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YORK PARK GROUP

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Vacant Residential Land Tax: Fact Sheet

In partnership with York Park Group

Expansion of Vacant Residential Land Tax (VRLT)

From 1 January 2025, the Victorian Government proposes to expand the VRLT across all of Victoria, extending the reach of the VRLT beyond the 900 homes currently captured in the 16 inner-city Melbourne council areas in which the tax currently operates.

The VRLT applies to properties unoccupied for more than 6 months in the prior calendar year, with some limited exceptions.

From 1 January 2026, the VRLT will also be expanded to an estimated 3,000 vacant blocks of land in Metropolitan Melbourne, raising another $31 million per year in budget revenue. This change applies to vacant properties that have not been developed in the preceding 5 years.

Pragmatic Policy Group

Pragmatic Policy Group is an independent economic research agency, which models the impact on the economy of legislative and regulatory proposals.

PPG is particularly focused on the unintended consequences of government policies on the most vulnerable members of the community.

We use advanced analytical techniques and industry experience to forecast the impact of regulations, share evidence-based insights and help drive informed strategic decisions.

Key findings

The VRLT expansion proposed to occur through 2025 and 2026 - combined with the 2024 increase to land tax announced in the May Budget as part of the COVID debt levy - will discourage investment in housing construction by increasing the cost of:

(1) completed housing which is already available for sale
(2) undeveloped vacant land

Our modelling finds that - by the end of 2026 - taxes will increase by at least 64% for some property owners compared to 2022, and that taxes for other property owners will rise by up to 3,665%.

Data availability

- Public data made available by SQM Research confirms that there were 7,378 properties listed for sale in Melbourne in September 2023 that had been listed longer than 6 months, suggesting that the number of properties captured by the VRLT expansion from 1 January 2025 could be much higher than the total of 1,500-1,600 properties estimated by the Government. While the 7,378 listed properties do not include the rest of Victoria (and so the number could be larger), that total also does not exclude properties that are occupied while listed for sale (and so could be smaller).

- We are not aware of any public data showing the number of blocks of undeveloped vacant land in Metropolitan Melbourne.

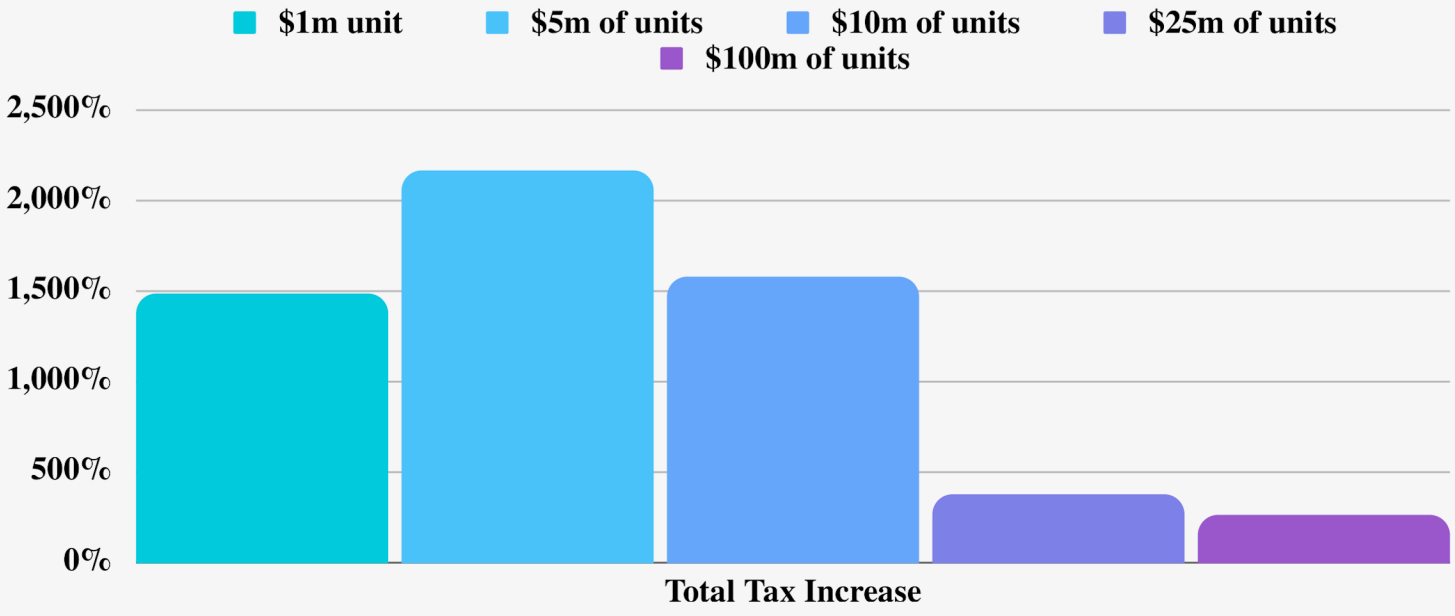
- Without the Government releasing its data and assumptions, we cannot validate their estimate of the total number of new properties captured (developed or undeveloped), or the associated budget revenue increase from the expansion of the VRLT. We urge the Government to make this data publicly available, in the interests of transparency.

Our methodology

- We have focused our analysis on estimating the tax increase between 2022 and 2025/6 for a range of different land values, capital improved values and ownership structures. Our estimates are based on our reading of the *State Taxation Acts and Other Acts Amendment Bill 2023* currently before the Victorian Parliament, along with the accompanying Explanatory Memorandum. We also include in our estimates the increases in land tax occurring between 2022-2024 to provide a complete assessment of taxes that are restricting the supply of housing in Victoria.

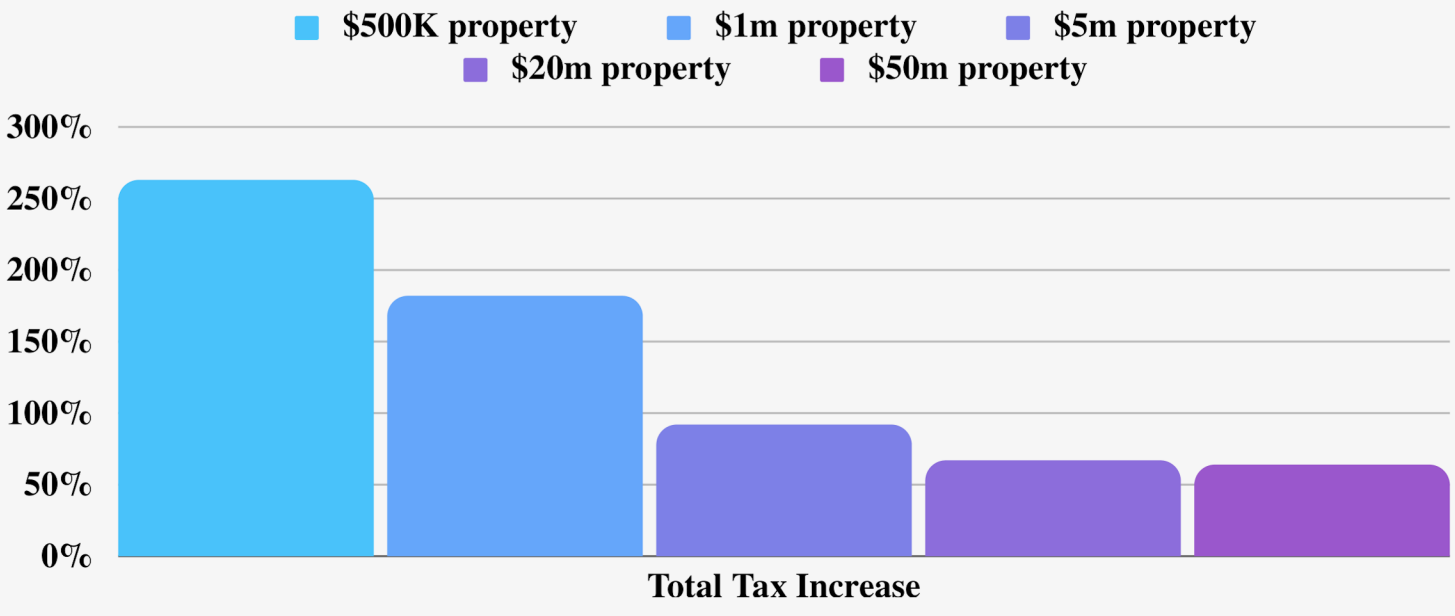
Completed housing currently for sale

	$1m unit	$5m of units	$10m of units	$25m of units	$100m of units
2022 Total Tax	$738	$2,364	$6,438	$69,975	$407,475
2024 Land Tax	$1,713	$3,589	$8,163	$84,650	$482,150
2025 VRLT	$10,000	$50,000	$100,000	$250,000	$1,000,000
2025 Total Tax	$11,713	$53,589	$108,163	$334,650	$1,482,150
$ Tax Increase (2025 vs 2022)	**$10,975**	**$51,225**	**$101,725**	**$264,675**	**$1,074,675**
% Tax Increase (2025 vs 2022)	**1,487%**	**2,167%**	**1,580%**	**378%**	**264%**



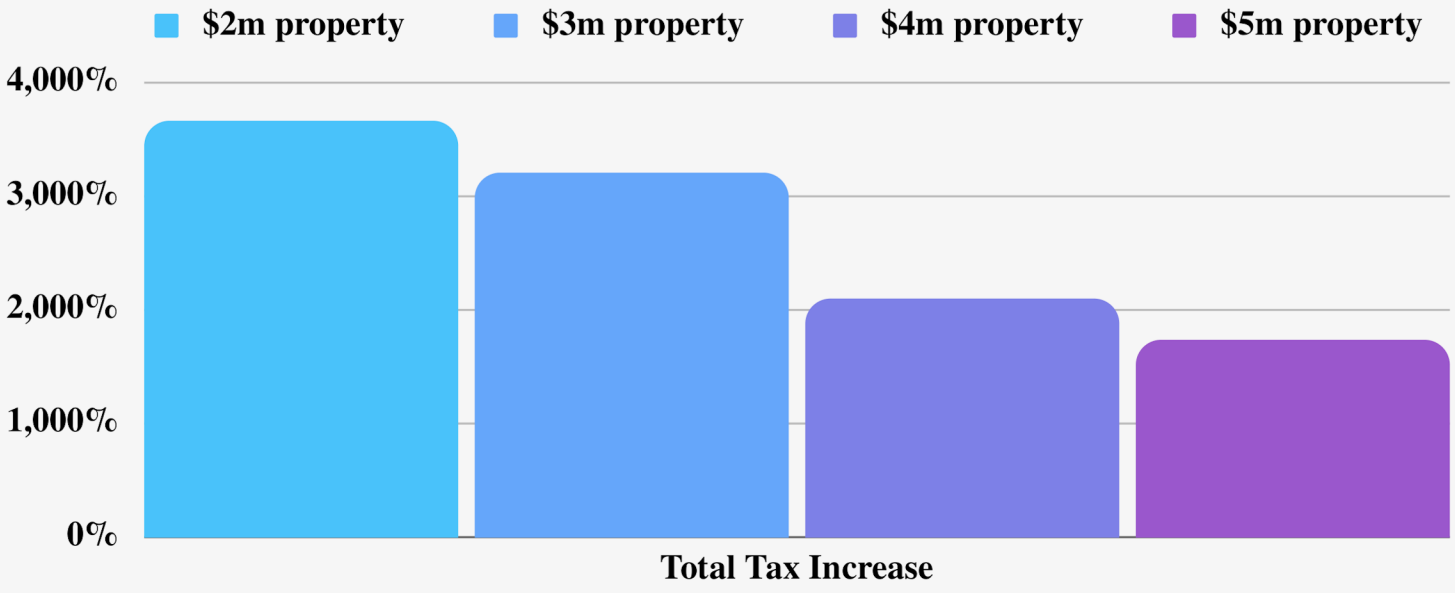
Undeveloped vacant land

	$500k property	$1m property	$5m property	$20m property	$50m property
2022 Total Tax	$2,364	$6,438	$69,975	$407,475	$1,082,475
2024 Land Tax	$3,589	$8,163	$84,650	$482,150	$1,277,150
2026 VRLT	$5,000	$10,000	$50,000	$200,000	$500,000
2026 Total Tax	$8,589	$18,163	$134,650	$682,150	$1,777,150
$ Tax Increase (2026 vs 2022)	**$6,225**	**$11,725**	**$64,675**	**$274,675**	**$694,675**
% Tax Increase (2026 vs 2022)	**263%**	**182%**	**92%**	**67%**	**64%**



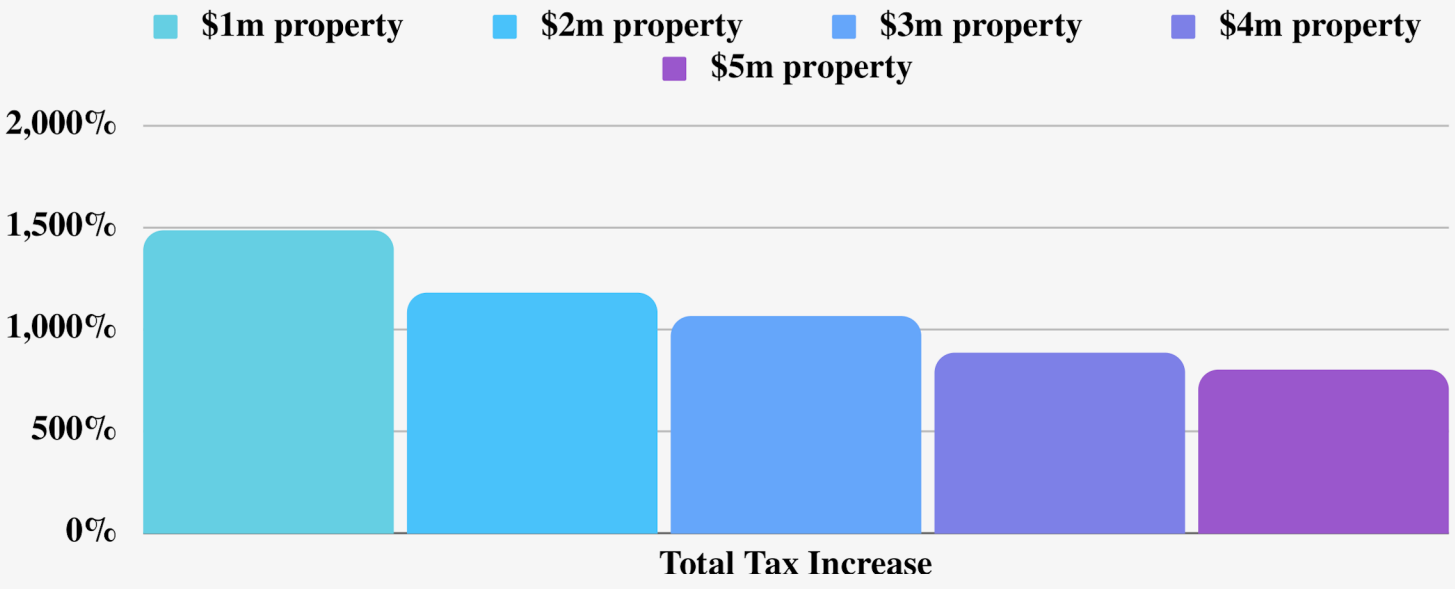
Company owned and second holiday homes

	$1m property	$2m property	$3m property	$4m property	$5m property
2022 Total Tax	$1	$575	$975	$1,975	$2,975
2024 Land Tax	$975	$1,650	$2,250	$3,450	$4,650
2025 VRLT	$10,000	$20,000	$30,000	$40,000	$50,000
2025 Total Tax	$10,975	$21,650	$32,250	$43,450	$54,650
$ Tax Increase (2025 vs 2022)	**$10,974**	**$21,075**	**$31,275**	**$41,475**	**$51,675**
% Tax Increase (2025 vs 2022)	**1,097,400%**	**3,665%**	**3,208%**	**2,100%**	**1,737%**



Trust-owned holiday homes

	$1m property	$2m property	$3m property	$4m property	$5m property
2022 Total Tax	$738	$1,789	$2,938	$4,688	$6,438
2024 Land Tax	$1,713	$2,914	$4,263	$6,213	$8,163
2025 VRLT	$10,000	$20,000	$30,000	$40,000	$50,000
2025 Total Tax	$11,713	$22,914	$34,263	$46,213	$58,163
$ Tax Increase (2025 vs 2022)	**$10,975**	**$21,125**	**$31,325**	**$41,525**	**$51,725**
% Tax Increase (2025 vs 2022)	**1,487%**	**1,181%**	**1,066%**	**886%**	**803%**



What are the real causes of the housing shortage?

The VRLT, together with other taxes such as the Windfall Gains Tax, act to discourage investment activity by homebuilders, which reduces supply and increases prices.

We believe it is important to instead focus policy solutions on the real underlying causes of the housing shortage in Victoria.

Former Reserve Bank of Australia (RBA) Governor Dr Philip Lowe recently testified – and RBA modelling confirms – that the housing shortage has been caused primarily by strong population growth generating excess demand for housing, while supply has been held back by overly restrictive zoning regulations and planning delays, together with continued opposition to housing development.

From an economic standpoint, the best way to accelerate future housing supply is to further streamline state and local zoning and planning regulations, release more public land to build on, and continue to invest in critical infrastructure that supports new communities in outer Melbourne and regional Victoria.

Lower sale prices mean lower housing supply

It has been suggested that homebuilders should lower the sale price of completed housing that is still vacant in order to avoid being caught by the expanded VRLT. However, this would reduce housing construction in the medium-term.

Current macroeconomic conditions have already made it more difficult for property developers to commercially develop land that they have previously purchased. Interest rates are at their highest level in 15 years, which makes it harder for homebuilders to get the level of pre-sales needed to get construction underway. Higher construction costs and labour shortages are making investment decisions even more challenging.

As homebuilders further lower sale prices, they also reduce the attractiveness of future housing construction projects for private investors who are needed to provide funding and banks that are needed to provide loans. Over time, this leads to a lower supply of residential housing, as fewer projects get funded and built.

The VRLT expansion to undeveloped land may also have the perverse effect of encouraging developers to take more risk in order to get projects completed before the tax change occurs on 1 January 2026. This could have the following flow-on effects:

- A greater number of marginally profitable projects would mean greater risk to homebuilder viability;
- A homebuilder becoming insolvent mid-project impacts payments to builders, suppliers and construction workers;
- Failing projects create more risk for lenders, who then raise the interest rates they charge homebuilders, which in turn increases the cost of housing.

This achieves the opposite of what the proposed tax is intended to do.

About the Author

Oliver Browne is Lead Economist at the Pragmatic Policy Group (PPG), an independent economic research agency. He previously served as Chief Policy Adviser to Federal Treasurer Wayne Swan, designing national economic policy including post-2008 crisis reforms to the $3.8 trillion banking system and mortgage market.

Oliver has worked for nearly a decade as an economist, corporate finance adviser and attorney at BlackRock in New York, J.P. Morgan in Sydney and global law firm Ashurst. As an economist at BlackRock, Oliver comprehensively analysed housing market data in cities and states across Australia and the United States.

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