



May 2018

## UDIA Victoria – Presentation to Planning Panels Fishermans Bend Framework

This UDIA presentation will cover a range of macro policy issues that are vitally important to the context in which this planning scheme amendment is being considered. This presentation will take an industry-wide view and comments will be limited to high level, strategic viewpoints which will expand on the UDIA's submission to the Panel made in December last year.

### **About Urban Development Institute of Australia (Victoria Division)**

The Victorian Division of the UDIA is the peak industry body for the urban development sector. In Victoria alone, we represent the collective views of over 320 member companies including developers, consultants, financial institutions, suppliers, government authorities and utilities. Together we drive industry discussion and debate, which serves to assist key regulators and all levels of government in achieving successful planning, infrastructure, affordability and environmental outcomes.

### **Victoria's Population Growth and Housing Prices**

Australia's population grew by 1.6% during the year ended 30 September 2017. Victoria recorded the highest growth rate of all states and territories at 2.4%.<sup>1</sup> At this rate, Victoria's population will be at 6.5 million by June 2018 and 7 million by 2020.

If we consider average of the last 5 years, we're looking at an additional 130,000 people per annum, which means VIC population will reach 10 million by 2046. If we assume population growth will increase above the 5-year average we've just experienced, to 160,000 people per annum, we will reach 10 million by 2041.

We also know that our track record for forecasting population growth has been less than accurate. For example, in 2031 we will have at least 665,000 more people than what was forecast for that year a decade ago<sup>2</sup>. In Metropolitan Melbourne, we are on track to pass 5 million residents this year with the population increasing by 125,400 people – or 2.7 per cent – in the year to June 2017, taking its total numbers to a touch under 4.9 million. It amounts to an average of 350 new people arriving in Melbourne every day. Most of the city's growth occurred in either the outer suburbs, or in towers around the CBD.<sup>3</sup> It took Melbourne close to two centuries to tick over to a population of 4 million. Now we're looking at a million extra people in little more than a decade.

### ***House Prices and Home Ownership***

Melbourne is experiencing a housing affordability crisis. The median house price in Melbourne exceeded \$820,000<sup>4</sup> in the year to December 2017, with the median unit price

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<sup>1</sup> <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3101.0>

<sup>2</sup> <https://udiavic.com.au/getmedia/3a4c3f50-f3d0-4cbe-9296-c89e7fb59fff/180315-RDI-Report-March-2018.pdf>

<sup>3</sup> <https://www.theage.com.au/politics/victoria/melbourne-s-hyper-growth-continues-as-nation-s-east-coast-booms-20180424-p4zbcv.html>

<sup>4</sup> UDIA RDI December quarter <https://www.udiavic.com.au/getattachment/Side-Navigation/Members-Area/Research-Market-Updates/UDIA-Quarterly-Report-December-2017-UDIA.pdf>

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also rising to nearly \$600,000<sup>5</sup> in that period. In 2017, Melbourne’s new apartment stock prices rose 6% to a median of \$519,000<sup>6</sup>. The Grattan Institute reports Melbourne’s house prices have risen by 50% since 2012. That’s just 3-4 years of growth.<sup>7</sup>

Price growth in Melbourne’s land market has been most prolific in recent months. Prices are growing by 31%, with the latest March quarter data showing the median lot price has hit \$330,000<sup>8</sup>. This demand on the bursting Greenfields highlights the importance of new urban renewal precincts to house Victoria’s incoming population. The Demographia International Housing Affordability Survey puts Melbourne’s house prices at almost 10 times higher than median household income, making us the 5th “least affordable” city in the world.<sup>9</sup>

The housing affordability crisis is not isolated to only purchasers, first home buyers, downsizers or other cohorts of the market. It does not discriminate. The 2016 Census showed that home ownership rates have fallen in Melbourne by 3% since last Census, more than double the pace of the decline seen nationwide.<sup>10</sup> There are dramatically lower rates of home ownership as you get closer to Melbourne CBD - Footscray had a rate of 13% home ownership, North Melbourne 11% and Carlton 9%.<sup>11</sup> This extends to the very edges of the affordability spectrum, with the lowest income-earning Victorians often the least able to enter the housing market.

The range of housing options becomes increasingly important for these people, as does a strong, diverse rental market. The Andrews Government has introduced positive changes around the length of tenure and security for tenants, but has also very deliberately made it less attractive for property investors to purchase dwellings and rent them to Victorians through changes in stamp duty arrangements.

According to the Victorian Government’s rental report for the December quarter 2017, the Melbourne Rent Index (MRI) increased by 1.7 per cent over the previous quarter. The MRI annual increase of 4.5 per cent is above that of the December quarter last year (3.8 per cent).<sup>12</sup> With the cost of living on the rise, home prices continuing to go up, and wage growth remaining relatively static, we must recognise that an increasing number of people cannot afford to buy and live in their own home. An important role the investor plays is to provide rental stock for this broadening demographic which requires affordable, diverse and long-term rental stock. While these macro policy changes are not the subject of the Panel’s

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<sup>5</sup> <https://www.udiavic.com.au/getattachment/Side-Navigation/Members-Area/Research-Market-Updates/UDIA-Quarterly-Report-December-2017-UDIA.pdf>

<sup>6</sup> [file:///C:/Users/olivia/Downloads/UDIA+State+of+the+Land+2018+Online%20\(7\).pdf](file:///C:/Users/olivia/Downloads/UDIA+State+of+the+Land+2018+Online%20(7).pdf)

<sup>7</sup> <https://grattan.edu.au/report/housing-affordability-re-imagining-the-australian-dream/>

<sup>8</sup> <http://www.afr.com/real-estate/residential/vic/median-melbourne-lot-price-up-36pc-in-a-year-20180228-h0wrer>

<sup>9</sup> <http://www.abc.net.au/news/2018-01-22/australian-housing-unaffordability-experts-disagree-on-extent/9349796>

<sup>10</sup> <https://www.domain.com.au/news/census-2016-the-australian-cities-where-home-ownership-declined-the-most-20170627-gwz85x/>

<sup>11</sup> <https://www.theguardian.com/australia-news/live/2017/jun/27/census-2016-results-religion-income-family-migration-population-live>

<sup>12</sup> <https://dhhs.vic.gov.au/publications/rental-report>

deliberation, they must be considered as part of the wider housing market in which Fishermans Bend will play a role.

### ***Supply***

In Victoria, we are facing a demand supply gap of around 1,236 dwellings per year due to an undersupplied market over the past three years.<sup>13</sup> We need 10 years of record building to meet the demands of population growth. In real numbers, that means we need to deliver over 10,000 more homes, each year, than was delivered last year, over the next decade.

### **Residential Development Index (Feb 2018 release)<sup>14</sup>**

2017/18 is looking like a strong year with both townhouse and house building activity continuing to grow, and apartment activity recovering from the slowdown seen in 2016/17. It is estimated that there has been an undersupply of dwellings in Victoria of between 3,800 and 4,700 per annum across the 2015/16 and 2016/17 financial years. In 2017/18, increased building activity will help us reduce the gap and achieve a healthier balance between supply and demand. However, if current high levels of building activity are not sustained, the supply and demand gap will widen.

Not all building approvals turn into new housing supply. Between 2011 and 2016, there was an average net yield of 7.8 dwellings per 10 building approvals. In relation to occupied dwellings, the net yield was even lower at 6.7 dwellings per 10 building approvals. Household size remains stagnant despite Government forecasts that sizes would reduce. This is likely due to affordability constraints influencing how people are living, for example people choosing to live with their parents for longer and a broadening range of people moving into shared households rather than living alone.

Factors contributing to the demand for new housing are strong with employment growth at 4% over the year to June 2017 and predicted to moderate to 3% over the year to June 2018; and population growth at 2.3% moderating to 2% over the year to June 2018.

### **Investment Certainty = Housing Choice**

Since the Andrews Labor Government came to office in 2014, the property industry's market context has changed dramatically. Again, while these are macro policy issues, they are important for context to the Fishermans Bend Planning Scheme Amendment and go to the question of the viability and feasibility of investment in Fishermans Bend, and to the ability of industry to deliver a new housing market in line with government's planning intentions.

Major changes to bank funding requirements and capital markets have impacted the development industry in recent years, with particularly negative consequences for the ability for built form development projects to attract and retain bank funding.

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<sup>13</sup> RDI <https://www.udiavic.com.au/getattachment/Side-Navigation/Members-Area/Research-Market-Updates/180315-RDI-Report-March-2018.pdf>

<sup>14</sup> <https://www.udiavic.com.au/getattachment/Side-Navigation/Members-Area/Research-Market-Updates/180315-RDI-Report-March-2018.pdf>

The industry's ability to source and attract project funding has been significantly constrained due to changes in two key areas:

- Introduction of investment 'speed humps' by the Australia Prudential and Regulatory Authority (APRA); and
- The introduction of stamp duty and land tax surcharges, as well as federal foreign investment charges, on international purchasers.

These changes have led traditional funding sources to dramatically retreat from development projects. While a good portion of funding requirements are currently being met by alternative finance providers, the total quantum of funding the banks once represented has not been replaced. Where banks are funding development projects, pre-sales requirements are at record high levels.

While these changes are intended to increase stability in Australia's financial and housing markets, they have served to reduce funding opportunities at both the wholesale and retail ends of a development project. It is within this context that the planning system is often looked to as a source of establishing project certainty, or to establish project valuation. In the case of Fishermans Bend, planning certainty has historically been questionable, to the point of being unreliable.

#### **Density Assumptions**

The genesis of the density expectation of 80,000 people is unclear. Unless this has been established in the presentations to this Panel, it is unclear to the wider public as to how and why this density expectation has been formed. In short, we believe the amendment, being based fundamentally on this number, has been density-led, rather than opportunity-led. This has led to a proposal that, if approved, will under-deliver on its total housing and accommodation potential in an area just KM's from Melbourne's CBD, with exceptional proximity to jobs and services, and well able to be serviced by infrastructure.

Fishermans Bend represents the nation's largest, most significant urban renewal opportunity. There is no other precinct like it in Australia. If it cannot be substantiated that the development of the density expectation of 80,000 has been formed and introduced based on thorough research and evidence, UDIA believes that the proposed amendment is fundamentally and irreversibly flawed. Industry is gravely concerned that the precinct may in fact under-utilise its potential.

We are gravely concerned that the amendment is in fact a design-led proposal to accommodate the density expectation of 80,000, rather than an example of good public policy and strategic planning that would seek to realise the highest and best possible outcome from such an important precinct.

#### **Noble intent v. market intervention**

The planning scheme amendment proposes several requirements as a condition of development. I would like to touch on three today – the requirement of three-bedroom apartments, the requirement of affordable housing and the floor area uplift mechanism.

### **3-Bedroom Apartments**

There is a considerable concern with the level of market intervention that is being exercised by the amendment encouraging a minimum proportion of 3-bedroom apartments. If strictly implemented, making the 30% target a requirement, such a blunt instrument could create a disconnect between what the market wants and what state or local government planning and building regulations require.

### **Affordable Housing**

The development industry is committed to delivering more homes and more housing options to help ease our affordability crisis, so we really welcome the objective of increasing affordable housing across the state. But we also must be realistic and engage closely with government to ensure the right mechanisms are in place to see that happen.

First and foremost, we need to minimise ambiguity around the definition of affordable housing, because when it comes time for developers and councils to negotiate affordable housing outcomes, they need to come to the table with similar expectations of what that looks like. It is also important to have certain safeguards in place to ensure we're encouraging voluntary agreements that result in good outcomes for everyone.

With respect to the Amendment, in encouraging a proportion of affordable housing, consideration is needed on how the costs associated with providing affordable housing can be offset. While the development industry accepts the need to have a role in providing affordable housing, it must not be at the cost of affordability of housing in the private market. Mandatory implementation of the provision would essentially act as an additional charge for development which will place upward pressure on apartment prices.

Fishermans Bend presents an opportunity to foster very purposeful partnerships to support housing solutions for lower income Victorians. Through industry's role on the Affordable Housing Industry Advisory Group and UDIA's partnership with social enterprise Homes for Homes, industry members are actively leading the way in this space rather than acting as a passive participant. We're hopeful that with cross-sectoral and government collaboration, we can achieve some very positive outcomes to help Victoria's most vulnerable.

### **Value capture and Value Creation**

Encouraging value capture measures without any requirement for state and local government to create any additional value for capture is a major concern for the industry. While previous government announcements and initiatives resulted in an uplift in the value of land within Fishermans Bend, in many cases this uplift has already been realised. Adding a value capture mechanism so late after the value uplift has been realised puts several projects in Fishermans Bend at risk.

### **Floor Area Uplift Mechanism**

The introduction of the Floor Area Uplift (FAU) has been a source of great contention for the industry. It is unclear how the FAU will serve to deliver on the density expectations and as it was introduced after the establishment of the density expectations, the case could be made

that the density expectations are inadequate and do not represent the full potential of the precinct to accommodate residents and businesses. This flows through to the transport requirements in the precinct as well.

In simple fact, in its current form, the FAU is proposed to be discretionary. It is therefore an unreliable model for the provision of infrastructure at a strategic level. Further, it is extremely poor strategic planning and public policy to reduce floor area ratios below what is considered optimal, in an effort to secure contributions in exchange for additional floor space that should have been captured by the planning process in the first place.

Industry's questions on this issue are wide ranging and have been covered extensively by other members of the industry and public who have presented to the Panel. UDIA Victoria provided a site model example in its submission for further reference. It is our view that the model and density expectations as presented, cannot be fully considered and we reserve the right to review and comment on any amended proposal that may be canvassed in the future.

#### **Infrastructure Funding and Certainty**

It is imperative to address the issue of a lack of concrete plan, timeline or pipeline for community and transport infrastructure in the Fishermans Bend precinct. A key concern raised by UDIA members is the timing and funding of community infrastructure for the Fishermans Bend precinct. Achieving a 'connected and liveable community' will not be possible with the very limited public transport that is currently servicing Fishermans Bend.

Whilst some funding for planning was committed in the recent FY19 State Budget, it remains a significant issue that there is no proposed timeframe for the provision of public transport, nor is there a government commitment or funding for this vital infrastructure. In the absence of a funding model, industry is concerned that responsibility for providing necessities like public transport will be left largely to those who develop sites in the precinct.

The lack of such a model makes it difficult for UDIA to assess the merit of this Framework as there is no indication of how the Framework will be financially supported. The industry is fundamentally opposed to the planning scheme acting as a land acquisition mechanism, without the certainty of accompanying funding attached. It is simply inequitable and wrong to treat land in the possession of private land owners as being available for an unfunded land-grab.

Infrastructure is vital for this precinct, and government must work with the development industry in partnership to achieve optimum outcomes. Starting with unclear planning processes and unlawful attempts to render land undevelopable is simply not appropriate. There needs to be a thorough and independently verified costing plan around any infrastructure that is to be implemented.

#### **The Way Forward – One Lead Authority**

A separate authority responsible for all aspects of the strategic planning and administration of the planning schemes as they relate to the Fishermans Bend Urban Renewal Area is the UDIA's most vital recommendation for the future of the precinct. The relevant planning

schemes currently provide for the Minister for Planning to be the responsible authority for administering and enforcing the applicable planning schemes over a specified development, height or scale

UDIA believe establishing one responsible authority will de-politicise the planning of the extremely important precinct. It would be imperative to provide the new Authority with the appropriate level of autonomy required for a project of this magnitude. A consistent approach to managing the area is incredibly important. In the current climate of increasing house prices and a perceived affordability crisis, any confusion only adds to the timeframes and eventual cost of delivering desperately needed housing

Given Fishermans Bend straddles two municipalities, creating a single authority responsible for the entire urban renewal area would ensure this consistent approach. It is critical to the economic wellbeing of the state of Victoria that the whole community can have confidence in the planning controls and governance of this vitally important precinct going forward.

#### Conclusion

In summary of UDIA Victoria's position a passage of an opinion piece published in The Age in February 2018 following the Minister's call in of planning permits in Fishermans Bend:

- a. This week we saw a planning freeze placed on the Fisherman's Bend precinct, which immediately halted \$4.5 billion worth of development that was set to help Government achieve the ambitious population accommodation targets it has set for Australia's largest urban renewal opportunity.

Fishermans Bend presents a rare chance to create a thriving new community extremely close to Melbourne's CBD. It provides an opportunity to increase housing supply that caters for low and middle-income earners and key workers. It offers our growing population a pipeline of new, innovative and diverse housing options. But despite having approved \$16 billion worth of development since 2015, when it comes to Fisherman's Bend the Government continues to delay and thwart this much needed opportunity.

- b. The Government has been consulting on various iterations of its vision for Fishermans Bend since 2015 but now it's time to get on with the job of delivery. It's certainly not time to press pause for a further 12 months and compromise the projects already underway.
- c. The Andrews Government must be clear about what it wants in terms of height, design and amenity so that the development industry can get on with doing what it does best – delivering the quality new communities that Victoria needs to ease housing affordability pressures and accommodate the growing population.

#### Background

The Fishermans Bend renewal area was first declared in July 2012. The recast in April 2015 added an additional 235 hectares to the 250-hectare site with the inclusion of the employment precinct.



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### Fishermans Bend Framework

On 14 November 2015, interim mandatory built form controls were introduced to encourage employment uses, dwelling diversity and affordable housing. These interim controls will be in place while permanent controls are being developed by the Fishermans Bend Taskforce.