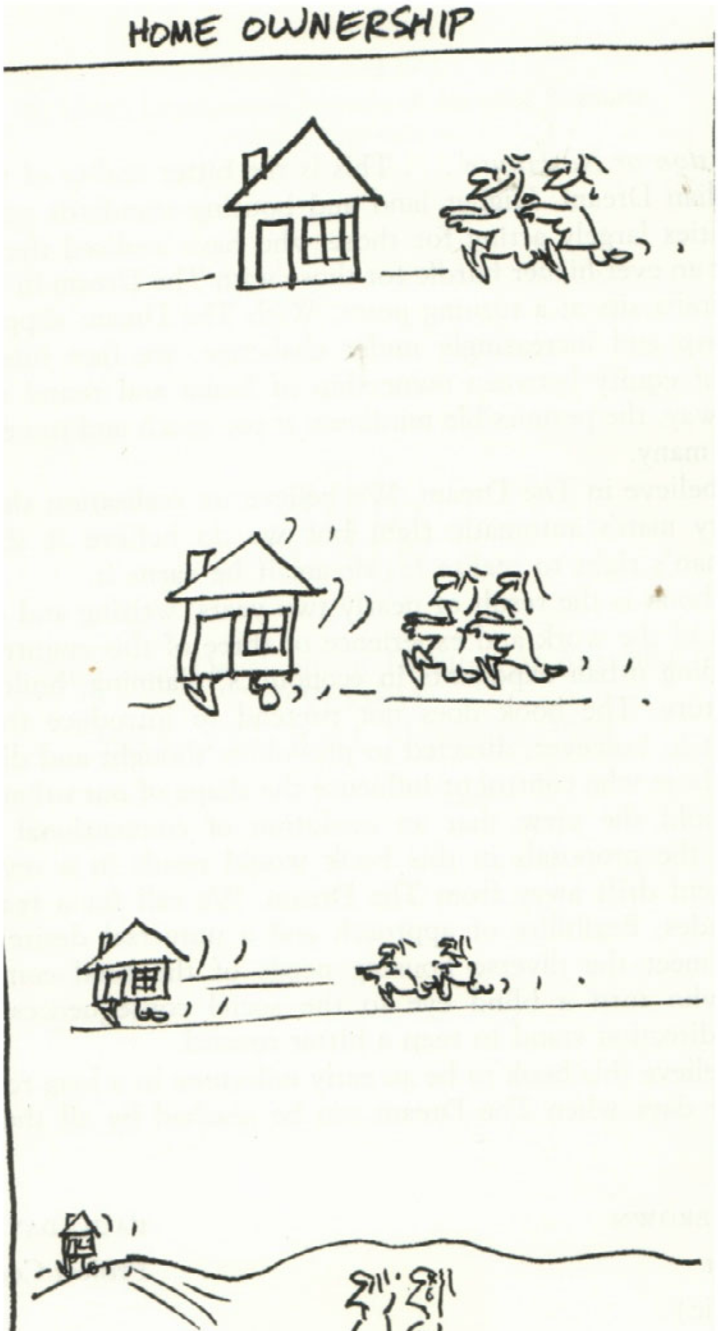
URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (VICTORIA)

SUBMISSION TO THE PRODUCTIVITY COMMISSION FIRST HOME OWNERSHIP INQUIRY



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1. Introduction

The Urban Development Institute of Australia (Victoria) **(**UDIA(Vic)**)** welcomes the Commonwealth Government Inquiry into First Home Ownership. In initiating this Inquiry the Commonwealth has recognised the importance of home ownership to the economic and social fabric of Australia. Home ownership continues to be highly valued by the citizens of Australia and for many it represents the most significant investment they are likely to make in their lifetime.

UDIA(Vic) further welcomes the terms of reference for the Inquiry noting in particular the Productivity Commission's key objective in reviewing affordability *and availability.* UDIA(Vic) believes the critical question of availability is, and remains, a key determinant of affordability – but is all too often overlooked.

As such we believe the Inquiry will bring attention to a number of inefficiencies and impediments in the operation of the Australian marketplace particularly as they apply to first home buyers. Identification and remediation of such inefficiencies and impediments will however not only benefit this segment of the market but all who participate in home ownership. For this reason, among others, this Inquiry is of vital importance to the Australian economy and to the development Industry.

Policy makers should be in no doubt that the aspirations of young Australians to enter the housing market is under siege like never before. Unless policy decisions are made in the near future the great Australian dream may become just that – a dream that's out of reach.

2. What is the UDIA?

The Urban Development Institute of Australia (Victoria) is an independent association of private enterprise organisations directly involved in the production, financing and marketing of all facets of property development.

UDIA Victoria is:

- A forum for discussion of industry problems and objectives
- An active political lobbyist for industry causes and goals
- An active collator and disseminator of information and data relating to urban development
- A monitor of Government and Public Authority activities that affect urban development and the viability of the industry.

The Victorian Division is affiliated to the National Council of UDIA, which comprises all the State bodies. Through the national body, representations on national issues are made to Federal Government. At Federal and State level, the UDIA is represented on the Housing Advisory Council, the Indicative Planning Council and the Kindred Industries Association.

UDIA will be making a national submission to the First Home Ownership Inquiry highlighting specific issues as they impact on the development industry nationally.

2.1 Aims and Objectives

The Institute endeavours:

- To achieve a viable and productive role for private enterprise land development
- To present a common point of view on matters of mutual and joint interest to government and public authorities
- To examine, comment, recommend and act on all phases of the development industry in the interest of the total community
- To provide a better statistical data base for the industry
- To secure a general acceptance of standards and principles conforming to requirements of good town planning, economic soundness, high ethics and public interest
- To arouse an understanding and appreciation of the role and contribution to the community of the urban land developer

- To maintain an ongoing dialogue with public authorities regarding the standards of development and the resulting cost of services
- To liaise with educational bodies such as tertiary institutions to ensure that students involved in urban studies gain an appreciation of the role of the land developer and the facts of the market place.

3. Our Approach to this Submission

3.1 Outline

Our Submission provides a brief overview of the Land Development Industry in Victoria before examining in detail the factors that contribute to the final purchase price of land. We have structured the key factors impacting on land prices as follows:

- The Supply of Land – the manner in which government policy determines the available supply of land for residential development and the subsequent impacts this has on the eventual sale price to the consumer;
- The Cost of Land – the manner in which inefficiencies and cost imposts add to each stage of the land development process and the effect this has on the eventual selling price of land;
- The Demand for Land – the many factors that determine demand for housing including changing demographic trends, the state of the economy, interest rates, immigration and other social factors;

3.2 Exclusions and Qualifications

Our kindred industry association, the Victorian Division of the Housing Industry Association (HIA) will cover matters relating to housing specifically in their submission. As such our Submission focuses on matters relating to 'Land Development' as distinct from 'housing' construction.

Furthermore we will not deal with matters relating to the costs of raw materials for the built form, or the processes which impact on the costs of construction of housing as to do so would be an unnecessary duplication of the work which has been undertaken to date and which will be undertaken in the future by other Industry Associations.

We define 'Land Development' as that activity related to the acquisition, planning, design, subdivision and construction of land to be made available to the consumer – for the construction of dwellings.

4. The Land Development Industry in Victoria

In general terms UDIA(Vic) believes the land development market is driven by market forces – as it should be. That said, the market while competitive, is also subject to tight regulative controls on the supply side, a number of volatile and often cyclical factors impacting on demand and ever increasing cost pressures, largely fuelled by cost shifting mechanisms employed by governments at all levels (typically in the form of levies and contributions) and by actual taxes and charges.

4.1 A Competitive Market

Land development in Victoria, as in most states of Australia, is a highly competitive and fragmented industry. While most of the major national developers are active in the Melbourne market there remains a significant localised element with an acute knowledge of the Victorian housing market.

The market is absent of a small number of dominant players though several public and private companies exhibit a financial strength beyond that of their competitors through their sheer size or diversification.

The industry is characterised by a number of companies, public and private, that can be regarded as professional land developers. Several of these companies supplement their land development activity with housing construction arms also.

4.2 Key Drivers

With a large number of players in the land development industry it is important to note the key differences in the approach of different types of companies.

Privately owned developers are typically able to absorb higher levels of risk, take a longer-term position when acquiring land for future development and are more likely to be driven by the pursuit of margin through increases in the value of their property holdings.

By contrast publicly owned development companies are likely to be more risk averse and will be focussed on a return on equity when developing housing estates. Continuity in terms of ongoing sales and return play an important part in the plans of public companies involved in land development.

These differences are important to note as the impact of government policy, particularly in respect to land supply, can create distortions in an otherwise competitive market by altering the risk profile for market participants.

4.3 VicUrban (formerly the Urban and Regional Land Corporation)

The presence of a significant government owned land developer in the form of the Victorian government agency, VicUrban creates a challenging local environment for the industry. As one of the larger developers in the Victorian market, Vic Urban remains a significant factor in the Melbourne market.

UDIA has and will continue to express reservations about the role VicUrban plays in the land development industry in Victoria. In particular we question what role exists for a government owned agency in a highly competitive market such as property development. Nevertheless UDIA (Vic) accepts the role a fully corporatised and independent VicUrban plays in the Victorian market.

4.4 Industry Trends

Perhaps the most significant reordering of the housing industry over the past decade has been the relative decline in speculative building and the subsequent move to a 'build to order' based environment.

Land development has also taken on a largely unrecognised sophistication in the past decade with an emphasis on sustainability, water sensitive design, community based urban design and energy efficiency. While part of the reason for this has been the imposition of mandatory standards, developers are increasingly looking for an 'edge' in the marketing of new estates and have been willing to embrace a number of environmental sustainability measures that only a decade ago would have seemed unlikely.

Thirdly lot yield from broad hectare residential development over the past decade has increased in the number of housing lots per hectare. This is in addition to the highly publicised explosion in inner city living based on medium and high density apartment developments, though it should be noted that inner city apartment growth, while significant, has grown from a low base.

5. The Availability of Land – impact on affordability

5.1 The importance of adequate land supply

Land supply is regulated by local and state governments, and a number of government agencies. Failure to provide an adequate supply of appropriately zoned land for land development will result in upward cost pressures as demand exceeds supply.

As a basic premise UDIA(Vic) has argued consistently over a long term period that to minimise inefficiencies and speculation in the land development industry it is necessary for there to be approximately 12 to 15 years of available land open for development.

This is based upon a presumption that a 12 to 15 year supply provides an adequate range of options to companies seeking to build up a stock of land for future development. A supply of land of this duration also acts to remove artificial inflationary (speculative) pressures by providing certainty to what is often an uncertain market.

At the next level it is assumed that the industry requires approximately five years supply of developable land – that is, land that is serviced or at least will be serviced by infrastructure providers as development occurs. It is estimated that a five year supply of developable land can adequately cope with sudden or unexpected changes in demand.

Finally an industry stock of eighteen months to two years of completed stock (housing lots) on hand at a given point in time is generally considered to be a level that avoids the possibility of 'hotspots' and thus removes the prospect of 'panic buying' by consumers concerned at a possible lack of supply in their chosen location.

These timeframes serve to illustrate the importance of taking a long term view to land supply matters and, more importantly, the potential negative impact of price pressure at various points in the supply chain, should the smooth flow of land supply threaten to be interrupted.

5.2 Land supply and the Development Industry's approach to affordability

As a broad statement on the issue of affordability, the land development industry is prepared to provide appropriately designed product (land) that will meet the demands of the market at competitive rates. As noted the residential development industry in the Melbourne market reflects a highly competitive industry with a significant number of players in the market. This ensures the buyer has a spread of competitive price driven buying opportunities provided there is also competition in the land supply industry.

The Melbourne market has been fortunate in the past, due in no small extent to industry action, that the continuance of strategy planning studies has set aside an adequate supply regime. This has been achieved through rezoning for future requirements on the basis that growth is not totally constrained to a minimum provision, but is left with a “safety valve” which allows for future development if other planned outcomes are not achieved. Without this safety valve approach it has been demonstrated elsewhere (both interstate and overseas) that land prices dramatically increase and affordability declines.

Availability is not only a matter of the land area available, or the availability of hydraulic services, but depends greatly on the land ownership pattern. This cannot be regulated for and, as such, there must be a sufficient area zoned to embrace a multiplicity of owners and the possibility of development on several fronts.

If the available land is left in the hands of the few, the whole growth process can falter in a particular area as a result of an owner taking a “no development” stance to improve prices. If this happens or for some other reason land is withheld, affordability will suffer.

In view of the above principles it is appropriate to look in detail at land supply in the Greater Melbourne metropolitan region in the current strategic planning environment.

5.3 Melbourne 2030

The greater Melbourne metropolitan area accounts for 72% of Victoria’s population. Consequently strategic planning policies for metropolitan Melbourne are pivotal to the development industry in Victoria.

The Bracks Government’s Metropolitan Strategy ‘Melbourne 2030’ was released in October 2002.

Melbourne 2030 is an ambitious and complex document. At its core it sets out to contain Melbourne’s outward growth by introducing an Urban Growth Boundary (UGB), substantially replacing future urban fringe development with urban consolidation initiatives in established areas.

There is considerable merit in much of what Melbourne 2030 tries to achieve and UDIA (Vic) has expressed support for the broad thrust of Melbourne 2030. An increase in the density of Melbourne, managed in the right way, is likely to make Melbourne a more liveable city and improve public transport usage. There are however aspects of the strategy that upon detailed analysis demand closer scrutiny and raise concerns for an industry in which ‘certainty’ plays a major part.

The Metropolitan Strategy projects the construction of 620,000 (now revised to 680,000 due to strong internal and international migration flows) new dwellings by 2030 to house a projected one million new residents. While 680,000 new dwellings for one million new residents may appear high it merely reflects the changing nature of Australia's family unit and the impact of an ageing population.

Melbourne 2030 projects 70% of all new dwellings will be built in established areas. This is enforced by the application of the UGB limiting the number of new dwellings constructed in broadhectare developments on the urban fringe to 30% or around 215,000.

As a substitute to broad hectare development Melbourne 2030 proposes to greatly increase development in specific 'established areas' – principally those based around public transport nodes, significant retail or commercial hubs and specialised centres of activity such as educational or scientific research precincts (Activity Centres).

5.4 The Urban Growth Boundary (UGB) and the perception of limited supply

The construction of the Melbourne UGB blends the two traditional uses of an UGB. The first is to act as a permanent barrier to further urban growth and the second is to use the UGB as a management tool to control future broad hectare development in fringe areas.

The Melbourne UGB achieves this mix of objectives by erecting what appears likely to become a permanent boundary around most of the urban area while providing a 'dotted' or 'amendable' boundary adjacent to five key growth areas or growth centres. As Melbourne 2030 states, "outside the designated growth areas, the boundary will be set permanently following consultation on the implementation of Melbourne 2030" (page 61).

Melbourne 2030 contains a review mechanism aimed at retaining an adequate supply of land in the growth centres through extensions to the UGB. However the review structure has been unclear and, despite assurances to the contrary by the state government, has failed to provide the development industry with satisfactory level of certainty. As the document goes on to state "future variation of the UGB will be infrequent, and should only occur in relation to the needs demonstrated in the designated growth areas" (page 62).

The result of perceived ambiguities and concern over the state government's preparedness to follow through with periodic amendments to the UGB as suggested, but not promised, in Melbourne 2030 has been the creation of a perception of possible future land supply shortages.

It is this point that forms the crux of the development industry's key concern and appears to be the point least understood by proponents of the UGB.

It is not necessary for an actual constraint on the supply of land to occur to create a rapid escalation in the wholesale price of land – all that is required is a perception that it may be the case.

The UGB has created that perception.

Since, and leading up to, the announcement of the UGB in October 2002 the development industry in Melbourne has witnessed a very considerable increase in the cost of parcels of land appropriate for future subdivision and development, and located within the UGB. While record prices continue to be dismissed by some as 'panic buying' or land banking, UDIA(Vic) believes that to dismiss it in this way is not, in itself, answering the concerns of the industry.

Furthermore the industry does not deny that an element of panic buying is, in fact, occurring.

Perhaps the real question should be why the development industry is reacting in this way. The reason is quite simple. For the development industry, the availability of parcels of land of a suitable size for development is 'stock in trade'. Land is to the development industry what grapes, for example, are to the wine industry. If supply is poor, or perceived to be poor, the wholesale price will increase. The same principle applies to land.

At present a perception exists – rightly or wrongly – that zoned land may be in limited supply in the longer term. This perception is quite reasonable. While Melbourne 2030 suggests that additional land will be included in the UGB over time to ensure an adequate supply, the document does not make it clear (beyond the nomination of areas broadly adjacent to the Growth Centres) as to where amendments will take place.

While the development industry remains quietly confident as to where future amendments to the UGB may be, that confidence is not absolute. In a market where there are a significant number of public companies operating with requirements for accountability to shareholders and a lower risk profile than privately owned competitors, there will understandably be a reluctance to speculate beyond the certainty the UGB provides. This has created a further potential distortion in the market.

Hence companies (and particularly public companies) are seeking to secure their future stock by purchasing parcels of land within the UGB. The result has been rapid price increases fuelled in part through a degree of what some have labeled panic buying, but what could equally be termed 'securing a future stock in trade in an uncertain market.'

Recent suggestions that the UGB has caused an explosion in land values has been dismissed by some by pointing to the fact that a robust housing market has been operating for a number of years - hence price escalation has been fuelled by demand pressures – and that price increases for developed lots of land have not increased any more in the past twelve months than they did in the previous twelve. This response fails to take account of the fact that record prices for parcels of undeveloped land will not be felt by the home buyer for at least several years, such is the time lag between purchasing undeveloped land and its release to the market in residential estates.

A further issue for the Development Industry in the determination of the UGB has been the exclusion of land previously planned for urban development and appropriately zoned for that purpose. In this respect the UGB seems to have been based on a cursory review of existing zonings and ignores several long-standing strategies and even recent amendments adopted by Councils following Panel hearings but not yet approved.

As in its response to Melbourne 2030 UDIA (Vic) will continue to argue that a formal declaration better identifying where the UGB will be expanded in the future will significantly decrease speculative pressures by reducing the need for developers to secure a future land bank within the UGB.

5.5 New market entrants

Additional heat has been recently applied to the Melbourne market by an influx of Sydney based developers seeking to secure their own land bank within Melbourne's UGB. This has been a flow on effect of Sydney's own land supply problems with Melbourne representing a less expensive option to ensure future business enterprise for Sydney based developers. It has nevertheless resulted in a degree of unfortunate, but additional, market pressure and further demonstrates the flow on effects of constraints to land supply in one market and how this may impact others.

5.6 Activity Centres

UDIA (Vic) remains concerned that it is not clear how the strategy objectives for increased housing around Activity Centres are to be achieved. Melbourne 2030's goals of urban consolidation in established area (70% of future dwellings) are heavily dependent on significant development occurring in Activity Centres. The strategy proposes that this will be largely done through Councils preparing structure plans for Activity Centres.

If the development of medium and high density housing in and around Activity Centres is to be achieved in a commercially viable manner it will be imperative for the state government to create a positive framework for developers to acquire and consolidate sites with the minimum of necessary approvals. A mechanism should be identified to allow this to happen.

5.7 Land Supply in Regional Victoria

In Victoria the land development market outside the Melbourne Metropolitan Area is concentrated in a number of regional centres as well as coastal and hinterland areas with close proximity to Melbourne.

Land development in regional cities is focussed on the larger regional cities of Geelong, Ballarat, Bendigo, Shepparton, Mildura, Wodonga and Warrnambool. These markets are largely localised (with locally based participants) though several Melbourne and interstate-based developers are active also. Adjacent to the Greater Melbourne metropolitan area activity is strong in the Shires of Macedon Ranges, Mitchell and Baw Baw (inland) and the coastal shires of Surf Coast and Bass Coast.

In these areas the principle remains the same. In many cases local government has failed to provide a long term strategic plan outlining where future growth will occur. Whether land supply is constrained by an inadequate supply of zoned land or by the imposition of an UGB, the effect is the same – rising prices fuelled by speculative investors and land developers ensuring they maintain a future supply of their stock in trade in those limited areas where certainty is provided.

5.8 The Impact of Land Supply on the Home Buyer

The real impact is of course on the home buyer as land acquisition costs will be factored into the final lot price of developed land in new estates.

UDIA (Vic) asserts that this need not be the case. If governments are serious about addressing the issue of housing affordability it is the issue of land supply that can be most easily tackled. When compared with the trades offs involved in reducing taxes and charges and establishing an alternative source of revenue, the costs to government of formalising where future development will, or will not, be allowed to take place, and therefore providing certainty to the market, represents a relatively insignificant cost.

6. The Cost of Land Development

Factors impacting on the variable and fixed costs of developing land include the following:

- Taxes – both commonwealth and state
- Levies – state and local
- Fees and charges – state and local
- Planning regulations and processing – the impact of the time taken to process planning applications on finance costs (eg. holding costs, bridging finance)
- Compliance costs associated with industry and governmental standards
- Cost of labour involved in land development (includes additional taxes, levies, regulatory costs as well as the impact of supply and demand factors)
- Cost of material used in land development (includes additional taxes, levies, regulatory costs as well as the impact of supply and demand factors associated with the manufacture of material)
- Cost of infrastructure provision (includes taxes, charges, regulatory costs as well as supply and demand factors associated with the compulsory provision of infrastructure)

To better understand the costs involved land development it is useful to review Land Development from a process perspective.

6.1 Acquisition of developable land

The Victorian property industry has been experiencing boom conditions for the past five years. Sale prices have been good and the industry has enjoyed good returns. However, as one estate sells the developer has to find replacement stock and invariably the replacement land is at a much higher price.

Acquisition costs of land appropriate for development are now high in part due to strong demand and as a result of the impact of supply constraints (as discussed in the previous section of this Submission).

6.2 Concept development and master planning

On acquiring a developable parcel of land a developer will complete a master plan. Depending on the scale of the proposed development a master plan may be largely consistent with the relevant council's strategic development framework for the area.

Prior to formal planning application, concept planning includes investigation of the following matters, most of which require the engagement of specialised consultants and extensive liaison with a wide variety of referral authorities:

- Floodline
- Water courses
- Archaeological studies including indigenous community impact
- Heritage survey
- Flora and fauna studies
- Servicing strategies
- Contamination assessment

In respect to these matters the basic 'rule of thumb' is to expect the unexpected. Any obstacles that arise must be addressed and each will impact from a cost and time perspective.

As planning moves from a strategic (zoning, development plans) to a statutory level (planning permits and plan of subdivision certification) and design is approved the greater the level of certainty provided to the developer.

It is a general view however, that the overall strategic planning process of contains too many levels and stages adding to the cost of development.

6.3 Statutory planning

UDIA (Vic) contends that the Victorian planning system contributes to delays and consequently the cost of land development.

The planning process is cumbersome and characterised by inefficiencies recognised by nearly all stakeholders involved in planning, yet genuine improvements to the process are rare.

The planning process normally commences with pre application discussions (2-4 weeks – dependent on nature of the application).

Pre-application discussion are generally undertaken by the developer (the developer being anyone from a professional developer through to a home-renovator) in an effort to ensure planning requirements are clear and understood as early as possible in the process. They are an effort to minimise inefficiencies and confusion further into the planning process.

Even this is characterised by the following:
- Limited access to queries
- Advice provided is often subjective and represents the subjective view of the designated, and often inexperienced, planner
- Staff turnover amongst planners is high
- The designated planner's advice is frequently over-ruled or reversed by a more senior planning officer

The official part of the process begins with application lodgement (4-6 weeks).

However:

- There appears to be an inability to manage the process internally
- There is often little early assessment of the application for adequacy of information
- Consequently there are frequently late requests for additional information

Advertising (2-4 weeks) represents a mandatory part of the process, the period of which is governed by a statutory period.

Following advertising the responsible authority undertakes an assessment (4-6 weeks) of the proposed development.

This stage is often characterised by the processing of objections generated by the advertising period. The objection process often leads to a frustrating and time consuming period as the parties endeavour to resolve differences. It should be noted that:

- Objecting is free of charge and relatively easy
- The mediator in a planning dispute is frequently the Planner. While many have been trained in mediation, their core qualification is in planning not dispute resolution
- Objectors often do not understand the ramifications of the objection
- Planners rarely ‘screen’ the enquiries of potential objectors to comment on the validity of certain objections

The final stage in the planning process often leads developers to the Victorian Civil and Administrative Tribunal (VCAT) Appeals (3-6 months) in an effort to seek a resolution to unresolved issues in the planning application, or alternatively as a direct route of appeal in an effort to expedite the planning process.

In generating the information required to deal with matters on appeal the system is often further frustrated by:

- Council indifference
- Delays, due in part to slow responses by councils in providing information to VCAT

- Slow processing by VACT due to workload and the fact there is little incentive within VCAT to get decisions out quickly

It should be noted that local government admits to being under resourced with planners. The development industry however is becoming increasingly frustrated at the lack of genuine improvement in the system. In fact, new planning policies requiring approvals for single detached dwellings, medium density proposal and subdivision introduced by the current government (ResCode August 2001) have added to the paper work and approval times.

6.4 Engineering and standards

The approval of engineering design represents a necessary, but at time frustrating, part of the development process for the developer.

UDIA (Vic) is increasingly concerned at the introduction of new and often expensive design and engineering standards often imposed without a true understanding of the broader costs to the community and the home buyer in particular.

Like most stages of land development there are unnecessary delays caused by inefficiencies in the relevant approval authorities. These are estimated to be adding 2 to 3 months to the overall engineering design and approval process.

New specifications relating to matters as varied as sewer backfill requirements, pavement thicknesses and road widths in courts are adding new costs to land development. The reasons for such changes in standards include concerns over safety, fear of litigation or simply councils responding to the wishes of their community.

Although it is difficult to quantify and represents a subjective view, it is the opinion of many within the development industry that ‘over specification’ may be adding between $2,000 to $3,000 to the final sale price of a standard block of land.

UDIA (Vic) believes that while engineering and design standards should be regularly reviewed and amended if required, there is an increasing tendency by government (and their agencies) to 'over engineer' certain specifications in order to minimise what may be a minor risk to one party, but a significant cost to the wider community and to the home buyer in particular.

It is our view that prior to design standard changes a comprehensive and mandatory cost – benefit analysis should be undertaken taking into account not just the changed risk profile of the responsible authority but the true costs to the community at large.

6.5 Construction costs

When residential developments reach a certain size in Victoria – defined by dollars, area or height – they are classified as 'commercial building sites'. As a result they become a compulsory union site and are subject to additional cost imposts.

It is estimated within the industry that classification as a 'commercial site' will contribute approximately 40% in additional construction costs and a similar delay in the duration of construction.

It has been widely reported in the media that the cost of construction in Victoria is somewhere between 20% and 30% higher than Sydney. This situation is now endangering a significant number of projects, particularly medium and high density projects which underpin the viability of the Melbourne 2030 strategy.

UDIA (Vic) argues a review should be undertaken as a matter of urgency to clarify the 'commercial' classification currently applied to certain residential projects.

6.6 Direct Servicing Costs

All Victorian servicing authorities – with the one exception of Melbourne Water which is responsible for metropolitan drainage - have been privatised or corporatised. Together with full contestability, this has meant that servicing costs have not risen to any great degree and certainly not beyond inflation.

Where the odd exception has occurred – for example where a gas supplier has sought to charge for the installation of gas infrastructure contrary to historical practise – industry representations have forced the supply authority to reconsider their approach and forced a return to the conventional system. Arguments from the supply authority regarding the need to recoup capital costs for mains supply beyond existing service areas have been rebuffed on the basis that the tariff charge to consumers factors in such costs.

6.7 External and indirect authority requirements

There is a major issue with government funding of services and infrastructure as governments seek to increasingly transfer the capital cost of infrastructure to developers through ‘developer contribution levies’.

UDIA (Vic) does not accept that there should be increased development contributions to fund community infrastructure and services. We accept developer contributions for physical infrastructure on a proper basis (i.e. an appropriate share of the costs related to demand) and a contribution to community infrastructure. However the government must budget for broader infrastructure requirements and fund it through normal means. We query such a cost impost on new young homeowners paying for infrastructure that the rest of the community has had provided to them through taxes.

6.8 Infrastructure maintenance costs

The past decade has seen a proliferation of cost shifting by cash strapped municipalities and government agencies seeking to transfer the cost of maintenance of items of infrastructure to the developer. Where previously roads, footpaths and drains might have been handed over to a municipality after a three month period, councils are now looking to extend the handover period in order to avoid the maintenance costs. For example, where a municipality once accepted the transfer of roads and footpaths after three months they are now looking to prolong the period so they do not have to face the costs of repair of footpaths and the like damaged by builders.

Similarly while councils demand embellishments of open space and installation of particular street trees, they now look for up to two year’s maintenance of open space by the developer. The argument is that a longer period allows monitoring of growth but the truth is it is a technique to leave responsibility with the developer; in turn that means he has to replace trees that don’t grow or which are stolen as well as be responsible for watering and reticulation services.

The significant issue for developers – and consequently home buyers – is the relatively arbitrary decisions that are made as a means of cost shifting.

6.9 Government taxes and charges

With boom conditions in Victoria the state government has enjoyed windfall gains from state taxes such as stamp duties and land tax. The Real Estate Institute of Victoria has campaigned unsuccessfully against the Victorian government for a reduction in stamp duty rates. UDIA – and other industry groups such as the Property Council of Australia and the Housing Industry Association - have been similarly unsuccessful in arguing for a reduction in land tax rates.

The state government admits its windfall but refuses to budge. Victoria remains the highest charging state in Australia for land tax. UDIA studies suggest that more than $2,000 per lot per annum is paid to government for every block of land held by developers at the 31st December.

Land tax remains a disincentive for investment in property including rental properties. The top marginal rate for land tax in Victoria is 5%. A land tax bill of that amount quickly diminishes returns on rental properties being let at 8% returns.

The significant issue for the development industry in relation to land tax is the application of the tax to land holdings intended for development. UDIA (Vic) has consistently argued, without success, that the application of land tax to what is essentially an industry ‘stock in trade’ is an inappropriate charge.

Per lot charges by supply authorities for water, drainage, electricity and telecommunications add to the costs of development. However the fact that they are costs passed on directly to purchases means that they do not have great impact on the developer save and except for when the market is unable to absorb such costs. Victorian developers regard these sorts of charges as facts of life and though there is constant monitoring of charges and swift representations about extra or excessive charges, they are not matters of importance like state government charges.

In a similar fashion to other developer contributions and government charges, the imposition of taxes and charges reduce transparency in the actual cost of land. In this sense they remain hidden to most home buyers, unaware that a significant proportion of their land cost is absorbed in payments to governments and government authorities.

6.10 Financing and administration costs

Victoria has a very competitive consultant market which means that fees such as engineering fees and project management fees and the like are usually negotiated - scale fees disappeared years ago.

Similarly with low cash rates the costs of borrowing are more easily handled than a decade ago.

6.11 Selling and marketing

The sales process for developed land, and the costs associated with it, is not inherently different from that of other industries.

The several points of distinction are:

- Pre-sales campaigns – a marketing period in which pre-registration and interest in a new estate is gauged in part to determine future time sequencing of land releases and in part to establish cash flow streams.
- Sales campaigns requiring a significant outlay in marketing and advertising, on site sales staff and display villages.

Commission type selling costs are competitive and negotiable. While they add to the cost bottom line they are (again like project management fees) not significant items.

The types of buyers incentives which are included in this cost sector are generally regarded as costs of development. Things like entrance statements, landscaping, the construction of parks and gardens, waterways and other similar works that help create a point of difference for one development over another, are regarded more development costs.

In a competitive market a developer has to find an edge over a competitor. On occasions that edge can be an impressive entry or something much more substantive such as a lake. In Melbourne in recent times wetlands and waterways have become that point of difference.

There are of course many reasons why enhancements such as these are installed on estates – including environmental as much as visual. The important point however is that such expenditure should be expected to produce a return and, as such, estate costs such as those mentioned are factored into the final lot price for land.

6.12 The fundamental principle

It is common to hear policy makers talk of ‘costs being borne by the developer’.

In relation to the cost of land development an important principle needs to be understood by policy makers within government and government agencies.

Costs are not borne by the developer. Land acquisition costs, new taxes, levies, charges and contributions, the impact of time delays, and ever increasing design standards are passed on to the end buyer – the families of Australia seeking to purchase the great Australian dream.

7. The Demand for Land

Demand for land represents the other core factor determining the price of land to the home buyer. Like any industry, the urban development sector enjoys growth and a higher level of return during periods of high demand for its product.

It is not our intention to comment in detail on demand side factors relating to land development except to note that importance of the housing industry more broadly to the state of the economy overall.

In broad terms demand for land is impacted by the following variables:

- The economic well being or health of the broader economy;
- The level of population growth and changing demographic patterns affecting household composition and formation;
- Monetary policy – specifically the level and outlook for interest rates;
- The relative strength and outlook of the share market;
- Incentives such as the first home owners grant;
- Anomalies within the taxation system – particularly the comparatively low point at which the highest marginal tax rate applies and the subsequent incentive to reduce household taxation burden through investment in property;
- The preference the overwhelming majority of Australians have for detached housing and living space.

In noting these issues UDIA (Vic) simply encourages governments (at all levels) to exercise responsible fiscal and monetary policy in their management of the economy for the benefit of all Australians. Like many industries, land development can be cyclical in nature as with demand often fluctuating according to the general economic outlook.

8. Recommendations

In concluding this Submission, UDIA (Vic) tables the following recommendations for the Productivity Commission to consider in tabling its final report. The following recommendations are regarded as practical and achievable, and capable of providing genuine benefits to home buyers generally:

- A formal review of the Planning System in Victoria with a view to streamlining the processes, eliminating inefficiencies and unnecessary delays;
- Ensuring an adequate supply of zoned land is available -
  - In the case of the Melbourne market this would require a formal declaration in the Melbourne 2030 strategy clearly identifying those areas where future amendments to the UGB will occur, and
  - For regional cities – that the responsible authorities implement a strategic framework identifying an adequate (according to local circumstances) supply of land
- That the Commonwealth and State Governments remain mindful of distortions in the markets (and society) generally caused by the high concentration of population in the two largest cities.

  In this sense UDIA(Vic) encourages policies that are supportive of regional growth, though mindful that such policy must be managed in an efficient and astute manner

- Clarification of the Commonwealth's responsibilities in the provision of public housing through the Commonwealth – State Housing Agreement.

- A review of design and engineering standards applied to land and housing development and the introduction of mandatory cost-benefit analyses applied on a holistic basis to all future proposed changes in required standards.

- A review of the conditions under which residential building site are classified as 'commercial' and thus under union control.

- The establishment of a public comparative report identifying construction costs on a state by state (or capital city) basis

- The introduction of land tax exemptions on the holding of land for future development – this being the only example of tax applied to an industry's core stock in trade.

- GST exemptions on the supply of infrastructure

- Permanent and guaranteed Commonwealth funding for the Development Assessment Forum (DAF) to encourage the adoption of best practice and, where possible, uniform standards and practices between the states and territories.

9. Conclusion

UDIA (Vic) is of the view that the review by the Productivity Commission can provide positive outcomes for first homebuyers (and homebuyers in general) by addressing the core issue of uncertainty in land supply arrangements and by suggesting changes resulting from inefficiencies and excessive costs currently imposed on the market.

We welcome this Inquiry and look forward to a constructive final report and positive outcomes for all Australians.

Cartoons used in this Submission have been extracted from “A mansion, or no house” – a report for UDIA (Victoria) 1976.