



332 Albert Street
East Melbourne, VIC, 3002
T (03) 9411 4555
F (03) 9419 3800
www.mbav.com.au

ABN: 38 004 255 654
RTO: 3935

25 September 2024

██████████
Director Activity Centres Program
Metropolitan Melbourne
Victorian Planning Authority

By e-mail: ██████████

Dear ██████████

Proposed Activity Centres Program

The Master Builders Association of Victoria (MBV) welcomes the opportunity to provide feedback to the Department of Transport and Planning (DTP) in response to the proposed Activity Centres Program.

MBV represents over 6,300 members from across the building and construction industry, including all tiers of construction companies, subcontractors and tradespeople working in the domestic, commercial, and civil sectors, as well as apprentices, suppliers, and manufacturers.

The building and construction industry is one of the most important sectors of the Victorian economy. Our sector is the third-largest full-time employer in Victoria and supports 126,370 businesses, more than every other sector of the economy. The overwhelming majority of these businesses (98.8 per cent) are small, with less than twenty employees.

Building and construction activity also has one of the largest multiplier effects on the economy. This is because the structure of activity requires high domestic content for our industry's inputs, such as building materials, labour, and professional services. As a result, it is estimated that every \$1 million spent on residential building activity delivers \$3 million worth of economic activity.

Furthermore, the building and construction industry delivers essential infrastructure such as schools, hospitals, parks, and housing, as well as other amenities that are critical to our community's well-being and Victoria's future prosperity.

I have provided feedback below to the proposed Activity Centres Program where it is relevant to our members. I have also provided an outline of current building and construction industry challenges in relation to delivering 80,000 new dwellings annually to provide context for the feedback.

Current building and construction industry challenges

Victoria's Housing Statement was released 20 September 2023 seeking the delivery of 80,000 new dwellings annually in Victoria. Current data shows dwelling commencements in the twelve months to August 2024 are 54,072 and trending well below the target. Highlighting the challenge, just 638,500 new homes were commenced over the ten years to 2024, and this is the strongest decade total on record for Victoria.

There are a number of factors that have coalesced to create an environment where the number of new dwellings being delivered is both below the target and trending downwards. These include:

- Overall construction cost increases since 2019 of 40 percent due to materials shortages, supply chain challenges, and increased cost of labour and skills. Whilst the materials and supply chains challenges have normalised, these costs have not returned to 2019 levels.
- Further to the point above, high wages and conditions on State Government projects are attracting labour and skills from the private sector projects, or increasing project costs in the private sector to the point where projects are not feasible.
- High land values which particularly impacts on infill (apartment and townhouse) projects.
- High interest rates which have reduced borrowing capacity for consumers.

The combination of the above has resulted in declining project feasibility and often insufficient pre-sales to enable a project to obtain finance to proceed, even where planning permits are secured. All of the issues noted above remain a risk to achieving the housing targets moving forward, in addition to:

- Experienced builders walking away from the industry because the risks are too high and the margins too low. Specifically:
 - Apartment projects - typically all the contract risk through the lifecycle of the project sits with the head contractor. Further, project margins are typically 2 to 3 percent which are rapidly eroded with variations, time delays and latent conditions which can cause insolvencies.
 - Single or multi-unit projects – issues with preliminary works, delays obtaining Letters of Eligibility and domestic building insurance, delays securing registration, the head builder carrying the risk for sub-contractors.
 - Feedback from a major bank is that very few construction companies have made a profit over the past four years.
- Frequent regulatory changes slow down the delivery of new dwellings. For example, to comply with the NCC2022 (Liveable Housing design and thermal efficiency standards), volume builders have recently had to redesign all their plans, have them approved by a building surveyor, and construct new display homes to the new standards. This process is both time consuming and costly, and can take 18 months.
- Insufficient pipeline of appropriate skills and labour, especially insufficient apprentices entering the system.

Streamlining reviews and approvals

In an activity centre, a deemed to comply standard will generally relate to built form controls like heights, street wall heights, and setbacks. If the proposal meets a deemed to comply standard it will benefit from a streamlined planning approval pathway, which could include exemption from notice and review provisions.

In catchment areas within 800m or 10 minutes walking distance of the core, normal planning processes including notice and appeal provisions will apply.

MBV Response

In general, MBV supports the streamlined review and approval pathway and we provide the following feedback:

- The proposed deemed-to-comply built form controls will assist in providing certainty for project design and yield.
- Whilst we welcome a more standardised approach across the ten activity centres, we consider it important to provide scope for variations in the built form controls to respond to the local urban character context.
- We seek clarification regarding the statement that:
In catchment areas within 800m or 10 minutes walking distance of the core, normal planning processes including notice and appeal provisions will apply.
Does this the new overlay with the deemed-to-comply standards will not apply within the 800m catchment/ 10 minutes walking distance of the core?

New approach to funding infrastructure

We're working on a simplified infrastructure funding mechanism to fund the things your future suburb needs. This mechanism could provide direct contributions for councils and State Government to deliver essential infrastructure like roads, community centres and local sporting facilities to support growing and changing communities.

MBV Response

MBV generally supports the proposed infrastructure contributions and we provide the following feedback:

- A single broad-based contribution for state and local infrastructure should be an improvement for industry in general and streamline financial contributions.
- Industry acknowledges more infrastructure is required in established areas however it must be seen to be addressing the issue and providing value for money.
- Require transparency so the contribution can essentially be 'tracked' through the system.
- Given the new contribution replaces state, local, and open space, what proportion of the contribution will be apportioned to each of these?
- Note the proposed infrastructure charges will increase the overall cost of Build-to-Rent projects because the dwellings are held in a single ownership rather than sold.

Recommendations

1. That the trigger for payment be aligned with the settlement process as follows:
 - For greenfield development, the trigger should be the transfer of the title for the lot.
 - For apartment development, the trigger should be the transfer of the title for the apartment.

This can and should all be managed through the PEXA platform when the payment for settlement is made. The contributions then would come directly out of the settlement, similar to the payment of outstanding rates or utilities bills when purchasing an established home.

Holding cost impact of proposed contributions

Estimate of compound interest if the contribution is triggered by the approval of a planning permit for apartment projects:

Number of apartments: 200

Contribution per apartment: \$10,250

Builder carrying contribution cost of \$2,050,000 for roughly three years at an interest rate of 6.5%.

When factoring in compound interest the total at the point of completion and settlement is \$2,476,296, almost 25 percent higher than the original contribution.

Supporting the delivery of affordable housing

Delivering affordable housing is a shared responsibility between local, state and federal governments and industry. There are many ways to provide more affordable housing, and activity centres have a role to play. We are working on policy to support the delivery of affordable and diverse housing in the activity centres and we will be undergoing targeted consultation with Councils and the Affordability Partnership Group.

MBV Response

MBV acknowledges the need for an increase in the delivery of affordable housing especially in locations that have good access to services and amenities.

We note the cumulative impact of the range of existing taxes and charges, as well as costs associated with planning and building permits, adversely impacts on project feasibility.

We also note the proposed additional infrastructure charges and other costs associated with the proposed building reforms will add to the existing burden of taxes and charges.

We urge the Victorian Government to take this in to consideration when deciding on future taxes and charges, particularly in the context of the current industry challenges noted above.

Note that any future requirements for the delivery of affordable housing within projects are likely to result in a cross subsidy where the balance of the consumers pay more to cover the discounted cost of the affordable dwellings.

Contact

Thank you for the opportunity to participate in this important consultation process and we look forward to continuing to work with you as the various elements of the proposed Activity Centres Program are further developed. If you have any questions about the feedback provided, please feel free to reach out to me directly at [REDACTED].

Yours sincerely

[REDACTED]

Dr Caroline Speed
Director Policy and Industry Collaboration
Master Builders Victoria

IS YOUR BUILDER A MASTER BUILDER?

