



**Major Infrastructure Proposal Assessment
DevelopmentWA
Pier Street Build to Rent
Summary Assessment Report**

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August 2023

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Acknowledgment of Country

Infrastructure WA acknowledges the Traditional Custodians of Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures; and to Elders both past and present.

Major Infrastructure Proposal Assessment Summary Report

Purpose

This assessment report has been prepared in carrying out Infrastructure WA's (IWA) legislative function to assess and report to the Premier on major infrastructure proposals. The assessment has been carried out on DevelopmentWA's Pier Street Build to Rent (BTR) business case. Additional supporting information received, consultation and further research undertaken by IWA was also used to support the analysis.

1. IWA observations

IWA considers that the proposal has sufficient strategic merit and overall information for an investment decision to be able to be made by Government. There is a strong alignment with State policies and initiatives to support the provision of social and affordable housing, in locations close to essential services and amenity and to help build local capability in the community housing sector.

Further work to determine high level targets for delivery of social and affordable housing across relevant State agencies would be beneficial to guide future proposals, with appropriate analysis and benchmarking to allow for effective financial comparison of different social and affordable housing models and initiatives.

Although the business case has been informed by some engagement with the market IWA notes that a level of uncertainty will remain regarding the cost of the project, and therefore State funding requirements, until the finalisation of negotiations with a builder. A number of approval processes are also yet to be concluded. As a result the State should ensure that if the business case is approved sufficient safeguards are in place to limit its financial exposure until these processes are finalised.

2. Context

2.1 Project background

The site at 195 Pier Street was originally proposed to be developed by the Department of Communities (DoC) as a 27-storey build to sell mixed-use development comprising 186 apartments including 70 social and affordable housing units. Development approval for that concept was granted in 2019, with the project subsequently halted in October 2021.

DevelopmentWA, in response to a request from the Minister for Housing to assist in the delivery of new social housing dwellings to meet the State Government targets, took over responsibility and revised the project as a BTR model incorporating a mix of social, affordable, disability and market housing, to be owned and operated by a Community Housing Provider (CHP).

Whilst keeping within the height and footprint of the original approved building envelope, the apartment layout has been amended to meet requirements suited to a social and affordable BTR development, resulting in an additional 33 apartments (total 219 dwellings), including additional social and affordable dwellings.

A two-stage competitive process to select the CHP was commenced in March 2023. The first stage sought responses from interested Tier 1 and 2 CHPs, detailing their capability and experience in operating similar projects, as well as financial capacity to undertake an investment of this magnitude. The second stage Request for Proposal shortlisted participants from Stage 1 to provide detailed financial proposals, nominating their purchase price to acquire the freehold asset.

The business case has now been prepared to seek funding to allow DevelopmentWA to deliver the project, which IWA also understands through its engagement is to help pilot the BTR and CHP model in a WA context.

3. Strategic merit

3.1 Alignment

IWA considers that the Pier St BTR proposal is of strategic merit as it does respond to the growing need for social and affordable housing as identified in key State policies and strategies.

In particular, the State Infrastructure Strategy (SIS) highlighted the need to prioritise further investment in social and affordable housing, and also recognises the value of partnering with community housing organisations.

IWA also considers the proposal is well aligned to the *WA Housing Strategy 2020-2030* (Strategy) which includes a focus on supply, and details the need to increase the availability of secure and affordable rental models; create the conditions and mechanisms to harness private and institutional investment for social and affordable housing; and unlock capacity and build capability in the community housing sector to increase the supply of social housing. The Strategy also includes a focus on design, including the need to deliver new and well-connected homes near transport hubs and to incentivise infill development, supporting consumers to choose housing options closer to transport and amenity.

IWA notes that while there is an overall target of “six per cent net increase in social housing by 2030” stated in the Strategy, there are no established targets for individual agencies. Having these targets would make it easier to determine whether individual proposals are aligning to, and meeting, Government’s broader housing targets.

IWA considers that the project has had sufficient stakeholder engagement in the development of the proposal to this point, with key agencies being informed as to the proposal’s intent and progress.

3.2 Problems and opportunities

The business case states that as at May 2023 that there were 34,201 individuals and 19,195 applications on the WA social housing waitlist, with an estimated unmet need for the Perth Inner Area of 3,700.

The proposal is intended to provide 66 social, 44 affordable, and 109 market rental dwellings located on the edge of the Perth CBD close to homeless support services, employment opportunities, educational facilities, hospital, public transport, recreational facilities and retail amenity.

The Pier Street BTR project also provides an opportunity for the State to collaborate with a Tier 1 CHP to help build capability in the community housing sector in Western Australia.

The business case identifies the opportunity for non-State financing options being brought in to support new investment to the community housing sector. This includes increasing Commonwealth Rental Assistance in WA (as unlike State public housing tenants, tenants in the private rental market or with CHP’s can access additional support through the Commonwealth Rental Assistance program); accessing new institutional investment via the National Housing Finance and Investment Corporation (NHFIC); and accessing new private finance.

4. Options assessment

The options assessment section provided in the business case was limited to an assessment of the ways government can support the community housing sector to own/operate social and affordable housing as opposed to presenting a broader assessment of options to address the problem of insufficient social and affordable housing. IWA understands this has been influenced by previous Government consideration of the approach, and the intent that this project be used as a pilot to test the BTR and CHP model in WA. It is noted that the business case would have benefited from an Investment Logic Mapping process to show the reasoning that underpinned the decision.

5. Societal impacts

5.1 Economic and financial assessment

Access to appropriate and affordable housing is a critical enabler for community wellbeing and economic participation. As detailed in the SIS, a strong social housing safety net is expensive to deliver and maintain. However, it also offers significant savings to the state by lowering pressure on mental and physical health, social, policing, judicial and correctional infrastructure systems and services while establishing strong foundations for individuals to participate in education and employment.

The project will benefit the State by bringing non-State funding into the supply of social housing, with the purchase price being a combination of CHP equity and NHFIC debt and grants.

The total cost of the proposal is estimated to be approximately \$146 million, including the State's own financial contribution.

While DevelopmentWA has undertaken what IWA considers to be reasonable due diligence to validate the current estimated development cost, as is presently being experienced with many construction projects market capacity issues could result in additional cost, which will need to be appropriately managed.

There is also insufficient information presented in the business case to fully determine the proposal's value for money merits for the State. This could be addressed by future work to allow for fuller financial comparison of different social and affordable housing models and initiatives.

IWA also considers benefit in establishing an assessment framework to determine the merits of different models for providing social and affordable housing, including the BTR model, to guide future investment assessments and decisions. While IWA notes that the Pier Street BTR proposal is considered as a pilot project in the WA context, and therefore the local metrics to assess such a proposal may not yet be fully established, the model is more common elsewhere in Australia. It is expected that the learnings from this project and similar projects in other jurisdictions should be able to be used to suitably inform future proposals.

The business case states that the proposal will support approximately 200 construction jobs and potentially deliver significant financial stimulus to the state economy through its flow-on effects to other industries.

5.2 Social assessment

Together with other supported and crisis accommodation services, social housing provides a critical safety net for the most vulnerable in the community. Similarly affordable housing access is critical, as without this, there will be greater pressure on more costly social housing services.

While this proposal's 66 social dwelling units is only a relatively small percentage of the State's stated objectives of providing an additional 4000 social dwelling units over the current budget period, it is considered important to help meet current shortfalls.

5.3 Environmental assessment

There are no known key environmental restrictions on the proposed development.

The business case identifies that the Pier Street BTR project will target water and energy efficiency, along with lower maintenance costs. IWA is supportive of such initiatives and encourages their implementation.

6. Recommended option and project definition

The proposal at 195 Pier Street Perth is intended to be the first BTR development for social and affordable housing to be delivered by DevelopmentWA in collaboration with a CHP who will own and manage the completed development.

The proposal is for a 27-storey, 219-apartment building incorporating ground-floor commercial tenancies and rooftop shared amenities.

The development will cater for studio, one and two bedroom apartments, with a minimum of 66 (30%) of dwellings being allocated as social housing, 44 (20%) of dwellings as affordable housing, and a maximum of 109 (50%) as market housing (inclusive of 10 specialist disability accommodation units).

IWA considers the proposed apartment mix is consistent with the research provided on the dwelling type mix needed.

The CHP will also be required to provide audited reports on occupancy, tenant satisfaction and building maintenance and performance in accordance with DevelopmentWA requirements.

The site is well located and considered by IWA to be an appropriate location for the proposed social and affordable BTR model, with ready access to the work, transport, education, medical and shopping facilities.

7. Deliverability

The project is being delivered by DevelopmentWA, with substantial work done to date to progress the proposal.

Key milestones already completed include selecting a CHP for the proposal, extending the validity of the existing Development Approval, and appointing a consultant team.

Subject to approval of the business case and allocation of funding, construction is set to commence in the second quarter of calendar year 2024 with practical completion and asset divestment to the CHP intended to be in late 2026.

The key risks to the deliverability are potential delays to gaining amended development approval; build cost exceeding pre-tender estimates; the CHP finalising its funding and approvals; and potential delays to CHP execution of contract with DevelopmentWA.