"Your partner in excellence"

J Group PM Pty Ltd
[redacted]

4 August 2020

Executive Director
Planning Policy
Department of Planning, Industry and Environment
GPO Box 39, SYDNEY, NSW 2001

Dear Simon,

RE: Special Infrastructure Contributions Guidelines (Draft April 2020)

J Group PM Pty Ltd **(JGP)** is a builder-developer with multiple large land holdings in strategic precincts in the Canterbury-Bankstown Local Government Area. It is anticipated these land holdings will fall within the Special Contributions Areas that will assist in funding the Sydney Metro Station Upgrades.

JGP welcome the opportunity to provide comment on the Special Infrastructure Contributions Guidelines however question the timing given the advanced status of the Canterbury-Bankstown Council master plan and planning proposal and associated *Affordable Housing Contribution Scheme* and *Special Infrastructure Contribution Scheme.*

We implore that any review of the infrastructure contributions in New South Wales does not delay the Council led master plan and planning proposal for Campsie.

Development Viability v Infrastructure Contributions

A consistent message as directed by Department of Planning, Industry and Environment has been 'any infrastructure contributions mustn't jeopardise the viability of development' as this would be counter-productive and result in no contributions.

We implore that the NSW Government closely monitors the introduction of new infrastructure contributions and ensures a blanket approach doesn't impact the viability of development projects on a localised and site-specific basis.

At present JGP projects are viable based on the current local and state policies. In the face of the imminent introduction of Affordable Housing Contribution Scheme, Special Infrastructure Contribution Scheme, and the current economic conditions the viability of these projects will be in question.

Sincerely,

[redacted]

[redacted]
J Group PM Pty Ltd

<u>Response to Special Infrastructure Contributions Guidelines</u>

Infrastructure Issues for Discussion

<u>Issue 1.1: Striking the right Balance</u>

Is a ‘one size fits all’ approach appropriate or do parts of the state require a bespoke solution?

A bespoke solution is essential to striking the right balance of (i) development viability and (ii) optimal planning outcomes in brownfield areas for an appropriate bulk/scale of the development. The approach the local and state governments take to determine the contribution schemes must follow either method below:

1. Target contributions are levied on a site-specific basis and the revised developable area is calculated to ensure the project remains viable; or
2. The developable area is defined, and the contributions levied are calculated retrospectively acknowledging the contributions may fall short of ‘targets’ but maintain project viability.

Either option requires detailed analysis and flexibility of the planning system to ensure projects are not stalled by blanket introduction of contribution schemes.

On review of previous feasibility studies testing a developments viability post the introduction of affordable housing and special infrastructure contributions there is a trend of high-level valuations being conducted without sufficient market contingencies or site-specific constraints/opportunities. JGP does not believe these reports satisfactorily address the viability test as directed by Department of Planning, Industry and Environment.

Example feasibility studies include:

- Affordable Housing Strategy prepared by Hill PDA for Canterbury-Bankstown Council; and
- Special Infrastructure Contribution Feasibility Study – Greater Macarthur Special Contribution Area prepared by EPS for NSW Department of Planning and Environment

Both reports above have been undertaken using high level assumptions and limited evidence to justify their inputs. Specific concern is raised with the following assumptions:

- Not increasing the land value to enable a developer to amalgamate the land in one transaction
- Increasing revenues and blue-sky assumptions
- Excluding finance costs
- Setting development margins below industry benchmarks

JGP implore that a Registered Valuer is used on a site-specific basis to calculate the potential infrastructure contributions or risk jeopardising the viability of development projects.

<u>Issue 3.5: Timing of payment of contributions and delivery of infrastructure does not align</u>

What are the risks or benefits of deferring payment of infrastructure contributions until prior to the issuing of the occupation certificate, compared with the issuing of a construction certificate?

A feasibility model for our project at 124-142 Beamish Street & 16-18 Ninth Avenue, Campsie has been prepared assuming Affordable Housing Contributions and Special Infrastructure Contributions are paid as part of the Occupation Certificate.

The results is;

- Reduced equity requirements
- Reduced finance costs
- Marginal increase in profitability

The reduction of circa $8 million in equity to fund the project critically allows for the project to progress with less reliance on the financial markets. The impact of the financial markets on the development industry is enormous with shocks around the world affecting local projects. Reducing the reliance on the financial markets enables more projects to commence based on the merits and demand fundamentals of the project.

Issue 3.10: Affordable Housing

Is provision of affordable housing through the contributions system an effective part of the solution to housing affordability issue? Is the recommended target of 5-10 per cent of new residential floorspace appropriate?

The provision of affordable housing as a component of a rezoned development projects uplift in developable area has merit and a policy JGP endorses for the betterment of the community. That said, the execution and outcomes of the Affordable Housing Contribution Scheme will be the test for the policies success.

If the delivery of more affordable housing in a timely manner is desired, then this requires development projects to be viable. Therefore, the introduction of an Affordable Housing Contribution Scheme must not inhibit a projects viability.

According Canterbury-Bankstown Council's Affordable Housing Strategy, only *"if real property growth in revenue of 1% p.a. is accounted for, this may be sufficient to absorb the affordable housing provision that stipulates the dedication of 5% of residential GFA and a VPA contribution."*

The Affordable Housing Strategy's benchmark for a project's viability was an IRR benchmark of 16%. The study commissioned by Canterbury-Bankstown Council and prepared by Hill PDA clearly illustrates that the imposition of Affordable Housing Contributions and Special Infrastructure Contributions does not meet their own IRR benchmarks of 16%.

Table 17: Campsie site - results

		Base Case No escalation	VPA FSR Uplift No escalation	VPA FSR Uplift 1% p.a. escalation to revenue
Land Use		2 storey mixed use	8 storey mixed use	8 storey mixed use
FSR		0.9:1	2.4:1	2.4:1
Height		6 metres	27 metres	27 metres
Affordable housing contribution		Nil	170sqm (equivalent to 2 units)	170sqm (equivalent to 2 units)
Equivalent units		15	38	38
Development margin		-12.70%	11.5%	13.59%
Internal rate of Return		-8.52%	14.13%	15.89%
Viability		Not Viable	Marginal	Viable
Existing Value 'as is'		$5,000,000	$5,000,000	$5,000,000
Residual land	16% IRR	$2,930,570	$4,663,448	$4,979,789
	(+/-) to 'as is' value	-$2,069,430	-$336,552	-$20,211
	$/unit	$195,371	$122,722	$131,047

Affordable Housing Strategy, Canterbury-Bankstown Council prepared by Hill PDA (April 2020)

The feasibility noted as viable (as above) has been modelled on the grounds of 1% per annum increase in the revenues achievable from the development. In the current economic climate, it is imperative that assumptions are stress tested and therefore 'blue-sky' assumptions such as a continuation in revenue increases are brought back to reality.

This report further raises questions of what the council and their consultants perceive a development project to be viable. Hill PDA has indicated the imposition of the new contributions are viable despite returning a 15.89% IRR failing their own IRR Benchmark of 16%.

In the opinion of JGP, the viability test should be dictated by the required returns set by major institutional lenders which in our experience is a minimum development margin of 25% on Total Development Costs for property without an approved Development Application.

Site Specific Example

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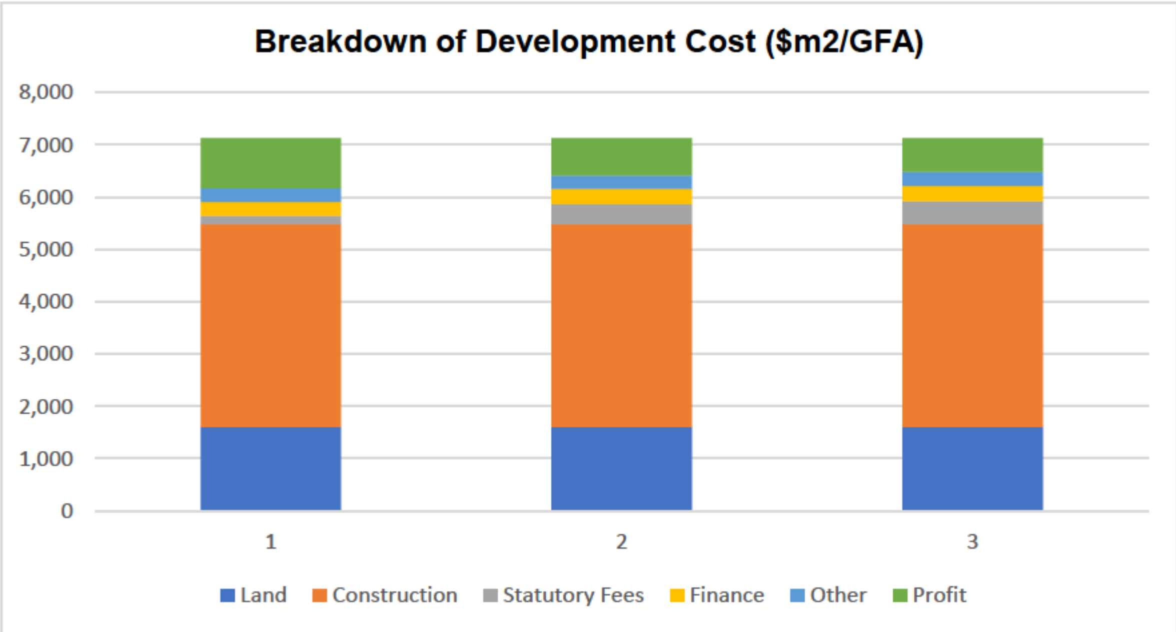

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Recommendations

1. In regions where housing is relatively affordable in comparison to Greater Sydney the viability of affordable housing contributions is tested on a site-specific basis on either basis below;

    a. Infrastructure Contributions are calculated prior to formalising the planning instruments and the planning instruments allow for sufficient additional developable area to ensure the project is viable. The viability test is to be conducted by Registered Valuers at arm's length from Council with all inputs revealed.

    b. The planning instruments are determined, and a Registered Valuer sets the contributions that can be levied on a site-specific basis at arm's length from Council with all inputs revealed.

2. Delay the payment of any new contributions until Occupation Certificate or later