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24 March 2025

The Hon. Jaclyn Symes MP
Treasurer
1 Treasury Place
East Melbourne VIC 3002

By email: Jaclyn.Symes@parliament.vic.gov.au

Dear Treasurer

HIA 2025-26 Pre-Budget Submission

The Victorian Housing Industry Association (HIA) takes this opportunity to make a submission ahead of the 2025-26 State Budget.

At the outset, we stress the critical role this year's Budget must play in creating an environment that supports Victorian home building.

Victoria is experiencing a severe housing crisis, with high housing costs, declining affordability, low social housing, and many people in housing stress – trends exacerbated by the pandemic and a population that has grown and is forecast to continue to grow over the years ahead.

The goal of getting more Victorians into more homes is therefore an imperative, not an option.

HIA acknowledges the Victorian Government has prioritised housing reform, setting ambitious home-building targets and initiating major changes to planning, land supply, infrastructure funding, domestic building insurance and industry regulation.

As the voice of Victorian home builders, HIA is playing an active and constructive role in this process. As a member of the *Housing Affordability Partnership*, we are committed to working with the government to create the conditions needed to stimulate investment and build high-quality homes faster in the places where Victorians want to live.

The 2025-26 State Budget must reflect this focus too.

Victorian home building conditions are stagnant

The year 2025 is already shaping as one of the most challenging for Victoria's residential construction industry. Victoria started the year disappointingly with an 8.7 per cent fall in new home sales in the month of January 2025.

This makes Victoria the only one of the five largest states to have not seen an improvement in sales from this cycle's trough. Australia's largest home building market should be doing much better than this with a growing population and high employment rates.

This flat result in new home sales is also evident in other leading indicators of home building activity, with house approvals in the 2024 calendar year up by just 1.5 per cent compared to 2023.

With economic pressures severely impacting the capacity to deliver new housing, it is unsurprising that industry confidence remains the weakest in the nation, and investment is increasingly flowing to other markets.

Victorian home builders are working hard to stay competitive at this difficult time. Many are investing in training and working with manufacturers and suppliers to innovate building products and processes.

But they cannot do it alone. HIA members are looking to the 2025-26 State Budget to provide a much needed and timely boost to activity, investment and confidence in the Victorian housing industry.

Victorian property taxes are severely eroding housing affordability, and new investment

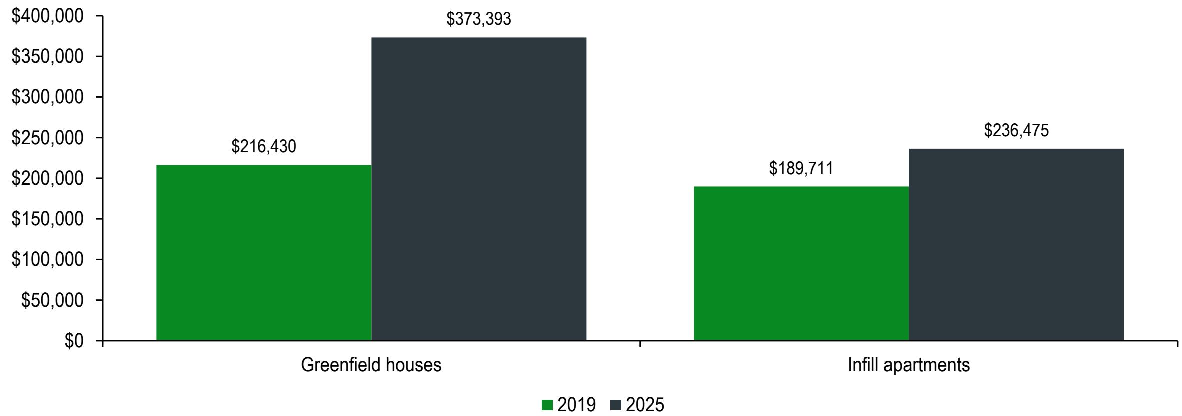
While there are many factors influencing housing supply and demand, in Victoria, rising taxes have combined with escalating resource and regulatory costs to significantly increase the total outlays needed to acquire a new house and land package in an outer-Melbourne greenfield estate, as well as a new apartment in an infill development.

HIA's recently released report by the Centre for International Economics (CIE) on Taxation of the Housing Sector[1] shows a significant $373,000, or 43 per cent, of the cost of a new house and land package in Melbourne is comprised of government taxes, regulatory costs and charges.

Since the last report in 2019, the value of taxes and charges on a new house and land package in Melbourne has increased by 73 per cent or $157,000. This rise far exceeds the growth in average earnings over the same period, which has been around 3 per cent annually. It also far exceeds the $10,000 grant first homebuyers receive.

Statutory Taxes, Regulatory Costs and Infrastructure Charges on Melbourne Housing

Source: CIE, HIA



[1] The CIE Short Report: *Taxation of the Housing Sector*. Prepared for Housing Industry Association Ltd. 3 March 2025. Pages 6-7.

This is why property tax reform must be the centerpiece of the 2025-26 State Budget

Stamp Duty

HIA acknowledges the announcement by the Victorian Government in October last year that provides a temporary land transfer (stamp) duty concession for off-the-plan (OTP) purchases of dwellings (including apartments and townhouses) within strata subdivisions that have common property where the contract is entered into on or after 21 October 2024 and before 21 October 2025.

This reduction in the stamp duty burden is a step in the right direction to boost housing supply but falls short of more meaningful reform by being only a temporary measure that is not available to those who wish to purchase a new detached dwelling. Tax concessions to encourage an increase in consumer demand are less effective if available for the homes that people wish to buy.

Much more needs to be done to ease Victoria’s stamp duty burden.

HIA recommends:

- ***Extend OTP concessions to house-and-land packages (which are not part of a strata subdivision with common property).***
- ***Extend the off-the-plan concessions beyond the initial 12-month period to give developers more time to initiate and deliver new housing projects.***
- ***Remove stamp duty for homes valued up to $750,000 and give a concession for properties valued up to $1 million.***

  In the absence of this reform:
- ***Index stamp duty thresholds annually to keep pace with rising house prices. At a minimum they should be indexed to inflation but ideally adjusted to reflect median house price growth.***

First Home Owner Grant (FHOG)

The First Home Owner Grant (FHOG) provides a grant of $10,000 to eligible persons buying or building their first new home. Previously, a $20,000 payment was available to first home buyers who signed a contract to buy or build their new home, where the contract price was $750,000 or less, in regional Victoria. This latter grant ended on 30 June 2021.

HIA considers the FHOG makes an important contribution towards easing the financial barrier for first home buyers and should continue to be funded, and the grant amount increased.

HIA recommends:

- ***Expand the First Home Owner Grant to $20,000 for eligible participants buying or building a new home in metropolitan Melbourne.***
- ***Restore the regional FHOG, also providing a grant of $20,000 to eligible persons buying or building their first new home in regional Victoria.***

COVID Debt Levy on Landholdings

In the 2023–24 Victorian Budget, the Victorian Government introduced the COVID Debt Levy on Landholdings, to apply for 10 years from 1 January 2024.

The Levy is effectively a significant increase in land tax, which has:

- Reduced the threshold for taxable landholdings from $300,000 to $50,000
- Increased the rate of land tax by 0.1 percentage points for taxable landholdings over $300,000 (or $250,000 for trusts).

In short, it has resulted in a significant increase in the number of Victorian landowners becoming liable for land tax, and increased rates for all existing payers of land tax. It is having a detrimental effect on property investment and development, and the supply of rental accommodation which is already constrained.

Small investors (everyday Victorians) are being driven out of the market because the cost of maintaining a rental property far exceeds the benefits. For those who are able to retain their rental property, many have little choice but to pass the tax onto tenants, driving up rental prices.

HIA Recommends:

- ***Remove the COVID Debt Levy by 2030 and increase the threshold for taxable landholdings to $500,000 to incentivise investment in new homes and rentals.***

Windfall Gains Tax, the Foreign Purchaser Additional Duty (FPAD) and Vacant Residential Land Tax

A raft of regressive additional taxes, charges and duties are damaging Victoria's standing as a place to invest, discouraging foreign capital and further hampering efforts to bring to market much needed new housing supply.

The 2025-26 State Budget must seek to improve the attractiveness of Victoria's residential property to foreign investors who have been responsible for delivering a large share of new housing supply.

For example, Victoria's Windfall Gains Tax (WGT) is a major brake on housing supply, deterring both local and international investors from growing the state's housing supply. While some exemptions exist, they are narrow and large volumes of rezonings on vacant land capable of delivering significant volumes of new homes, continue to incur the WGT.

Similarly, the Foreign Purchaser Additional Duty (FPAD) is a significant impost on foreigners directly (or indirectly through companies and trusts) acquiring Victorian residential land, or land for residential development.

Further, the current application of the Vacant Residential Land Tax (VRLT), that started on 1 January 2025, is effectively double taxing all vacant residential property across Victoria as it is in addition to the standard land tax on non-principal place of residence properties.

Again, residential developers with foreign ownership interests are being penalised for their efforts to build more Victorian homes through the operation of the Absentee Owner Surcharge (AOS), which adds cost and complexity to transactions and development processes.

HIA recommends:

- ***Abolish the windfall gains tax.***

- ***Remove the Foreign Purchaser Additional Duty (FPAD) for new housing builds.***
- ***Cut the absentee owner surcharge to 1.5 per cent (the level which existed in the 2017 to 2019 land tax years).***
- ***Exempt all build-to-rent, social and affordable housing, and purpose-built student accommodation (PBSA) projects from the Absentee Owner Surcharge.***
- ***Ensure Vacant Residential Land Tax (VRLT) liabilities do not apply in any form to new housing projects.***

Concluding Comments

The Victorian Government's continued reliance on steep and rising property taxes is not sustainable. It is damaging Victoria's reputation as a place to invest and do business, eroding already fragile confidence and activity levels in the residential building industry.

Housing is arguably the most heavily taxed sector of the economy. Without relief, the prospect of achieving the Victorian Government's home building targets will become increasingly remote.

The impact of ever-growing property taxes is far greater than its effect on housing affordability.

They affect the entire home building continuum – from builders and developers, manufacturers and suppliers, trades and professionals, local and overseas investors and the many first and new home buyers who wish to live and work in this state.

In exacerbating Victoria's housing shortage, the plethora of housing taxes, charges, fees and regulations lead to rising prices, declining homeownership rates, increased rental costs and a widening in social inequalities.

Both Victorian liveability and economic growth are at stake.

While the recommendations contained in HIA's submission are not a cure-all for improving housing supply and home affordability, they are necessary steps towards achieving the government and industry's shared housing aspiration: more homes for more Victorians.

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

Keith Ryan

Keith Ryan
Executive Director