We welcome the direction of the planning reform agenda already communicated and we encourage the implementation of this program, maintaining thorough stakeholder engagement throughout the process.

2022-23 must be the year of execution, as the reforms underway could potentially unlock and accelerate building and development activity that supercharges Victoria's post-COVID economic recovery. We fully support the injection of further resources if required to support the reform delivery agenda and bring forward any non-legislative reform items.

There is much to consider in planning and regulation policy as our growth trajectory has taken an unexpected turn across the last two years. Planning focus must be concentrated on urban renewal in Melbourne's middle ring, where the process to undertake a land rezoning has become more resource intensive and complex. No fast-track process exists for significant sites and landowners rely on ministerial intervention if councils reject the proposal.

A shortage of planning staff and resources in councils is becoming more pronounced, as are substantial delays in the VCAT appeals process, caused both by resourcing shortages and the increasing complexity of cases. Transitioning VCAT hearings to the virtual world was an essential step necessitated by the onset of the pandemic, however many have found virtual hearings conducted online take longer than traditional hearings conducted in person. This adds significant increases in the cost of hearings as extra days are required (delaying subsequent hearings), while virtual hearings also lack the same opportunities as in-person hearings for discussion to reach resolutions outside of the formal hearing process.



## RECOMMENDATIONS

**01** **Continue with the foreshadowed Planning Reform agenda** and implement the 27 recommendations of Better Regulation Victoria's Review into Victoria's building and planning approvals processes and early building works infrastructure.

**02** **If required, inject further funding into the already announced planning reform program** to bring forward execution of key items, and prioritise the establishment of the proposed State Project Concierge service to quickly push credible projects through the planning system.

**03** **Provide further support to the Victorian Planning Authority** and its work program by increasing its base funding and resourcing level to service the high levels of activity in greenfield and urban renewal planning and approvals.

**04** **Introduce code-based assessment** in the planning system to improve approval timeframes.

**05** **Set defined housing targets** per Local Government Area that support housing growth across all markets.

**06** **Provide financial incentives to local governments** to encourage proper and timely planning permit decisions that avoid VCAT by expanding the Victorian Planning Authority's Streamlining for Growth program, thereby saving cost, preserving VCAT resources and speeding up planning timeframes.

**07** **Rationalise the referral process** through the establishment of realistic timelines and a transparent, online tracking program, which will guide consistency across all referral reviews.

**08** **Provide additional funding to appoint more VCAT members and support staff,** as well as to refurbish existing facilities and to provide additional venues for the return of in-person hearings.

**09** **Bolster the capacity of authorities such as Melbourne Water** to facilitate timely installation and connection of services into development sites.

# UNLOCKING PRECINCT DEVELOPMENT THROUGH MORE EFFICIENT GOVERNANCE

The responsibility for precinct planning across the various priority precincts, including National Employment and Innovation Clusters, Suburban Rail Loop precincts and strategic renewal areas, is currently split across a multitude of government agencies and local government authorities and is not bound by any consistent strategic planning approach or planning framework.

As a result, there is little consistency in either the planning processes or planning controls that are ultimately put in place in these precincts/areas. Most precincts that have been subject to strategic planning processes in recent years have seen varied requirements for affordable housing contributions, development contributions, open space provision, Floor Area Ratio requirements and Environmentally Sustainable Design benchmarks.

The role of these precincts in accommodating a major share of future jobs and housing growth cannot be understated, particularly considering the historic investment being made by the state in delivering new public transport infrastructure to underpin many of these precincts.

The need for a streamlined and coordinated governance model to oversee the delivery of these precincts has never been more paramount. To fully realise the value of its transport investments, there must be a more consistent approach to driving genuine integration of land use and transport planning in these settings.

There is also a critical need to contemporise the tools we are using to implement land use and transport planning outcomes in priority precincts; there is no use promoting renewal around transport hubs if local councils are continuing to apply 20th century car parking rates. Likewise, the desired housing growth outcomes will not be realised if the residential zones that apply around these transport hubs are not revisited (on the basis that most residential zones constrain development to a maximum three stories).

The Property Council report, *Principles of Successful Precincts*, identified that current planning arrangements for precinct development, which divides responsibility among several authorities, is ineffective. The concern is that a disparate approach to precinct development means that processes and stakeholder experiences vary greatly, leading to inconsistent planning and development outcomes.

To support a more streamlined approach to precinct development, the Property Council reiterates our desire for the creation of a dedicated precinct authority to lead precinct development in Victoria.



# RECOMMENDATIONS

**01** **To support a more streamlined approach to precinct development, create a precinct authority to lead precinct development in Victoria. A precinct authority, reporting to a key economic minister, should have powers to:**

- **A.** Manage the tender process for government land involved in the precinct;
- **B.** Identify and articulate the social, economic and place outcomes required for development in the precinct;
- **C.** Facilitate within government appropriate transport connectivity and delivery timelines for the precinct;
- **D.** Make appropriate planning decisions for the precinct;
- **E.** Work with private stakeholders in the development process for the precinct, to cut through red tape and speed up approval processes;
- **F.** Support the proponents in any ongoing government interface to maximise the precinct's chances of commercial and social success for the medium and long term; and
- **G.** Define timelines for the delivery of precinct plans, similar to the VPA's work in greenfield areas.

# SUPPORTING HARD-HIT SECTORS WITH TAXATION RELIEF TO SUPPORT THEIR FULL RECOVERY

The economic recovery from the worst impacts of COVID will need a far more sustained effort within our worst-hit sectors. Whereas retail and hospitality spending has bounced back almost immediately, other sectors such as international education and tourism will still be feeling the pandemic's aftereffects in 2022-23. Likewise, many businesses based in Melbourne's CBD will experience a slower recovery until office occupancy reaches its 'new normal'.

The 2022-23 Budget should contain a range of targeted taxation stimulus measures that build upon the stimulus measures from 2021-22, including further targeted action to support the apartment market, given the removal of occupier demand from the market during COVID which will slowly return over the next 12 to 18 months.

## RECOMMENDATIONS

**01** **Implement continued taxation and support for hard-hit sectors and property asset classes, including:**

**A.** Scrapping or reducing of the congestion levy for 2022-23, recognising the disproportionate impact of the pandemic on inner city properties and car park operators and supporting the CBD recovery initiative;

**B.** Extending the current off-the-plan duty concessions for apartments to the secondary sales market, increase the threshold to at least $1.5 million, and extend the concessions until at least 30 June 2024, to boost apartment completions and sales in a currently depressed apartment market, and support the Government's broader urban renewal agenda;

**C.** Extending of the current City of Melbourne duty concessions announced in the 2021-22 Budget until at least 30 June 2024, and, extend the concessions into city fringe locations outside the City of Melbourne LGA, where current backlogs of projects also exist that would directly benefit;

**D.** Providing land tax relief to the purpose-built student accommodation sector for at least the next two years, acknowledging the slow return of international students to Victoria across 2022 and 2023;

**E.** Introducing Windfall Gains Tax exemptions for sectors identified as needing extra assistance to recover from the worst economic effects of the pandemic; and

**F.** Further extending the Vacant Residential Land Tax moratorium so that vacancy for projects through to the end of 2023 is not taxed.

**02** **Establishing a transparent regime to ensure the Government reports on the amount of Windfall Gains Tax collected from 2023-24 onwards.**



# UNLOCKING FUTURE INDUSTRIAL LAND SUPPLY

The Urban Development Program (UDP) estimates more than 8000 hectares of vacant industrial land supply, but the industrial property sector has had long-held concerns about the estimates and how appropriate they are in matching the industry's needs.

In late 2018, Urbis completed a research report, *Melbourne's Industrial Land Supply Debunked*, which utilised UDP data and applied a market knowledge and engagement approach to establish if the identified implied 23 years supply was valid. The key findings of the Urbis advice were:

- The UDP's raw data captured land that was not and had not been active for many years, and was too far away from the population to be sought by users;
- Several included sites were negatively impacted by easements and remediation requirements;
- The aerial imagery approach lagged market transactions, with many parcels that appeared available in fact being 'sold out' and awaiting civil infrastructure works; and
- There was in fact only 5.3 years supply in the core market locations that could feasibly be used by industry.

Since the completion of this research in November 2018, there has been a rapid acceleration in demand for industrial land. In 2018, the 10-year average annual construction of buildings over 10,000m$^2$ was in the order of 345,000m$^2$ per annum in metropolitan Melbourne, with around 290 hectares of land being absorbed annually. In 2020, the total construction was around 880,000m$^2$, while by the end of 2021 we expect to have seen almost 1,000,000m$^2$ delivered[9]. If the same ratios are adopted, this implies an additional 1,580 hectares have been absorbed in two years.

With e-commerce growing significantly as a portion of retail spend, strong demand for industrial property will continue and, coupled with land pricing that's been growing at approximately 20 to 30 per cent for the past few years, we believe the remaining supply in the core locations is likely to be 2-3 years at very best.

[9] Urbis analysis provided to Property Council

# RECOMMENDATIONS

**01** **Complete a full review of land available for industrial development** in the short, medium, and long-term and examine if the methodology for land supply projections needs to be revised to consider evolving land use preferences.

**02** **Accelerate the defined implementation action items** within the Melbourne Industrial and Commercial Land Use Plan (MICLUP) to support the creation of further industrial land supply.

**03** **Establish defined time frames and a clear coordination process** for the facilitation of servicing requirements to industrial development sites to support industrial developments to come online more quickly.

# SUPPORT EFFICIENT SUPPLY CHAIN AND FREIGHT MOVEMENT IN VICTORIA

Victoria's freight volumes are expected to grow to around 900 million tonnes annually by 2050, up from 400 million currently. Modelling undertaken by Infrastructure Victoria also suggests that freight movements on the road network will grow by at least 80 per cent between 2018 and 2051.

Most of Victoria's freight is currently carried by the road network, with the number of freight trucks on the road growing by 35 per cent over the past 10 years, and virtually zero or declining growth in rail freight over the last 20 years.

The prioritisation of rail freight is welcome at the federal and state government level. The Federal Government is currently delivering the Inland Rail project, which will provide the essential backbone of the freight rail network along the east coast of Australia, connecting every mainland capital city and major port. The rail connection from Brisbane to Melbourne will enable freight to be moved by rail in 24 hours, using double stacked 1.8km long trains that can carry the equivalent freight of 110 B-double trucks. This not only represents more efficient movement of freight but will also significantly reduce carbon emissions and reduce the risk of serious or fatal road accident.

By 2025, the Inland Rail project will be completed, delivering a continuous rail freight connection from Acacia Ridge in Queensland to Tottenham in Victoria. For Victoria to access the benefits of inland rail, Infrastructure Victoria recommends that an intermodal terminal should be delivered (at either WIFT at Truganina or BIFT at Beveridge) before the conclusion of the Inland Rail project. The project's completion is now only 3 years away, and at the time of making this submission, Victoria is no closer to securing land for an intermodal terminal, undertaking the necessary planning work, and constructing the facility.

The Property Council supports the State Government's wish for WIFT at Truganina to be the home for the new terminal but reinforces that certainty on its delivery and the release of surrounding industrial land assets is urgently needed, and that provision remains to deliver the BIFT at Beveridge in the future. It is imperative that land around these priority sites is reserved, as Infrastructure Victoria recommends, to prevent land from being developed in a way that is incompatible with the operation of a significant freight terminal.

The delivery of the WIFT should be part of a wider rail freight infrastructure agenda that supports an efficient supply chain in Victoria, including the delivery of the proposed metropolitan intermodal terminals at Dandenong South, Altona, and Somerton, while advancements should be made on the planning and future delivery of the Outer Metropolitan Ring, to ensure road freight is taken off suburban streets and connects directly into the future freight terminals.

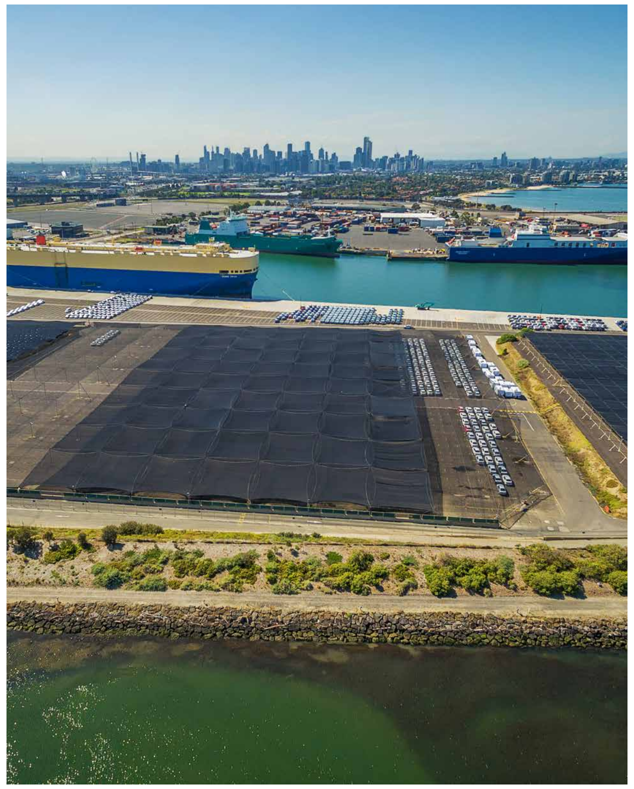
# RECOMMENDATIONS

**01** **Prioritise the delivery of the WIFT at Truganina** and the necessary planning work to deliver the new freight terminal at the first possible date.

**02** **Reserve land around the planned site for the BIFT** at Beveridge for its potential future delivery as a second terminal.

**03** **Make the port rail shuttle project a priority** to future proof the Port of Melbourne, including ensuring appropriate access to metropolitan rail freight corridors to enable the metropolitan intermodal terminals to make a material impact to removing trucks from our roads.

**04** **Make the Outer Metropolitan Ring (OMR) road a priority project** and provision for the commencement of this project within the forward estimates.



# REVIVING THE MELBOURNE CENTRAL CITY ECONOMY

**Melbourne's CBD is starting to show signs of recovery after a tough 18 months during which repeated lockdowns kept workers, students, tourists, and other visitors out of the city, with devastating consequences for the retail and hospitality sectors.**

The Property Council's Office Occupancy Survey for November 2021 showed workers are gradually returning to the city (12 per cent of pre-COVID levels) and foot traffic in the CBD has also increased as Victoria emerges from lockdown and mask rules are relaxed. But the recovery of the CBD still has a long way to go.

A community vaccination rate of over 90 per cent provides a strong platform to now execute strategies that revitalise Melbourne's CBD and reimagine the role it will play in our economy for the next 10 years as we adjust to a new hybrid working model.

Central Melbourne is at the epicentre of Victoria's economy, accounting for some 500,000 jobs and about 25 per cent of Victoria's GSP and 7 per cent of Australia's GDP before the pandemic. We recognise that the role of the CBD will continue to evolve following this extraordinary global event, but it remains critical to Melbourne's reputation as one of the world's most liveable cities.

The CBD remains our most important business and cultural precinct. It is home to large and small businesses, boasts vibrant and diverse retail and hospitality sectors and hosts world renowned sports and entertainment events including the Australian Open and the Boxing Day Test.

Overseas experience shows the recovery of the CBD, particularly the return of office workers, is a gradual process. It is estimated that Melbourne's economic activity will not reach pre-pandemic levels until 2025 and new thinking and additional investment is required to continue to supercharge the city's revitalisation.

## RECOMMENDATIONS

**01** **Establish an additional separate $50 million CBD Revitalisation Program** like that recently announced in NSW with funding open to councils, industry associations and cultural institutions to help encourage people back to the CBD. Funding would support a range of hospitality, retail, cultural, workplace and other activities.

**02** **Deliver a dedicated grant funding program** for building owners to activate office buildings and corporate precincts, with funding to go towards dining and other initiatives to reconnect office workers with their city spaces and increase business activity for Melbourne's hospitality venues.

**03** **Continue public transport incentives** including free travel to accompany major events and activities and off-peak fares to attract people back to the CBD.

**04** **Fast-track planning approvals** to within six months and enable automatic planning extensions to developments not commenced during the pandemic for significant projects in the City of Melbourne.

**05** **Deliver provision for funding to deliver the Fishermans Bend tram** and the start of the city shaping Greenline project.

**06** **Deliver an overarching CBD Tenant Attraction Strategy** where firms with no existing physical presence within Victoria are incentivised to establish CBD-based operations through measures including but not limited to Land Tax and Payroll Tax relief.

**07** **Establish a CBD Recovery and Revitalisation Industry Partnership Group** in collaboration with the City of Melbourne, the Property Council and other peak bodies, to advise Government on the practical steps to revitalise the CBD. This working group should be supported by proactive government policy that provides further stimulus, removes red tape, and is geared at increasing Melbourne's attractiveness to new jobs and future investment.

# REVIEW AND ACT ON HOUSING AFFORDABILITY AND LAND SUPPLY CHALLENGES

**As we outlined in our introduction, housing affordability challenges have become much more pronounced in the last 12 to 18 months. It is without question that several factors have combined to create a 'perfect storm', and some of these factors – such as shortages of core construction materials – are more difficult for the Government to address than others.**

However, it is clear that it is the right time for a whole-of-government look at Victorian housing affordability and the combined impact of taxation policy, planning policy, land supply methodology, infrastructure contributions systems and demographic trends, as well as how effectively these elements connect with each other.

Our view is that there are too many pieces of government policy that conflict with each other and don't support housing affordability aspirations. The neatest example of this in the last 12 months is the Government's effective and progressive policy to support the emergence of the Build-to-Rent sector, which will add to quality housing supply, support urban renewal, provide security of tenure for renters, and support external investment into that sector.

At the same time, the Government has also introduced the Windfall Gains Tax, which will only create significant transaction uncertainty, detract from our urban renewal agenda by discouraging landowner-initiated rezoning activity, and be inevitably passed through to purchasers, adding to housing costs.

The 2022-23 Budget must at least begin to untangle the various pieces, to align taxation, population, and strategic planning policy more neatly, provide a clear framework for how infrastructure and affordable housing contributions systems can support development activity, and re-examine how we plan for housing development across Melbourne's growth areas and regional Victoria given the accelerated housing demand currently being experienced.

## PROVIDE SHORT-TERM TAXATION STABILITY AND RE-EXAMINE THE STATE'S RELIANCE ON PROPERTY TRANSACTION TAXES

Victorian Budget revenue derived from property transactions and ownership has been steadily increasing for several years. Stamp duty revenue was $473 million ahead of forecast for 2020-21 due to the unexpected boom in the Victorian property market. This was solely responsible for a $447 million increase in total taxation revenue from 2019-20 despite significant amounts of land tax and payroll tax relief given to businesses to assist during the pandemic.

The 2021-22 Victorian Budget contained a series of property tax increases, with the introduction of a new premium stamp duty rate, increases to land tax for properties valued above $1.8 million and a new rezoning windfall gains tax to come into effect from 1 July 2023. The windfall gains tax represents the 19th new or increased property tax introduced since 2014.

The property industry already contributes either directly or indirectly 59 per cent of all Government revenue at a state and local level[10]. A massive $2.57 billion has already been derived from stamp duty receipts in Q1 of 2021-22 – more than $800 million higher than any Q1 figure in the last eight years – and the reliance on property taxes risks becoming even more entrenched. It also jeopardises the Government's entire Budget program with just one downturn in the property market.

Based on 2018 research, Government taxes make up $181,800 of an average house price and $125,100 of an average unit price. They are a clear deterrent to housing affordability, they cause prices to increase and increasing prices mean the affordability burden is only going in one direction. In a period of economic recovery, we need to urgently re-examine the reliance on property taxes. Many of these taxes needlessly increase prices, erode housing affordability, suppress economic activity, and detract from investment.

Victoria, like the world, is recovering from a large economic shock. Recovery requires governments to provide policy settings that maximise our investment attraction. A good example is the emerging Build-to-Rent (BTR) sector, where thanks to progressive Government tax policy in reducing land tax and exempting absentee owner surcharge, a new asset class is set to take off, with seven BTR projects ready to come out of the ground with about 1000 units per annum being added between 2023 and 2025. These generate construction activity and much needed housing supply in established areas and many positive economic benefits for the state and provide an example of what we should aspire to within our taxation system.

For the short term, and recognising the Government is in the last year of its term with a decreased capacity for legislative reform, we believe stability in taxation settings is the biggest priority to promote investment confidence. But it is now also the right time to prepare for a review of our current property tax regime to support housing affordability.

## RECOMMENDATIONS

**01** **Commit to a stable taxation environment** to support the medium-term economic recovery with no new or increased taxes for 2022-23.

**02** **Implement a 12-month hiatus on all foreign investment surcharges** to increase Victoria's global investment attractiveness.

**03** **Commit to a property tax review** to launch in early 2023, to examine the increasing reliance on property transaction taxes and more efficient methods of raising tax revenue that minimises the impact on housing affordability, supports higher levels of property transactions and increases ownership opportunities. The review should also encompass a review of current property tax thresholds and whether they need adjustment in line with increasing land prices.

[10] Economic Significance of the Property Industry to the Victorian Economy, AEC Group

# GUARANTEEING APPROPRIATE RESIDENTIAL LAND SUPPLY

The Property Council is increasingly concerned by a mismatch in land supply estimations between the Government's latest Urban Development Program (UDP) update and the industry's assessment of appropriate available and to-be-zoned land.

The UDP estimates between 18 and 25 years' worth of residential land supply in Melbourne's growth areas. Over the past few years though, there has been a broader trend of a reduction in dwellings being delivered in the inner ring relative to the outer ring and growth areas, and this has accelerated during the pandemic.

The State Revenue Office confirms in its most recent annual report that despite projections for 8000 HomeBuilder grants being delivered in Victoria, more than 39,300 applications were made, of which more than 32,800 related to new builds.

This has rapidly accelerated building and construction in our growth areas and is challenging the current residential supply pipeline. The recent escalation in housing prices is also pushing purchasing activity further into the growth areas.

The Precinct Structure Planning process to zone and release new land to this process needs to be resourced and supercharged.

# RECOMMENDATIONS

**01** **Complete a full review of land available for housing development** in the short, medium, and long-term and examine if the methodology for land supply projections needs to be revised to consider evolving land use preferences.

**02** **Provide the Victorian Planning Authority with greater authority and resources** to streamline the Precinct Structure Planning (PSP) approvals process to 24 months from commencement.



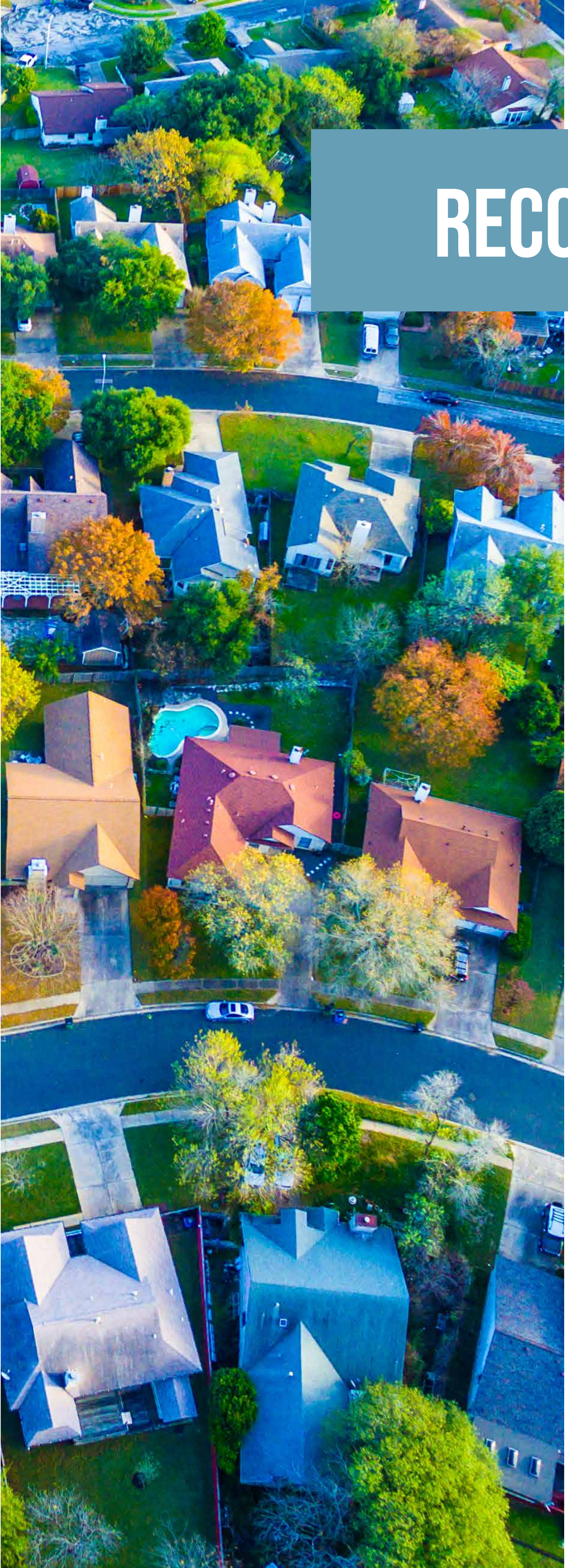
# PLANNING FOR REGIONAL VICTORIA'S CONTINUED GROWTH

**More Australians are seeing the appeal of our regional cities and towns. Residential rental vacancy rates have been as low as 0.5 per cent in some markets, and the Commonwealth Bank and Regional Australia Institute's September edition of the Regional Movers Index found the three local government areas recording the largest growth were Moorabool, Mansfield, and Corangamite, with Alpine not far behind, and a significant growth trajectory for Greater Geelong continuing.**

Geelong is the building capital of Victoria, with building permit data collected by the Victorian Building Authority showing 7770 building permits were issued in the City of Greater Geelong during 2020/21. This was the most for a Victorian municipality during this period, ahead of the growth area LGAs Wyndham (7586), Melton (7160) and Casey (6414).

Indeed, Greater Geelong is one of Australia's fastest growing regions and its growth has been accelerated during the pandemic as many people seek a new life outside of metropolitan Melbourne. But as more people choose to live and work in Geelong and other regional cities, planning for growth is imperative and it will require investment.

The G21 Regional Growth Plan, covering greater Geelong, the Surf Coast, Colac Otway Shire, and part of Golden Plains Shire was finalised in 2013, and the seven other regional growth plans were published the year after. While our entire strategic planning framework would benefit from a post-COVID review, we believe regional growth plans are the immediate priority for revisiting and reviewing. These plans should address how the affordability benefits of regional Victoria can be preserved and what specific local infrastructure needs to be met to effectively manage regional growth.



# RECOMMENDATIONS

**01** **Prioritise and fund a review of current regional growth plans** to examine how future land supply can be unlocked, and develop specific housing and infrastructure development plans for each region that identify immediate actions that can support a continuation of accelerated population growth, such as how to fast track the planning process specifically for amendments in the G21 region.

**02** **Extend funding for the successful implementation of the Revitalising Central Geelong Action Plan** until 2026 to attract people to live and work in the city, creating new jobs, enhancing demand for retail and services, and encouraging investment to create a dynamic and vibrant city centre.

**03** **Develop a Geelong Metropolitan Public Transport Plan** that leverages the existing rail network, considers Fast Rail opportunities and new connections to key destinations.

**04** **Appoint a Barwon Regional Director for Homes Victoria** to identify new land opportunities to continue to develop more affordable and social housing in the Geelong region.

# SUPPORTING THE PURSUIT OF NET ZERO EMISSIONS

**With the Federal Government reaffirming in late 2020 the nation's commitment to reaching net zero emissions by 2050, all industries are examining their own plans and methods for reducing carbon emissions to support – and often exceed – the net zero pledge.**

Buildings are responsible for about half of Australia's electricity consumption and a quarter of our total emissions. The property industry recognises its own obligation to decarbonise, and the Property Council, through the *Every Building Counts* report, and many of our members already have strategies in place to ensure our own industry's carbon footprint is lessened and eventually eliminated.

We recognise the important leadership role the Victorian Government is playing through the Climate Change Adaptation Plan and initiatives such as the Victorian Energy Upgrades and Residential Efficiency Scorecard programs, which in many cases are nation leading.

The time is right in this upcoming Budget to build upon these initiatives, through further support to home and building owners so they can take appropriate steps and make informed decisions that accelerate the state's path to net zero, as well as the addition of workforce capacity to deliver the work at scale required, especially in new and existing housing stock.

Support for increased emissions reducing initiatives in the built environment also supports the continued pipeline of jobs, especially in residential housing after large parts of the HomeBuilder program have been completed.

# RECOMMENDATIONS

**01** **Encourage the development and redevelopment of high-performance buildings** through appropriate incentives, including expedited or prioritised review and approval of development, density bonuses, and rates and charges relief for buildings such as stamp duty and land tax concessions for buildings that satisfy a performance standard.

**02** **Expand the existing Victorian Energy Upgrades program** with a focus on residential housing upgrades.

**03** **Immediately implement the Infrastructure Victoria recommendation of a building upgrade program** for Victorian Government owned and leased building (including schools and hospitals), with setting of and reporting on energy efficiency targets.

**04** **Fund the development of targeted education and training programs** in relation to changes to the National Construction Code (NCC) and energy efficiency requirements, to equip industry with the knowledge and skills to generate economic and environmental outcomes and support workforce capacity to deliver energy efficient new buildings and retrofits at required scale.

**05** **Implement a pilot program to incentivise one or more volume builders** to deliver at least 1000 sustainable homes, including co-funding arrangements, with the results of the program to inform future training needs and consumer engagement programs on sustainable homes.



PROPERTY COUNCIL of Australia

## For further information, please contact:

**Property Council of Australia**

Level 7
136 Exhibition Street
Melbourne VIC 3000

+61 3 9650 8300

vic@propertycouncil.com.au

www.propertycouncil.com.au

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