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JOINT VENTURES WITH DEVELOPERS: BUILDING SUSTAINABLE COMMUNITIES UNDER THE CITY OF PORT PHILLIP HOUSING PROGRAM

What are the differences between traditional community housing and joint ventures with developers?

- *Joint ventures are usually risky.* One's equitable interests need to be protected if a community asset or other resources are contributed. There needs to be protection over the use and development of the land if developed by a private developer. These become critical statutory planning and legal issues that are addressed by contractual and (in the case of Local Government) planning permit mechanisms.
- *They create project complexities.* One has to understand, respond to and to a degree accommodate the interests of developers who primarily are there to maximise their profits. One has to work hard to find common interests and be prepared to compromise. One has to co-ordinate closely with developers throughout the project process.
- *They share control of the project between two parties.* One does not have the luxury of being in total control of all stages of the project and there is often a degree of mutual reliance and negotiation for the project to be completed to the satisfaction of both parties.

Why is the City of Port Phillip involved with joint ventures or collaborative projects with developers?

The initial reason relates to attracting new, external resources to the expansion of community housing under the City of Port Phillip Housing Program in an environment of funding constraint. In Phases I and II of the Program, Council contributed \$5.3 million and attracted \$11.6 million of State and Commonwealth funds to nine projects to create 241 units of community housing. The external funding came from the Local Government & Community Housing Program, the Community Housing Program and joint ventures with the State housing authority. This created a reliance on grant funded housing which can be limited by amount and the timing of its availability. Council needed to stretch the effectiveness of limited governmental funds and reduce the reliance on grants.

It also wished to establish new partnerships to reduce social inequity and social exclusion. Establishing new models for undertaking joint ventures can set a positive benchmark for the private sector in how it can contribute to community needs created by gentrification. It can gradually encourage other developers to share the responsibility for addressing the need which they partially create. Reliance on government provision will not reduce social inequity.

Joint ventures also become necessary in areas with high land values and intense competition from developers for property acquisition. Often joint ventures can be the only

means of acquiring sites and reducing project costs for the community housing component.

Lastly, developers are only interested in private housing. Government and the community housing sector cannot afford to take risks in developing private housing. These risks relate to exposure to uncertainties in market conditions and interest rates and exposure under development and sale contracts. Thus, with any mixed private and community housing projects there is a need for the project risks to be shared or preferably eliminated for government and the community housing sector. One mistake can bankrupt a municipality or community housing provider.

What partnerships and joint venture models has the City of Port Phillip undertaken?

'The Regal' Rooming House Project:

Property packaging and collaboration with a developer.

This is the City's 9th. Housing project and was initiated in 1996. It comprises a 49 room and bedsitter rooming house on Fitzroy Street for highly marginalised and disadvantaged singles. The rear, three level wing of the former 73 room rooming house was acquired by Council from a private developer, St. Kilda Properties Pty. Ltd. for \$1.15 whilst the developer retained the front portion with park and city views and a higher land value for redevelopment into private apartments. Council paid a relatively low price for the property and the sale reduced the developer's project risk and provided the developer with an early cash flow. In turn, the City assisted the developer by allowing rear access through the acquired portion for heavy construction vehicles to enable his project to be viable.

With the acquired portion redesigned and being upgraded to public housing standards and a new entrance facing Little Grey Street, this project involves 'property packaging' to achieve mixed residential use of the greater site and a cost-effective rooming house. This \$2.86 million project is 75% funded by the Department of Human Services-Office of Housing and 25% funded by the City.

This project will be completed in December 1999.

'The Depot' Housing Project

Achieving developer provided community housing in a mixed private-community housing project by providing the developer ownership of a surplus municipal property asset.

The City's 10th. project is The Depot Housing Project at the former St. Kilda municipal depot site in Inkerman Street. When the 1.223 ha. site became redundant following the Local Government amalgamation process in 1996, Council sought a residential use for the site to include community housing. Council realised that the site was too large, costly and risky to develop by Council and too large for community housing alone. Using a team of consultants (the Urban Land Corporation, Ecumenical Housing Inc. and Williams & Boag Architects) the City developed a project model and masterplan over a three year period of investigation, masterplanning and a tender process. The model

involved 'self funding' of the community housing. The construction costs of the community housing will be met by a developer in a mixed private-community housing project. Council has executed a Contract of Sale to transfer the land conservatively valued at \$5.2 million with the developer, Contract Properties Pty. Ltd. in joint venture with Riverside Properties Pty. Ltd. (trading as Inkerman Developments Pty. Ltd. for this project). The developer is to construct 238 private and community housing units in five 3-5 level multi level-multi unit buildings and recycle another architecturally significant existing three level building. The project has to be of a design acceptable by Council and consistent with the design set out in the Contract of Sale. Council will receive ownership of a minimum of 27 one to four bedroom community housing units mixed within the private housing in two buildings and valued at \$5.67 million (or \$210,000 average per unit) after their transfer by the developer back to Council at completion. Council will also receive a cash payment of \$1.7 million to reimburse Council for remediation (decontamination) of the site, which reduces the project risk for the developer, and reimbursement of the \$624,000 investigation and masterplanning costs at settlement of the Contract of Sale. In return, the developer can keep the sales proceeds of the private housing units, up to 35 of which may be acquired under an option in the Contract of Sale by social housing investors.

This project has been made viable for the developer by two approaches:

- the City adding \$2.2 million to the site value through preparation of an initial masterplan, converting the old title, project management and facilitating the planning process; and
- allowing the developer to improve Council's initial masterplan so that it becomes more commercially viable and 'buildable' within an acceptable design framework set by Council.

The project will commence after remediation, rezoning and the planning permit process is complete in the first half of the year 2000. As well as the community housing, high importance has been placed on architecture, urban design, integrated art and environmentally sustainable design. In a first for Victoria in such a project, one of the environmental design features comprises the recycling of grey water for garden irrigation to minimise the impact on water quality of the Bay and reduce water consumption and costs for residents. If a Commonwealth grant is successful, stormwater will also be recycled with the grey water to flush toilets across the project. The project aims to be a demonstration project for other developers of medium to high density residential development.

How has social exclusion been addressed by the projects? How have the partnerships made a difference?

Social inclusion has been addressed by :

- Ensuring that there is a community housing component in these projects through:
 - a community housing part of the site in the case of 'The Regal'
 - mixing private and community housing in the case of 'The Depot' to avoid social stigmatisation and prevent the project becoming exclusive.

- Being able to continue to provide community housing in high land value areas of the municipality through sharing the risk and costs with private developers. State housing authorities and community housing providers cannot compete with developers in most parts of the municipality without undertaking these types of joint ventures or partnerships.
- Reducing the discrete project costs of the community housing to help justify the expenditure and continuance of the Housing Program, ie:
 - With 'The Regal', the unit cost for land and building works was reduced to \$58,400 per unit. This assisted Council to receive a State grant, enabled the combined State and Council funding to cover the project costs and facilitated the City to be seen as an efficient provider in the eyes of the State, councillors, Council's managers and the community.
 - With 'The Depot', Council did not have to directly finance the \$4.1 million construction costs of community housing in order to receive 27 community housing units with a retail value of \$5.67 million. In order to achieve this Council contributed the unremediated land value of \$5.2 million with the developer paying Council for the \$1.7 million remediation costs. This creates a financial benefit in the order of \$7.4 million to Council or a \$2.2 million financial and asset benefit.
- Providing the community housing residents with a high level of amenity. The Regal project has upgraded a degraded, substandard, private rooming house to public housing standards. The Depot project will locate community housing within a project of very high quality architecture, urban design and residential amenity, including integrated art and environmental design. The residents of the community housing will benefit from the ongoing reduced utility costs associated with solar hot water and communal lighting and grey water recycling. Further, any member of the wider community will have two public access routes through the site so that the amenity benefits of the project are shared with the community.

Issues and challenges

For any community housing provider, joint ventures with developers creates challenges. These include:

- Addressing risk. Be prepared to commit considerable legal resources to minimise risk. Use of mechanisms such as Contracts of Sale, Development Agreements and, for Local Government, planning permit conditions can be utilised. This may involve protection measures such as bank guarantees, detailed descriptions of objectives and conditions for withdrawal from the project for both parties. These have to also protect the developer's legitimate interests. However, no mechanism can overcome all risk. Be prepared to also commit considerable staff resources and/or use of consultants. Ultimately, one's judgement of the trustworthiness of the partner is

important and one has to be prepared to take some political risk from members, Councillors, staff or residents being critical of either working with developers, committing property assets to mixed housing use or not selling assets and using valuable property to achieve community housing instead of selling them. This risk is enhanced for Local Government.

- Control of projects. Use focused project management rather than giving responsibility to one or more staff with other distractions and priorities. These projects are extremely time consuming and complex. Lack of attention to any single area can threaten the projects. If in-house resources are unavailable or the organisation lacks experience, engage external consultants who have experience. Even then, allow for active, in-house involvement co-ordination of consultants to ensure that the organisation's interests are met.
- 'Murphy's law'. Allow for any eventuality and do not assume projects are successful until every stage has been completed. The Depot project was seriously threatened on a number of occasions late in the process.
- Achieving the right balance. Understand the needs of the developer and be prepared to compromise. However, do not compromise core community housing objectives. These may relate to:
 - the level of community housing
 - the standards for the community housing and
 - the community housing's location or degree of mix with private housing.
- Adequacy of the policy framework. Ensure that there is a comprehensive policy framework for the project to justify a project at any of its stages. The City has a comprehensive Housing Strategy and a Corporate Plan which are mutually supportive and specify these projects and pursuit of such partnerships. Most importantly, they include transparent values which:
 - cherish a compassionate response to social disadvantage and marginalisation
 - support social diversity and
 - recognise that safe, secure, stable and affordable housing are essential elements of people's identity, welfare and quality of life.

These values combined with partnerships with developers are achieving social inclusion and helping build a sustainable community in the face of relentless gentrification in the City of Port Phillip.