Market Sounding Summary Report

Shiers Street Redevelopment

Source: Google Maps

NORTHERN TERRITORY GOVERNMENT

Contents

1. Background

The Northern Territory (NT) Government is looking to partner with the community housing sector to redevelop the public housing complex at 4 Shiers Street, The Narrows, Darwin (the Project).

The redevelopment is expected to require innovative financing models with a focus on community renewal and mixed tenure living to achieve positive outcomes for residents and the neighbourhood. A well-considered, comprehensive redevelopment of the site could increase yield, diversify the housing supply and deliver community renewal with increased liveability.

To inform consideration of options for the opportunity, the NT Government has undertaken a market sounding exercise. The information collected will help focus tender design and enhance the commissioning process to deliver a successful redevelopment.

This report summarises the findings from the Shiers Street market sounding process.

2. Engagement approach and activities

In January 2022, the NT Government released a market sounding exercise to assess market appetite, inform future procurement and ensure proactive industry consultation prior to any formal request to the market.

The market sounding included a high-level proposal for the redevelopment and commissioning process that was shared with local and inter-state Community Housing Providers (CHPs). Reponses were invited through an interview process or written submission. The market sounding information package released publicly is available at https://tfhc.nt.gov.au/news/2022/january/community-housing-redevelopment-opportunity.

As advised by the National Housing Finance and Investment Corporation (NHFIC), the market sounding looked to attract potential financial partners that could provide advice on the minimum conditions required for a project of this scale, such as Government financial contribution or packaging of the opportunity.

3. Submissions received

The market sounding exercise received nine submissions. A breakdown by organisation type is below:

Organisation type	No. of submissions
Investment /bid sponsor	3
Community Housing Provider	
- NT based	2
- Inter-state	1
Non-for-profit housing and homelessness services provider	1
Advisory	1
Housing membership organisation	1

In late February, PowerHousing Australia, an organisation that facilitates a network of growth for Tier One CHPs, featured the market sounding opportunity in their newsletter.

The closing date for submissions was extended until 31 March 2022 to allow further time for submissions.

4. Key findings

4.1. High level design concept

Physical Design

- The current zoning for the Shiers Street site is Medium Density Residential (MR) which would allow for up to 169 dwellings. All proposed design options were within this limit with number of dwellings ranging from 90 to 157.
- A mix of dwelling types has been recommended for the site including one and two bedroom apartments, townhouses and Specialist Disability Accommodation (SDA). Design suggestions included a mix of two, four and eight storey buildings, all with on-site parking.
- The inclusion of Dwyer Park within the scope of the project is considered beneficial. It would reduce the need for additional outdoor areas and would support improved community amenity. Respondents highlighted that incorporating the park into the project would increase the requirement for additional Government investment.
- On site services, including a housing management office, community and activity hub, and commercial spaces were also proposed.
- Interstate experience has shown on-site commercial developments positively contribute to community harmony but are only minimally profitable.

Mixed Tenure Options

- Respondents proposed a variety of mix-tenure options considered to be viable, all with social and affordable housing and some with inclusion of private rental or sales. SDA was also proposed.
- Interstate there is preference for 100 percent ‘build to rent’ models over ‘build to sell’. Build to rent models enable Government to retain ownership of valuable or strategic land.
- Mixed tenure rental housing can be classed as social infrastructure for financing purposes but market for sale housing cannot. However, investors can still consider projects if the market for sale component is a small share of the mixed-tenure model.
- Mixed tenure models that include private rental alongside social housing can be high risk and potentially only viable in highly sought after locations with good access to public services. Further market research would help inform whether such a model would be viable at Shiers Street.
- There is less investor risk associated with mixed tenure developments that focus on social, affordable and SDA housing as this type of housing will always rent. However, such models will be more likely to require an ongoing Government subsidy in the form of lease or availability payments.

Innovation

- There is potential to incorporate environmentally sustainable design elements into the overall project that would assist with natural cooling and reduced energy costs. Similarly, the built environment can be designed to promote healthy living.

Land arrangements

- Title transfer was generally preferred, although there was an openness to consider long term leasing arrangements of 40 years or more.
- If Government retains ownership of the land, the need for an upfront capital grant or ongoing subsidy is likely to be higher. This is due to the project lead not being able to borrow against the assets and the rent payments alone not being sufficient to service the debt required to fund development costs.
- Freehold title for at least part of the site would facilitate market sales and private ownership if part of a mixed tenure model.

Timeline

- Where feedback was provided on the timeline, up to 12 months was allowed for project design and approvals and approximately two to two and a half years for construction.

4.2. Financing and Partnership Options

Respondents put forward a number of different partnership and financing options, noting that the best option would ultimately depend on a number of factors including project size, mixed tenure model and the risk appetite of partner organisations.

4.2.1. Financing Options

A project such as Shiers Street could be financed through multiple sources including:

- Government land
- Concessional lending from NHFIC
- Bank lending/senior debt
- CHP Equity investment
- Private investment/Institutional investor
    - subordinated debt or
    - equity
- Government funding as upfront capital or an ongoing subsidy or availability payment.

It is only recently that private investment and institutional investors have started to invest in social infrastructure projects, including housing. Having this form of investment as part of a project, can significantly reduce cost to Government.

Types of debt: Senior debt is often secured and is more likely to be paid back while subordinated debt is not secured and is more of a risk. Secured debt is debt secured by the assets or other collateral of a company and can include claims on certain assets. Subordinated debt is a loan that is paid after all other corporate debts are repaid, in the case of borrower default. Subordinated debt is unsecured and due to this, it carries a higher risk of not being repaid and therefore higher interest rates.

Investor interest in social infrastructure

- Institutional investors are increasingly looking for projects that align with Environmental Sustainability Goals (ESGs) or the United Nations Sustainable Development Goals. Superfunds for example are required to report on how they deliver against ESGs.
- Projects that deliver on ESGs can also be referred to as having a triple bottom line with returns to ‘Profit, People and Planet’.
- Rental housing can be classed as social infrastructure (delivering People bottom line). Private investors, including organisations that invest on behalf of superfunds, are interested in exploring opportunities in the NT.

- Having institutional investors as part of a project can significantly reduce project costs for Government.
- Scale is a critical factor for investment decisions. Most investors in social infrastructure projects have $100 million as a minimum benchmark for viability.

Investor interest in Shiers Street

- For investors, Shiers Street is a small scale project. It is likely to be less than $100 million. For it to be a viable investment proposition, it would need to be attached to a pipeline of projects or packaged with other sites.
- Uniformity is important to investors. They preference projects that replicate best practice already proven elsewhere.
- Smaller scale projects can become more attractive if they are easily scalable and replicable in other locations, such as urban renewal sites across the Territory.
- Investors would like to support a range of housing projects across Greater Darwin that spread risk and create scale and continuity in development opportunities.

4.2.2. Partnership Options

Respondents described three potential delivery models and also noted that the NT Government could opt for a hybrid, drawing on different elements of each.

Public Private Partnership

(PPP)

- PPPs are often used where government is seeking innovation or wanting to drive change.
- A PPP arrangement establishes a consortium of partners to provide a total service solution that packages financing, design, construction and ongoing management of the site under a long term agreement.
- A CHP or investment organisation could be project lead. The investment organisations that responded had experience establishing and coordinating PPPs for social infrastructure projects.
- The allocation of risk between the government and private sector is more complex in a PPP than in a conventional contracting arrangement.
- Consortiums and PPPs sometimes establish a Special Purpose Vehicle (SPV) for delivery of the project to protect the project lead from risk and provide a single interface with Government. The SPV would obtain the same tax free status as a parent CHP, or register as a CHP in its own right.
- A total capital requirement of $200 million is an efficient size for a PPP. This is due to the fixed costs incurred in building a consortium, preparing a bid and managing a project.
- Upfront or ongoing financial support may be required from the NT Government.
- Several respondents included case study examples of PPPs for similar projects that they are part of.

Develop-ment Agreement and separate Services Agreement

- If Shiers Street is a standalone project, a conventional contracting approach was recommended.
- A CHP could be the project lead for the development and work with a developer and financing partners.
- Not all Tier 1 and Tier 2 CHPs would be in a position to take on the risk associated with a project like Shiers Street.
- The use of a development agreement provides greater flexibility in the process than a PPP and is built on industry known standards.
- A CHP would be likely to engage an advisor to ensure the commercial and financing arrangements were robust, the CHP was aware of associated risks, and provide project management assistance where requested.

NT Government Construction with subsequent asset and management transfer

- Under this approach the Government undertakes the redevelopment and subsequently engages a CHP for the asset and management transfer.
- This approach may be taken when Government decides they are better placed to undertake the development – possibly due to the scale of the project relative to the capacity of the CHP sector, or complexities Government is better placed to manage.
- The NT Government could approach the Northern Australian Infrastructure Facility (NAIF) for funding. NAIF is able to consider investment opportunities in housing.

5. Procurement process

- Submissions to the market sounding encouraged Government to seek expert commercial advice in taking the project forward. This will give the market confidence that it is a credible process.
- Proponents prefer a streamlined process where they have adequate lead time and government sets a path and sticks to it
- Due to the costs involved in preparing a proposal, a two-stage process is recommended that includes a Stage 1 EOI followed by either:
  - an invitation to a small shortlist of proponents to submit a full bid; or
  - direct negotiations.
- When CHPs are expected to be the lead proponent, it is standard practice for government to provide bid cost contributions. Bid costs are expenses borne by proponents during the procurement phase of the project (prior to appointment of preferred bidder) that relate to tender development. Bid costs can include: design costs, technical modelling, legal advice, and specialist reports required to develop a conforming bid.
- Respondents suggested there would be some interest in the Shiers Street project from a small number of both local and interstate CHPs.
- The majority of inter-state CHPs are not currently looking for expansion opportunities elsewhere. One reason for this is that larger state governments, where the CHPs are already established, have pipelines with sufficient projects.