Submission re the Clause 4.6 Request – Affordable Housing

SSD- 79017211 – 2-4 Giffnock Avenue, Macquarie Park

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Introduction

This submission relates to the clause 4.6 application for a reduction in the Affordable Housing (AH) contribution rate for the site from 10% to 5%. The main argument posed in the EIS is that the 10% AH rate is not viable and instead suggests that a 5% rate is required otherwise the site risks “sterilisation”. The EIS relies on a viability study provided by one of Australia’s leading land economics companies, Hill PDA, to support this contention.

If you are using a viability report to amend an affordable housing contribution you would need to show the report was a robust analysis of the economics of a site which was independent of the views of the owner of the site who obviously has a conflict of interest (they are trying to reduce their costs as much as possible by reducing any contribution). This would mean that any assumptions provided by the owner should be tested by examining current practice and values operating in similar markets. This does not appear to be the case of the viability test prepared by Hill PDA. Even the fact that the report includes a covering letter addressed to the proponent suggests that the report is a product for the proponent rather than an independent report trying to support the contention contained in the EIS that the project is not viable under the current planning rules. This compromises the central argument used in the Clause 4.6 request.

Conflicting views

The 10% AH charge is based on an analysis published in 2024 (Atlas Urban, 2024). This analysis suggested that the uplift provided on the site is sufficient to enable a 10% charge without impacting on the development of the site. The analysis was undertaken by Atlas Urban, again a very well credentialed firm. A priori it would seem strange that a firm like Atlas Urban could get a proposed charge so wrong when their analysis is so recent. It is made more confusing by the fact that the Hill PDA analysis suggests that 10% AH is not viable even when the apartment numbers are lifted from the 414 listed in the Atlas Urban report to the 741 dwellings available the height and FSR controls re relaxed (a 79% increase in dwelling yield!). Again *a priori* the degree of uplift on the site would be on the upper end of the urban uplift range – moving from a 2 storey commercial development to a high-rise residential project that is adjacent to a railway station with the most modern public transport service in the nation, that can transport you to the Sydney CBD in less than 20 minutes.

The Hill PDA study.

Without trying to repeat the Hill PDA study a brief review of their report indicates the source of the potential different conclusions. Three items are examined in detail:

1. The Existing use valuation
2. The sales rates
3. The demolition costs

The existing use valuation

The role of the existing use valuation is important in a viability test for AH contributions because it allows the value of the existing use to be estimated as a baseline. If the residual value of land, when it is realistically estimated for the new development scenario with the AH contributions included, is less than the existing use value[1] than there is no incentive for the development to occur – in this case there is a good argument to reduce any planning contribution.

However, if the existing use value is set too high than it will be difficult for the AH contributions to be sustained. Hence, the existing use value is one of the key parameters in viability testing. This means that there should be a detailed discussion of what is an appropriate existing use value. Instead, we are presented with the following in the Hill PDA study*: "Holdmark instructed HillPDA to adopt a purchase price of $45 million".* Apparently, this was based on a previous residual land value undertaken by another firm of consultants for banking purposes. This previous study was not included in the EIS and we do not know the assumptions used in that study. The Hill PDA report provides no discussion of the reliability of this valuation or why it is substantially higher than the 2025 valuation of the NSW VG which $25.7 million. Traditionally, residual land value calculations are not used to generate EUVs.

The Hill PDA approach to estimating the EUV makes the study unsuitable as a viability study and hence an unreliable foundation for a clause 4.6 application.

The matter is made worse by the comment in the document titled: Affordable Housing Clause 4.6 prepared by Keylan. On page 22 of that document in a critique of the Macquarie Park Affordable Housing Contribution Scheme prepared by Atlas Urban they criticize the Scheme for the:

"likely adoption of an unverified low historical value rather than the current market value- feasibility assessments for finance must be based on current land value; banks will not fund a project on assumptions tied to outdated valuations"

This is an extraordinary statement to put in an argument trying to change an existing planning standard. The whole idea of the viability study is to compare a historical land value based on the previous planning rules with a hypothetical land value based on the new rules. This increase in land values is the basis for the affordable housing charge. If your analysis is using current market values after the new planning rules have been announced you would never be able to sustain any AH charges

[1] A premium on top of the EUV is also required sometimes called EUV Plus.

because there would no value uplift. Moreover, Atlas Urban were not trying to obtain finance from a bank, They were comparing land values before and after planning changes to see if an affordable housing charge was viable. If the authors of the Keylan report do not understand this basic process it would be unwise to support any propositions they make in their document.

The sales rates

The sales rates are provided in a bullet point of appendix A.

It is assumed that 50% is sold during construction and the balance at 10 units per month post-completion.

There is no details of where this assumption came from – perhaps it was provided by Holdmark but it is an extraordinary assumption for an apartment development. No major bank would provide finance under these assumptions.

Normally there are pre-sales targets before a developer can access construction finance. These vary depending on the nature of the housing and interest rate cycle but can range from 70-90 percent. This is because banks face large risks when lending to high rise apartment developers because the size of the bank loan is many time larger than their main security – the developer's land. By asking for high levels of pre-sales they reduce their risk on a project. Whilst the pre-sales requirement delays projects, it also reduces costs because the developer is often able to sell the small remaining percentage during construction shortening the period thy need to pay interest. Using the assumptions provided by Hill PDA , the 741 unit development option wouldn't be sold out until over 3 years from the end of construction. This generates a very high interest bill for the project (in the 741-apartment scenario they are over $100 million). If however, the sales rates followed the more conventional strategy of say 70% pre sales, than at the sales rate of 10 per month the development would sell out the project before construction was completed saving around 3 years of interest payments. I expect that you could pay for the additional 5% of affordable dwellings out of these interest rate savings.

The demolition charges

The Hill PDA study includes a charge for demolition. This is appropriate but again the source of the estimate is Holdmark. The estimated charge of $3 million seems overly generous based on per sq metre demolition rates in Sydney. There might be a reason for this – perhaps the building is riddled with asbestos, but Hill PDA has not queried this amount or provided a rationale for the size of the charge.   An independent viability study would be expected to undertake this sort of scrutiny on a cost provided by a proponent with a clear conflict of interest.

Conclusion

For a Clause 4.6 exercise to be successful you would expect the evidence would need to reach a threshold that convinces the consent authority of the need for the change. However, by mistaking the role of an independent valuation exercise which tests assumptions provided by the proponent, with one where the firm has taken their instructions from the proponent, it is clear that the claims made in the Affordable Housing Clause 4.6 report have not passed the required evidence threshold. Without an independent and rigorous viability study it is not possible to reach a conclusion to overturn the existing controls. I find no convincing evidence that the project would be put on hold or be put under threat if the 10% AH charge remains, and without this evidence the existing 10% charge should be maintained.