

Further Submission re the Clause 4.6 Request – Affordable Housing

**SSD- 79017211 – 2-4 Giffnock Avenue, Macquarie Park
Variation Scheme**

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Clause 4.6 Variation – Affordable Housing Contribution

2–4 Giffnock Avenue, Macquarie Park

Like my previous submission, I support the new varied project but query the Clause 4.6 application to reduce the affordable housing contribution from 10% to 5%.

The basis for their case for the reduction in the AH requirement, is a financial feasibility undertaken for the proponent by Hill PDA. Financial feasibility analysis is an accepted planning tool for assessing the economic implications of planning requirements. However, it is also well recognised that the conclusions of feasibility modelling are highly dependent upon the assumptions adopted regarding land value, project costs, financing, project timing and required developer returns. Relatively small changes to these assumptions can materially alter the reported viability of a development.

For this reason, where a financial feasibility assessment is relied upon to justify a departure from an adopted planning control, it is common practice for the assumptions underpinning the assessment to be independently reviewed. The purpose of such a review is not to determine whether the applicant's consultant is "right" or "wrong", but to provide confidence that the assumptions adopted are transparent, supported by market evidence and appropriate for the planning decision before the consent authority.

The following observations are offered in that context.

The importance of independent review

The applicant seeks to vary an adopted Affordable Housing Contribution through the Clause 4.6 process.

Given that the proposed variation would reduce the affordable housing contribution by approximately **50%**, the financial evidence supporting that request should be transparent, capable of independent verification and based upon assumptions that appropriately reflect current market evidence.

Independent peer review does not imply that the applicant's feasibility assessment is incorrect. Rather, it provides confidence that the assumptions adopted appropriately reflect accepted feasibility practice before significant weight is placed upon the conclusions.

Land value assumptions

The Hill PDA feasibility adopts a land value of **\$45 million**. The accompanying covering letter states:

"Holdmark instructed HillPDA to adopt a purchase price of \$45 million for the subject site... The \$45m valuation is an 'existing use' valuation prepared by JLL in 2021 for banking purposes."

This statement raises several questions that appear relevant to the assessment of the Clause 4.6 request.

First, the land value adopted in the feasibility appears to have been provided by the proponent rather than independently determined within the feasibility assessment itself.

Secondly, the valuation relied upon was prepared in **2021** for banking purposes and, despite being a critical assumption underpinning the feasibility conclusions, has not been made publicly available.

Thirdly, it is understood that the current Valuer-General valuation is substantially lower than the adopted land value.

None of these matters necessarily demonstrate that the adopted land value is inappropriate. However, given the significant influence that land value has on any feasibility assessment, they do suggest that the underlying valuation should be available for independent review before significant weight is placed upon the conclusions of the feasibility assessment.

Importantly, this submission is not suggesting that the adopted land value is necessarily incorrect. Rather, the issue is whether sufficient information has been provided to enable the consent authority to independently assess whether the adopted land value represents an appropriate benchmark for testing a variation to an adopted affordable housing contribution.

Given that the adopted land value was selected following instructions from the proponent and is supported by a valuation that has not been made available for review, it would assist the consent authority if the underlying JLL valuation were provided as part of the assessment process. Access to that valuation would enable both the consent authority and any independent reviewer to understand the basis of this critical feasibility assumption, the methodology adopted, and whether it appropriately reflects market conditions.

Stamp duty on theoretical land cost

The HILL PDA analysis includes a stamp duty charge on the \$45 million land value. Given the proponent already owns the land this seems like an unusual item.

Required development returns

The feasibility adopts a project discount rate of **18%**, together with a target development margin of **20%**.

These assumptions materially influence the reported viability of the project.

It would assist the consent authority if the applicant demonstrated how these benchmarks compare with current market evidence for developments of similar scale and risk.

Funding assumptions

The feasibility appears to assume that the project is funded entirely through senior debt, resulting in interest costs of approximately **\$77 million** over the life of the project. This would seem to be an unusual scenario given financiers view of risks.

As financing assumptions have a significant influence on project viability, clarification would assist as to whether this represents the anticipated funding structure or a modelling assumption adopted for testing purposes.

Treatment of the strata bond

The feasibility includes an allowance of approximately **\$10.2 million** for a strata bond.

The treatment of this allowance is unclear.

The Strata Building Bond and Inspections Scheme requires a bond to be lodged as security for the rectification of defects. Subject to the statutory inspection process, that bond is ordinarily returned to the developer.

Accordingly, while the requirement creates a temporary funding obligation, it is not generally equivalent to a permanent project cost in the same manner as construction costs, consultant fees or development contributions.

The feasibility does not explain whether this amount has been treated as:

- a temporary cash flow requirement that is subsequently returned to the developer; or
- a permanent development cost.

Given the magnitude of this allowance, clarification of its treatment would assist the consent authority in understanding its influence on the reported project viability.

Affordable housing costing

The methodology by which the affordable housing contribution has been incorporated into the financial model is not entirely apparent from the material provided.

Greater transparency regarding this aspect of the modelling would assist the consent authority in understanding the actual financial impact of the affordable housing contribution and confirming that it has been incorporated consistently throughout the feasibility assessment.

Cumulative effect of assumptions

Each of the matters identified above may, when considered individually, fall within a range capable of professional judgement.

However, development feasibility is influenced by the cumulative effect of assumptions rather than any single input.

In the present case, the assessment appears to combine:

- a land value adopted following instructions from the proponent;
- reliance upon a 2021 valuation that has not been made available for review;
- a relatively high project discount rate;
- a relatively high target development margin;
- a funding structure that appears to assume 100% debt financing;
- significant finance costs; and
- other assumptions that each have the effect of reducing the reported development return.

While any one of these assumptions may ultimately prove reasonable, their combined effect has a material influence on the reported viability of the proposal.

Conclusion

The purpose of these comments is not to suggest that the Hill PDA assessment is necessarily incorrect.

Rather, they are intended to highlight that the request to reduce the affordable housing contribution relies upon several assumptions that materially influence the feasibility outcome and which would benefit from further explanation or independent verification.

Given that the applicant seeks, through the Clause 4.6 process, to reduce an adopted affordable housing contribution by **50%**, it is submitted that the consent authority should be satisfied that the feasibility assumptions have been independently tested before significant weight is placed upon the conclusions of the report.

Accordingly, it is respectfully submitted that at the very least the consent authority should obtain an independent peer review of the financial feasibility assessment, including the land valuation assumptions relied upon by the applicant, before determining whether the requested variation to the affordable housing contribution is justified.

If, following an independent review, the consent authority is satisfied that the assumptions adopted appropriately reflect current market evidence and accepted feasibility practice, then the applicant's request can be assessed on its merits. **However, in the absence of such a review, it is difficult to conclude that sufficient evidence has been provided to justify a departure from the affordable housing contribution adopted in the Ryde Local Environmental Plan.**