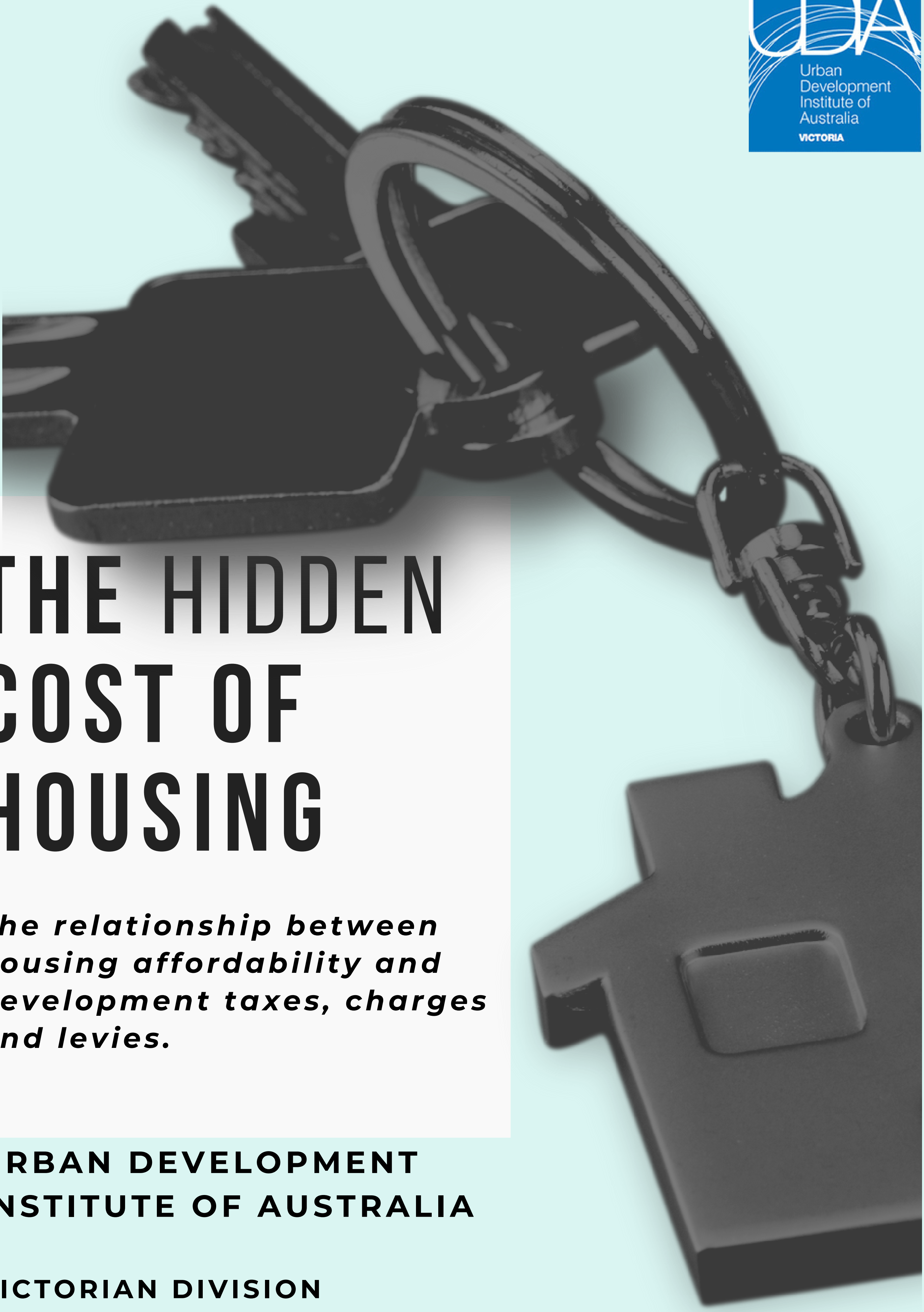


THE HIDDEN COST OF HOUSING

The relationship between housing affordability and development taxes, charges and levies.

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

VICTORIAN DIVISION

JULY 2020

ABOUT UDIA VICTORIA

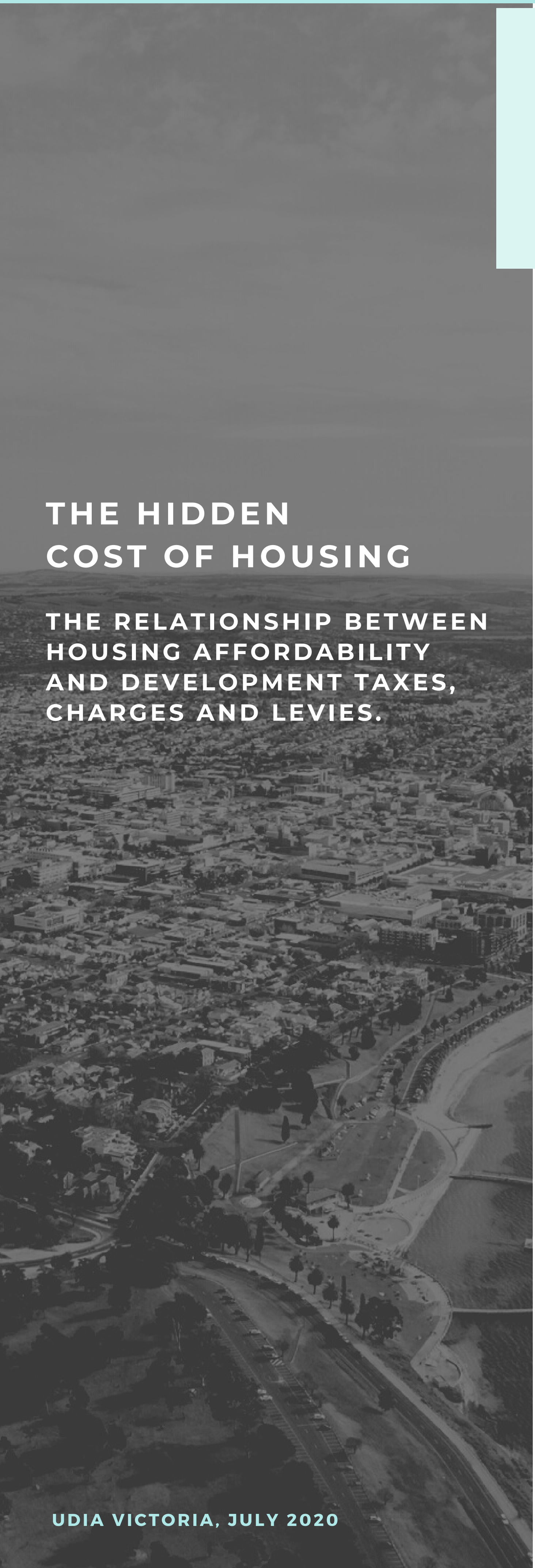
The Victorian Division of the Urban Development Institute of Australia (UDIA Victoria) is a non-profit advocacy, research and educational organisation. We are supported by a membership of land use and property development organisations across the private sector and Victoria's public service. We are committed to working with both industry and Government to deliver housing, infrastructure and liveable, affordable communities for all Victorians.

UDIA Victoria considers housing affordability to be essential to Victoria's productivity and liveability. Our efforts to improve housing affordability seek to support secure home purchases and guarantee ongoing employment for hundreds of thousands of Victorians – those working in the building, construction and development industry, as well as in related service industries including the planning, legal, financial, environmental management, engineering and consulting sectors.

The cost of housing is one of Victoria's biggest challenges, but it doesn't have to be that way. We are committed to influencing bold, forward-thinking Government policy that reduces the cost of new housing for all Victorians.

HOUSING IS OUT OF REACH FOR TOO MANY VICTORIANS. WE ARE WORKING HARD TO CHANGE THAT.

#MakeHousingAffordable



THE HIDDEN COST OF HOUSING

THE RELATIONSHIP BETWEEN HOUSING AFFORDABILITY AND DEVELOPMENT TAXES, CHARGES AND LEVIES.

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EXECUTIVE SUMMARY

WHEN VICTORIANS BUY A NEW RESIDENTIAL PROPERTY, **19-34%** OF THEIR PURCHASE PRICE IS DRIVEN BY GOVERNMENT TAXES AND CHARGES.

- UDIA Victoria's ***The Hidden Cost of Housing*** research highlights how much of a new home purchase price is attributable to Commonwealth, State and Local Government taxes, charges and levies.
- The research shows that **government charges cost up to 34% of a local homebuyer's purchase price** of a new residential lot or dwelling, depending on the circumstances of the homebuyer and the property they are buying.
- Taking **interest costs** into account, the research finds that the large up-front cost impost then sits in the homebuyer's mortgage, adding significantly to the length and cost of their mortgage.
- In most cases, the total cost of government taxes, charges and levies on homebuyers is **higher than the developer's profit** – a finding that disproves the view that home prices are high because developer profit margins are high.
- **Foreign homebuyers pay up to 40% more in taxes and charges** than domestic homebuyers in the examined scenarios. This is an issue particularly if the foreign buyer later sells to a domestic purchaser at a price that reflect the higher price they paid.
- The approach in this report has been deliberately conservative with **several taxes and charges excluded**. The cost to buyers and pressure on development feasibility is therefore expected to be much higher in many circumstances.
- In conclusion, **government taxes and charges have a real impact on the cost of housing in Victoria.**

#MakeHousingAffordable

CURRENT SYSTEM IS NOT CONDUCIVE TO HOUSING AFFORDABILITY

The residential development industry creates homes for Victorians and delivers important economic activity across the state.

This activity is reliant on two key factors:
1. Development must be commercially viable; and
2. The residential product (homes) delivered to market must be relatively affordable for homebuyers with different incomes.

UDIA Victoria's research shows these key factors are not being achieved in large segments of the market. One of the key drivers of this imbalance is the hidden cost of housing, imposed by taxation, regulatory charges and development delays which reduce feasibility and increase the purchase price.

UDIA VICTORIA RECOMMENDATIONS

Reform development taxes, charges, levies and fees

The findings of this research clearly demonstrate that the current tax mix hurts homebuyers at all income levels and circumstances.
We urge the State Government to consider targeted adjustments to taxes, which may achieve two goals by stimulating greater transactions through a demand response, while reducing the cost of housing. Cost reduction measures should be considered for buyers and the development process. Additionally, in considering reform options, Government should apply a whole-of-government approach by acknowledging the total range of cost drivers impacting on housing, including GST, local government charges, delays in approval processes and various new planning policy measures.

Moratorium on new taxes and charges

Government must recognise that the development industry is unable to absorb any additional taxes or charges, without passing the added cost impost straight onto homebuyers. Any additional taxes and charges imposed by governments should therefore be considered a cost to homebuyers. Given declining purchasing power, there is a strong case for a moratorium on new taxes and charges.

Plan for growth

In the current environment we risk facing a dramatic reduction in housing supply, that could feed into the following two or three years. This will impact on housing choice and affordability when population growth and immigration stabilise following the COVID-19 pandemic period.

RISKS TO VICTORIA OF NOT REDUCING THE HIDDEN COST OF HOUSING

01

Affordability, buyer behaviour and housing choice

Ongoing increases to the cost of development, driven by taxes and charges, cannot feasibly be carried by the development sector, Therefore, many government taxes and charges on development are ultimately paid by homebuyers. This has impacts on affordability, buyer behaviour, housing choice and creates financial stress for many Victorians.

02

Government's tax revenue base

A high property tax base makes an increasing number of projects unfeasible. High taxes act as a halt on development, weakening the tax revenue base used to fund state services and infrastructure.

03

Key workers

High taxes and charges that drive up the cost of housing lead to uncompetitive home prices and rental accommodation. This could limit affordable housing that meets the needs of population growth which could constrain the numbers of key workers coming to Victoria, including teachers, nurses and emergency service workers.

04

Domestic and foreign students

High housing costs driven by taxes and charges impacts on the attractiveness of Victoria for domestic and foreign students – one of our key export markets and a primary industry sector for the state.

05

Public housing and human services

Growing housing costs will indirectly drive up costs across a range of State Government portfolios – for example, unaffordable housing is likely to cause an increasing number of people to require Government support through the public housing and human services system.

HOME BUYER PROFILES

The Hidden Cost of Housing research is based on different buyer profiles that represent a cross-section of Victoria's home buyers.

29%

MARIA: 1ST HOMEBUYER, SINGLE PARENT, KEY WORKER

- Income: **$90,000 pa**
- Buying: **200m2 lot in growth areas**
- Approx. purchase price: **$200,000**
- Taxes & charges: **$62,480 + interest**
- Developer profit: **$25,136**
- **29% of Maria's purchase price is driven by taxes and charges.**

34%

TOM & EMILY: 2ND HOMEBUYER, FAMILY OF 4

- Income: **$135,000 pa combined**
- Buying: **400m2 lot in growth areas**
- Approx. purchase price: **$315,000**
- Taxes & charges: **$106,314 + interest**
- Developer profit: **$36,050**
- **34% of Tom and Emily's purchase price is driven by taxes and charges.**

19%

SAM: SINGLE DOWNSIZER, RETIRED

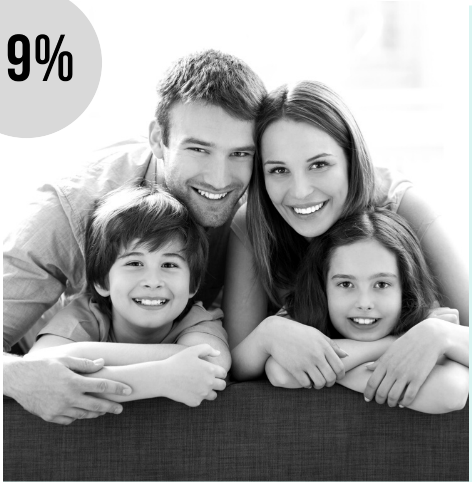
- Income: **$50,000 pa (super)**
- Buying: **Off-the-plan 2 bed, 1 bath apartment**
- Approx. purchase price: **$685,000**
- Taxes & charges: **$131,765 + interest**
- Developer profit: **$77,363**
- **19% of Sam's purchase price is driven by taxes and charges.**

Victorian homebuyers are paying too much in government taxes and charges.

#MakeHousingAffordable

BUYER PROFILES

19%



STEVE & MELISSA: INVESTOR FAMILY

- Income: **$160,000 pa (combined)**
- Buying: **Off-the-plan 2 bed, 2 bath investment apartment**
- Approx. purchase price: **$685,000**
- Taxes & charges: **$131,765 + interest**
- Developer profit: **$77,363**
- **19% of Steve and Melissa's purchase price is driven by taxes and charges.**

21%

CON: OWNER/BUILDER, BUILDS 2 TOWNHOUSES PER YEAR

- Buying: **Site in an established suburb; fund construction himself**
- Approx. purchase price: **$1.4m**
- Taxes & charges: **$299,491 + interest**
- Developer profit: **$159,685**
- **21% of Con's purchase price is driven by taxes and charges.**

+40%

FAITH: FOREIGN STUDENT

- **Buying:** Off-the-plan 2 bed, 2 bath investment apartment
- Approx. purchase price: **$685,000 + $55,000 surcharge duty = $740,000**
- Taxes & charges: **$183,958**
- As a foreign resident, **Faith will pay 40% more on taxes and charges than an Australian investor family** purchasing the same property.

Victorian homebuyers are paying too much in government taxes and charges.

#MakeHousingAffordable

HOUSING AFFORDABILITY

HOUSING AFFORDABILITY WILL BE CRITICAL TO KEEPING VICTORIANS OWNING AND RENTING THEIR OWN HOMES – AND OFF THE GOVERNMENT'S SOCIAL AND AFFORDABLE HOUSING WAITING LISTS.

#MakeHousingAffordable

COVID-19 has exacerbated the existing housing affordability challenges faced by Victoria's homebuyers. As unemployment and under-employment rises, and purchaser finance becomes harder to obtain, it is time for Government to address the massive financial hurdles blocking Victorians from buying a home.

The cost of housing is significantly increased by government taxes and charges on the developer, in addition to taxes and charges paid by homebuyers as part of their acquisition and ongoing ownership of a property.

Other costs include land acquisition costs, construction and financing costs, project profit and marketing.

Through this research, we have found that government taxes and charges can cost the equivalent of **one third of the purchase price** of a new home in Victoria. These costs are often hidden, and have to be funded by a homebuyer's mortgage and paid back over time.

There's never been a better time to get real about the high cost of housing in Victoria. We need radical change to the state taxation system – change that supports homebuyers and the building, construction and development industry so it can continue to support our economy and welcome Victorians into the housing market.

Housing affordability will be critical to keeping Victorians owning and renting their own homes – and off the government's social and affordable housing waiting lists.

HOMES FOR VICTORIANS

VICTORIAN GOVERNMENT, 2017

THE HOMES FOR VICTORIANS STRATEGY RELEASED BY THE VICTORIAN GOVERNMENT IN 2017 STATES THE FOLLOWING:

Recent data shows the problem is growing. Median house prices in Melbourne have risen by over 40 per cent since 2012.

Metropolitan Melbourne house prices have risen to $610 000 and unit prices to $490 000 for the June Quarter 2016.

Melbourne continues to have the highest home prices after Sydney. From 2005 to 2015, the median sale price of housing across regional Victoria increased 49 per cent, from $206 000 to $307 500.

At the same time unit prices in regional Victoria rose 32 per cent, from $190 000 to $251 000. These increases are having a real impact on the ability of Victorians to buy a home.

From 1994-95 to 2013-14, home ownership rates dropped from 76 per cent to 69 per cent of Victorian households.

The price growth is having the biggest impact on our young, with the decline in home ownership rates steepest among Victorians aged 25 to 34.5.

IMPACT OF CORONAVIRUS

"On the 2018-2019 year for net overseas migration, we're expecting just over a 30 per cent fall in 2019-2020, the current financial year. And in 2020-2021, an 85 per cent fall-off those 2018-2019 levels as well."

SCOTT MORRISON, PRIME MINISTER OF AUSTRALIA, 2 MAY 2020

As a major plank of the Victorian economy, the housing sector has been negatively impacted by COVID-19 and the pandemic has drastically changed the market and business conditions as follows:

- A good portion of the current residential construction activity was generated from property sales which occurred over the past two years.
- Following a period of historically lower activity due to several factors, sales had only recently started to build again. Now COVID-19 has compromised buyer confidence and their ability to access finance. New home sales have dropped significantly; this will flow through to reduced civil and home building construction activity, which may result in thousands of jobs being lost in the 2020-21 financial year. Residential property and land sales - which drive construction - may be soft for some time.
- Immigration has been the single biggest driver of residential market sales in recent years. For obvious reasons, immigration has ceased and may not normalise for some time. Overseas student intake change will be a second factor that will impact some markets.
- There is a risk that when buyer confidence starts to recover, the impact of the stalled immigration will be felt, which will mean residential markets make take an extra 12 to 18 months to recover.

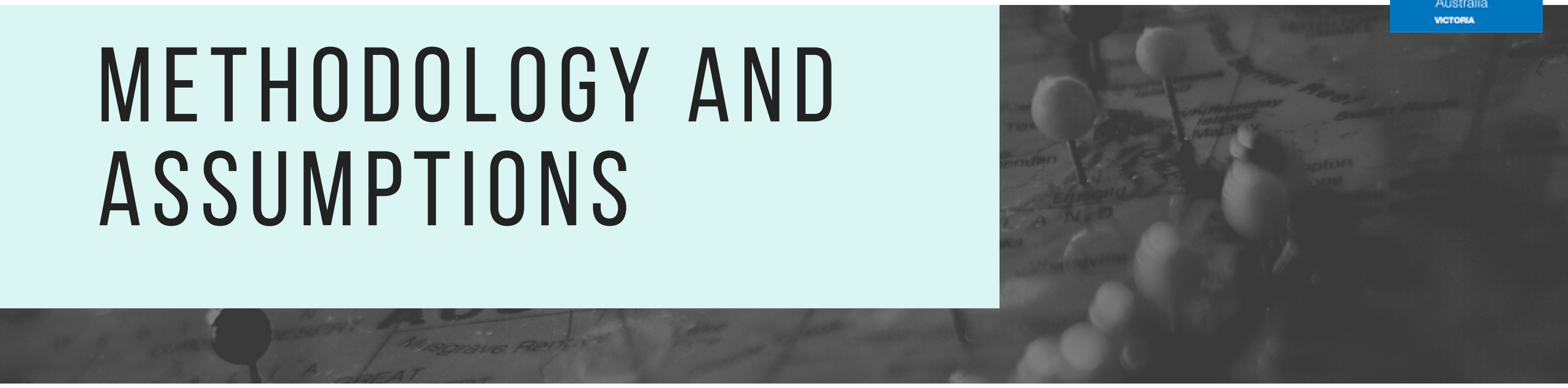
KEY CONCLUSIONS

UDIA Victoria's ***Hidden Cost of Housing*** report demonstrates that government taxes, charges and levies imposed on the production of new housing, have a tangible and significant impact on housing affordability.

Key conclusions:

- The mix of existing taxes and charges levied on development and on homebuyers, has a material impact on the ability of different buyers to enter the housing market and buy property that suits their needs and financial circumstances.
- The cost of taxes and charges sit within a mortgage and is paid back over time. This adds significantly to the size of the homebuyer mortgage.
- While interest rates are currently at record lows, any movement upwards to normalised interest rates would have a large impact on the interest payable on a mortgage, and on the component of costs which comprise government taxes and charges.
- Foreign buyers pay additional taxes and charges. For example, a foreign buyer purchasing an off-the-plan 2 bedroom, 2 bathroom apartment will pay approximately $52,193 more than a domestic investor would pay for the same property. If the foreign buyer sells to a domestic purchaser at a later date, the sale price could be higher to reflect the price paid by the foreign buyer on the original purchase.
- State and local governments should be cautious about assuming that major infrastructure can be funded with new taxes on property, or other measures such as value capture without significantly increasing the cost of housing.
- The key drivers of high home prices are the cost of development, brought on by taxation, regulatory charges and development delays which reduce feasibility and increase the purchase price.

- The current tax system is significantly compromising economic activity by locking more Victorians out of the housing market.
- Taxes and charges that contribute to the cost of producing housing, either increase the price of the end housing product, or reduce the land price a developer can pay from the original owner.
- The business model supporting residential development reflects significant project risk and high costs of finance that developers must assume to deliver a project, as well as often low margins.
- The high cost of producing housing does not automatically reduce underlying land values. In contrast, where the cost of producing housing is high, residential development may no longer be the highest and best use, and the land may continue to be used for another purpose despite a residential zoning. This drives an overall reduction in the supply of new housing.
- High taxes, charges and delays through the planning and development approval process reduce housing supply by increasing risk, reducing returns and making some types of development unfeasible.
- The high cost of housing in Victoria pushes lower income segments out of the private buyer and rental market and into the affordable housing market.
- If taxes and charges are increased further due to bracket creep or new taxes and charges being introduced, residential development may not be the highest and best use of the land and urban renewal areas and priority precincts may lay dormant.
- If the cost of producing housing is so high, that the system reduces affordable housing supply, Government will need to play a greater and more deliberate role in funding and supporting affordable and social housing.
- Portfolios such as justice, health and education can be impacted (and the cost of delivering these services to the community), if housing needs are not met due to a lack of affordable housing supply.



METHODOLOGY AND ASSUMPTIONS

This report seeks to quantify the typical government taxes, charges and levies associated with delivering new residential lots in Melbourne's growth areas, or new dwellings (townhouses and apartments) in established areas. It is a conservative estimate, and does not extend to all taxes, charges, levies and costs associated with the planning and development approval process. This is because it is difficult to achieve uniformity across all taxes, charges, levies and costs.

The report calculates government taxes, charges and levies as a percentage of the total cost of the land or dwelling to demonstrate the affordability impacts across various buyer profiles. These buyer profiles are examples only and do not represent all buyer profiles.

Five buyer profiles are depicted that:

- Are broadly representative of segments of the residential purchaser market in Victoria; and
- Represent a range of scenarios from purchasing new residential land in Melbourne's growth areas, to new dwellings in established areas.

The buyer profiles and broad assumptions are related to examples located within 40km from CBD. The cost inputs into each buyer profile have been peer reviewed for accuracy by residential development practitioners operating in Melbourne's growth areas and established areas.

This process confirmed the figures used for the taxes, charges and levies, and that the detailed assumptions, are a reasonable representation of real projects.

INCLUSIONS AND EXCLUSIONS

GOVERMENT TAXES AND CHARGES

UDIA Victoria has taken a deliberately conservative approach in quantifying the total amount of government taxes and charges. **This should assure government decision-makers that our scenarios in no way resemble a worst-case scenario**, and in fact represent an optimistic depiction of the impact that taxes and charges have on homebuyers.

We have not included the impacts of all taxes and charges. Particularly, we have excluded those that are relatively variable in nature and in application to individual development sites, some that have recently been introduced, and those which are expected to be introduced or take effect in 2020.

Government taxes and charges included in this study:

- Developer land tax
- Stamp duty (twice being paid once by the developer and once by the homebuyer)
- Foreign buyer surcharge on stamp duty
- GST
- Growth Area Infrastructure Contribution
- Infrastructure Contributions
- Developer council rates
- Open Space Levy
- Metropolitan Planning Levy
- Statutory utility charges

Samples of some of the items we have excluded include:

- Infrastructure Contribution Plans for Strategic Development Areas
- Impacts of the Better Apartment Design Guidelines
- Cost increases assocated with the Melbourne Strategic Assessment and Biodiversity Conservation Strategy
- Cladding Rectification Building Permit Levy
- An amendment to the Duties Act 2000 which means Development Agreements attract stamp duty (2019)
- An amendment to the Land Tax Act 2005 changed the method for applying land tax to primary production land (2019)
- Taxes and charges that apply post homebuyer acquistion

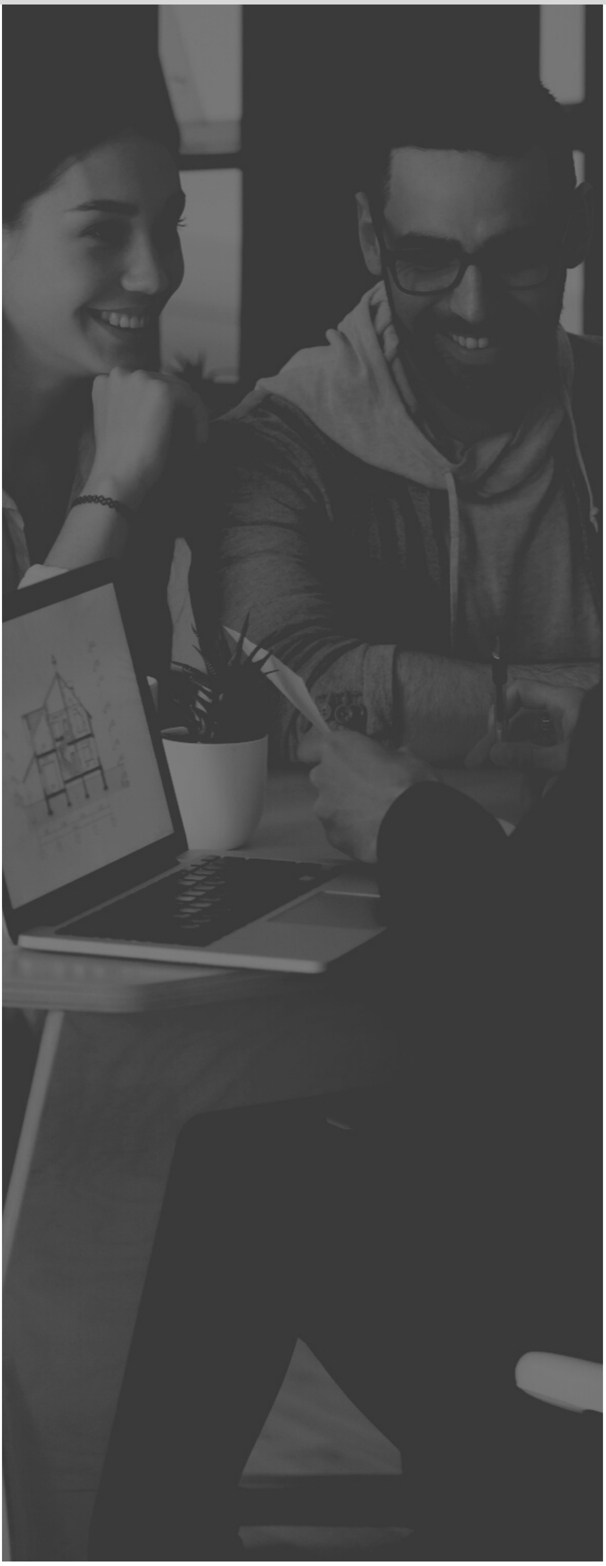
OVERVIEW OF KEY ASSUMPTIONS

Profile	Developer Costs	Developer taxes & charges	Buyer taxes & charges	Purchase Price
Maria (resident FHB)	$149,500	$43,210	$19,271	**$211,980**
Maria (foreign resident FHB)	$149,500	$43,210	$42,414	**$235,124**
Tom & Emily (resident FHB)	$211,025	$65,364	$27,639	**$304,028**
Tom & Emily (resident not FHB)	$211,025	$65,364	$40,951	**$317,339**
Tom & Emily (foreign resident)	$211,025	$65,364	$62,422	**$338,811**
Steve & Melissa (resident)	$556,543	$36,570	$95,195	**$688,307**
Steve & Melissa (foreign resident)	$556,543	$36,570	$147,388	**$740,501**
Sam (resident)	$556,543	$36,570	$95,195	**$688,307**
Sam (foreign resident)	$556,543	$36,570	$147,388	**$740,501**
Con (resident)	$1,121,250	$102,999	$196,492	**$1,420,741**
Con (foreign resident)	$1,121,250	$102,999	$304,226	**$1,528,474**

- Developer costs includes land acquisition, construction, and developer margin
- FHB = First homebuyer

BUYER PROFILES

THE AMOUNT THAT TAXES, CHARGES, LEVIES AND FEES ADD TO THE COST OF HOUSING IS SIMPLY TOO MUCH FOR HOMEBUYERS TO CARRY.



UDIA Victoria has analysed the impact of government taxes, charges and levies on a range of different buyer profiles to demonstrate the cost of these charges to the real people who are buying new homes.

The report includes five buyer profiles which are broadly representative of segments of the residential purchaser market being:

- The first home buyer, who is a single parent and a key worker;
- A family with two key worker parents;
- A single downsizer;
- An investor family; and
- A builder.

Foreign buyers are also considered in the analysis under various scenarios, and the sixth buyer profile focuses on a foreign buyer.

In addition, the assessment considers the impact of taxes and charges on the size of a mortgage and long-term interest costs.

These buyer profiles are intended to provide context for the debate regarding housing supply, housing affordability, and key policy settings impacting the cost of delivering new dwellings.

This research quantifies how these costs compare to the overall initial cost of buying a lot or dwelling.

BUYER PROFILES

MARIA

Maria is a single parent and key worker who earns an annual income of $90,000.

Maria is a first homebuyer; buying a 200m2 lot in the growth areas with a budget of $200,000 for the lot.

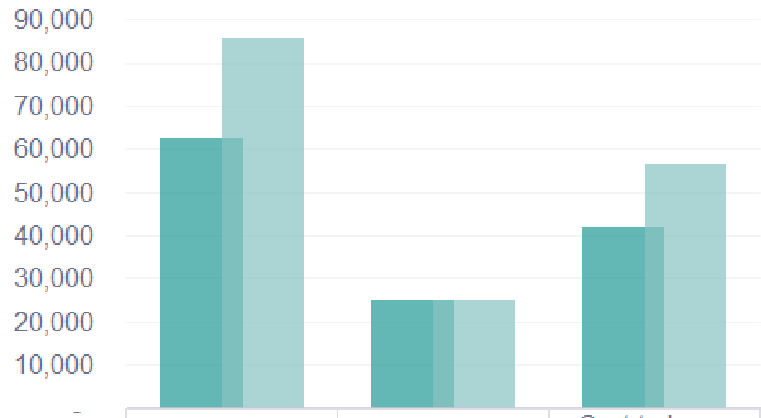
29%

The equivalent of **29% of Maria's purchase price is** driven by taxes and charges.

As part of Maria's acquisition of a 200m2 block of land in the growth areas at a price of approximately $200,000, she will face a total mix of costs including:

- $43,210 of taxes and charges paid by the developer and passed on to the buyer.
- $19,271 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $62,480.**
- These costs are significantly higher than the **developer profit of $25,136** on this project.

TAXES & INTEREST PAID BY MARIA (1ST HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
1st home buyer	62,480	25,136	42,123
Foreign Buyer	85,624	25,136	56,392

1st home buyer   Foreign Buyer

- In addition, to fund the total taxes and charges, she would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $42,123.**
- **What if?** If Maria was not a first homebuyer, the total tax cost directly paid by her and passed on by the developer amounts to $70,269.
- **What if?** If Maria was a foreign resident, she would face a total tax and charges cost of $85,624.

BUYER PROFILES

TOM & EMILY

Tom and Emily are schoolteachers with two kids and a combined annual income of $135,000.

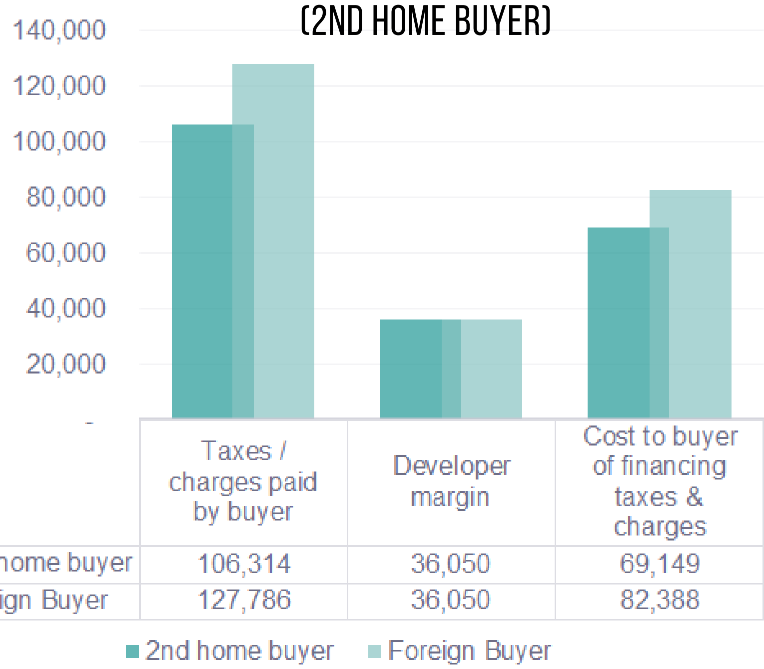
They are purchasing their second home; a 400m2 lot in the growth areas with a budget of $315,000 for the lot.

34%

The equivalent of **34% of Tom and Emily's purchase price is driven by taxes and charges.**

- As part of Tom & Emily's acquisition of a 400m2 block of land in the growth areas at an approximate price of $315,000, they will face a total mix of costs including:
- $65,364 of taxes and charges paid by the developer and passed on to the buyer.
- $40,951 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $106,314.**
- These costs are significantly higher than the **developer profit of $36,050** on this project.

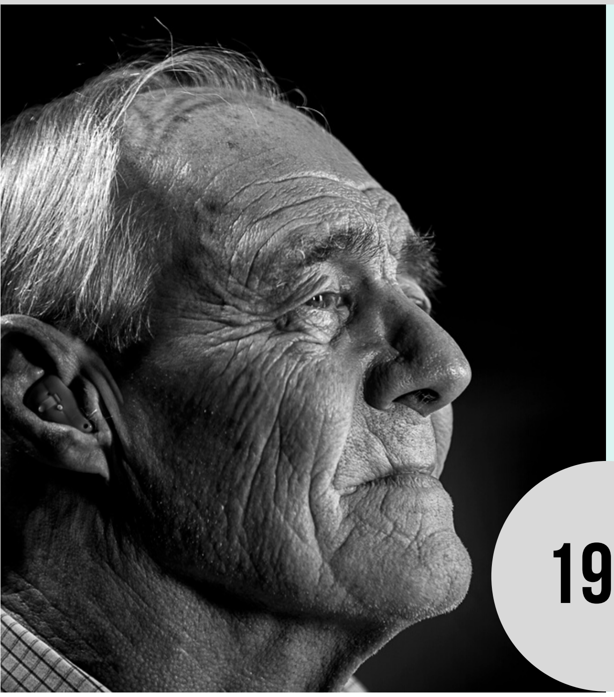
TAXES & INTEREST PAID BY TOM & EMILY (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	106,314	36,050	69,149
Foreign Buyer	127,786	36,050	82,388

- In addition, to fund the total taxes and charges, Tom & Emily would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $69,149.**
- **What if?** If they were first homebuyers, the total tax cost directly paid by them and passed on by the developer amounts to $93,003.
- **What if?** If they were foreign residents, they would face a total tax and charges cost of $127,786.

BUYER PROFILES



SAM

Sam is a single downsizer with an annual income of superannuation of $50,000.

Sam is looking for an off-the-plan 2 bedroom, 1 bathroom apartment with a budget of $685,000.

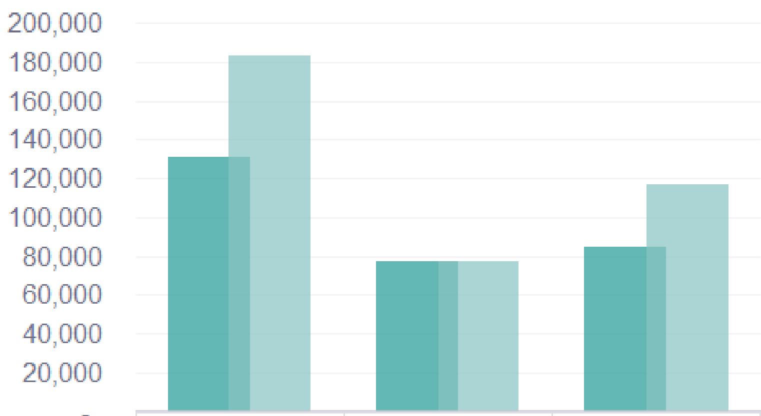
19%

The equivalent of **19% of Sam's purchase price is driven by taxes and charges.**

As part of Sam's acquisition of a 73m2 unit in an established area at an approximate price of $685,000, he will face a total mix of costs including:

- $36,570 of taxes and charges paid by the developer and passed on to the buyer.
- $95,195 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $131,765**
- These costs are significantly higher than the **developer profit of $77,363** on this project.

TAXES & INTEREST PAID BY SAM (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	131,765	77,363	84,841
Foreign Buyer	183,958	77,363	117,022

2nd home buyer   Foreign Buyer

- In addition, to fund the total taxes and charges outlined above, Sam would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $84,841.**
- **What if?** If the new stamp duty provisions on Development Agreements applied, it is estimated that the total taxes and charges faced by Sam would increase to $134,701.
- **What if?** If Sam was a foreign resident, he would face a total tax and charges cost of $183,958.

BUYER PROFILES

STEVE & MELISSA

Steve and Melissa are a couple with kids, looking for an investment property.

On a combined annual income of $160,000, they are looking for an off-the-plan 2 bedroom, 2 bathroom investment apartment with a budget of $685,000.

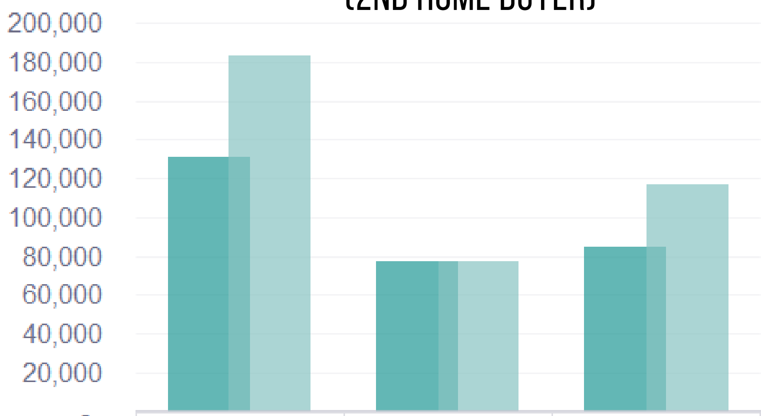
19%

The equivalent of **19% of Steve & Melissa's purchase price is driven by taxes and charges.**

As part of Steve & Melissa's acquisition of an investment unit in an established area at an approximate price of $685,000, they will face a total mix of costs including:

- $36,570 of taxes and charges paid by the developer and passed on to the buyer.
- $95,195 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $131,765**
- These costs are significantly higher than the **developer profit of $77,363** on this project.

TAXES & INTEREST PAID BY STEVE & MELISSA (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	131,765	77,363	84,841
Foreign Buyer	183,958	77,363	117,022

- In addition, to fund the total taxes and charges outlined above, Steve & Melissa would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $84,841.**
- **What if?** If the new stamp duty provisions on Development Agreements applied, it is estimated that the total taxes and charges would increase to $134,701.
- **What if?** If the buyer was a foreign resident, they would face a total tax and charges cost of $183,958.
- It is worth noting that Steve and Melissa would also incur a land tax cost of approximately $1,500 each year post acquisition.

BUYER PROFILES

CON

Con is an owner builder who builders two townhouses per year.

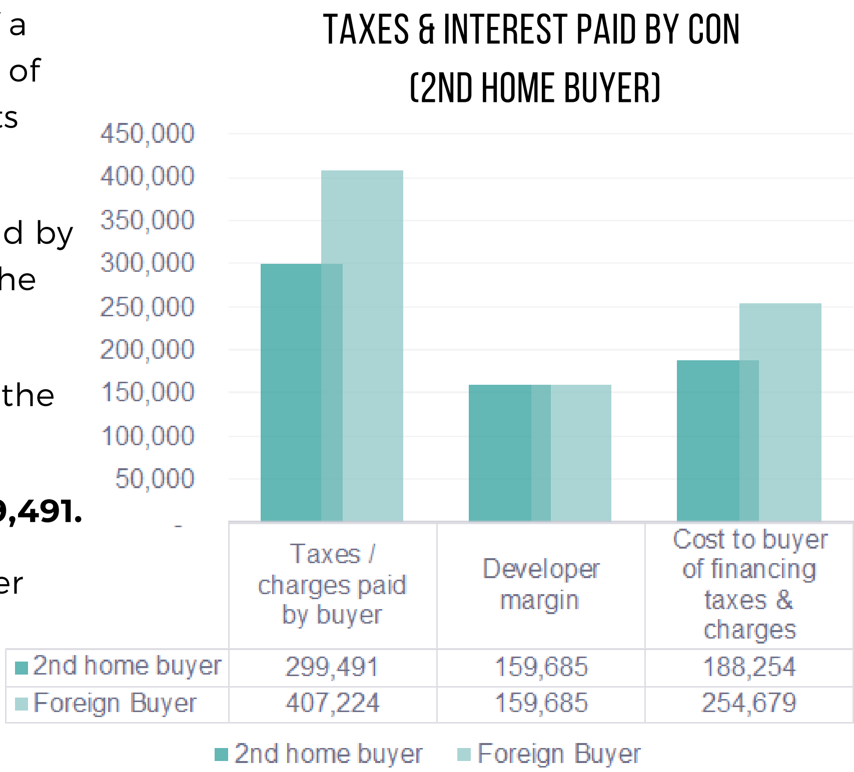
Con's business model is to acquire a site in established suburb at a cost of $1 million and fund the construction himself for approximately $400,000.

21%

The equivalent of **21% of Con's purchase price is driven by taxes and charges.**

As part of Con's buyer acquisition of a townhouse at an approximate price of $1.4m he will face a total mix of costs including:

- $102,999 of taxes and charges paid by the developer and passed on to the buyer.
- $196,492 of taxes paid directly by the buyer as part of the transaction.
- **Total taxes and charges of $299,491.**
- These costs are significantly higher than the developer profit of **$159,685** on this project. .



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	299,491	159,685	188,254
Foreign Buyer	407,224	159,685	254,679

- In addition, to fund the total taxes and charges outlined above, Con would face a total **interest cost on a 30-year mortgage at 3.5% of approximately $188,254.**
- **What if?** If the new stamp duty provisions on Development Agreements applied, it is estimated that the total taxes and charges faced by the buyer would increase to $312,703.
- **What if?** If the buyer was a foreign resident, they would face a total tax and charges cost of $407,224.

BUYER PROFILES

FAITH

Faith is a single student looking to buy a property that she can use when she studies in Melbourne.

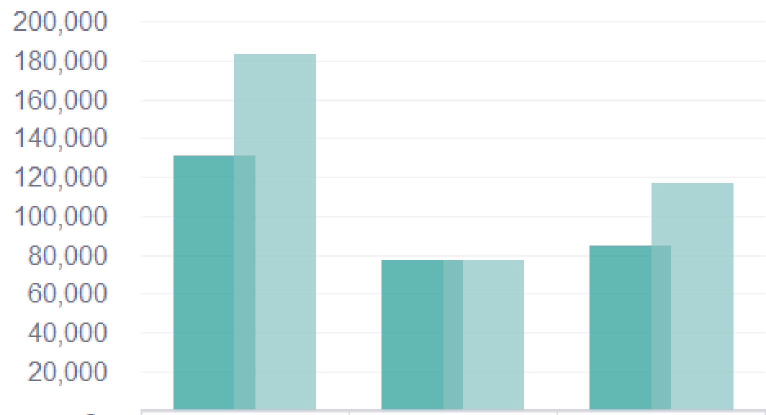
She is looking for an off-the-plan 2 bedroom, 2 bathroom apartment with a budget of $740,000.

+40%

As a foreign resident, Faith will pay **40% more on taxes and charges than an Australian investor family** purchasing the same property.

- As a foreign resident, Faith would face total **tax and charges cost of $183,958.**
- As an Australian investor family, Steve and Melissa would face total taxes and charges of $131,765 when buying exactly the same property as Faith.
- That means **Faith would pay $52,193 more** in taxes and charges, than Steve and Melissa (39.6% more).
- If Faith later sells to a domestic purchaser, the sale price could be higher to reflect the higher price she paid on the apartment.

TAXES & INTEREST PAID BY FAITH (FOREIGN BUYER), COMPARED WITH STEVE & MELISSA (2ND HOME BUYER)



	Taxes / charges paid by buyer	Developer margin	Cost to buyer of financing taxes & charges
2nd home buyer	131,765	77,363	84,841
Foreign Buyer	183,958	77,363	117,022

■ 2nd home buyer ■ Foreign Buyer

GROWTH AREAS VS ESTABLISHED AREAS

COST OF TAXES AND REGULATION BY BUYER PROFILES IN THE GROWTH AREAS

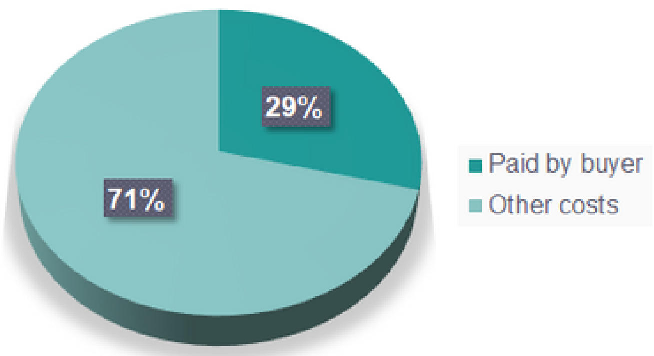
Summary of impacts

The outputs below summarise the mix of costs paid by a buyer as part of their property acquisition in a growth area. The costs include taxes and regulatory charges paid by the developer and passed on to the buyer including costs of delayed planning. These are combined with stamp duty, land tax, GST and rates.

It should be noted that other costs including the impact of recent changes to planning regulations together with environmental offsets and additional development contributions in priority precincts are not included. **We are therefore presenting a conservative picture of the impacts.**

MARIA

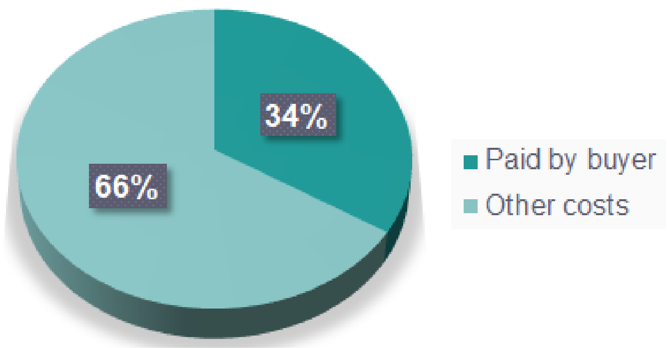
1ST HOMEBUYER, SINGLE PARENT, GROWTH AREA



The equivalent of 29% of buyer costs (purchase price plus transaction costs = $62,480) is driven by taxes and charges.

TOM & EMILY

2ND HOMEBUYER, FAMILY OF 4, GROWTH AREA



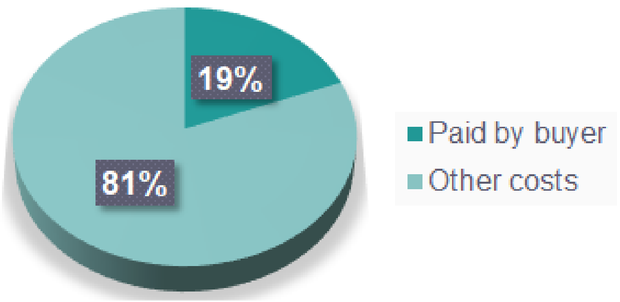
The equivalent of 34% of buyer costs (purchase price plus transaction costs = $106,314) is driven by taxes and charges.

COST OF TAXES AND REGULATION BY BUYER PROFILES IN ESTABLISHED AREAS

Summary of impacts

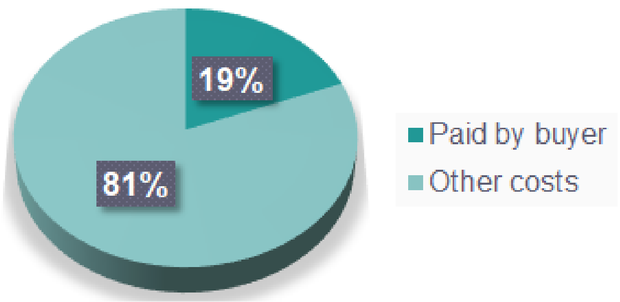
The outputs below summarise the mix of costs paid by a buyer as part of their property acquisition in an established area. The costs include taxes and regulatory charges paid by the developer and passed on to the buyer including costs of delayed planning. These are combined with stamp duty, land tax, GST and rates.

STEVE & MELISSA: APARTMENT INVESTORS



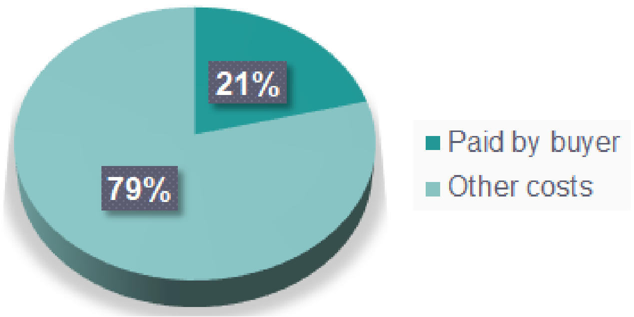
The equivalent of 19% of buyer costs (purchase price plus transaction costs = $131,765) is driven by taxes and charges.

SAM: DOWNSIZER, APARTMENT



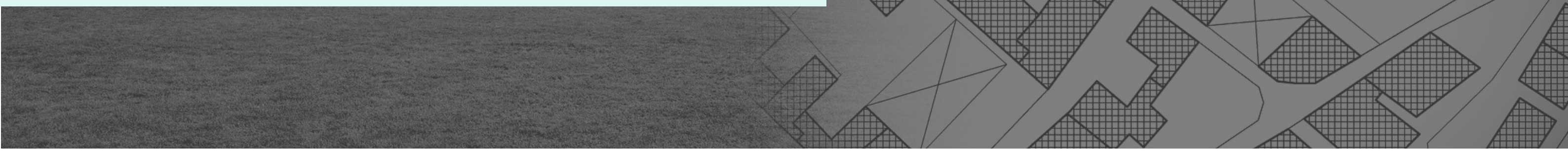
The equivalent of 19% of buyer costs (purchase price plus transaction costs = $131,765) is driven by taxes and charges.

CON: OWNER/BUILDER, TOWNHOUSE



The equivalent of 21% of buyer costs (purchase price plus transaction costs = $299,491) is driven by taxes and charges.

POLICY CONTEXT



The current taxes and charges applied to residential development in Victoria are best understood in the context of incremental policy changes since 2016 relating to housing policy, fiscal policy, and planning policy. These are set out in the following pages.

HOUSING POLICY

The Victorian Government policy framework for affordable housing ***Homes for Victorians,*** was introduced in March 2017 with the intention of securing a supply of affordable housing as the state's population grows. The stated aim of the policy framework is to give every Victorian every opportunity to find a home, and to ensure housing accommodates population growth by facilitating the construction of more than 50,000 new dwellings each year.

A fundamental component of this policy framework is the removal of off-the-plan stamp duty concessions for investors and an increase in stamp-duty-concessions for first homebuyers.

A significant decline in approvals for building permits for all dwellings across Victoria since June 2017 indicates that this initiative, combined with other policy interventions and an overall tightening of availability of project and retail finance for residential projects, has had the perverse outcome of contributing to the reduction in the pipeline of new dwelling supply, resulting in a lower supply of new dwellings in the coming two to three years.

FISCAL POLICY

The Victorian Government also increased existing taxes in 2019, specifically the foreign purchaser duty and the absentee land tax surcharge. Compounding this, the State Government introduced two significant amendments to state taxes in 2019, and a new levy. The amendment to the Duties Act 2000 now means Development Agreements attract stamp duty, and the amendment to the Land Tax Act 2005 changed the method for applying land tax to primary production land. Both taxes increase the cost of purchasing, and holding, land in greenfield areas prior to residential development starting.

Additionally, a new levy on building permits to fund the rectification of combustible cladding, is applicable to apartment and mixed-use development projects and came into effect on 1 January 2020; also expected to increase the cost of delivering these projects.

Amendments to fiscal policy include the following:

Federal Government Initiatives

- Restriction of lending to foreign property buyers without a domestic income by Australian banks (2016)
- APRA limits on interest-only loans with a loan-to-value ratio above 80% (2017)
- APRA instructions to authorised deposit-taking institutions to limit interest-only loans to 30% of new residential loans (2017, however this was removed in 2018)
- Introduction of a New Dwelling Exemption Certificate by the Federal Government (2017)
- Introductions of a 50% cap on the sale of new apartments to foreign investors (2017)

Victorian Government Initiatives

- Removal of off-the-plan stamp duty concessions for investors (2017)
- Introduction of the Federal Annual Vacancy Fee for foreign investors (2017)
- Introduction of the Vacant Residential Land Tax (2017)
- Introduction of Absentee Owner Surcharge (2017)
- Increase of Foreign Purchaser Duty (2019)
- Increase of Absentee Land Tax Surcharges
- Introduction of the building permit levy for the rectification of combustible cladding of 0.82% of the cost of the work where the cost of the building is more than $1,500,000 (2019)
- An amendment to the Duties Act 2000 which means Development Agreements attract stamp duty (2019)
- An amendment to the Land Tax Act 2005 changed the method for applying land tax to primary production land (2019)

PLANNING POLICY

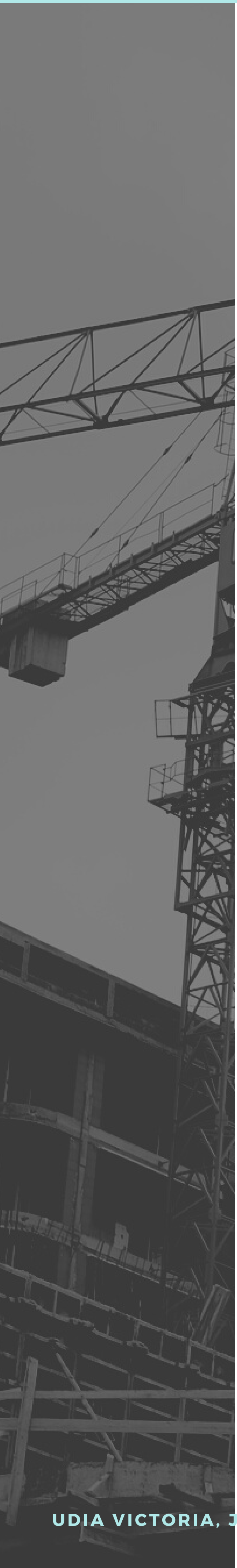
UDIA Victoria commends the State Government for acknowledging the challenges faced by the development industry within planning and development approval processes. The Government took action with the appointment of the Commissioner for Better Regulation who undertook a major review of the system in 2019. Industry submissions highlighted the challenges faced across layers of planning policy and regulation, creating uncertainty and making investment decisions increasingly difficult.

There has also being an increasingly heavy reliance on the Victoria Planning Provisions to deliver a range of State Government policies, including the delivery of affordable housing. It was expected that the Victorian Government will seek to address these issues in 2020 and major reform is being called for by industry members, which would be widely welcomed if implemented by the Government.

The viability of infill apartment developments in inner Melbourne has been impacted by planning scheme amendments restricting height and urban form, while middle ring developments have been impacted by uncertainty and limited information regarding the State Government proposed Suburban Rail Loop.

Apartment developments have had to adjust and respond to the Better Apartment Design Standards which were introduced in 2018 and have been the subject of review since 2019. The standards are designed to increase the quality and amenity of apartment projects but have also had an impact on production costs due to size and other design requirements.

In Melbourne's growth areas, the Precinct Structure Plan process is steadily delivering approximately 13,000 to 14,000 development ready lots annually. However, the revised developer contributions system introduced in 2018 continues to have significant impacts on the development approval pathway and consequently the time it takes to deliver houses to market.



COVID-19 MEASURES

The policy amendments outlined above must be considered and reviewed in context of the Federal and State Government responses to COVID-19 and the consequential economic impact.

It has never been so vitally important for the Victorian Government to work with industry to consider improvements and changes to the taxes, charges and levies that contribute to the cost of producing housing in Victoria.

UDIA Victoria has commended the State Government for establishing a dedicated taskforce to keep the building and development industry running through the coronavirus crisis. The ***Building Victoria's Recovery Taskforce*** (BVRT) is overseen by the Planning Minister and Treasurer and supported by the co-chairs of the BVRT – Roger Teale, Jude Munro AO and Stan Krpan.

UDIA Victoria has been appointed to sit on the BVRT Steering Committee with other key industry associations, and several of our Board members represent the industry on the Industry Working Groups.

The BVRT's purpose is to provide advice to the Victorian Government on issues impacting the industry to ensure we can continue to operate in a manner that supports Victorian jobs, housing and infrastructure throughout the pandemic.

The immediate focus of the BVRT is to oversee the fast-tracking of planning approvals for shovel-ready projects where decisions have been delayed due to coronavirus related impacts on the Victorian Planning System. The Government will also seek BVRT's advice on a pipeline of building and development projects over the longer term, including initiatives that further expand social housing options.

UDIA Victoria is now urging the Victorian Government, and potentially through the BVRT, to reform several taxes, charges and levies that increase the cost of housing across Victoria.

SHORT-TERM REFORM

Victoria is facing uncharted territory in the face of the COVID-19 pandemic, and the situation is changing daily. It is critical for industry to work closely with State and Local Governments to ensure the residential development sector is well placed to contribute to the Victorian economy when the situation normalises and the state needs building, construction and development work to ramp up again.

UDIA Victoria has recommended that State Government impose a moratorium on proposed new or amended fees, levies and taxes (Local and State Government level) or planning scheme amendments that will increase the cost of residential development, until 30 June 2021.

These include but are not limited to:

State Government

- Any proposal on foot to implement a state-wide Social and Affordable Housing Levy
- Any proposal for a new infrastructure contribution for strategic redevelopment areas
- Annual indexation and increase of the Growth Areas Infrastructure Contribution
- Adjustment and Indexation of the Melbourne Strategic Environmental Mitigation Levy
- Better Apartment Design Guideline amendments which are currently the subject of consultation

Local Government

- Proposals for new design standards and requirements
- Councils continue to work on ad-hoc planning scheme amendments that apply new local policies to development in their municipalities
- Proposals for social and affordable housing
- More than 40 councils have various proposals on foot to prepare planning scheme amendments that will support new local policies for social and affordable housing which may include imposing Section 173 Agreements in exchange for development approvals
- Proposals to increase public open space levies. For example, Amendment C186 to Darebin Planning Scheme proposes to double the public open space contribution on development to 10%.

LONGER-TERM REFORM

While short-term measures are necessary, they can't supersede longer-term reform. Bold, forward-thinking government action that reduces the cost of new housing will support secure home purchases and guarantee ongoing employment for hundreds of thousands of Victorians – those working in the building, construction and development industry, as well as in related service industries including the planning, legal, financial, environmental management, engineering and consulting sectors.

As a first step, the Government must understand that **developers cannot absorb increases to development taxes, charges and levies.** Therefore, added government charges flow through to the end price of new housing, which impacts affordability for many buyer segments.

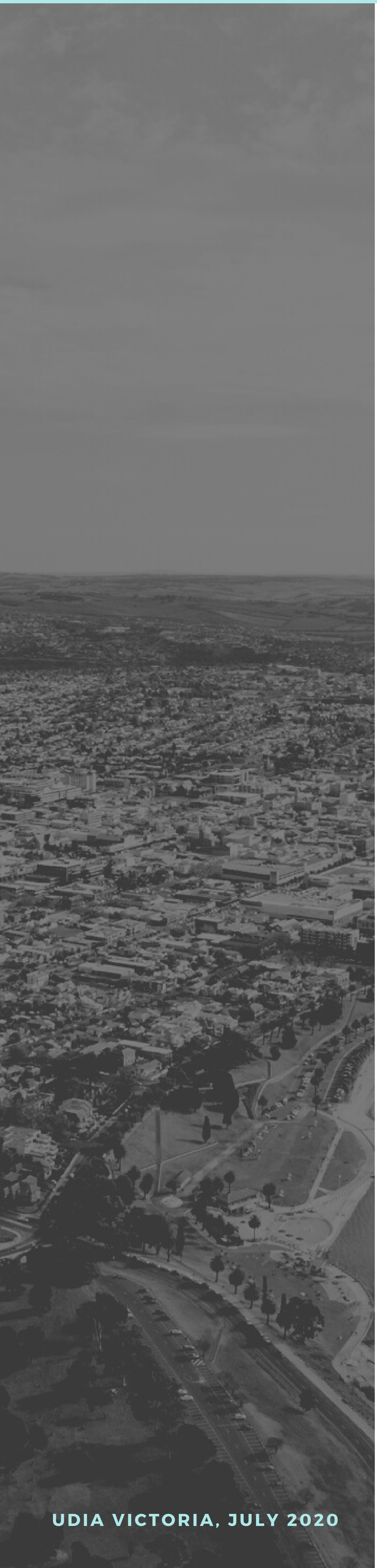
We **need a whole-of-government approach** when introducing new taxes and charges; or increasing existing government taxes, charges and levies. This is critical to ensure government fully understands the **cumulative impact of various policy and legislative changes across departments, local councils and statutory authorities.**

The Victorian Government housing policy goal of improving housing affordability, should inform the above. Further, the Victorian Government should consider whether the mix of existing or proposed taxes and charges impact on the state's ability to achieve appropriate housing supply.

In response to the coronavirus pandemic, it is vital that the Victorian Government consider both supply and demand. UDIA Victoria's Roadmap to Recovery sets out a range of measures relating to planning and fiscal policy, and greenfield and infill development settings.

On the supply side, we need targeted adjustments to taxes that could achieve two goals by stimulating greater transactions through a demand response, while reducing the costs of housing. For example, reducing the cost of stamp duty on residential transactions could encourage a greater volume of transactions, thereby returning the equivalent revenue to the State Government (as a lower number of transactions with a higher stamp duty cost would).

On the demand side, the Victorian Government should consider how buyers and the industry can be incentivised to re-enter the market with targeted tax relief. Again, a targeted change to stamp duty could increase transactions and be revenue neutral.



THE HIDDEN COST OF HOUSING

WE MUST GET REAL ABOUT THE HIGH COST OF HOUSING IN THIS STATE.

IT HAS NEVER BEEN MORE APPARENT THAT EVERY PERSON DESERVES SUITABLE HOUSING, WHICH IS AFFORDABLE RELATIVE TO THEIR INCOME.

THERE'S NO SILVER BULLET TO FIX OUR HOUSING AFFORDABILITY CHALLENGES, BUT THERE IS A COMPELLING CASE FOR RADICAL CHANGE TO THE STATE TAX AND PLANNING SYSTEMS – CHANGE THAT SUPPORTS HOMEBUYERS AND THE BUILDING, CONSTRUCTION AND DEVELOPMENT INDUSTRY AT A TIME WHEN WE NEED IT MOST.

UDIA VICTORIA

THE HIDDEN COST OF HOUSING

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