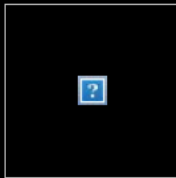


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The Property Council's Victorian Division has more than 500 members representing all sectors of the property industry. Our members are architects, urban designers, town planners, builders, investors and developers. The Property Council supports smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which enable its members to make a lasting contribution to the economic prosperity and social well-being of Australians.

Summary of Submission

The following submission outlines the Property Council's key observations on the Plan and highlights explicitly the challenges concerning governance and implications of the proposed Windfall Gains Tax on value uplift arising from the rezoning of land. The submission also addresses issues concerning built form and land-use.

This response aims to identify opportunities within the Plan to provide a framework and structures that develop the vision for Arden and adapt to the unknown economic conditions that will exist during the precinct development cycle. The submission is intended to be read concurrently with last year's submission (**Attachment 1**), as many of the principles remain the same, regardless of changes in the most recent Plan.

Windfall Gains Tax implications for precinct development and strategy

The Victorian Government's proposed Windfall Gains Tax (WGT) threatens to jeopardise the success of the Arden precinct. The proposed tax seeks to impose a 50 per cent tax on the value uplift of land following a rezoning.

In submissions to the Victorian Government, the Property Council strongly argued that rezonings initiated by state or local government, and/or part of a wider strategic plan for a site or precinct, should never incur a WGT. As it currently stands, there is no indication from the Victorian Government to suggest a landowner will be protected from incurring a tax liability from a rezoning not initiated by themselves.

[REDACTED] will experience significant development, land has transacted in recent years at values that already account for the uplift which will be created as a result of the precinct's rezoning. New landowners have already paid a premium as part of the pre-zoning transaction phase, and have in many cases significantly invested in their preparedness for rezoning, including in social and community infrastructure planning and services. These transactions and this investment would have occurred prior to the announcement of the proposed WGT, so would not have accounted for such an enormous tax burden to comprise part of the development costs. Therefore the impost of the tax will be so significant as to either: push up the end price of housing and commercial property in the precinct; or completely stall development activity until such time as retail prices have climbed sufficiently to ensure development activity is [REDACTED] good for affordability or the timely development of this important precinct.

Further, existing landowners and businesses in the area who plan on continuing to operate unchanged will be negatively impacted, undermining the broad local support required for the successful development of the precinct. We have argued it is completely unreasonable to expect that a landowner incurs a tax liability, especially where there is an existing use of the site or there is no

development set to occur, for example where the rezoning is not initiated by the landowner. An example of this would be a panel beating business in a commercial zone, which has not instigated a rezoning, but has been 'caught up' in a wider precinct change. As it stands, the owner of this business will now incur a tax liability on the rezoning of the land that they own and accrue interest on that liability until such time as they realise the value – being a tax on theoretical value rather than real value. The likely outcome is they would be forced to sell their land to meet their tax liability, for which they would be unlikely to be able to borrow funds to pay. The value of this owner's property has also now halved, and they will need to find new accommodation for their business – and they are less able to do so in a comparable location, as they have now only access to half their earnings due to the tax.

On a larger scale, the WGT as its currently proposed will capture rezoning activity that is required to properly activate identified precincts. The Arden precinct, with the structure plan nearly finalised for the reinvigoration of a key site close to the city, is the most significant example of a precinct at risk from WGT. The Arden precinct planning process has been conceived with no allowance for the introduction of the WGT. The significant net public benefits included within the broader Arden plan are now seriously jeopardised and will likely not be viable now because of the WGT coming into play, especially with much of the Arden rezoning activity required likely to take place after 1 July 2022, the proposed WGT commencement date. Should this occur, the Government will face the very real proposition of development in the precinct significantly lagging the delivery of major infrastructure, resulting in a precinct that does not evolve cohesively to the benefit of the community, as a result of it being too expensive to activate the surrounding land.

Contrary to the view that Arden will benefit from Government expenditure in infrastructure, the WGT risks the opposite happening – the business case justifying the infrastructure may not materialise because development becomes unviable.

As such, we strongly urge the implications of the WGT for the Arden Precinct are considered if it is implemented as proposed. This should be considered alongside the issue of Development Contributions. We note the financial gap in the proposed Development Contributions Plan in the draft amendment and stress the need for the Victorian Government adequately invest in the Precinct to bridge the funding gap and to ensure necessary funding is provided to deliver related project costs.

Governance arrangements for precinct development

The planning for Arden is being led in partnership by the Victorian Planning Authority (VPA) and the City of Melbourne, in collaboration with the Department of Transport (DoT)

A focus of our submission to the draft Structure Plan in 2020 was the need for more clarity around governance issues in both Arden and across precincts development more broadly. It remains unclear who will be the ultimate responsible authority for the Arden project. In a Property Council report, "Principles of Successful Precincts"² (the report), it identified that current planning arrangements for precinct development, which divides responsibility among several authorities, is ineffective. The [redacted] approach to precinct development means that processes and stakeholder experiences vary greatly, leading to inconsistent planning and development outcomes

² Property Council of Australia, *Principles of Successful Precincts* (2020).

To support a more streamlined approach to precinct development, the Property Council has called for the creation of a precinct authority to lead precinct development in Victoria

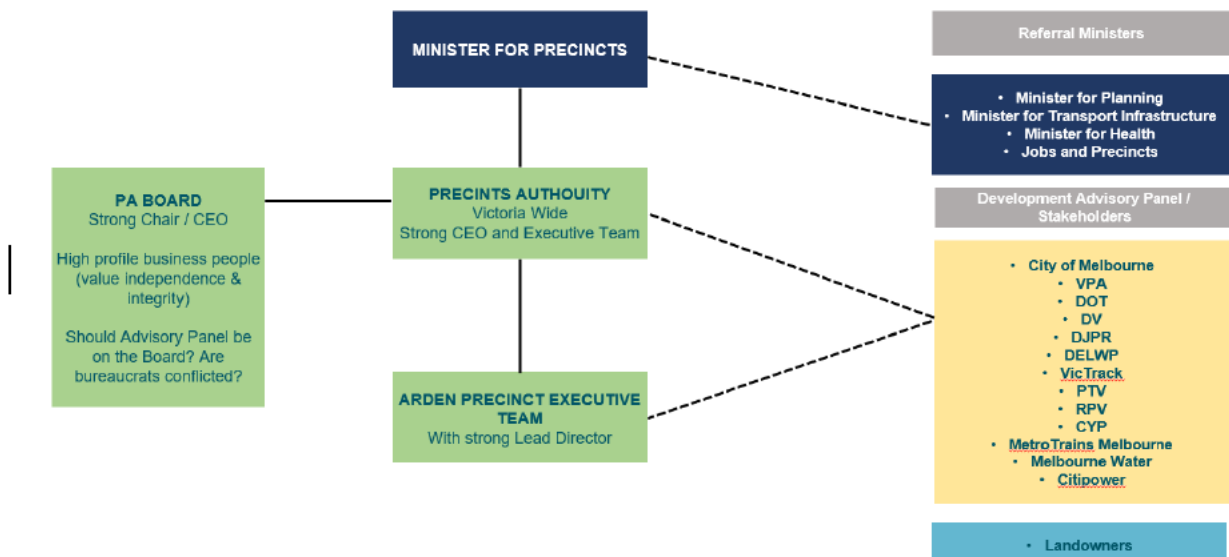
A precinct authority, reporting to a key economic minister, could have powers to:

- Manage the tender process for government land involved in the precinct.
- Identify and articulate the social, economic and place outcomes required for development in the precinct.
- Facilitate within government appropriate transport connectivity and delivery timelines for the precinct.
- Work with private stakeholders in the development process for the precinct, to cut through red tape and speed up approval processes.
- Support the proponents in any ongoing government interface to maximise the precinct's chances of commercial and social success for the medium and long term.

While significant State Government investment is slated to enable the development of the precinct over time, a clear governance structure and pathways for private sector investment will provide certainty and encourage the maximum amount of private sector investment in the precinct to create more significant economic and community benefits over the longer term.

How could Arden be governed differently?

The below map sets out how Arden could be administered in a hypothetical best-case scenario with a dedicated Minister for Precincts and a standalone Precincts Authority.



Affordable housing in a post-COVID-19 environment (Objective 23)

The Property Council welcomes the Plan's move away from mandated inclusionary zoning as outlined in the earlier 2020 draft. The previous Strategy 23.2, which sought to require a six per cent of new residential development be delivered through inclusionary zoning mechanisms such as community housing or shared equity, was not the best approach to promote the development of Arden and

increase affordable housing supply. The shift to supporting and encouraging the provision of six per cent affordable housing in new developments at a 50 per cent discount is more likely to deliver the ultimate outcome of more affordable housing.

In various submissions to the State Government, the Property Council has opposed mandatory inclusionary zoning on private land; in particular, the proposition that mandatory inclusionary zoning should be applied to multiple land-use types including residential, commercial and industrial land.

In our previous submission, we argued further consideration should have been given to how affordability can be achieved within the precinct. Creative funding solutions or greater flexibility to market-led affordable residential stock could be considered. The discussion around affordability should focus on a dialogue with the private sector that incentivises creative solutions to affordability, rather than a requirement for the private sector to "gift" housing to compensate for repeated under-investment in social housing by successive State and Federal governments – an issue which governments have not meaningfully addressed or solved despite its recognised community and economic impacts.

General comments on the Objectives and Strategies of the Arden Structure Plan

Delivering a mixed-use precinct (Objective 3)

SGS data suggests that a mixed-use precinct plan would increase jobs by an average of 14 per cent when compared to a precinct which is 'crowded out' by residential developments and over the life of an average project, the increase in gross value add generated by jobs is estimated at \$105.3 million.³

The best opportunity for the delivery of this objective is via a Precinct Authority, to coordinate actions of all stakeholders, especially government authorities and agencies, over the short, medium and long term. This approach would maximise the potential to achieve precinct-wide benefits measured against a range of economic and community indicators.

The proposed Plan is centered around sunk investment in the Metro rail line and creation of the new Arden Metro station that represents one of the most significant city-shaping investments [REDACTED]

Greater consideration should be given to whether the economic objectives are too limiting. Arden is now one of a limited number of city-shaping opportunities. In that context, we oppose artificially limiting the growth aspirations for either jobs or residents.

Growth targets should be revised over the lifecycle of the project to allow measurement of achievements over time and to inform strategy refinements that will support the ultimate objectives and allow the precinct to reach its highest and best use in future but always clearly guided towards the objectives of job creation in targeted sectors.

[REDACTED]

³ SGS. *Analysing Melbourne's enterprise precincts*. February 2018. [Cite](#).

Built form controls (Objective 5)

The proposed density and built-form controls in the Plan are highly prescriptive and do not allow for innovations and outperformance of economic, community or urban design that could be delivered through performance-based planning controls. The approach is at odds with best-practice planning approaches that have been applied in many other jurisdictions to successfully unlock the potential of innovation/urban renewal precincts.

The combination of potentially mandatory Floor Area Ratios (FAR), maximum height and setback provisions, winter shadowing controls, affordable housing contributions and a precinct wide infrastructure contribution requirement (ICP), has the potential to seriously stifle investment, in much the same way as has occurred in Fisherman's Bend. Without rigorous capacity modelling and economic testing of the implications of this combination of controls, there is a very real risk that the desired level of renewal and investment simply will not eventuate in the short to medium term.

With the new station to be open in 2025, it is imperative that the package of built form controls for the precinct serve as a genuine enabler of the strategic role and growth potential of the precinct, and encourage the market's full participation in the renewal process. Recognising that this is a 20+ year project, it is simply too early in Arden's development to prohibit or discourage uses and built form outcomes that could accelerate the achievement of the other objectives with the Plan. Early-stage controls should be aimed at limiting short-term under-development that will prevent the full potential of Arden being delivered.

With respect to the proposed use of FAR controls and building height controls, it is unclear why they are both considered necessary, given that they do not always work well in concert. For instance, the Plan allows for up to twenty stories in some areas; however, only sixteen stories are achievable with the FAR requirements. There should be a threshold for site sizes where the FAR applies, for example, FAR should only apply to sites under 1,000sqm. Additionally, larger sites that have genuine opportunities to implement masterplan placemaking initiatives should not be subject to a blunt FAR test that will stifle innovation and achievement of wider economic and community benefit objectives.

The Plan is also unclear on whether the FAR and height ranges will be discretionary [REDACTED] [REDACTED] mandate a minimum % of commercial/employment use). Further clarification on how the proposed built form controls will be manifest in mandatory/discretionary planning scheme controls is needed to enable a proper assessment of the implications of the planning regime to be made.

Encourage buildings that remain adaptable as uses change over time (Objective 7)

The strategies proposed under Objective 7 are unnecessarily prescriptive. While it is important that buildings within a precinct can adapt over time to meet market demand and accommodate different users, prohibiting highly specific building configurations is unnecessary and will discourage private sector investment. The private sector is best at creating buildings that maximise value over the medium and long term, often having long investment windows and factoring in projected market conditions without the necessity for additional regulation.

A well-designed and current purpose-built student accommodation scheme has limited utility other than student accommodation given the shift to more efficient room sizes (that meet users' preferences and affordability thresholds) and which are offset by a greater provision of more common

areas. This market shift has occurred within the City of Melbourne and in accordance with the prevailing Student Housing Policy⁴. As such, strata options are very limited without major reconfiguration costs. As a result, strategy 7.2 would prohibit such developments from occurring and would create ambiguity relative to the existing local policy.

In the event that, over a precinct's life cycle, a specific building configuration no longer meets the market requirement, the drivers of urban regeneration, architectural innovation and owners' investment return criteria provides sufficient safeguards to enable highest and best use of development to be achieved for individual assets across the precinct.

Next Steps

The Arden precinct is a city shaping project with the opportunity to unlock considerable growth and value for residents and the economy alike, turning Arden into a centre of employment and innovation as well as providing homes for thousands of Victorians. The Property Council's members will be primary delivery partner and stakeholder in the evolution of the Arden, and we value the opportunity to continue to provide feedback and input as the precinct develops.

The first Arden Macaulay Structure Plan was drafted in 2012. In the nine years since, considerable consultation has been undertaken and now the best way forward for the development of Arden is to finalise the Plan and enable the property industry, in conjunction with Government, to work together to realise the full potential of the precinct. The best tool to help deliver results for Arden is a precinct authority to coordinate all stakeholders, Government authorities and agencies, over the entire precinct lifecycle. The Property Council suggests the governance recommendations proposed in the *Principles of Successful Precincts* report are adopted to support the delivery of Arden and other precincts such as the Macaulay Precinct currently under development in Victoria.

We look forward to continuing an open dialogue on behalf of the property development, investment and place making industry to support the Department of Transport, the City of Melbourne and VPA in their delivery of the Arden Structure Plan.

If you require further information or clarification, please contact Eric Allilomou, [REDACTED]

Yours sincerely



Danni Hunter

[REDACTED]
Property Council of Australia

⁴ Clause 22.24, Melbourne Planning Scheme, [cite](#).

Response to the Arden Precinct Structure Plan

The Property Council of Australia welcomes the opportunity to respond to the Arden Precinct Structure Plan ("the Plan") recently released by the Victorian Planning Authority (VPA) and the City of Melbourne.

As our city and State grow, so must our focus on delivering high quality, innovative and connected communities. To do this, we must effectively utilise space to deliver higher density hubs to meet the needs of Australia's fastest-growing city.

All levels of government recognise the importance of precincts in facilitating the development of location-appropriate higher density, high utility environments required to keep pace with demand.

In the current climate, with challenging economic conditions and heightened uncertainty impacting immediate demand, the role of government becomes even more critical. Enabling and supporting the private sector to continue to develop new property projects through the economic downturn will be vital to ensuring that projected infrastructure and housing supply keep pace with demand projections.

The Property Council welcomes the opportunity available within the Plan, and the following submission outlines several elements that could elevate this project to deliver a thriving new suburban hub for Melbourne's north.

About the Property Council

The Property Council of Australia is the leading advocate for Australia's property industry – the economy's largest sector and employer. The property industry accounts for 13 per cent of Australia's GDP, employs 1.4 million Australians – more than mining and manufacturing combined – and helps secure the future of 14.8 million Australians who invest in property through superannuation funds.

In Victoria, property contributes \$41.7 billion to Gross State Product (11.7 per cent), employs more than 331,000 people and supports more than 400,000 workers in related fields. The Property Council's members drive the economy. They conceive, invest in, design, build and manage the places that matter most to Australians – our homes, shopping centres, office buildings, industrial areas, retirement villages, education, research and health precincts, tourism and hospitality venues and more.

The Property Council's Victorian Division has more than 500 members representing all aspects of the industry. Its members are architects, urban designers, town planners, builders, investors and developers. The Property Council supports smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which enable its members to make a lasting contribution to the economic prosperity and social well-being of Australians.

Summary of Submission

The following submission outlines the Property Council's key observations on the Plan and highlights explicitly the challenges concerning governance, affordable housing provisions and rigid built form requirements.

This response aims to focus on identifying opportunities within the Plan to provide a framework and structures that develop the vision for Arden and adapt to the unknown economic conditions that will exist during the precinct development cycle.

The submission also responds to some of the outlined objectives with more specific feedback and, where relevant, recommendations.

Governance arrangements for precinct development

The planning for Arden is being led in partnership by the Victorian Planning Authority (VPA) and the City of Melbourne, in collaboration with the Department of Jobs, Precincts and Regions (DJPR).

It is not clear who will be the ultimate responsible authority for the Arden project. In a Property Council report, "Principles of Successful Precincts"¹ (the report), it identified that current planning arrangements for precinct development, which divides responsibility among several authorities, is ineffective. The concern is that a disparate approach to precinct development means that processes and stakeholder experiences vary greatly, leading to inconsistent planning and development outcomes.

To support a more streamlined approach to precinct development, the Property Council has called for the creation of a precinct authority to lead precinct development in Victoria.

A precinct authority, reporting to a key economic minister, could have powers to:

- Manage the tender process for government land involved in the precinct.
- Identify and articulate the social, economic and place outcomes required for development in the precinct.
- Facilitate within government appropriate transport connectivity and delivery timelines for the precinct.
- Work with private stakeholders in the development process for the precinct, to cut through red tape and speed up approval processes.
- Support the proponents in any ongoing government interface to maximise the precinct's chances of commercial and social success for the medium and long term.

While significant State Government investment is slated to enable the development of the precinct over time, a clear governance structure and pathways for private sector investment will provide certainty and encourage the maximum amount of private sector investment in the precinct to create more significant economic and community benefits over the longer term.

The report provides further recommendations in terms of best practice for governance and is attached to this report (**Attachment 1**).

Affordable housing in a post-COVID-19 environment (Objective 23)

COVID-19 has had significant economic impacts on the residential housing market, felt most acutely in metropolitan Melbourne. During such an uncertain time, additional taxes in the form of mandatory inclusionary zoning will place new residential developments at significant risk. The

¹ Property Council of Australia, *Principles of Successful Precincts* (2020).

resultant reduction in new developments and fewer dwellings being delivered will have a direct price effect across the broader market, and far fewer affordable dwellings will be built. As a result, existing housing will also become less affordable, placing compounding pressure on housing affordability both locally and across the city.

The Property Council opposes objective 23 of the Plan and the strategies under the objective. In various submissions to the State Government, the Property Council has opposed mandatory inclusionary zoning on private land; in particular, the proposition that mandatory inclusionary zoning should be applied to multiple land-use types including residential, commercial and industrial land.

Further consideration should be given to how affordability can be achieved within the precinct. Creative funding solutions or greater flexibility to market-led affordable residential stock could be considered. The discussion around affordability should focus on a dialogue with the private sector that incentivises creative solutions to affordability, rather than a requirement for the private sector to "gift" housing to compensate for repeated under-investment in social housing by successive State and Federal governments – an issue which governments have not meaningfully addressed or solved despite its recognised community and economic impacts.

In many Australian jurisdictions, legislators (particularly elected representatives in Local Government) appear to be contemplating a form of inclusionary zoning. The Property Council's members are increasingly required to include affordable housing in their planned developments, due to policies which have been created in an ad-hoc manner and often with no consideration of project-specific economic viability impacts, which may result in projects not proceeding and exacerbating the lack of affordable housing.

Mandatory inclusionary zoning operates as a tax on at-market dwellings and can result in consequences that are counter to the policy objective of providing more affordable housing. Mandating affordable housing requirements in private developments poses a significant commercial disadvantage to landowners who purchased land at market prices based on prevailing policy settings, unencumbered by inclusionary zoning requirements.

Mandatory inclusionary zoning effectively devalues sites currently held, commonly resulting in:

- sites not being sold or developed, limiting housing supply and further hampering the delivery of affordable housing and reducing affordability; or,
- additional costs being borne by other purchasers in the development through increased purchase prices to maintain project viability and secure finance.

Studies have shown that increased statutory "fees", including costs associated with inclusionary zoning, can have significant adverse effects on land prices² and have found a significant negative correlation between those fees and the number of new homes built.³

Existing landowners should not be subject to changes in regulation which subsequently prevent or constrain their ability to develop or deal with that property. To do so fundamentally alters the premise upon which the land was purchased and amounts to a tax on that landowner. Changes in government policy to this effect create sovereign risk and discourage both individual and institutional investment in Victoria.

² Ihlanfeldt and Shaugnessy, *An empirical investigation of the effects of impact fees on housing and land markets* (2004).

³ Skidmore and Peddle (1998).

Notwithstanding the Property Council's position on mandatory inclusionary zoning on private land, we acknowledge that there may be limited circumstances in which mandatory inclusionary zoning may be appropriate. This is the case where it:

- a. occurs on government land; and
- b. is clearly identified in any master planning or bid documents issued by government; and
- c. is not imposed after a procurement process.

Rather than the introduction of a tax to achieve affordable housing through mandatory inclusionary zoning, the Property Council instead recommends an approach where the private sector is appropriately and genuinely incentivised to provide affordable housing. Not only does this represent a fairer outcome for private landowners, it is more likely to provide more significant amounts of affordable housing stock.

Earlier this year, the Property Council made a submission to the *Planning Mechanisms for Affordable Housing Ministerial Advisory Council (MAC)*. Attached to this submission (**Attachment 2**) is the complete submission which outlines our full opposition to mandatory inclusionary zoning.

While the submission to the MAC was drafted before the COVID-19 outbreak, the 'sovereign' risk impacting investment in Victoria, along with the broader economic impact, has even greater emphasis now than when the attached submission was finalised.

Response to the Objectives and Strategies of the Arden Structure Plan

Objective 1 *Create the conditions that attract and retain global talent in the life sciences, education, health and digital technology sectors and foster interaction, collaboration and knowledge sharing between enterprise, government and education.*

1.1 Facilitate the development of anchor enterprises and industry facilities early in Arden's development to showcase innovation, create jobs in the precinct and attract ancillary businesses and industries.

1.2 Establish an innovation hub in the heart of Arden that includes affordable space for innovation and technology labs, artists' and makers' studios and co-working spaces, complemented by presentation and seminar spaces for sharing, exhibiting and commercialising work.

1.4 Explore private and public delivery models for affordable workspaces for arts, creative and innovation industries necessary for the desired economic activity. This includes delivering workshops and artists' studios, presentation spaces and co-working and collaboration spaces available on a variety of tenures and price-points to support Arden's future businesses.

The Property Council is, in principle, supportive of the objective to attract and retain global talent within the Arden Precinct. However, government must be more active and financially committed to achieve this goal. There is no natural market attraction that will deliver this outcome.

This objective could be supported by a Precinct Authority, which could manage the curation of tenancies on Government-held land and support the delivery of critical government anchor tenants to attract desired industries to the precinct.

While the attraction and retention of tenancies is an attractive proposition for all precincts, setting fixed expectations around industries for the precinct may not yield the best result. Precinct development happens over decades, not weeks, and while a precinct may be complete in terms of buildings reaching a "final" state, the activities within them must have the flexibility to change over time. This principle is even more critical in the current economic climate; the next phase of the economic cycle is unlikely to identically replicate past trends.

Strategy 1.2 refers to the creation of an innovation hub in the heart of Arden. This concept needs to be clarified further. Without significant investment by the State Government in industry-specific infrastructure – such as the establishment of core tertiary level institutional facilities or a pre-commitment of anchor tenancies – market forces must be allowed to kickstart the precinct. Prioritising specialist industries to the exclusion of market demand will disadvantage investment in the precinct at a time when it is needed most.

The Property Council is concerned that strategy 1.4, which seeks to explore private and public delivery models for "affordable" workspaces, fails to consider the need for all private sector investment in the precinct to deliver commercial outcomes. Consideration should be given to approaches which incentivise commercial landlords to deliver creative leasing solutions for emerging industries.

Objective 2 *Deliver a highly liveable, mixed-use precinct of Melbourne that aspires to accommodate approximately 34,000 jobs and around 15,000 residents with innovation at its heart.*

2.1 Provide an urban structure that aspires to accommodate approximately 34,000 jobs and around 15,000 residents and caters for a broad range of building types and floorspaces for the many different uses that will comprise the future of Arden.

2.2 Provide appropriate planning controls and policy to attract the identified jobs mix and unlock Arden's potential for innovation.

SGS data suggests that a mixed-use precinct plan would increase jobs by an average of 14 per cent when compared to a precinct which is 'crowded out' by residential developments and over the life of an average project, the increase in gross value add generated by jobs is estimated at \$105.3 million.⁴

The best opportunity for the delivery of this objective is via a Precinct Authority, to coordinate actions of all stakeholders, especially government authorities and agencies, over the short, medium and long term. This approach would maximise the potential to achieve precinct-wide benefits measured against a range of economic and community indicators.

The proposed Plan is centered around sunk investment in the Metro rail line and creation of the new Arden Metro station that represents one of the most significant city-shaping investments in recent decades.

Greater consideration should be given to whether the economic objectives are too limiting. Arden is now one of a limited number of city-shaping opportunities. In that context, we oppose artificially limiting the growth aspirations for either jobs or residents.

⁴ SGS. *Analysing Melbourne's enterprise precincts*. February 2018. [Cite](#).

Growth targets should be revised over the lifecycle of the project to allow measurement of achievements over time and to inform strategy refinements that will support the ultimate objectives and allow the precinct to reach its highest and best use in future but always clearly guided towards the objectives of job creation in targeted sectors.

Objective 3 *Celebrate, protect and interpret Aboriginal cultural values and heritage in the planning, design and curation of Arden*

3.1 Plan for a new arts, cultural and community hub in Arden North to provide spaces for sharing Aboriginal history, culture and values associated with the area and for supporting Aboriginal business.

3.3 Explore opportunities to reveal the history of Arden as a rich and watery ecology, source of food and place of meeting through design, planting and curated programs. In particular, collaborate with the Traditional Custodians and local community to recognise this through the design of key spaces, including the Arden North integrated stormwater management open space.

The Property Council supports this initiative. However, it is essential that the State Government assumes ownership and remains accountable for this initiative by making the necessary financial commitments.

Significant development capacity to support economic opportunities across Arden North have now been significantly reduced by the proposed inclusion of integrated waterway management open space so allocation of further land for this community purpose must also be considered in the economic context and particularly the opportunity costs to achieving other precinct-wide objectives.

Location of the proposed integrated waterway management open space on privately owned land in Arden North does not appear to be justified. A transparent explanation about why this infrastructure has not been planned to be delivered across primarily government owned land is justified given this alternative would ensure the delivery of the strategies under the objective, and avoid the very significant costs (and time delays) of compulsory acquisition of the numerous affected privately held properties.

Objective 4 *Deliver a new urban structure for Arden that incorporates a high-quality network of connected streets and open spaces that help support a varied and walkable block structure*

4.1 Deliver Arden's renewal in general accordance with the spatial Plan as per Figure 21 to deliver exemplary urban design, a mix of block sizes and a broad range of building types.

There is an opportunity created by the concentration of land ownership by public authorities and government. Consideration should be given to the realignment of (publicly owned) roads to achieve this objective and to create additional built form opportunities.

Exemplary urban design must also facilitate and support the outperformance of economic and community objectives rather than merely being an end in itself.

Objective 5 *Introduce density and built form controls that help transform Arden into a world-leading urban renewal precinct and innovation precinct while celebrating the precinct's existing assets and surrounding neighbourhoods.*

5.1 Prepare an Arden Design Guide and planning scheme amendment to implement the relevant strategies of the Plan. This will implement the design recommendations, floor area ratio controls and built form controls.

The proposed density and built-form controls in the Plan are highly prescriptive and do not allow for innovations and outperformance of economic, community or urban design that could be delivered through performance-based planning controls. The approach is at odds with best-practice planning approaches that have been applied in many other jurisdictions to successfully unlock the potential of innovation/urban renewal precincts.

The combination of potentially mandatory Floor Area Ratios (FAR), maximum height and setback provisions, winter shadowing controls, affordable housing contributions and a precinct wide infrastructure contribution requirement (ICP), has the potential to seriously stifle investment, in much the same way as has occurred in Fisherman's Bend. Without rigorous capacity modelling and economic testing of the implications of this combination of controls, there is a very real risk that the desired level of renewal and investment simply will not eventuate in the short to medium term.

With the new station to be open in 2025, it is imperative that the package of built form controls for the precinct serve as a genuine enabler of the strategic role and growth potential of the precinct, and encourage the market's full participation in the renewal process. Recognising that this is a 20+ year project, it is simply too early in Arden's development to prohibit or discourage uses and built form outcomes that could accelerate the achievement of the other objectives with the Plan. Early-stage controls should be aimed at limiting short-term under-development that will prevent the full potential of Arden being delivered.

With respect to the proposed use of FAR controls and building height controls, it is unclear why they are both considered necessary, given that they do not always work well in concert. For instance, the Plan allows for up to twenty stories in some areas; however, only sixteen stories are achievable with the FAR requirements. There should be a threshold for site sizes where the FAR applies, for example, FAR should only apply to sites under 1,000sqm. Additionally, larger sites that have genuine opportunities to implement masterplan placemaking initiatives should not be subject to a blunt FAR test that will stifle innovation and achievement of wider economic and community benefit objectives.

As a matter of principle, we do not believe the rationale for these controls has been adequately addressed in the Plan –it appears that the highly regulated approach to managing built form used by the City of Melbourne in a variety of other inner urban contexts has simply been replicated here (e.g. West Melbourne). In the context of Arden's strategic importance to Melbourne's innovation economy and its unique transport amenity, there is no basis for the application of a complex and prescriptive built form control regime.

The Plan is also unclear on whether the FAR and height ranges will be discretionary and whether the FAR provisions will also be used as a de facto land use control (i.e. to mandate a minimum % of commercial/employment use). Further clarification on how the proposed built form controls will be manifest in mandatory/discretionary planning scheme controls is needed to enable a proper assessment of the implications of the planning regime to be made.

Given the requirement outlaid in existing planning controls as mentioned above, which also propose to introduce a requirement for green space for residential development, the Property Council queries

the amount, and the location of public open space proposed for the precinct. Given the significant public land holdings in the precinct, it would be more appropriate for public space contributions to be delivered on publicly held land, rather than restricting private development areas.

Objective 7 *Encourage buildings that remain adaptable as uses change over time*

7.1 Require that any new car parking facilities can be adapted to future habitable buildings for other uses, including internal layouts, adequate floor to ceiling heights and avoidance of sloping or excessively deep floorplates which preclude future use.

7.2 Require that highly specific building configurations, such as student accommodation and hotels, use structural design systems which enable conversion to other uses should needs change over time.

7.3 Require that commercial buildings be designed to enable subdivision of floorplates into smaller tenancies over time through the placement and configuration of cores, atria and other elements in response to evolving workplace patterns.

The strategies proposed under Objective 7 are unnecessarily prescriptive. While it is important that buildings within a precinct can adapt over time to meet market demand and accommodate different users, prohibiting highly specific building configurations is unnecessary and will discourage private sector investment. The private sector is best at creating buildings that maximise value over the medium and long term, often having long investment windows and factoring in projected market conditions without the necessity for additional regulation.

A well-designed and current purpose-built student accommodation scheme has limited utility other than student accommodation given the shift to more efficient room sizes (that meet users' preferences and affordability thresholds) and which are offset by a greater provision of more common areas. This market shift has occurred within the City of Melbourne and in accordance with the prevailing Student Housing Policy.⁵ As such, strata options are very limited without major reconfiguration costs. As a result, strategy 7.2 would prohibit such developments from occurring and would create ambiguity relative to the existing local policy.

In the event that, over a precinct's life cycle, a specific building configuration no longer meets the market requirement, the drivers of urban regeneration, architectural innovation and owners' investment return criteria provides sufficient safeguards to enable highest and best use of development to be achieved for individual assets across the precinct.

Objective 8 *Ensure design excellence is achieved for key strategic sites within Arden.*

8.1 Require strategic sites to deliver design excellence through either a design competition or design review panel.

The requirement for mandatory design competitions on "strategic sites" or sites that exceed a threshold scale does not appreciate the financial cost and time-delays associated with running such competitions relative to the questionable benefits that may, or may not, result compared to what would have been delivered under the prevailing system.

⁵ Clause 22.24, Melbourne Planning Scheme, [cite](#).

Such prescriptive controls and the need for a thorough assessment through the planning process (often including an Office of the Victorian Government Architect review) only adds to the bureaucracy and, in our experience, has not expedited the process at the back end.

The Property Council can see merit in this initiative, subject to a design competition allowing for consideration of development beyond prescribed built form controls that deliver outperformance of urban design, economic or other objectives or where planning could otherwise be expedited for the development. A practical approach to enable a step-change towards this ideal should require that development of any government-owned property, or government-owned land that is sold, be subject to objective 8.1. The success of this pilot initiative should be reviewed in 2025 to enable a more informed assessment of the potential benefits of this approach.

Objective 9 *Establish strong environmental governance in Arden that provides certainty, accountability and transparency to achieve the precinct's net-zero carbon target.*

9.1 Require large developments to prepare an operational management plan encompassing energy, transport, water, waste and climate resilience.

9.2 Investigate requirements for annual public disclosure of energy operating performance of all developments. This may be extended to water, transport and waste over time.

9.3 Embed emissions reduction targets within development agreements and leasing arrangements to ensure outcomes.

The requirement for large developers to produce operational management plans appears on the surface to be overly prescriptive and, in part, purely a clerical measure that serves no clear benefit in isolation. Consideration should be given to an alternative approach that sets targets and allows developers and operators to pursue the best strategies to meet those targets. A management plan may be a natural outcome of this, but it does not need to be a prescriptive outcome within the Plan.

Requirements for disclosure of performance should be standardised for ease of completion and to provide more meaningful data.

The Property Council supports the embedding of emissions reductions targets within any development agreements, which should be over the life cycle of a development, and preferably be accompanied by incentives for high building performance such as rates relief or land tax concessions.

Objective 10 *Facilitate the delivery of precinct-scale infrastructure and centralised facilities that makes achieving building scale targets easier*

10.1 Facilitate a mechanism to procure a power purchase agreement to power the precinct with 100 per cent renewable energy. Opportunities exist for this agreement to also address the energy needs of surrounding neighbourhoods.

10.3 Require a commitment to precinct organics collection by the City of Melbourne or alternative private operator.

The Property Council is supportive of the concept of facilitating precinct-scale infrastructure and centralising facilities for Arden as one method of helping achieve building performance targets. Still,

it should not be prescriptive for future Arden developments. Developers may have their arrangements for meeting or exceeding targets, and they should be free to pursue them. Facilitating a power purchase agreement is a positive approach, but it will be challenging to satisfy multiple stakeholders with varying contractual requirements – as an alternative, it may be simpler to require all operators to have their own power purchase agreement in place.

A commitment to precinct organics processing is also welcome with the appropriate high-level governance structures in place, and consideration should be given to treatment and reuse on or nearby the site, consistent with circular economy principles.

Objective 11 *Embed sustainable living and building practices in planning and built form controls.*

11.1 Require all new buildings to connect to precinct sustainability infrastructure (such as a third pipe system) if it is available at the time of development.

11.2 Require all new buildings to achieve world-leading sustainability performance (such as 6 Star Green Star Design & As Built rating for larger buildings and 70% Built Environment Sustainability Scorecard rating for smaller buildings, or equivalent rating under comparable or updated systems).

It is essential that any requirement to connect to sustainability infrastructure must be delivered at cost-competitive rates.

We support the requirement for the pursuit of world-leading sustainability performance such as Green Star (across Design, As Built, Communities, Interiors and Performance) and BESS and that this be evidenced through certification wherever possible. It should be noted that the Green Building Council of Australia's Green Star standards for Homes and Performance are, at the time of submitting, currently open for consultation, and there will be an evolution in these standards over time.

Where a 6-Star or equivalent rating may not be feasible, an application to upgrade performance within a set timeframe may be considered, provided there is no lock-in of any fossil fuel capacity.

Objective 12 *Measure the performance of the precinct, its buildings and its occupants and be able to adapt to changes in climate, lifestyle and technology in the future.*

12.2 Establish a robust monitoring and evaluation program across the precinct that will enable performance to be evaluated and approaches to be adapted.

A precincts authority could play a key role in monitoring and managing building performance within the precinct over time and could be instrumental in informing continuous improvement.

It is imperative that monitoring and evaluation criteria be set in conjunction with, and ideally be led by industry, with government playing a facilitation role and managing the mechanics.

Objective 13 *Minimise waste production and water use, optimise reuse and recycling and encourage a circular economy in Arden.*

The Property Council supports the principles from the government's new circular economy policy, *Recycling Victoria*, being integrated into the Arden structure plan. Again, if requirements in this

objective are overly prescriptive, they will affect the cost and viability of projects. The objective's use of "encourage" connotes government incentives for such behaviour which we support.

Objective 14 *Mitigate the urban heat island effect in the design and delivery of the public realm and private developments accordant with desired urban greening outcomes and standards.*

14.1 Design the public realm to provide urban cooling benefits through shading, planting and integrated water management for cooling and irrigation effects.

14.2 Require all new buildings to use materials that minimise the urban heat island effect with a standard that at least 75 per cent of total project site areas should comprise of building or landscaping elements that increase the solar reflectance of the site

The requirement for water management for cooling is not well defined in objective 14.1, and it is unclear how this would be measured and specified.

The requirement for urban heat island minimisation should align with the Better Apartment Design Standards, with builders/developers able to pursue their own strategies for minimisation including the Green Factor Tool, which is still being rolled out in a pilot phase.

Objective 15 *Provide space for high capacity public transport capable options connecting Arden into the expanding central city.*

15.1 Provide space to allow for the potential future delivery of high capacity public transport capable corridors along Laurens Street, Fogarty Street, Henderson Street and Boundary Road (south of Macaulay Road).

15.3 Explore opportunities to reopen the northern entrance to North Melbourne Station for a more convenient and direct link to Arden.

The Property Council agrees with this objective. Where additional land is required for the provision of additional public transport nodes, this land should, where possible, be government-held land.

Built around public node transport, Arden has an opportunity to not only create connections to the expanding city, but to be a precinct centralised around connectivity. However, the current Plan fails to adopt the principles of intensifying development around transport nodes.

The station is catalyst infrastructure and creating density around the station and moving higher levels of density to parts of the precinct where transport connectivity is more accessible should be considered. A NSW government-backed study by Sydney firms Luti Consulting and Mecone Planning illustrated the significant effect public transport infrastructure has on nearby home values. The study analysed Sydney rail and found that houses within 400 metres of a train station experienced a 4.5 per cent increase in value. The value uplift lessened as the distance from the station increased, with houses 400 to 800 metres away attracting a 1.3 per cent price bump, and those 800 to 1600 metres away rising in value by only 0.3 per cent.⁶ There is considerable evidence to suggest commercial properties following similar correlation between proximity to public transport and valuations. Further consideration should be given to improving densification around transport infrastructure.

⁶ Luti Consulting and Mecone Planning, *Transit and Urban Renewal Value Creation*, 2018.

What infrastructure surrounds a station is particularly important in the context of commuter and resident safety. Currently the most direct routes to the western side of the station are via parkland, which creates safety challenges, particularly for non-peak hour commuters.

Objective 16 *Provide safe, direct and connected protected cycling routes through and to the precinct.*

16.1 Deliver Strategic Cycling Corridors along Arden Street, Queensberry Street, Langford Street and Laurens Street.

16.3 Deliver safer intersections for bike riding by adopting designs which continue bicycle lanes up to and through intersections and provide physical separation for cyclists.

The Property Council supports objective 16 and the proposed strategies to deliver the objective.

Objective 25 *Deliver educational facilities to meet the anticipated demographic demand.*

25.1 Support the development of the proposed government primary school within Arden Central to serve the needs of the current and future Arden community and surrounding areas.

25.2 Support development of the proposed government secondary school in the North Melbourne/Macaulay area to serve the needs of the current and future Arden community and surrounding areas.

25.3 Ensure schools in Arden are innovatively planned and delivered to be located in proximity to or colocated with complementary services and spaces, including recreational spaces, activity centres, public transport services, kindergartens and early learning centres

Education as a sector is continually evolving; for that reason, we propose a "super" school incorporating primary and secondary level education. Such a facility could either be traditionally built or "vertical".

Similarly, consideration could be given to including a school within a mixed-use building, perhaps developed by the private sector.

Another option that may be considered is the development of "mini" primary schools with shared facilities; this approach is likely to be more accessible and facilitate partnership with the private sector. Mini schools could also assist with building up the capacity over time rather than having to build a school to a size required once Arden is complete. The "mini" primary schools could share facilities and would feed into the secondary school.

Consideration should be given to partnering strategy 1.4 with the recreational and activity space requirements in strategy 25.3. Planning incentives could be given to encourage the development of community facilities that could be used for schools during school hours and other purposes outside of school hours and could include facilities such as gyms, indoor spaces and entertainment and creative facilities.

What is the solution?

The best opportunity to deliver results for Arden is a precinct authority to coordinate all stakeholders, Government authorities and agencies, over the entire precinct lifecycle.

The Property Council suggests the governance recommendations proposed in the *Principles of Successful Precincts* report are adopted to support the delivery of Arden and other precincts such as the Macaulay Precinct currently under development in Victoria.

Next Steps

We look forward to continuing an open dialogue on behalf of the property development, investment and place making industry to support the City of Melbourne and VPA in their delivery of the Arden Structure Plan.

If you require further information or clarification, please contact Emily Young, Senior Policy and Communications Advisor, on 0475 161 328 and eyoung@propertycouncil.com.au.

Yours sincerely



Cressida Wall
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PRINCIPLES OF SUCCESSFUL PRECINCTS

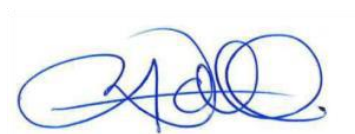
Foreword

Victoria is a diverse and thriving State which, for the last decade, has experienced exponential population growth. To accommodate the additional population demands on our major cities, we have witnessed a period of significant urban sprawl, with new development areas emerging across our State.

To ensure the new development in the greenfield and urban infill areas achieve positive community outcomes, the Property Council has prepared a report to highlight best practice in precinct development in Victoria.

This project was designed to identify a better planning pathway for precinct development. The report was developed in conjunction with the expert members of the Victorian Planning and Infill committee who dedicated their time and the expertise to the development of this project. I thank them for their valuable contributions.

Creating successful precincts in Victoria is vital to our future, and the financial recovery of our State. It is our hope this research will lead to the creation of a dynamic precincts authority for the management of precinct development in Victoria and that this document will be used by Governments as a best-practice guide when considering future developments.



Cressida Wall

Executive Director | Victoria

Property Council of Australia

What do Successful Precincts look like?

Introduction

The purpose of this paper is to discuss the principles that underpin successful precincts and how they can be enabled through public and private sector strategic planning, policy, partnerships, and engagement.

What we want to achieve:

A shared vision and understanding between government and industry about:

1. The need for an well resourced precincts authority to streamline development and foster positive outcomes
2. What features enable the delivery of successful precincts
3. New planning processes that carve out a clearly defined role for precincts as vital infrastructure
4. The role of the private sector in identifying precinct development potential in a site
5. The role of government in the timely delivery of vital infrastructure to enable the success of precinct developments.

The Opportunity

Developing Precincts for Victoria and Victorians: Supporting industry to deliver thriving Precincts

As our city and State grow, so must our focus on delivering high quality, innovative and connected communities. To do this, we must effectively utilise space to deliver higher density hubs to meet the needs of Australia's fastest growing city.

All levels of government recognise the importance of precincts in facilitating the development of location appropriate higher density, high utility environments required to keep pace with demand. In the current climate, with challenging economic conditions and heightened uncertainty impacting immediate demand, the role of government becomes even more critical. Enabling and supporting the private sector to continue to develop new property projects through the economic downturn will be vital to ensuring that projected infrastructure and housing supply keep pace with demand projections. While immediate and short-term demand may be constricted by the pandemic, history shows that there will inevitably be a recovery cycle. The temporary slowing of the market provides government with the opportunity to address a broad range of supply issues that have impacted affordability over several years.

To offset the future risk of extreme supply shortages and associated price bubbles, government must collaborate with the private sector to enable the cost-effective delivery of property stock critical to maintaining the supply pipeline. There is clear agreement that population growth has been and will continue to be a key economic driver for the Victorian economy. As an international city with strong

education credentials and world class employment talent, Melbourne is uniquely placed to attract international investment and become the headquarters for many multinational businesses. Following the pandemic, the success experienced by Australia in managing health outcomes will be a strong driver for international investment and migration. To incentivise investment and development, attractive planning controls and positive tax and policy conditions are required.

Victoria must use the temporary slowdown in population growth to prepare for future growth. Revitalising thinking around the delivery of precinct developments in both infill and greenfields areas should be a key pillar of future population planning. These spaces must not only be responsive to market demand but also be predictive and adaptable to ensure they can respond to changing migration patterns and lifestyle sentiments.

Precincts must be developed to support higher density communities, and planning must consider the health and lifestyle outcomes for the community. A core component of success will be shifting community sentiment about density to enable the delivery of affordable housing solutions for Melbourne into the future. The key benefits around higher density living, including improved liveability and efficiency, must be sold to the wider community.



Policy Settings and the Opportunity

Current Victorian Precinct Policy

In 2018, the Andrews Government introduced a new ministry for Priority Precincts. Following a cabinet reshuffle in June 2020, Minister Pakula took over responsibility for the development of the Docklands Precinct, Fishermans Bend and the Footscray Precinct as part of the new Business Precincts portfolio, while Minister Allan will oversee Development Victoria and the key transport precincts of Arden, Sunshine and the Richmond to Flinders Street corridor. Minister Leane also has the Suburban Development portfolio.

In addition to the split portfolio, Development Victoria, a statutory corporation, has responsibility for undertaking urban renewal, property development and major projects on behalf of the Victorian Government.

The Department of Environment, Land, Water and Planning is currently investigating planning and development principles for Strategic Development Areas. The Department of Jobs, Precincts and Regions retains overview responsibility for Priority Precincts. VicTrack, also a statutory corporation, has a mandate to revitalise transport precincts and maximise returns for land no longer required for transport. The Fishermans Bend Development Board was established to guide the planning and development of the Fishermans Bend Precinct. The Victorian Planning Authority and the City of Melbourne are leading the planning for the Arden Urban Renewal Precinct. At the same time, the City of Melbourne is developing a refreshed structure plan for Macaulay.

This disparate approach to precinct development means that processes and stakeholder experiences vary greatly, leading to inconsistent planning and development outcomes.

The Role of Planning

Historically, planning has, on occasion, been perceived as a brake on inappropriate development or something which protects the community from “bad development”. The Property Council rejects this notion. With precincts, the role of planning could not be more different. Planning needs to enable good development and good design. Its role is to maximise the positive outcomes for the State in terms of social amenity but also, importantly, economic development.

Any conceptualisation of proper precinct planning must place economic outcomes as one of the highest priorities, particularly as part of a COVID-19 recovery effort. This underpinning requires a change in thinking; it cannot just be business as usual. It requires that policy settings (in the form of planning amendments or legislative instruments) include a reference to economic outcomes front and centre and it requires that there are specific staff involved in any precinct teams / authorities, whose role is to consider, at every step of the way, whether the mechanisms and processes are maximising the economic potential of the relevant project. That is not to say that public safety, public amenity,

affordable housing, environmental considerations, and design are not important. They are. It is simply that economic considerations appear often to have come last in the role that planning has played for precincts and this approach is sub-optimal.

Not only does planning need to facilitate economic outcomes, but it also must maintain flexibility to maximise those outcomes. There is a genuine sensitivity that is required to balancing public interest with the ability of the private sector to determine the best outcomes. The focus and goal should be on how the private sector can be allowed to maximise value and amenity without compromising other social outcomes. Notably, the economic drivers on the private sector are such that, given the right instructions on an output requirement such as open space, affordable housing, or environmental considerations, a developer will tend to maximise results because it maximises the prices that can be commanded in the market.

Previous experience of the development sector has been that when governments dictate the precise mix of commercial activities that should occur in a precinct, for example, by nominating that a precinct must favour one industry rather than another, it can actually stifle development, lower the total economic output, create perverse incentives and limit the precinct's chances of success.

Governance structure – A precincts authority

The best structure is one that is flexible and gives specific pathways for precincts to take place. The Property Council recommends the creation of a precinct authority which:

- Can facilitate complex debates between different departments within government
- Has a direct reporting relationship to a key economic minister
- Has decision making power as a planning authority (with appropriate checks and balances in place)
- Can take individual projects or decisions out of the everyday planning processes and make decisions quickly
- Has the power of compulsory acquisition where necessary to maximise site size, resulting in better social and amenity outcomes over the life of the project.

Similar successful models of the proposed authority include the Southern and Eastern Integrated Transport Authority (SEITA) and Major Projects Victoria (in some of its iterations). Much depends on who is appointed as CEO of such an organisation and who is the chair of the relevant board. It is necessary to have a combination of deep public sector and private sector expertise in any relevant entity.

Such an authority could have an ongoing role even after development of a precinct was well underway to help ensure its success through an ongoing partnership with the private sector, as the management of the associated amenities created within the precincts needs to be accounted for during its development cycle. Additionally, smaller precincts in infill areas with multiple owners require strong government leadership to support and enable consultation between the private sector and local government, to enable successful outcomes.

The authority could, in effect, take charge across the life cycle of a precinct by:

- Helping to guide and prioritise the selection of the relevant precinct
- Managing the tender process for government land involved in the precinct
- Identifying and articulating the output requirements of the precinct
- Facilitating within government appropriate transport connectivity for the precinct
- Working with any winning consortia in the development process for the precinct, to cut through red tape and speed up the process
- Supporting the proponents in any ongoing government interface to maximise the precinct's chances of commercial and social success for the medium and long term

End to end management means that understandings can be reached between the private and public sector and again, the certainties that result tend to maximise value for the State and the public who are the eventual occupiers of the precinct.

CASE STUDY: Major Project Victoria, under the *Project Development and Construction Management Act 1994* (Vic)

Major Projects Victoria (MPV), under the *Project Development and Construction Management Act 1994* (PDMC Act), was the facilitating agency situated within various State Departments over time, to deliver nominated projects. Projects would be nominated under this Act as being of State significance, and MPV was given powers such as land acquisition and planning powers.

MPV delivered many public projects (or projects on public land) such as Federation Square, AAMI Park, the Melbourne Park Redevelopment, Beacon Cove, the Parkville Commonwealth Games Village, the Melbourne Exhibition and Convention Centre and the Melbourne Recital Centre and Melbourne Theatre Company development.

The power of the PDCM Act lies in its ability to allocate necessary powers to one agency to undertake projects, like the *Major Transport Facilitation Act 2009* (Vic), which has enabled special vehicle delivery agencies to operate and deliver major transport projects. A similar governance structure could be established for precincts, nominating certain projects of state significance, and allocating one government entity planning and delivery powers, to ensure maximum efficiency and clarity in decision-making. Most significantly, it would also provide the private sector with certainty, should it be partnering with government on a project of this nature.

What makes Precincts unique?

Economic Advantages of Precinct Development

It is well accepted that precincts have a special potential for economic and jobs growth that can have substantial positive impacts on the broader city and region.

The Australian Government has found that “precincts are of increasing importance in driving business and economic growth, and levels of collaboration and innovation.”¹ In an increasingly competitive global market – for investment, jobs and talent – it is crucial to get it right.

Economic impact of precincts internationally

In terms of international precincts, there have been promising developments across the board, servicing a range of industries around the world. Some examples include:

- The South Lake Union precinct in Seattle, which was developed from a post-industrial site into a high-tech precinct, increased permanent jobs by 63 per cent from 1995 to 2012.²
- The top 31 economically significant areas in the UK contributed 20 per cent of the country's Gross Value Add (GVA) but made up only 8 per cent of businesses.³
- During the 2007-08 recession, 40 international high-tech manufacturing clusters achieved an 11.2 per cent average employment growth rate and 40 knowledge-intensive services clusters achieved a 14.3 per cent average employment growth rate.⁴
- The average employment growth rate in 80 precincts across OECD member countries was 13.5 per cent in advanced manufacturing precincts and 19.4 per cent in knowledge-intensive services precincts over a four-year period.⁵

Economic impact of precincts in Australia

Looking toward the domestic market, the redevelopment of Barangaroo in Sydney is estimated to have cost \$6 billion and will bring 23,000 new residents to the precinct, attracting 12 million visitors each year. While the initial costs were significant, the precinct is estimated to inject \$1.5 billion into the New South Wales economy each year.⁶

¹ Department of Industry, Innovation and Science. *Statement of Principles for Australian Innovation Districts – Place-Based Partnerships Building on Competitive Strengths*. October 2018.

² Clark, G. & Moonen, T. *The Logic of Innovation Locations: Understanding the drivers that enable cities to host innovation economies, The Business of Cities and Future Cities Catapult*, London. 2017.

³ Centre for Cities & McKinsey & Company. *Industrial Revolutions: Capturing the Growth Potential, Report commissioned by The Gatsby Foundation, McKinsey & Company*. 2014. [Cite](#).

⁴ Temouri, Y. *The Cluster Scoreboard: Measuring the Performance of Local Business Clusters in the Knowledge Economy, OECD Local Economic and Employment Development*. 2012. [Cite](#).

⁵ Ibid.

⁶ The Urban Developer. *Inside Barangaroo: Sydney's Largest Redevelopment Project*. July 2014. [Cite](#).

The construction cost of Crown Casino at Barangaroo is estimated at \$1.1 billion.⁷ Using the Australian Bureau of Statistics construction multiplier,⁸ this investment will generate \$3.2 billion of economic output for the NSW economy.

Economic impact of precincts in Victoria

Assuming the average precinct development construction cost to be \$2 billion, each such investment would generate \$5.7 billion in economic activity for the Victorian economy.⁹

According to the SGS *Analysing Melbourne's Enterprise Precincts* report, Melbourne has thirteen untapped precincts in Brunswick South, Cremorne, Fitzroy/Collingwood, South Melbourne, Footscray, Abbotsford, Arden, Macaulay, Northland, Swinburne University, Tottenham, West Melbourne and Fishermans bend.¹⁰ The SGS report analyses the economic value associated with these precincts and demonstrates that a precinct plan that favours mixed-use over solely residential developments makes a difference to overall economic impact. The SGS data suggests that a mixed-use precinct plan would increase jobs by an average of 14 per cent (see Table 1) when compared to a precinct which is 'crowded out' by residential developments and over the life of the project, increase in GVA generated by jobs is estimated at \$105.3 million (see Table 2). This modelling illustrates the creation of synergies between the various parts of a precinct, both commercial and residential, which causes this uplift.

Table 1: Employment Impact as a Result of Increased Clustering.¹¹

Precinct	Increase from Base Case	2026	2036	2051
Brunswick South	10%	5,300	6,600	8,100
Cremorne	25%	19,500	23,800	28,000
Fitzroy Collingwood	10%	24,000	29,700	35,300
Gipps St Abbotsford	15%	4,700	5,600	6,600
NURP	10%	8,400	9,400	10,600
Swinburne Uni	15%	32,300	38,100	44,200
Tottenham	10%	6,700	7,200	7,900
West Melbourne	10%	5,200	5,900	7,400
Fishermans Bend NEIC	25%	18,400	21,300	27,400
Arden	10%	4,200	12,200	40,900
Macaulay	10%	9,100	16,700	41,500
Footscray	15%	3,800	4,400	5,100
South Melbourne	15%	16,400	20,400	24,300

⁷ Mladenovski, D. *Crown Sydney Barangaroo Construction Progress 2019*. Build Sydney. July 2019. [Cite](#).

⁸ ABS. *The Construction Industry's Linkage with the economy*. 2000. [Cite](#).

⁹ Ibid.

¹⁰ SGS. *Analysing Melbourne's enterprise precincts*. February 2018. [Cite](#).

¹¹ Ibid.

Table 2: Economic Impact (GVA \$M) of Increased Clustering – Value Generated by New Jobs in Victoria¹²

Precinct	2026	2036	2051
Brunswick South	\$0.9	\$1.2	\$1.5
Cremorne	\$10.9	\$14.5	\$18.2
Fitzroy Collingwood	\$4.3	\$5.7	\$7.2
Gipps St Abbotsford	\$1.8	\$2.2	\$3.1
NURP	\$1.4	\$1.7	\$2.0
Swinburne Uni	\$10.9	\$13.9	\$17.4
Tottenham	\$1.2	\$1.5	\$1.6
West Melbourne	\$1.3	\$1.4	\$2.1
Fishermans Bend NEIC	\$9.6	\$12.0	\$16.6
Arden	\$1.0	\$3.1	\$11.2
Macaulay	\$2.1	\$4.2	\$11.5
Footscray	\$1.0	\$1.3	\$1.6
South Melbourne	\$6.5	\$9.0	\$11.5
Total	\$52.8	\$71.6	\$105.3

Table 3: Base Case Precinct Employment and GVA Projections¹³

Precinct	2026		2036		2051	
	Employment	GVA (\$ million)	Employment	GVA (\$ million)	Employment	GVA (\$ million)
Brunswick South	4,800	\$8.8	6,000	\$12.1	7,400	\$16.0
Cremorne	15,600	\$43.6	19,000	\$57.3	22,400	\$72.8
Fitzroy Collingwood	21,800	\$42.4	27,000	\$56.5	32,100	\$72.6
Gipps St Abbotsford	4,100	\$12.1	4,900	\$15.5	5,700	\$19.4
NURP	7,600	\$13.0	8,500	\$15.8	9,600	\$19.2
Swinburne Uni	28,100	\$72.5	33,100	\$92.2	38,400	\$115.1
Tottenham	6,100	\$11.8	6,500	\$13.7	7,200	\$16.2
West Melbourne	4,700	\$12.2	5,400	\$15.2	6,700	\$20.1
Fishermans Bend NEIC	14,700	\$38.1	17,000	\$47.5	21,900	\$66.0
Arden	3,800	\$9.9	11,100	\$31.2	37,200	\$112.4
Macaulay	8,300	\$21.6	15,200	\$42.6	37,700	\$113.7
Footscray	3,300	\$6.5	3,800	\$7.9	4,400	\$9.9
South Melbourne	14,300	\$44.2	17,700	\$59.0	21,100	\$75.5

¹² SGS. *Analysing Melbourne's enterprise precincts*. February 2018. [Cite](#).

¹³ SGS. *Analysing Melbourne's enterprise precincts*. February 2018. [Cite](#).

The SGS report also calculates that by 2051, precincts suffering from residential ‘crowding out’ will cost the Victorian economy \$234.6 million GVA in lost jobs per annum. By contrast, mixed-use precincts can generate an additional \$105.3 million GVA in jobs per annum over and above the forecasted base rate of \$728.9 million by 2051 (see Table 3). In total, this means that mixed-use precincts will generate \$834.2 million GVA in jobs per annum.



Refining the way we approach precincts plays a dramatic role in the economic fortunes of the State. Across the thirteen precincts identified in the SGS report, the average GVA generated by new jobs generated per annum in a precinct comes to:

$$\frac{\$834.2 \text{ m}}{13} = \$64.2\text{m GVA per precinct}$$

There are, arguably, more than thirteen precincts previously identified across the greater Metropolitan Melbourne region.

With the leadership of Local and State Government and with the support of the private sector, there could be in the region of twenty precincts based on Property Council estimates.

$$\$64.2m \text{ GVA} \times 20 \text{ precincts} = \$1.28b \text{ GVA per annum}$$

Using the average GVA generated by jobs per annum in a precinct, the Property Council calculates that \$1.28 billion GVA could be generated by jobs per annum across greater Metropolitan Melbourne in 2051.

Precinct developments also generate immediate benefits for the Victorian economy both directly through construction and through supporting Victorian jobs in the supply chain. Using the Australian Bureau of Statistics construction economic multiplier for construction, Table 4 estimates the economic impact and the number of jobs supported through the construction of a sole development within a precinct.

Table 4: Immediate Economic Benefit

Development Construction Cost	Economic Impact	Jobs Supported
\$300m ¹⁴	\$859.8m ¹⁵	111,000 ¹⁶

The Geelong's Civic Precinct, with a comparatively smaller development cost of \$220 million, is estimated to create nearly 900 new jobs in Geelong.¹⁷ The Civic Precinct will also be available to residents of Geelong with 48% of the total floor area being publicly accessible. Those who will work in A-grade office space are provided with a range of transport options including pedestrian, bike and public transport access. This bustling hub will likely prove to be a pre-eminent regional hub for prosperity upon its completion in June 2022.



¹⁴ Property Council Estimate.

¹⁵ ABS. *The Construction Industry's Linkage with the economy*. 2000. [Cite](#).

¹⁶ Ibid.

¹⁷ City of Greater Geelong. *A new civic precincts for Geelong*. 2018. [Cite](#).

Types of Precincts

To borrow from the definition of innovation districts defined by think tank, the Brookings Institution, precincts are “the ultimate mash up of entrepreneurs and educational institutions, start-ups and schools, mixed-use development and medical innovations, bike-sharing and bankable investments—all connected by transit, powered by clean energy, wired for digital technology, and fuelled by caffeine.”¹⁸

While the above definition paints a colourful picture of what could be the future of precincts in Victoria, it is important to note there is no fixed or agreed definition of a precinct, nor the types of precincts, in the Victorian planning system.

This term may generally refer to a location, usually defined by spatial boundaries in a structure plan or another form of control or policy, that can include land ownership by multiple entities, a mix of uses and activities and be at any stage of development status.

Precincts are perhaps currently best defined in the planning context through the now well established Precinct Structure Plan (PSP) process that applies to the outline of future development directions for new greenfield suburbs.

The concept of precincts in a planning context is evolving. The term ‘precinct’ is now being used broadly to include the regeneration and renewal of established urban areas and strategic development areas. This may include private properties with surrounding public realm amenity, civic spaces and transport nodes.

Precincts are known to create skilled employment opportunities for local communities and in that way facilitate State Government policies such as to “improve access to jobs across Melbourne and closer to where people live”.¹⁹

A much broader range of precinct types has emerged in recent years, including:

- **‘Priority precincts’** that have a focus on the regeneration and renewal of underutilised inner urban areas (Fisherman’s Bend, Arden, Richmond to Docklands)
- **Transport focused precinct development** (areas associated with Melbourne Metro and Suburban Rail Loop Stations)
- **Nationally significant employment precincts** or National Employment and Innovation Clusters (NEIC) (LaTrobe, Monash, Parkville etc)
- **Suburban office precincts** (Essendon Fields)

It has become increasingly clear that the principles and approaches that have been successfully applied to precinct planning in greenfield contexts do not simply translate to the more diverse and complex nature of precincts in established urban areas.

¹⁸ Katz, B., Wager, J. *The Rise of Innovation Districts: A New Geography of Innovation in America*. The Brookings Institution. May 2014.

¹⁹ DEWLP. *Plan Melbourne 2017-2050*. 2017. p 48.

The establishment of the new Department of Jobs, Precincts and Regions in 2019 signalled the State Government's agenda to elevate the role of designated precincts in delivering government policy objectives around employment innovation, affordable housing, transit-oriented development and urban regeneration. To date, there has been little clarity or consistency around the approach to planning or governance in these emerging precincts, with a variety of multi-agency and taskforce models employed to lead renewal processes, with varied results.

The concept of a precinct in the real estate development market context, is represented by defined geographic redevelopment areas featuring more flexible planning controls with the objectives of:

- Facilitating the delivery of a mix of buildings and uses that collectively enhance the activation of interfacing public spaces
- Encouraging and supporting a more intense and diverse range of economic activities
- Catalysing urban renewal and job creation, while also supporting local business.

The collective benefits and economic outcomes from a precinct planning approach should be greater than what would otherwise be achieved from planning controls that are focused on the built form and use of individual buildings.

The types of precincts in the real estate context should extend beyond the government sponsored precincts above, and could include:

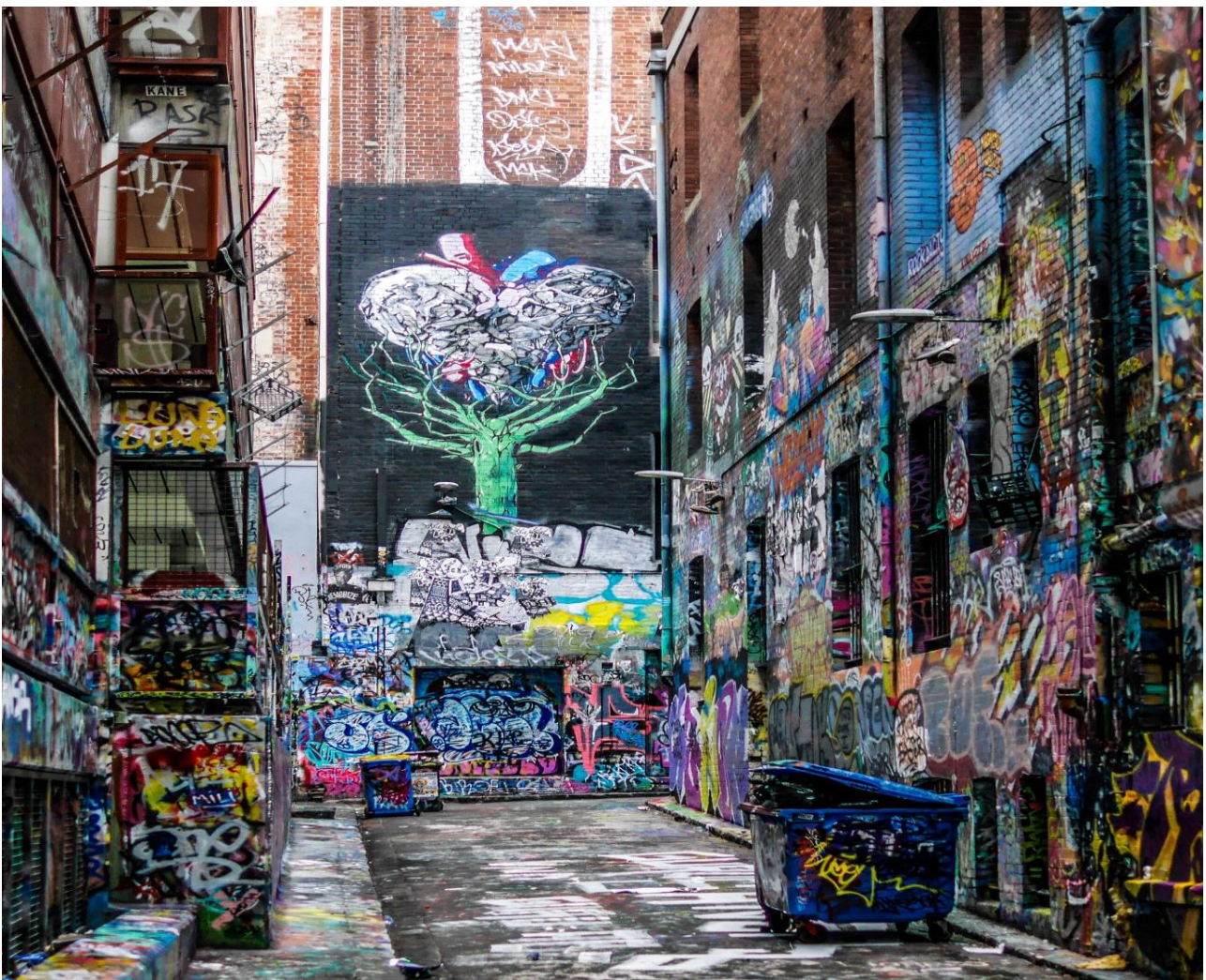
- Transport-node oriented precincts, around an established or new stations such as Jewell Station and Glen Waverly Station.
- Regeneration / renewal / redevelopment precincts, where there is a change of underlying use of the existing land. For example, repurposing obsolete industrial land or repurposing of an ongoing major use such as shopping centres reimagined as town centres and mixed-use precincts with residential, commercial development and civic uses integrated into the existing use.
- Economic and innovation precincts (not just NEICs)
- Consolidated ownership precincts (major landowner(s))

Ongoing management of shared areas in precincts needs to be addressed by government or the private sector to ensure the precinct's success. Without ongoing governance and a management structure for shared amenities and open spaces, over the long term, the precinct may experience maintenance challenges and become less attractive to major investors, anchor institutions and businesses that underpin the continued success of a precinct

Timelines for Precinct Developments

Precincts are inherently dynamic: as they develop, the mix and intensity of use invariably changes over time and user patterns tend to evolve. Planning typically envisages a final or “end-of-state” outcome and a linear and progressive delivery towards that vision. This approach fails to consider the realities that across multiple landownerships there are a range of factors that will influence the timing of delivery and propensity for redevelopment. These factors may include financial capacity, leasing arrangements and passive vs active owners.

As such, planning of precincts must have at least a twenty year time horizon. A successful precinct should never be “finished” or achieve its end of state outcome given it will need to evolve to meet changing community demand. While the buildings may be “final” for a period, the activities within them must have the flexibility to change over time.



Delivering Successful Precincts

Policy settings to create successful precincts

The features that would be desirable for the funding, finance and procurement of precincts are:

Maximum Flexibility

Precincts are often developed over several years. To ensure that precincts can evolve to meet the needs of the populations they intend to service, precinct development needs to be flexible and not fixed in a concept or sole use such as health or education. Enabling flexibility throughout the development period will ensure the precinct delivers value across the life of the project. A precincts' authority should have powers or access to legislative mechanisms via delegated authority from a minister to implement required changes.

Infrastructure Funding

Delivery of public and community infrastructure cannot be tied to population thresholds applied in greenfield planning. Infrastructure needs to be delivered ahead of actual population or community need because it will service much broader catchments across established areas and not simply any population within a defined boundary

There should be specific funding for infrastructure in the precinct set aside and a mechanism by which the developer can work with government on the right sort of transport connectivity to maximise internal rate of return for both the public and private sector.

Contracting

Innovative funding models for infrastructure delivery including public-private partnerships and alliances contracts should be considered as well as traditional contracting to get the right outcomes.

Early identification of Return on Investment

There needs to be analysis and clarity about what level of density can be achieved for a site and what infrastructure investment is likely to be committed to by government prior to tender. If the infrastructure options are known (even as possibilities) prior to tender, the State will get better outcomes from the private sector.

Creative Finance Agreements

Consideration should also be given to alternative financing models that shift thinking on value capture to value creation and long term economic and social benefits. This approach, which could be managed by a precinct authority, should consider revenue share models or long term lease arrangements as well as freehold title arrangements.

Common Features of Successful Precincts

The ability to curate an identity within a precinct

The best precincts have a curated identity that gives people a sense of place and tends to attract superior additional partners, tenants and long-term residents allowing for stability of capital and maximising the economic performance of the precinct. The challenges experienced in the Fishermans Bend Precinct are indicative of the problems caused by the need to masterplan a development with numerous small land holders.

In contrast, Essendon Fields, a joint venture between the Linfox Group and Beck Corporation, is regarded as one of Melbourne's best master-planned commercial precincts. The curated offering includes retail, commercial, aviation, offices, entertainment, hotel and event facilities. In the pipeline, the precinct has planning approval and development finance to construct a new office development comprising over 18,000 square metres over three buildings, which would enable \$120m of direct private investment to commence immediately. Through curating a unique identity by targeting a market niche and developing strong branding collateral, Essendon Fields has effectively leveraged itself as a precinct in Melbourne.

A 24-hour identity

Activated precinct developments must be able to support a 24-hour community. Where precincts only service one objective, such as an office market, there is an underutilisation of the site outside of business hours. Precinct environments rely not only on constant foot traffic, but the ability of those utilising the space to develop a connection with the environment. Residential communities cannot just work within the precinct; they must live there too.

The delivery of a 24-hour identity for a precinct requires consideration of the demographic of those utilising the environment and the ability of the project developer to be able to curate tenancies required to meet demand and the inclusion of significant residential development either within or proximate to the precincts. Precincts also need to include infrastructure that supports a lifestyle option.

Mixed-use, not fixed-use planning

Successful precincts require the government and project developer to have a shared understanding and vision for the site. However, it is also important that the development can be adapted over its lifecycle to respond to market demand. According to a PwC report, "Precincts either form organically or are identified through strategic vision and policy, or a combination of both. They are, however, most successful when policy supports organic and flexible formation."²⁰

The private sector specialises in identifying market demand and developing assets to meet not just existing, but future market demand. Where a strategic precinct site is limited by a fixed vision, such as the Werribee Education Precinct experience, there is insufficient flexibility in a project to respond to changing market indicators. Factory Campus in Berlin exemplifies this flexibility, with offerings for small enterprises all the way up to technology giants such as Twitter and SoundCloud which are serviced by the appropriate amenities ensuring liveability. Because the Factory Campus incorporates a range of companies, it is more versatile and can keep pace with changes in businesses while fostering the same underlying culture of entrepreneurship and innovation.

²⁰ PwC. *How to make better cities through precincts and connectivity*. 2017. [Cite](#).

Barangaroo is a clear example of where a project developer was able to retain the site as a whole and curate tenancies to meet the product demand generated by the office and residential market, allowing the site to provide a thriving 24-hour offering.

These elements are of equal importance and each combine to create the substance of a great place and precinct. They should be the base indicators for the planning and design of new precincts and renewal developments. Together, they are also the foundation of Healthy Cities, a concept which acknowledges that the health and total wellbeing of our people can be shaped by planning and design.

Market demand

Successful precincts are situated in locations where there is a strong existing market demand for the products and services that are provided by that precinct. A talent pool drawn from the surrounding areas to resource this demand is also crucial.

Silicon Valley is a prime example of this. With a focus on technology, companies across the United States are drawn to this precinct bringing with them best and brightest talent where there is an existing market demand for technology and innovation. This fosters a collaborative environment which in-turn attracts capital investment to the precinct, only increasing its success.

Size matters / precinct anchors

Larger sized projects, in terms of land and scope, allow larger private sector bidders to participate in precincts and it is only those principals and the consortia that they bring together which have the balance sheet and access to capital that enables them to maximise amenity in the precinct and create their returns over the longer term. Social and environmental factors often take years to realise and without larger players, those sorts of benefits will not be as significant to the State and to the community. The larger entrants in the market and overseas will only be attracted by projects of sufficient size to be worthwhile spending the funds on conceptualisation and execution with a view to realising their returns over many years.

Transport connectivity

The rise of urban populations has put increasing pressure on transit systems. In this context, Transit Oriented Development (TOD) solutions represent vital interconnecting hubs that maximise the flow and safety of passengers while optimising land use. Mass transport infrastructure is vital to the delivery of a successful precinct. Research shows that successful organically developed precincts virtually always feature rail infrastructure feeding multiple train lines. This attribute can be witnessed in the organic development of Richmond, Surrey Hills and Fortitude Valley as employment precincts. It is well known that buildings' rental return (both commercial and residential) is directly correlated to their proximity to transport.

In master planning new precincts, it is imperative that a transport strategy, which facilitates high frequency mass transport, is developed. Without it, it is hugely challenging to drive the population, business community and residential market required to sustain a precinct in its fledgling stages. This lack, in turn, jeopardises the long-term success of the precinct.

Sustainability at the Heart

Precincts, by essence, are city shaping projects, built with an eye to the future. It is essential to the long term success of a precinct that environmental, social and economic sustainability underpins the

development. Master planning at scale creates more significant opportunities to design and construct with sustainability features at the heart of the project. Initiatives such as energy efficient, low carbon and climate resilient buildings, social infrastructure and public realm that can be run on renewable energy, complemented by urban greening to reduce heat island effect are all effective measures that are more achievable with scale.

Other critical environmental initiatives include a strong focus on reduced potable water use, eliminating waste to landfill and embracing circular economy principles. Social initiatives focused on creating places with green and open space that prioritise health, wellbeing and active living, as well as commitments to universal design that promote inclusion are also priorities. Increasingly, the role of precincts in creating new jobs and fostering ethical supply chains as core economic outcomes is recognised.

A decade ago, it might have been necessary to look overseas for examples of successful sustainable precincts; however, in recent years, many Australian developers have recognised the value of designing their new precincts as sustainable communities. The Green Building Council of Australia's Green Star Communities tool is a critical asset in verifying the holistic sustainability of a sustainable precinct, and the Climate Active standard for precincts provides a Commonwealth Government accreditation for carbon neutral precincts.

Healthy Cities

The notion of healthy and liveable cities has been around for some time. In 2018, Tract in conjunction with Deloitte Access Economics undertook a detailed Healthy Cities study focused on Melbourne, Sydney and Brisbane. This study identified a series of measurable indicators to assess the healthiness of suburbs in each of these cities. The findings were published on *The Age Domain* platforms.²¹ Healthy Cities are defined not just by what they contain, but also, but what they lack. The key elements used in the Tract/Deloitte study of healthy cities were.

Positives to be promoted:

- Access to fresh food
- Walkability (less than 400 metres) to work, transport and services
- Active transport options
- Open space
- High tree cover
- Volunteering and community participation groups
- Access to hospitals
- Access to allied and community health services

Negatives impacts to be avoided:

- Density of liquor stores
- Density of fast food.

These are just a snapshot of key indicators for Healthy Cities. They can equally be applied to the planning and design of new precincts. The indicators promote the creation of the neighbourhood and village, where people can walk to carry out their daily tasks.

²¹ Tract. *Domain healthy suburbs study*. 2018. [Cite](#).



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Windfall Gains Tax Impact Assessment

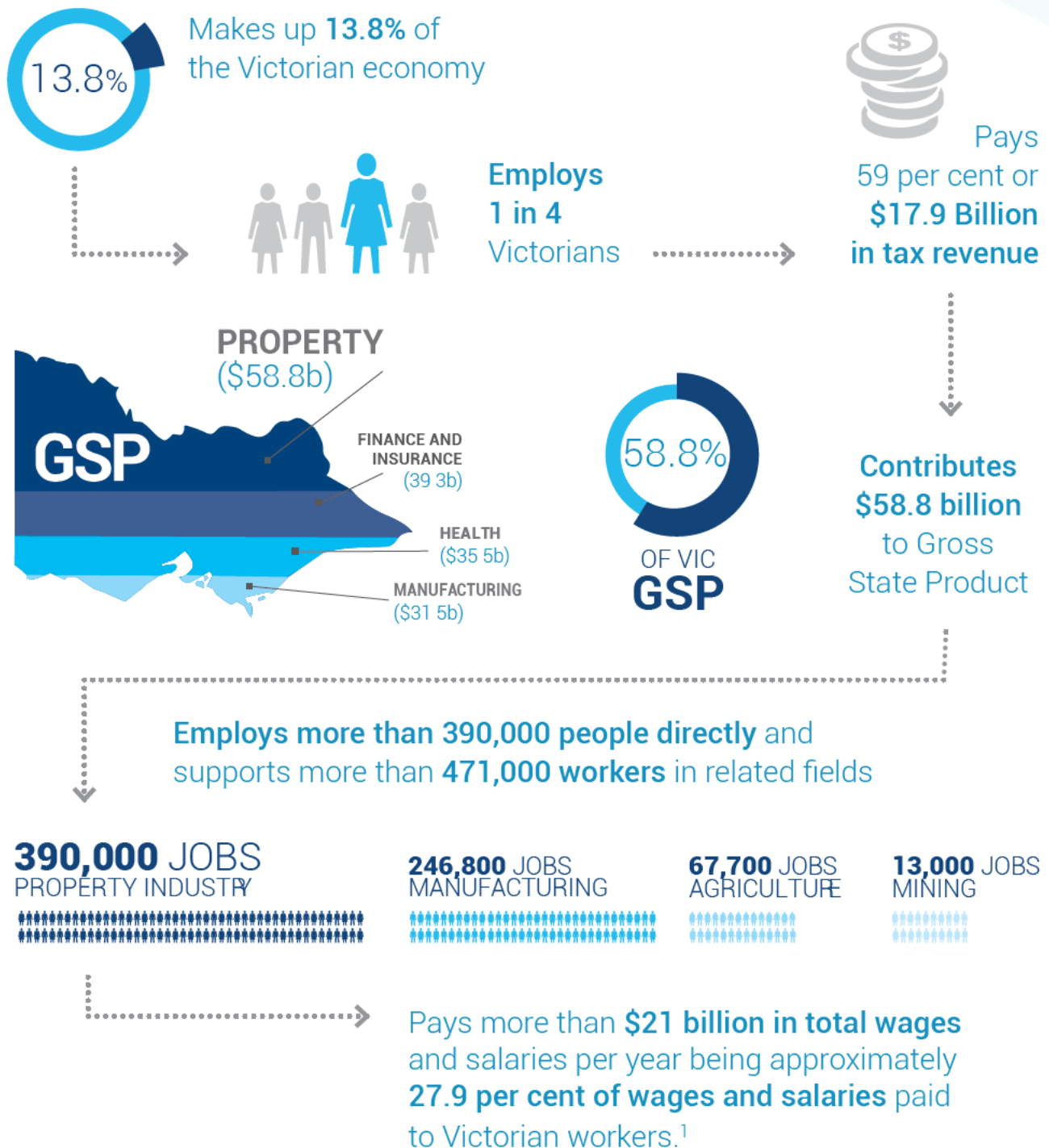


Wrong tax, wrong time

Introduction

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

AEC Group's report for the Property Council — *Economic Significance of the Property Industry to the Victorian Economy* (attached) shows that the property industry in Victoria



¹ AEC, *Economic Significance of the Property Industry to the Victorian Economy*, (August 2020)



Executive Summary

- The Government's proposed Windfall Gains Tax is set to be incurred on about 45 rezoning events per year
- Revenue raised from the tax would be far in excess of Government forecasts under current model
- The new tax will have a drastic negative impact on housing affordability and supply, and landowners' capacity to borrow against their land
- The tax's methodology does not consider landowner/developer costs prior to rezoning

Background

As outlined in the 2021-22 Budget, the Victorian Government has committed to introducing a Windfall Gains Tax (WGT) on the land value uplift associated with the rezoning of land.

The stated intent of the tax is to act as a value capture mechanism, capturing a share of the economic profits currently captured by landholders when the land is rezoned. Further, the Government has stated its intent on for the tax to act as an anti-corruption measure; however, a clear anti-corruption framework to support this has not been released.

Under the Government's proposed framework for the WGT for a rezoning with a value uplift between \$100,000 and \$500,000, the WGT will apply at a rate of 62.5% on the uplift above \$100,000. For a rezoning with a value uplift above \$500,000, a tax rate of 50% will apply to the total uplift. This will be calculated using a Before Value (V1) and an After Value (V2) assessed by the Valuer-General taken at the same point in time.

"The Property Council is significantly concerned that the WGT will raise more than the forecast \$124 million in revenue over the forward estimates from 2022-23 to 2024-25, which averages about \$41 million per year."

We are concerned that Treasury modelling, which has yet to be released and verified, does not accurately forecast the significant tax burden on the Victorian community and that this tax burden and its flow on effects are not well understood by Treasury in the way that will negatively impact families, housing affordability, jobs and investment.



Analysis of impact assessment

To analyse the impact of the WGT the Property Council commissioned Urbis to better understand the revenue raising impact of the WGT. To do this rezoning events were reviewed over a four-year period between 2017 and 2021 and assessed for the regulatory impact for the proposed WGT.

181 rezoning events were identified across metropolitan Melbourne and key regional locations. Based on this historical trend of rezoning activity we can expect about 45 rezoning events per year to incur some form of WGT.

While historical examples of the types of rezoning events to be captured by the WGT can be collected it would be an immense task to sift through a single year's worth of eligible amendments to determine the potential WGT revenue raised through the rezoning of a single property.

Therefore Urbis selected six case study rezoning events that were representative of a rezoning activity during the review period for further detailed analysis. Based on recent historical rezoning activity these six case studies would on average represent about four per cent of the key rezoning events in the 2022-25 period corresponding with the Budget's forward estimates.

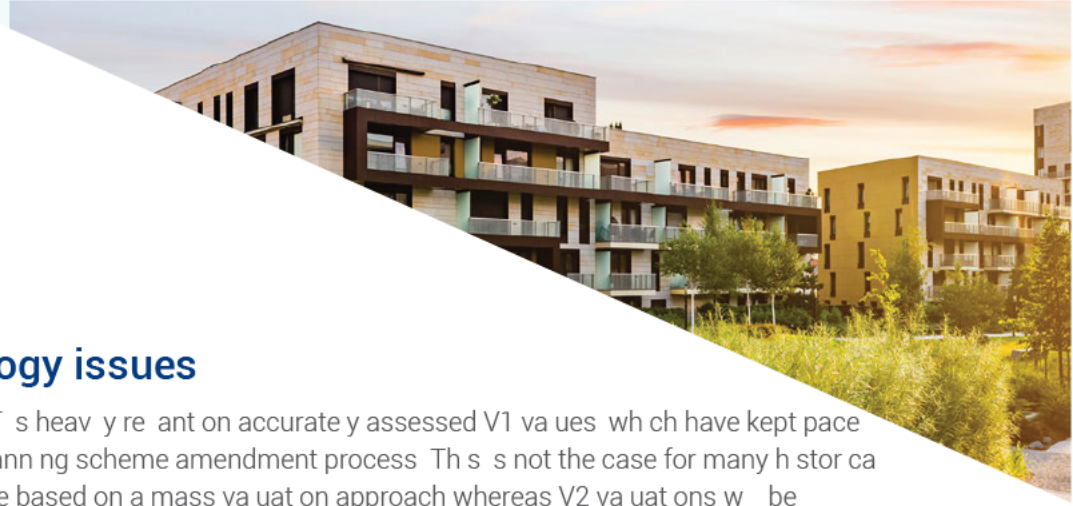
Findings and consequences

"If the WGT was in effect when the case study amendments were gazetted, the potential revenue raised by this small sample of just six case studies would be significant, with a combined tax liability of \$60.88 million, based on Site Value as the Before Value."

To put this into context based on the Government's initial policy proposal **almost half of the forecast revenue during the forward estimates period would be collected from these six case studies alone.**

These six case studies represent just four per cent of a rezoning activity during the period. As such it is extremely likely that the full realisation of future rezoning events will far exceed the revenue forecasts made in the Victorian Budget.

The case studies presented highlight the significant variability of the potential tax liability dependent upon the assumptions adopted for the V1 and V2 values as set by the valuation methodology. Without clarity and refinement of the valuation assumptions the proposed tax has the potential to raise significantly more revenue than forecast and is currently having a major impact on the market with planned rezoning projects being put on hold, a hesitancy to transact and uncertainty about future project feasibility. For projects that go ahead there will be a significant pass-through impact to the end user, most commonly through higher housing prices and increased residential and commercial rents.



Valuation methodology issues

The proposed design of the WGT is heavily reliant on accurately assessed V1 values which have kept pace with market forces during the planning scheme amendment process. This is not the case for many historical rezoning events. V1 values will be based on a mass valuation approach whereas V2 valuations will be conducted on a bespoke basis with more detailed investigation.

This is a significant issue especially for single site or small area rezonings where sales of the subject properties during the rezoning process are not likely to have occurred or there are limited or no directly comparable sales properties and could lead to artificially high WGT liabilities being incurred for landowners.

Further, the WGT is a tax on theoretical value rather than transacted or real value established by the market. The WGT would only become payable when the theoretical value has been earned and some time before any actual realisable profits are secured via a sale of the asset; therefore, the landowner must find the funds from other sources to pay the tax. The V1 and V2 values are determined by the same party – the Valuer General – Victoria on behalf of the State Government – without any regard to the specific attributes of the site and there are no adjustments to the tax paid if the theoretical assumptions ultimately prove incorrect.

Burden on existing landowners

As the WGT has been initially proposed to wholly apply on all landowners whose land is rezoned (except where exemptions apply) regardless of who initiates the rezoning. For many landowners including families, farmers and not-for-profit organisations, they will carry a tax liability on title. This has an impact on farmers or NFPs or other property owners who then carry the liability on title which impacts the landowner's capacity to borrow money or grow their business.

"This will be particularly pronounced in regional Victoria where the extent of the uplift is likely to be exacerbated and extremely costly to regional landowners."

Further advice from our members is that it is not possible to fund a tax liability from borrowings – banks are highly unlikely to lend money to landowners for them to fund the WGT liability which will sit on the land and once rezoned. They will, however, look less favourably at lending against land which carries a WGT liability, further inhibiting landowners from acting on the land.



Cost and investment of rezoning

Landowner or developer-led rezoning processes are time-consuming exercises that attract substantial costs both pre- and post-rezoning. We estimate that a common rezoning event may take an applicant an average of five years under the current planning system and require significant financial investment both in the rezoning preparation and as a condition of the rezoning event. Under the Government's proposed WGT model, these costs are not factored into the calculation of the WGT which is calculated purely on pre- and post-rezoning site value.

The Property Council asked Urbis to detail the typical costs incurred as part of the rezoning process, as well as the development charges and contributions that can follow a rezoning.

Due to the unpredictability of planning scheme amendment processes, it is difficult to provide definitive advice on the average timing of an amendment process, the cost to prepare an amendment, or the infrastructure project costs that a developer may be required to contribute to as a condition of development. Therefore, Urbis considered five recent rezoning projects that have either recently been approved or are moving through the planning scheme amendment process.

A review of these case studies found:



The **average time** taken to prepare an amendment and take it through to approval is approximately **five years**, with the landowner/developer carrying land holding costs throughout that period.



The **costs** to prepare an amendment can span between **hundreds of thousands of dollars to more than \$3 million**.



The case studies assessed all require significant contributions to be made to deliver development and community infrastructure, with **the median development contribution charge** for the selected case studies almost **\$10,000 per dwelling**.



The case studies also revealed **mandatory requirements for the provision of open space and affordable housing contributions**.

"With a local homebuyer already paying more than a third of their purchase price in various government charges and taxes, the WGT has the potential to be passed on as an additional, inequitable tax burden onto new home buyers, many of whom are first homebuyers."



Urban planning and housing supply impacts

Many rezoning events are also located within designated precincts which have been an established part of State or Local Government strategic planning policy for years before the gazetting of the rezoning occurs. When a rezoning process has commenced, developers typically begin purchasing sites with these purchases a ready factor of a significant proportion of the potential rezoned value.

As this designates the WGT as a significant disincentive to developers investing in designated precincts. In fact, the WGT is counter to Government longstanding policy of urban consolidation, taxing development of the very strategic sites and precincts that need to be unlocked to realise the state's metropolitan growth policies.

"The imposition of the WGT risks shifting the focus of new housing development back to the urban fringe of Melbourne - an outcome that is entirely at odds with the current Victorian planning policy."

Ongoing consultation

The Property Council has been deeply engaged with Treasury, the Treasurer Tim Pallas MP and Parliamentary Secretary to the Treasurer Nick Staikos MP and has provided detailed advice to the Government on the WGT to highlight the complexities, unintended consequences and extreme tax burden to the Victorian community.

The Government intends to introduce legislation into the Victorian parliament in late 2021.

"Together with our industry group partners, the Property Council will engage thoroughly with Members of Parliament through the legislative process."

We will provide members and stakeholders with updated briefing material once the legislation is made available to the Property Council and our members.



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