

Engagement Findings for Collingwood Town Hall Precinct Affordable Housing Development Options

Prepared by Hornsby & Co. and Activate Consulting
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Contents

Executive Summary	3
Key findings	4
Background	6
Project overview	6
Scope	7
Consultation approach	8
Participation profile.....	9
A note about the private developer participants.....	10
Findings.....	11
Preferred option of the 3 scenarios	11
Proportion of social housing.....	11
Consolidated social housing or throughout the development	12
Tenant cohort.....	12
Project assumptions	13
Carparking.....	13
Sailors and Soldiers Hall Refurbishment	14
Community facilities space.....	14
No commercial space	15
Height	15
Footprint	15
Dwelling diversity.....	16
Land tenure	16
Taking the project to market.....	17
Interest in the project.....	17
Taking the proposal to market.....	17
The EOI/RFP process.....	18
Funding options	19
Conclusion and recommendations.....	20
Key findings	20
Appendix 1 – Engagement materials.....	22
Appendix 2 – Market testing advice memo	23

Executive Summary

The City of Yarra is exploring the feasibility of delivering a mixed-use development, incorporating community infrastructure and mixed-tenure residential use in the Collingwood Town Hall (CTH) Precinct. The Department of Health and Human Services (DHHS) is a key project partner as a landowner of part of the site. They are also potentially a key funding partner.

The intent of the project is to leverage underutilised land to deliver social and affordable housing outcomes and improved community infrastructure (library or other spaces) that will deliver ongoing value to the community.

Three potential scenarios had been developed, predicated on a shared set of assumptions (height, footprint, refurbishment of the heritage building etc). The three scenarios differ in terms of the ratios of social and affordable housing to private market residential housing.

Hornsby & Co. was engaged to 'market test' the scenarios and their underlying assumptions with potential delivery organisations – Registered Housing Agencies (RHAs) and private developers.

The engagement explored the practical feasibility and operational viability of the scenarios in relation to:

- the thresholds of social and affordable housing provision
- the underlying assumptions
- potential housing models
- any on-site service requirements
- as well as the interviewee's hypothetical interest in the project based on the information available.

The engagement focussed on an agreed list of RHA and private developer stakeholders selected to achieve a diversity of experience. Seven private market developers, and 6 RHAs were approached to participate in the consultation. Four RHAs and 4 private market developers participated and their feedback is reflected in this report.

In addition to the stakeholders listed above, Hornsby & Co. spoke with representatives from DHHS. Their feedback largely pertained to matters of governance, project management, and the challenges and opportunities in bringing the site to market. As DHHS is a project partner (rather an engagement stakeholder) their feedback has not been included in the engagement findings report.

To further test the proposal, JLL (property consulting firm) was engaged to provide advice on the challenges and opportunities in bringing the site to market. That advice is attached to this report.

Key findings

There was both similarity and contrast in the responses from the participants (for different questions), and it was not as clear cut as RHAs having one view and developers having the opposite view.

The predominant feedback in relation to all matters tested and from all participants was “it depends”. Without clarity and certainty about who was paying for each aspect of the proposal, and how much they were willing to pay, participants were unable to state with certainty that the proposal was or wasn’t feasible.

However, there were some elements that consistently came through and they are set out below.

Participants wanted the project partners to:

- Clarify what their objectives are for the site (the must haves, not just the might likes)
- Provide certainty, where possible, to help reduce the project risk and make participation in an EOIRFP a worthwhile investment
- Specify if a particular tenant cohort must be housed
- Identify the subsidy / funding that forms part of the proposal (if any, including any discounted land)
- Allow flexibility for participants in how they achieve the objectives and leveraged the subsidy/funding

In regard to the individual elements of the proposal, participants generally agreed that:

- The inclusion of the heritage building in the proposal increases the risk to a developer, pushes up the contingency budget, and reduces the return to Council
- The inclusion of some community space was a benefit to the proposal, or at least was not a disincentive for their participation
- There was not a requirement for space for on-site service delivery for the social housing tenants other than perhaps some meeting space or a small office

- The decision not to include commercial tenancies was probably the right one in the current climate, although there was scope for a social enterprise hospitality offering if the rent was underwritten by Council (or by someone else)

There was a divergence of views from participants in relation to:

- The proportion of social housing – some RHAs and developers said 20% social housing should be the maximum, some RHAs said 33% should be the maximum and some developers said let the market testing determine the amount
- The co-location or separation of social housing tenancies – some wanted the social housing tenancies integrated across the development, others wanted a standalone building
- Car parking – some wanted more parking, others said the site was located such that parking wasn't required
- Building height – some felt it was an underdevelopment of the site, others considered it appropriate.

When discussing how the site could be brought to market, advice from JLL was:

- This is a high-profile site that will be attractive to the market
- There will need to be clarity and certainty for participants about who pays for each aspect of the proposal
- This project could be delivered through a partnership approach with a transparent governance structure established between key members of Council and the development partner.
- A partnership could be in the form of a Joint Venture or a Land Development Agreement. This approach would give a development partner great confidence that the two parties are willing to work together to attain a solution.

The engagement process also identified that there are a small number of private developers who have experience in delivering social and affordable housing through non-traditional development models. They combine experience and understanding of commercial development with experience and understanding of non-market housing. They operate at a larger scale and volume than RHA developers and have more experience in development.

There is an opportunity for Council to bring the site to market in a way that harnesses the knowledge and experience of these unique stakeholders, perhaps through a design and development partnership with such an organisation. If Council does take up that opportunity, care will need to be taken that any process does not result in asking bidders to provide their time and intellectual property and resources for free; nor in a perception that Council has not followed appropriate procurement processes.

Background

Project overview

The City of Yarra is exploring the feasibility of delivering a mixed-use development, incorporating community infrastructure and mixed-tenure residential in the Collingwood Town Hall (CTH) Precinct.

The proposed project was initiated by Council (previous term) following a significant amount of strategic planning work for the precinct including:

- Collingwood Town Hall Precinct – Urban Design Framework, 2010
- Yarra Housing Strategy, 2018
- Community Infrastructure Plan, 2018
- Social and Affordable Housing Strategy, 2019

The intent of the project is to leverage underutilised land to deliver social and affordable housing outcomes and improved community infrastructure (library or other spaces) that will deliver ongoing benefit to the community.

The Department of Health and Human Services (DHHS) is a key project partner as a landowner of part of the site. They are also potentially a key funding partner.

Consultants were engaged to work with Council staff to develop a massing, yield, and potential affordable housing allocation for the site.

Through this process three potential scenarios were developed, predicated on a shared set of assumptions (height, footprint, refurbishment of the heritage building etc). The three scenarios differ in terms of the ratios of social and affordable housing to private market residential housing as follows:

- Option A – 200 units with 30% social (delivered across two of the three buildings), 20% affordable and 50% market
- Option B – 200 units with 20% social (contained within one of the three building), 10% affordable and 70% market
- Option C – 160 units with 10% affordable, 90% market, plus opportunity for development of social housing on the site (40 units) but as a separate project which includes the community space

There have been several prior attempts to secure improved development at the CTH precinct and this was deemed a priority outcome for the previous Council and the organisation. Whilst there is a clear preference to maximise the provision of social and affordable housing as much as possible, Hornsby and Co. was engaged to ‘market test’ the scenarios and their underlying assumptions with potential delivery organisations – Registered Housing Agencies (RHAs) and private developers.

The findings will help inform a final preferred scenario that delivers great community outcomes, whilst ensuring it is viable for project partners to give it the best chance of successful delivery.

Scope

The project was limited to market testing/scrutinising the three scenarios developed. These included high-level visual concepts, estimated broad costings and revenue, and a set of underlying assumptions (refer to Appendix 1 – Engagement materials). Within this context, the engagement explored the practical feasibility and operational viability of the scenarios in relation to:

- the thresholds of social and affordable housing provision
- the underlying assumptions
- potential housing models
- any on-site service requirements
- as well as the interviewee’s hypothetical interest in the project based on the information available.

The engagement focussed on an agreed list of stakeholders (outlined further below). Importantly, it was not an open ‘ideas and preferences’ exploration, but a focussed engagement about what is acceptable/workable and what is not, based on the following negotiables and non-negotiables.

Negotiables (<i>strongly preferred assumptions to be tested</i>)	Non-negotiables (<i>mandatory requirements</i>)
Thresholds of social, affordable, private housing	Proposed site/ location
No carparking (10 shared spaces)	Inclusion of social and affordable housing
Height, 3 to 5 storeys with the height towards the middle of the site and 3 storeys at the site boundaries	Inclusion of some community facility space
Footprint	High ESD
1000m ² allocated to community space	Retaining Sailor and Soldier Hall
Refurbish Sailor and Soldier Hall	

No commercial development	
Dwelling diversity (i.e. mix of 1, 2 and 3 bedrooms)	
Development model	
Land tenure	
Affordable housing management model	

Consultation approach

The engagement **objectives** were to:

- Engage with a reputable and appropriate mix of stakeholders to ensure confidence in the outcomes
- Build/maintain positive, constructive relationships with key stakeholders
- Gather sufficient data and insights to inform the next phase of Council decision making

Given the complex, strategic and confidential nature of the project, the Victorian social isolation requirements and the time pressures on identified key stakeholders, a targeted and personalised engagement approach was adopted which involved:

- Initial request to participate and completion of Non-Disclosure Agreement;
- Provision of clear and concise project background materials to participants (refer to Appendix 1 – Engagement materials); and
- Follow up one-on-one interviews (online) to discuss the key engagement questions.

Consultation took place from Monday 12 October to 12 November. The participation profile below outlines the stakeholders involved. Interview guides and data capture templates were used for each interview to ensure all important information was captured and done so in a way that allowed for easy comparison and analysis.

While the template was used to prompt questions, most participants wanted to provide their thoughts in a less structured approach. As such the results are not like that of a survey where there is a direct correlation between each question and each answer.

In addition to targeted engagement, Hornsby & Co. engaged JLL (a property investment, assessment, and consultancy firm) to provide a memo outlining their view of the proposal and providing advice on bringing the proposal to market. That report is provided at Appendix 2 – Market testing advice memo and discussed in the section on Taking the Proposal to Market.

Participation profile

Thirteen stakeholder organisations were approached to participate in the consultation (7 private market developers, 6 RHAs).

These stakeholders were selected to achieve a diversity of large and small, national and local, specialised and more broadly focussed organisations, with varying levels of experience generally and within the City of Yarra.

We were able to secure the participation of 8 stakeholder organisations outlined in the table below, including directors, development managers and CEOs. There were some challenges in securing an interview with stakeholders. Stakeholders had competing priorities for their time particularly with additional stressors and demands as a result of Covid-19. In addition, some stakeholders who did participate had not familiarised themselves with the material provided in advance. However, we are confident that the engagement was useful and provided a depth and breadth of views.

Stakeholder	Description
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED] [REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED] [REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED] [REDACTED] [REDACTED]
[REDACTED]	[REDACTED] [REDACTED] [REDACTED]

For the purposes of maintaining confidentiality and upholding our commitment to stakeholders, findings in this report and any illustrative verbatim comments will be identified at the cohort level only (for example, noting a comment from a developer or an RHA).

Throughout the findings verbatim quotes have been included in blue and in italics. The source has not been identified to maintain confidentiality.

In addition to the stakeholders listed above, Hornsby & Co. also spoke with representatives from DHHS. Their feedback largely pertained to matters of governance, project management, and the opportunities and challenges in bringing the site to market. As DHHS is a project partner (rather the stakeholder) their feedback has not been included in this findings report.

A NOTE ABOUT THE PRIVATE DEVELOPER PARTICIPANTS

The consultation highlighted that the private developer vs. RHA grouping does not sufficiently describe a new type of developer. These developers have created a non-standard development model which facilitates social and/or affordable housing.

Two of the private developer participants (Assemble and Nightingale) both have experience in working with RHAs to deliver housing that includes a component of social and/or affordable housing. They demonstrated an understanding of the complexities of the design delivery of these sorts of projects and were therefore better able to see the potential of the proposal. They identified a range of delivery models and partnership approaches compared with the feedback from the commercially driven residential developers.

While the responses from Assemble and Nightingale have not been separated out for the purpose of this report (to help maintain confidentiality) their responses can be characterised as being much more nuanced around the delivery model, and they were more open to the idea of leasehold land. They also had a focus on creating a community, not just building dwellings.

There is an opportunity for Council to bring the site to market using a process that harnesses the knowledge and experience of these unique stakeholders, for example through a design and development partnership. If Council does take up that opportunity, care will need to be taken that any process does not result in asking bidders to provide their time and intellectual property and resources for free; nor in a perception that Council has not followed appropriate procurement processes.

Findings

Preferred option of the 3 scenarios

The resounding feedback from the RHAs and private developers on their preference of the three scenarios was “it depends” – it depends who is paying and how much they are willing to pay.

“It really comes down to: what size cheque does the Council want to write?”

“Options A&B put the onus on local government to pay for social housing [through reduced return on the land]. Option C puts the onus on State government to pay for social housing [through potential to seek State government funding] and that is fair enough.”

Private developer and RHA participants both noted that without an indication of how much the participant was expected to fund then it was difficult to say which was their preferred option. However, there were some comments on specific elements of the options, and these are discussed below.

PROPORTION OF SOCIAL HOUSING

Within the social housing sector there has been commentary that about 30% social housing is the maximum amount within any neighbourhood to avoid creating pockets or concentrations of disadvantage, although AHURI notes that *“there is no evidentiary consensus about the thresholds at which concentrations of certain populations in a neighbourhood have positive or negative effects on the life chances of others living in the neighbourhood.”*¹

Participants noted that the neighbourhood already had a high number of social housing dwellings, in particular the public housing tower nearby, and there was the potential to create or exacerbate neighbourhood fatigue with creation of more social housing.

A couple of RHA and developer participants suggested that **20% social housing** was a preferred maximum for the site. Another RHA participant felt about 1/3 social housing would be okay.

Within the mainstream residential development sector there is still a perception that social housing will significantly impact on the potential sale price of market housing with one participant suggesting Council:

“Take the social housing component out of play. Only go to the market with market housing and don’t let the social housing element come out before the marketing and sale of the market housing is complete.”

¹ <https://www.ahuri.edu.au/housing/policy-analysis/public-housing-renewal-and-social-mix>

The participants did not provide significant commentary on affordable housing, seeing it more akin to market housing than to social housing both in terms of tenant cohort and in terms of development economics and capacity to be self-funding. One developer participant noted:

“Council should resolve on the bare minimum they require and then give freedom to the market to decide how and what it can deliver.”

CONSOLIDATED SOCIAL HOUSING OR THROUGHOUT THE DEVELOPMENT

There were differing views on whether the social housing should be located in one building or throughout the development, but it was not a case of all RHAs holding one view and the private developers holding the other.

Participants noted the potential benefits of having social housing in one building (easier tenancy management, reduced owner’s corporation fees as no requirement to strata title the dwellings) and the potential disadvantages (concentration of disadvantage, stigma).

One RHA participant noted:

“No-one wants to say it, but social housing tenants want to live with other social housing tenants.”

While a developer who preferred a more dispersed model of social housing noted:

“It is important to create housing options so people can upcycle into different housing within the same community.”

TENANT COHORT

A key consideration for most participants was the social housing tenant cohort. They noted that the development could come to market with specific social/affordable housing cohort requirements or that it could be left up for the bidders to put forward their proposed cohorts.

Parallel to this, private developers may have a particular target market in mind to maximise their development return and/or reduce the development risk. The key was for bidders to know and understand any preferences / requirements from Council and DHHS before they developed their bid. One developer noted:

“It is difficult to have something like the Common Ground model and market housing together.”

If the Council and DHHS have particular cohort/s that they want the development to accommodate it is important to identify and articulate these at the outset. Even within social housing, requirements to house a particular cohort can significantly impact on the development economics.

One developer participant noted that at 20% social housing with the balance as market housing (or market plus some affordable housing) they would be able to provide the social housing at no cost (to the Council) through cross-subsidisation. But in order to achieve that

they needed the RHA to have the flexibility to choose tenants (while still making sure they are allocating to very low income eligible households) and to move tenants on or up if need be.

The model works for that developer/RHA partnership because it does not rely on government funding and is not constrained by the requirements that come with government funding. Those constraints are necessary to ensure the careful use of public monies, but they may not allow the flexibility that a developer/RHA partnership requires.

One RHA who houses a specific cohort also made the point that the total amount of social housing proposed was more than they would consider taking on. If Council wanted the cohort that they serve to be accommodated in the development, and/or for that RHA to be an active participant in any project, there may need to be a requirement that they be included or accommodated as part of a project consortium or joint venture. This brings procurement challenges with it, but it can be addressed with careful consideration.

This feedback again highlights the need for Council to be clear about what they need to extract from the opportunity in terms of housing outcomes and/or financial considerations before they bring the property to market.

Project assumptions

The project assumptions were discussed with participants. Some points generated significant discussion, others the participants had no particular view. The feedback on the assumptions is discussed below.

CARPARKING

The issue of carparking produced the most feedback. Three participants (1 RHA and 2 developers) felt that a lack of parking would be a significant issue for their tenants/homeowners.

“Put carparking in for market housing (basement carpark). This site is not walking distance to any good amenity”

Three participants (1 RHA, two developers) agreed that having very limited carparking was okay and appropriate for the location. In addition, the developer noted:

“If you can avoid digging a basement carpark you can reduce costs but also reduce contingency and risk” [which would need to be built into any bid].

One developer spoke about their experience where social housing tenants received a carshare membership from GoGet as part of their tenancy and then paid a very low hourly rate to use the GoGet car. It worked well but one of the challenges they found was that tenants could not afford on-street paid parking when they reached their destination and there were no options for free parking. The data they had received from GoGet was that they have one GoGet car for every 25 members, which represents 11 privately owned cars.

SAILORS AND SOLDIERS HALL REFURBISHMENT

A participant summed up the refurbishment of the heritage listed hall:

“These projects are complex enough without including heritage.”

Including the refurbishment of the hall in the project when taking it to market means including an element with significant risk. When a bidding on a project the delivery organisation (whether it is an RHA or a private developer) needs to balance the risks of the project against the return (reward) of the project. The greater the risk, the greater return they will require in order for them to invest their funds. Including the refurbishment of the heritage building as part of taking the project to market shifts some of the risk from Council to the bidders but it will result in a smaller return to Council to compensate for that risk.

In addition, it is necessary for a builder or developer to allocate some additional costs in a bid for elements where there is uncertainty as to the final cost – this is called the contingency. The refurbishment of a heritage building comes with a greater number of unknowns and as such a bidder needs to increase the size of the contingency. This pushes the price of the bid higher. Including the refurbishment of the hall when bringing the site to market is likely to reduce the return to Council either in terms of dollars or in terms of the social or affordable housing outcomes that can be achieved.

An alternative would be for Council to identify how much value it needs / wants to extract from the land (a minimum dollar value for the sale or lease of the land) and earmark that money for the refurbishment of the hall. The bidder could then calculate what they could deliver, knowing Council’s minimum requirements. This would allow flexibility and innovation while still enabling bids to be compared. The Council would manage the refurbishment of the hall as a separate project.

COMMUNITY FACILITIES SPACE

Participants were generally comfortable with the idea of including community facilities. They were also comfortable with including it as part of bringing the site to market, noting there would need to be clarity in the tender documentation about the extent of the fit out that was required.

RHAs welcomed the opportunity for a small meeting room or on-site office where a staff member could work from a day or so a week.

Together with one developer they also welcomed the opportunity for programmable community space provided they were not expected to resource the community programming element.

One developer said that it was important that Council be clear about what sort of community facility was to be included noting that:

“It needs to be clearer – what is the community facility? Is it an art space or a drop-in centre? That would impact the response of the potential purchasers.”

Another participant noted that:

“The project requires State govt funding which will impact on the timing and delivery of a Council [library] asset [because of the time required to secure State government funding and potential uncertainty of funding].”

NO COMMERCIAL SPACE

Participants felt the inclusion/exclusion of commercial space should be based on demand and viability for such spaces. They noted the difficult interfaces of the site and the recent drop in demand for office space brought about from the Covid-19 requirements for people to work from home.

“This [no commercial space] is the right decision, especially in the current climate. We don’t need any commercial space to subsidize the rest of development.”

Other RHA and developer participants did consider there was potential for a hospitality offering to be included as part of a future community space / library and that the offering could be a social enterprise providing training opportunities for social housing and other tenants on site.

If Council wants to encourage bids that take a holistic approach to community development and cohesion, and are not just focused on housing delivery, they could allow bidders to include some commercial space in their bid but care should be taken that there is certainty that there will be viable and sustainable uptake and use of any commercial space.

HEIGHT

Two participants noted that the height or scale was about right. Four noted that it seemed too low for the site.

Participants did acknowledge the challenge for Council in being both the landowner and the Responsible Authority. They noted that to avoid looking hypocritical, Council would want to try and be consistent in terms of the decisions it had made on nearby planning permit applications when designing a development for their own land.

One developer participant suggested the Council find a way to distance itself from the decision around height when taking the land to market and allow a planning consultant for the applicant to push the point about additional height.

FOOTPRINT

Participants did not have strong views on the footprint although one developer noted that the overall development lacked vision and had not included the Town Hall which would have

been the jewel in development (converted to luxury apartments). An RHA suggested pushing the yield to the south-west of the site (Hoddle Street) and creating a pocket park to Vere Street and the north-east corner.

Three participants noted that both the rail and the road (Hoddle Street) are difficult interfaces.

DWELLING DIVERSITY

The RHAs rather than the developer participants tended to have a view on dwelling diversity noting that the Victorian Housing Register indicated the greatest need for 1-bedroom dwelling but that they also needed two and three bedroom dwellings to meet the needs of their cohort tenants.

A developer participant felt it was important to let the market decide the dwelling diversity noting:

“Don’t be too prescriptive, for example someone might think it is a good site for vertical aged care.”

LAND TENURE

There was some support for leasehold tenure from RHAs and developers but freehold was the preferred option depending on the funding model. Leasehold was more attractive to RHAs if they did not have to use cash reserves to develop the site.

A developer participant noted:

“Leave it to the market but only include options for which the Council is genuinely interested.”

A Built-to-Rent (BTR) product is one where the developer constructs dwellings and then holds on to them and rents them out. It differs from the standard development model where a developer builds dwellings and sells them. Because the BTR model is a long-term rental product for the developer it doesn’t rely on the sale of dwellings to fund the project. Because of this a BTR product may be possible on a leasehold site rather than requiring a freehold site. Three developer participants noted that a leasehold option may be an option if they pursued a Build-to-Rent product.

Taking the project to market

INTEREST IN THE PROJECT

All participants indicated they would be interested in participating in the project – depending on the specific requirements and depending on who would pay for each aspect. They noted it was difficult to provide feedback without that level of detail.

One RHA noted:

“The location is great for our organisation and it aligns with our housing supply strategy.”

In terms of the financials that had been prepared, participants noted that the numbers “looked about right” although they might be a bit light on. Two participants noted that the assumed conversion of gross floor area to net floor area seemed far too optimistic at 85% and a value of 70-80% would be more realistic. One developer also questioned whether the proposed massing allowed for the most efficient floorplate.

TAKING THE PROPOSAL TO MARKET

Participants were particularly interested in the mechanism and process by which the project would go from an idea to reality.

One RHA participant noted:

“The site needs master planning first. A master planning exercise is invaluable to flush out the issues”.

One developer suggested that Council should simply take the proceeds from the sale of the land and invest it in social or affordable housing off the site. They considered this the most streamlined and simple approach.

All participants said they would be seeking an assurance that the Council (and project partner DHHS) had identified and articulated their objectives and were clear on the outcomes they were seeking.

As one RHA said:

“How will council decide which scenario is better?” Is it just the economic drivers? Or is it delivery of social housing, particular cohorts, community cohesion, community assets, something else?

They noted that:

“There is not sufficient depth of analysis [yet] to get Council to a point of decision. How will you present the information to Council to make it an easy decision for them? There is a lot of risk in that [how you present the information to Council for decision]”

Individual developers and RHAs would make an assessment of risk and potential return and, if an RFP allows them the flexibility to do so, will design a bid that balances the risk and the return.

For example, one RHA suggested:

“Package up the development – get the private sector to build it and deliver a turnkey product for RHAs. This removes construction risk for the RHA. The RHA has to pay a bit extra but it is still affordable for them and for the State. The [RHA] Board will love it because of the reduced risk.”

Advice from JLL (Appendix 2 – Market testing advice memo) explored how the proposal could be taken to market noting that:

“A partnership approach should be the way this project is delivered with a transparent governance structure established between key members of Council and the development partner. This can be in the form of a Joint Venture or a Land Development Agreement. This approach would give a development partner great confidence that the two parties are willing to work together to attain a solution.”

THE EOI/RFP PROCESS

Feedback from participants was that while a broad-brush EoI is not necessarily resource intensive to respond to, a more detailed Request for Proposal (RFP) can cost an organisation hundreds of thousands of dollars to prepare. A participant provided an example where they were involved in a process where the “goal posts were moved” part way through, costing them significant resources and resulting in sub-optimal proposals.

One RHA explained:

“Having more detail available at the RFP stage (e.g. draft deeds) will help the Board decide if they want to participate because there are significant resource implications for participating in the RFP.”

And a developer noted that:

“You need to stitch together a deal. You can’t use a blunt instrument.”

However, there was a tension in the responses between wanting certainty and clarity about the requirements but also wanting flexibility to innovate and develop a viable proposal.

FUNDING OPTIONS

The RHAs noted the most likely funding sources were:

- State government (Social Housing Growth Fund, Public Housing Renewal Program, Spot Purchase Program)
- NHFIC (financing rather than funding)
- Cash reserves
- Philanthropy
- Cross-subsidisation from market or affordable housing (i.e. the developer pays)
- Reduced land costs (i.e. Council pays)

There was a high level of confidence that the project could attract funding because of the location, the potential for cross-subsidisation from market housing, and the anticipated (but not confirmed) allocation to social housing development the State Budget.

Conclusion and recommendations

Key findings

There was both similarity and contrast in the responses from the participants (for different questions), and it was not as clear cut as RHAs having one view and developers having the opposite view.

The predominant feedback in relation to all matters tested and from all participants was “it depends”. Without clarity and certainty about who was paying for each aspect of the proposal, and how much they were willing to pay, participants were unable to state with certainty that the proposal was or wasn’t feasible.

However, there were some elements that consistently came through.

Participants wanted the project partners to:

- Clarify what their objectives are for the site (the must haves, not just the might likes)
- Provide certainty where possible to help reduce the project risk and make participation in an EOI/RFP a worthwhile investment
- Specify if a particular tenant cohort must be housed
- Identify the subsidy / funding that formed part of the proposal (if any, including any discounted land)
- Allow flexibility for participants in how they achieve the objectives and leveraged the subsidy/funding

In regard to the individual elements of the proposal, participants generally agreed that:

- The inclusion of the heritage building in the proposal increases the risk to a developer, pushes up the contingency budget, and reduces the return to Council
- The inclusion of some community space was a benefit to the proposal, or at least was not a disincentive for their participation
- There was not a requirement for space for on-site service delivery for the social housing tenants other than perhaps some meeting space or a small office
- The decision not to include commercial tenancies was probably the right one in the current climate, although there was scope for a social enterprise hospitality offering if the rent was underwritten by Council (or by someone else)

There was a divergence of views from participants in relation to:

- The proportion of social housing – some RHAs and developers said 20% social housing should be the maximum, some RHAs said 33% should be the maximum and some developers said let the market testing determine the amount
- The co-location or separation of social housing tenancies – some wanted the social housing tenancies integrated across the development, others wanted a standalone building
- Car parking – some wanted more parking, others said the site was located such that parking wasn't required
- Building height – some felt it was an underdevelopment of the site, others considered it appropriate.

When discussing how the site could be brought to market, advice from JLL was:

- This is a high-profile site that will be attractive to the market
- There will need to be clarity and certainty for participants about who pays for each aspect of the proposal
- This project could be delivered through a partnership approach with a transparent governance structure established between key members of Council and the development partner. This can be in the form of a Joint Venture or a Land Development Agreement. This approach would give a development partner great confidence that the two parties are willing to work together to attain a solution.

The engagement process also identified that there are a small number of private developers who have experience in delivering social and affordable housing through non-traditional development models. They combine experience and understanding of commercial development with experience and understanding of non-market housing. They operate at a larger scale and volume than RHA developers and have more experience in development.

There is an opportunity for Council to bring the site to market in a way that harnesses the knowledge and experience of these unique stakeholders, perhaps through a design and development partnership with a suitable developer. If Council does take up that opportunity, care will need to be taken that any process does not result in asking bidders to provide their time and intellectual property and resources for free; nor in a perception that Council has not followed appropriate procurement processes.