

Final Business Case Summary

Teloopea Renewal Project



October 2018

About this report

This document summarises the Final Business Case (Business Case) for the Telopea Renewal Project. The Telopea Precinct, located approximately four kilometres north-east of Parramatta, is characterised by large areas of land and housing owned by NSW Land and Housing Corporation and used as social housing. The intent of the project is to redevelop the precinct to provide additional social housing¹, within a more diversified neighbourhood of mixed tenure that includes affordable housing² as well as privately owned housing.

The Business Case for the Telopea Renewal Project was developed by the Land and Housing Corporation and submitted to Government in May 2018.

This Business Case Summary has been prepared by Infrastructure NSW, the NSW Government's independent infrastructure advisory agency.

Strategic context

Importance of social housing

Social housing is a critical safety net for the most vulnerable members of society. It provides stable accommodation and the benefits that flow from being part of a community. There are 272,000 people living in 151,000 social housing dwellings in NSW. Most of these homes and tenancies are managed by NSW Land and Housing Corporation and by Community Housing Providers³.

The profile of social housing tenants has changed over time. In the 1970s, 70% of households were low income families with children. Today, the two largest groups of tenants are people with a significant disability and vulnerable older people.

The plan to improve social housing

*Future Directions for Social Housing in NSW*⁴ is the Government's plan for social housing over the 10 years to 2025. *Future Directions* is underpinned by three strategic priorities: more social housing; more opportunities, support and incentives to avoid and/or leave social housing; and a better social housing experience.

To achieve these goals, *Future Directions* will implement three interconnected strategies:

1. Significant expansion and redevelopment of stock through partnerships with private sector developers and finance
2. Transferring significant tenancy management responsibility to non-government housing providers, and
3. "Wrap-around" services to support tenants to build their capabilities and take advantage of the economic opportunities in our strengthening economy.

Providing more social housing through Communities Plus

At the core of the Government's plan for social housing is a commitment to a large-scale building program. One of the key initiatives is the Communities Plus program, the fast-track redevelopment of parts of the Government-owned housing portfolio by Land and Housing Corporation.

Communities Plus leverages the value of the Corporation's existing portfolio to accelerate the supply of additional housing. It is a partnership model where private developers and community housing providers design, fund and build a mix of social, affordable and private housing on Government-owned land. The sites selected for redevelopment have good amenity, access to transport, employment and educational opportunities.

As each development is completed, the new social housing properties are handed over to Land and Housing Corporation as payment for the land. Community housing providers will manage the new social and affordable housing dwellings, and in some cases may own the affordable housing component of the development.

Catalyst for change in Telopea

The Government's commitment to the Parramatta Light Rail Project, which will connect Telopea with the key economic and service centres of Parramatta and Westmead, was the catalyst for a Masterplan for the area. Developed by City of Parramatta Council and Land and Housing Corporation, the Masterplan aims to support the redevelopment of private and public land served by the new transport infrastructure. The intent is to increase the supply of housing, supported by improvements to the public domain and the provision of new and renewed facilities to service the precinct's increased scale and population.

1 Social housing is rental housing provided by not-for-profit, non-government or government organisations to assist people who are unable to access suitable accommodation in the private rental market.

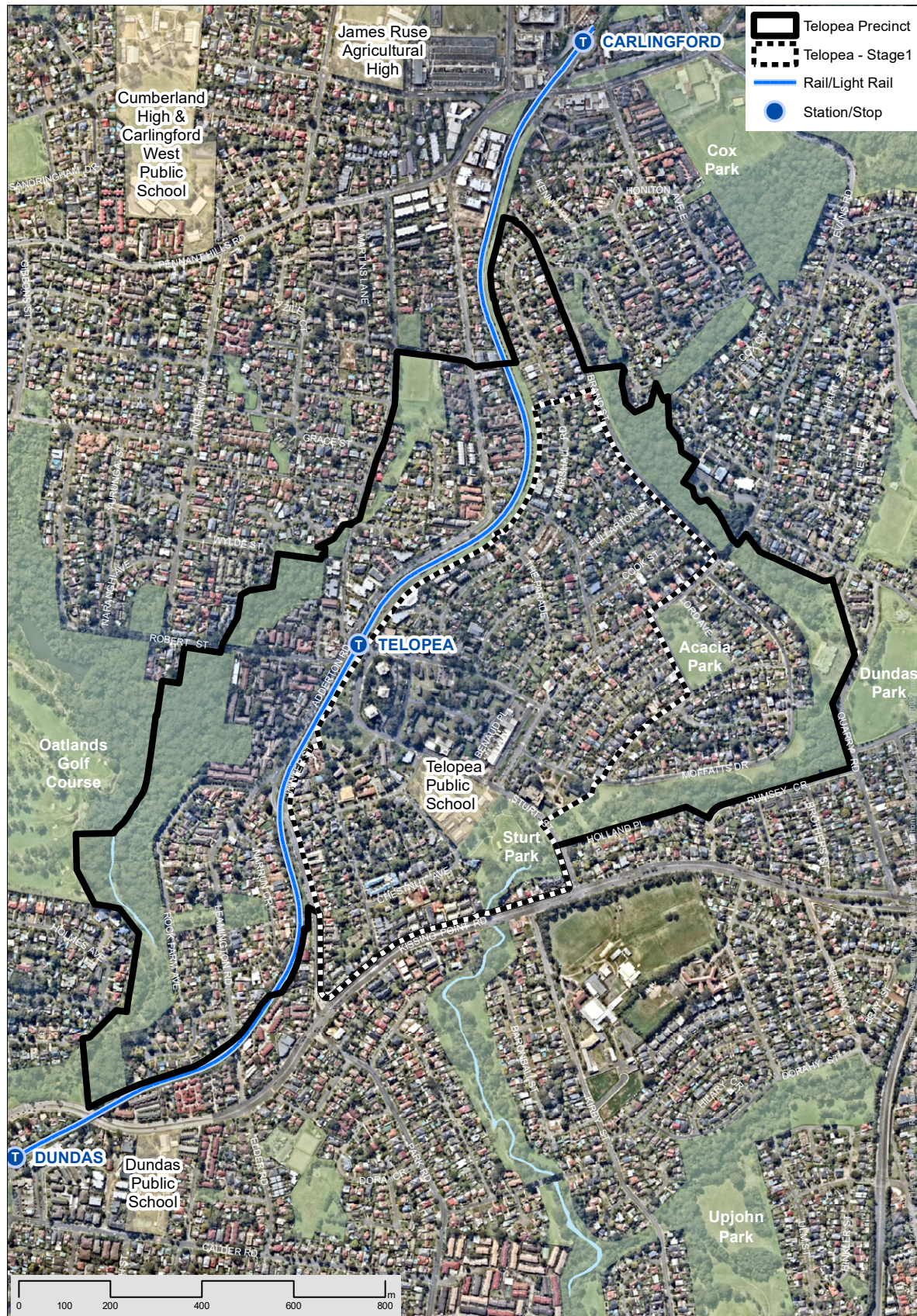
2 Affordable housing is housing that is provided at a discount to market rent.

3 A Community Housing Provider is generally a not-for-profit organisation. It manages social housing that it owns, as well as housing owned by Government or rented from private landlords with government funding.

4 NSW Government (2016), *Future Directions for Social Housing in NSW*.

The Masterplan has been translated by the Department of Planning and Environment into planning controls which were exhibited for public comment in October and November 2017. Proposed rezoning of the Masterplan area (shown as Telopea Stage 1 in Figure 1) establishes land use zones, maximum heights, maximum floor space ratios and minimum lot sizes⁵. These will be reflected in an Amendment to the Parramatta Local Environmental Plan which is being finalised by Department of Planning and Environment.

Figure 1 Precinct Map and Masterplan Area



5 See <https://www.planning.nsw.gov.au/Plans-for-your-area/Priority-Growth-Areas-and-Precincts/Telopea-Precincts/Key-actions-and-documents>

Project need

The demand for social housing exceeds supply

There are approximately 55,000 households waiting for social housing in NSW⁶. Just over 7,500 of these households are in the Western Sydney District, which includes Telopea. New initiatives and programs to increase supply have been introduced, but a shortfall remains.

Stock is nearing the end of its economic life

There are 640 social housing dwellings in Telopea, with an average age of 44 years. The oldest homes are detached cottages built in the 1950s. These make up 19% of the social housing in Telopea. Another 78% are apartments, in three-storey walk-up buildings built in the 1960s and in nine-storey apartment blocks built in the 1970s. There are also some more recent townhouses constructed in the 2000s.

The cottages and walk-up apartments are nearing the end of their economic and useful life. This reduces the level of amenity tenants experience and increases the cost of maintaining the properties.

Housing does not match the profile of people needing housing

The profile of the social housing tenants in Telopea has changed markedly since much of the stock in Telopea was built. Most housing (84%) has two or more bedrooms, while, 56% of the current tenants are single person households. Much of the housing in Telopea, then, is not only ageing, but is underutilised.

The available stock is also misaligned with the needs of households on the waiting list. Half of the people waiting for social housing in the Parramatta Local Government Area (which includes Telopea) are seeking studios or one-bedroom accommodation⁷.

Social housing is highly concentrated

Telopea is a location with a very high concentration of social housing (approximately 70%). Incomes are below average and Telopea's score on the Socio-Economic Indexes for Areas (SEIFA) ranks it in the bottom 30% of Australian suburbs in terms of disadvantage⁸.

There is a growing body of research that highlights the positive and lasting impacts of urban renewal in locations of concentrated disadvantage⁹.

The Communities Plus program responds to this evidence by including support services as part of the model. The development of communities that integrate social housing within a mix of housing and residents is also a key tenet of the Program.

Project description

The Telopea Renewal Project will deliver a mix of social housing, affordable housing and private housing through the Communities Plus Program. Between 3,500 and 4,500 new dwellings will be delivered across the Telopea Precinct. Approximately 1,000 of these homes will be new social and affordable housing dwellings. They will be owned by the Land and Housing Corporation and managed by a Community Housing Provider.

The project will use the significant increase in density provided for under the proposed changes to the planning controls to deliver the renewed and additional housing at no cost to Government. The increased densities will also allow social housing to be integrated into a wider range of housing forms and types in Telopea. This is consistent with the Government's commitment that large redevelopments on Land and Housing Corporation sites will integrate social housing with affordable and private housing, with social housing making up approximately 30% of the housing¹⁰.

The new social housing will include a mix of one, two and three-bedroom homes that better meet the needs of tenants. There will also be more universally accessible dwellings¹¹ for tenants with disabilities.

The project includes new and enhanced open spaces, new retail spaces and a new, centrally located community hub. Social housing tenants will be assisted by the Community Housing Provider to access health, education, employment and other support services.

6 Family and Community Services, (January 2018) estimate is 55,000 households waiting for social housing <https://www.facs.nsw.gov.au/housing/living/rent-and-bills/annual-review>

7 Family and Community Services, June 2017

8 Australian Bureau of Statistics (2016), *Socio-economic Indexes for Areas*.

9 Vicki-Ann Ware, Hellene Gronda and Laura Vitis (2010) *Addressing locational disadvantage effectively (international evidence)*. AHURI Research Synthesis Service, Australian Housing and Urban Research Institute.

10 NSW Government (2016), *Future Directions for Social Housing in NSW*.

11 Universal design is used to create buildings that are usable and effective for everyone, to the greatest extent possible without the need for adaptation or specialised design.

Figure 2 Telopea Masterplan



Option identification and assessment

Preliminary work undertaken in 2016 considered a range of options. These included:

1. Undertaking the redevelopment in Telopea using only land owned by Land and Housing Corporation
2. Adding to this land by purchasing some privately held land to complete development parcels before redeveloping
3. Redeveloping only on the larger parcels of Land and Housing Corporation land that would allow development of over 40 dwellings on the site. The smaller sites would be retained and continue to be rented as social housing
4. Disposing of social housing identified for redevelopment in Telopea and purchasing replacement housing elsewhere in the Parramatta Local Government Area, and
5. Disposing of social housing identified for redevelopment in Telopea and developing new social housing in areas where the cost of land is lower.

The outcome of this work was a decision to explore fully the first two options: developing sites within Telopea for mixed tenure housing 1) on land owned by Land and Housing Corporation and 2) on land owned by Land and Housing Corporation augmented by purchasing some privately-owned properties to complete development parcels. These two options were the subject of the current Business Case, together with a Base Case which assumes the status quo – that is, that the current social housing in Telopea is retained as is and maintained into the future.

Economic evaluation

The two options described above were analysed and considered against the Base Case.

Costs

The costs of the project are the costs to the developer of providing the social housing component of the project and the project enabling costs. Project enabling costs include relocating current tenants during the redevelopment, providing new infrastructure in the renewal area and the cost of maintaining the new social housing dwellings during the project evaluation period of 30 years. Total costs are estimated at \$220 million¹².

¹² A breakdown of costs is not provided for commercial reasons.

Benefits

The project is expected to deliver direct and indirect benefits. The direct benefits flow from:

- **Additional social and affordable housing**
The benefits to social housing tenants of having safe and secure accommodation are intangible. The Business Case estimates these benefits by calculating the rent paid by the tenant¹³ as well as the value of the rental subsidy¹⁴ (this latter figure is the consumer surplus). The new social housing delivered through the project is assumed to have a useful economic life of 60 years. The value of the assets at the end of 30 years (the period over which the project has been evaluated) is included as a project benefit.
- **Avoided maintenance costs**
The social housing dwellings replaced by the project will not require ongoing maintenance. This saving is a benefit of the project.
- **Improved amenity in the area**
The project includes additional and enhanced public space (at Acacia Park, Sturt Park, Hilltop Park and the Parramatta Light Rail arrivals plaza). Improved public amenity is expected to be largely reflected in the private land values in the completed development and so has not been quantified separately as a benefit. Existing and future social and affordable housing tenants will also enjoy these benefits, however, and the benefit to this group of residents has been included in the analysis.
- **Change in land use**
It reflects the increase in the value of the land due to the increase in housing and the development of retail and commercial spaces.

The two major components of the indirect benefits are:

- **Savings in the provision of public infrastructure**
The increased densities in the project area mean that the cost of providing infrastructure such as utilities and road upgrades is less than in low density developments.
- **Wider economic benefits**
This figure captures increased productivity that is typically seen in areas where businesses and people locate close to one another.

The balance of the Wider Economic Benefits come from the environmental and travel impacts of developing urban sites rather than developing greenfield sites on the urban fringe, and public health benefits from providing opportunities for active transport.

¹³ Social housing rents are calculated as a percentage of the household's income. Across its whole portfolio, LAHC receives on average 44% of market rent from social housing dwellings. This figure has been used to estimate rent received.

¹⁴ This is the difference between the market rent for the property and the rent the tenant pays, based on their income.

Outcome of the analysis

The two options described above were fully assessed in the Business Case. The Benefit Cost Ratios (BCRs) of each option were not materially different. The purchase of some private land by the Government to consolidate development sites added complexity and risk to Option 2. For this reason, Land and Housing Corporation identified Option 1, which is the redevelopment of housing using only land currently in its ownership, as the preferred option.

The outcome of the economic analysis of the preferred option is summarised in Table 1.

The analysis shows that the project has a Net Present Value (NPV) of \$141 million and a BCR of 1.64 if only the direct benefits are considered. The BCR increases to 1.87 if direct and indirect benefits (except Wider Economic Benefits) are considered and 2.02 if all benefits are included.

Table 1 Outcome of the Economic Analysis

Present value – 7% discount rate	
Benefits	\$446 million
Direct benefits	\$361 million
Indirect benefits	\$85 million
Costs	\$220 million
Social housing development costs and project enabling costs	\$220 million
Direct benefits only	
Net present value	\$141 million
Benefit cost ratio	1.64
All benefits except wider economic benefits	
Net present value	\$192 million
Benefit cost ratio	1.87
All benefits	
Net present value	\$225 million
Benefit cost ratio	2.02

Deliverability

The Telopea Renewal Project will be delivered by Land and Housing Corporation partnering with a private sector developer and a Community Housing Provider. Consistent with the *Communities Plus Program* model, the private developer and community housing provider will design, fund and build a range of housing and associated commercial and community facilities on land owned by Land and Housing Corporation.

The social housing component of the development will be transferred to Land and Housing Corporation at the end of the development as payment for the land used to develop private housing. The ongoing management of the social housing will be contracted to the Community Housing Provider.

The Telopea Renewal Project is the second project using the *Communities Plus* model to be delivered by Land and Housing Corporation. The first, the Ivanhoe Renewal Project in Macquarie Park, was initiated in 2016, progressed to contract award in 2017 and is now under way. This prior experience increases the likelihood of the project being delivered successfully, as lessons learnt in the first project are being applied to Telopea.

Procurement

Land and Housing Corporation proposes a two-stage procurement process, consisting of a call for Expressions of Interest to identify a short-list of proponents who will be then invited to respond to a full Request for Proposal. Refinements made to the process following a review of the Ivanhoe Project include the release of a draft contract with the Request for Proposal, and a longer period for responses, during which there will be interaction with proponents.

Timeframe

The Expression of Interest was released to the market in March 2018. A Request for Proposal is expected to be released to a shortlist of proponents in the second half of 2018 with a preferred partner identified in the first quarter of 2019.

Land and Housing Corporation will work with the Preferred Proponent to agree a staging strategy for the delivery of the development, which is expected to take 10-15 years to complete.

Key risks and mitigations

The Business Case includes a comprehensive assessment of the risks associated with the project and the way in which each risk is being managed.

Key areas of risk include: stakeholder management, given the scale of change proposed; planning, particularly the outcome of the proposed rezoning of the area; and the capacity of the market to respond.

Actions are planned and underway to limit the risks identified, with particular attention being given to the relocation of tenants during the development.

The Infrastructure NSW view

Consistent with the NSW Government's Infrastructure Investor Assurance Framework¹⁵, Infrastructure NSW routinely assesses business cases and provides advice to Government on the efficacy of their findings. The Telopea Renewal Project Business Case was reviewed in April 2018.

The review acknowledged the strong policy framework supporting the project and concluded that the project was well conceived and likely to deliver new and additional social and affordable housing, linked to tailored support services, and within a larger, integrated community that includes increased levels of private housing.

The estimated numbers of social and affordable housing rely on assumptions around land value and construction costs. Movement in these variables will impact the number of dwellings that can be developed. For this reason, Infrastructure NSW recommended an expert review to ensure all costings are current and complete prior to the Request for Proposal stage. This is now underway.

The redevelopment sites to be offered to the development partner for mixed housing include large, stand-alone sites as well as smaller sites interspersed with private housing or in locations where access is more difficult. The yield likely from these "island" sites has been tested, confirming that the assumptions in the Business Case are sound.

The concept of transit-orientated redevelopment at Telopea, based on the new Parramatta Light Rail, was welcomed by the Review. While the light rail is expected to play a significant role in supporting the increased local population, Infrastructure NSW recommended that Land and Housing Corporation continue with its assessment of the impact on other traffic and transport infrastructure in the area, which is nearing completion.

Infrastructure NSW concluded that the project is strategically sound and well designed. Total dwelling numbers will be determined during the procurement process, but the Economic Evaluation in the Business Case assumes dwelling numbers which are evidence-based and defensible. Infrastructure NSW recommends that social housing and affordable housing numbers be closely scrutinised by the Communities Plus Board throughout the procurement process.

The BCR of the project ranges from 1.64 to 2.02 depending on the categories of benefit included. The most conservative approach, of including only direct benefits in the calculation, results in a clear net benefit to the economy, and this remains the outcome when the evaluation is subjected to a range of sensitivity testing.

¹⁵ Infrastructure NSW (2016), *Infrastructure Investor Assurance Framework*.

