

**Inquiry into the planning process in Newcastle and the broader Hunter region
Response to uncorrected report of proceedings before the Select Committee
at Newcastle on Friday 7 November 2014**

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The Hon. LYNDA VOLTZ: What are Hunter Development Corporation's projections for annual demand for apartments in the CBD?

The Hon. GREG PEARCE: They might have to take that on notice.

Mr HAWES: Not only take it on notice but I think the question needs also to be more specific about the currency of the information, because over the last 20 years that figure has changed enormously.

The Hon. LYNDA VOLTZ: But you would have projections.

Mr HAWES: We certainly have estimates. I do not have a contemporary study at hand but we can take it on notice and if you could please be specific about the timing of what you need we will get that information back to you.

The Hon. GREG PEARCE: That would include hotels and serviced apartments.

The Hon. LYNDA VOLTZ: No, I am asking about apartments.

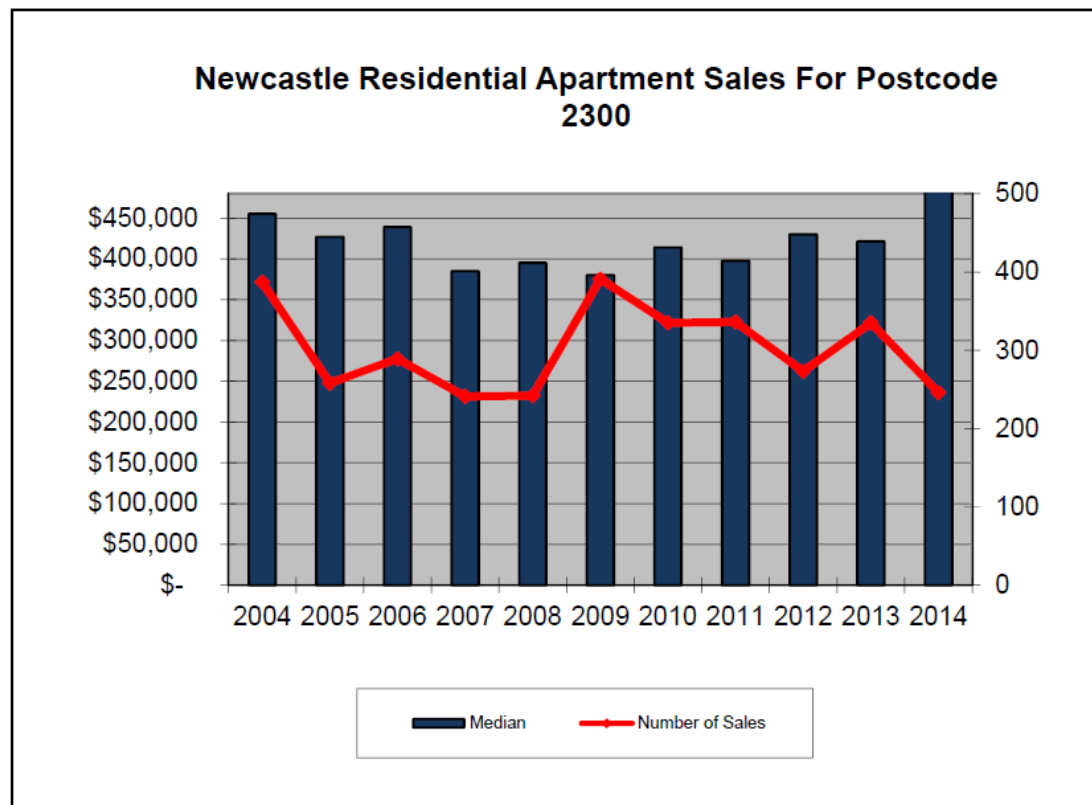
Mr HAWES: If you are only asking about apartments we can take that on notice and get that information back to you.

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1.1 Residential Units

Newcastle's inner city residential apartment market has seen a significant increase in activity in the last two years, after experiencing a period of subdued activity in development and building conversions for residential purposes in the previous three years. This is in line with most of the eastern seaboard of New South Wales, which has seen an increase in real estate activity due primarily to affordability, interest rate decreases and, generally, superior returns compared to alternative investment products and shares. This was exacerbated in Newcastle by a lack of new developments coming onto the market from 2010, but this has been addressed in the last 18 months.

An analysis of sales within the inner city region over the last ten years was undertaken, which is as follows:



* 2014 extrapolated from eight months' data
Source: VG Data / EAC

The sale of new apartments in Newcastle has fluctuated over the last 10 years, primarily as a result of fluctuations in supply, both in quality and number that, due to the size of the market, can have a significant effect on sales rates and prices.

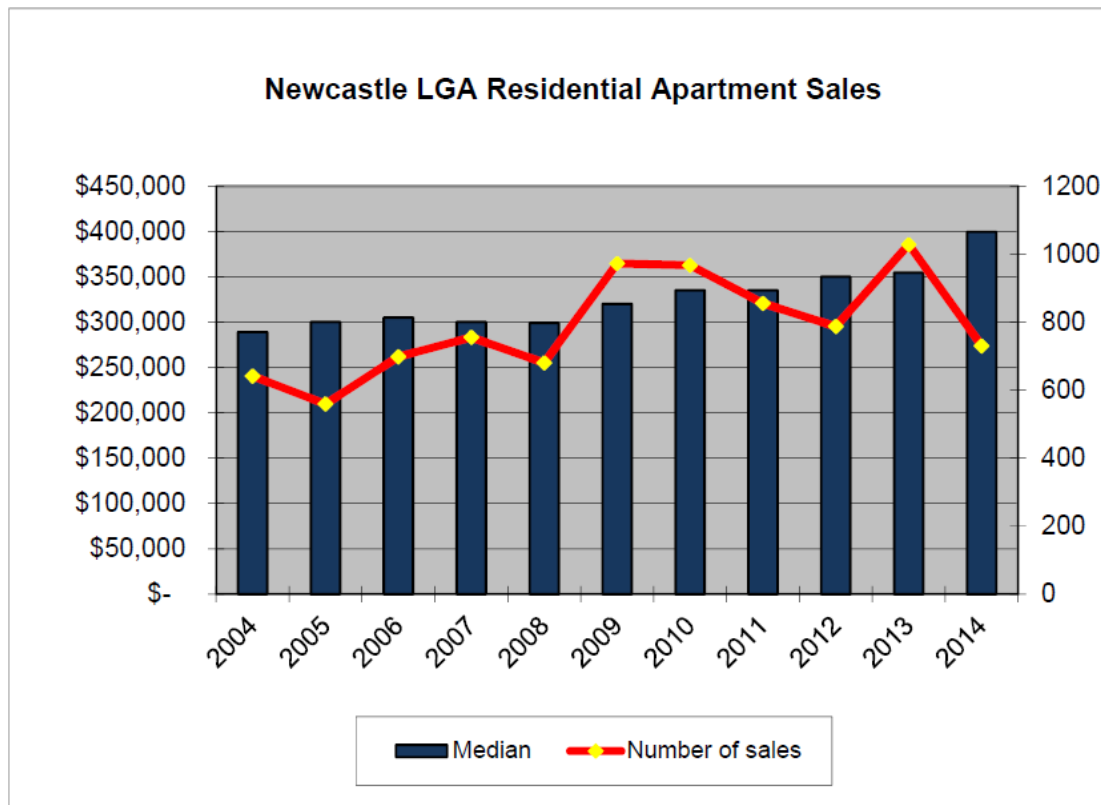
The above graph indicates that median prices fell by approximately 15% in 2009 from the highs of 2004, however this would have been skewed by a large number of beach and harbourside units coming onto the market in the peak period of 2003 to 2004 and limited new stock in the post GFC period.

The large spike in sales rates but reduction in prices in 2009 was primarily a result of the first home buyer grant, which forced market attention to lower priced units.

It should be noted that the above graph includes all strata units in the 2300 postcode, which encompasses many older style units, and direct reference to median prices should reflect the lower quality of these older developments.

Sales for 2014 do not include the significant off-the-plan sales (more than 300) that have occurred over the last year with the revival of construction that had been relatively dormant during the post GFC period.

This graph was compared to median sale prices throughout the Newcastle local government area that were not subject to distortions from single large developments.



This shows a more steady growth pattern in both prices and sales rates after allowance for the first home owners' grant spikes in 2009 to 2010.

The major increase in 2013 (13%) is consistent with Sydney / NSW trends with purchasers returning to the market in response to low interest rates and renewed confidence.

Anecdotal enquiries with agents revealed a lack of existing stock for sale, which would partially explain the drop in sales rates in 2014, but all agents point to a large number of "off the plan" sales, reportedly in excess of 300, that are yet to materialise in statutory records.

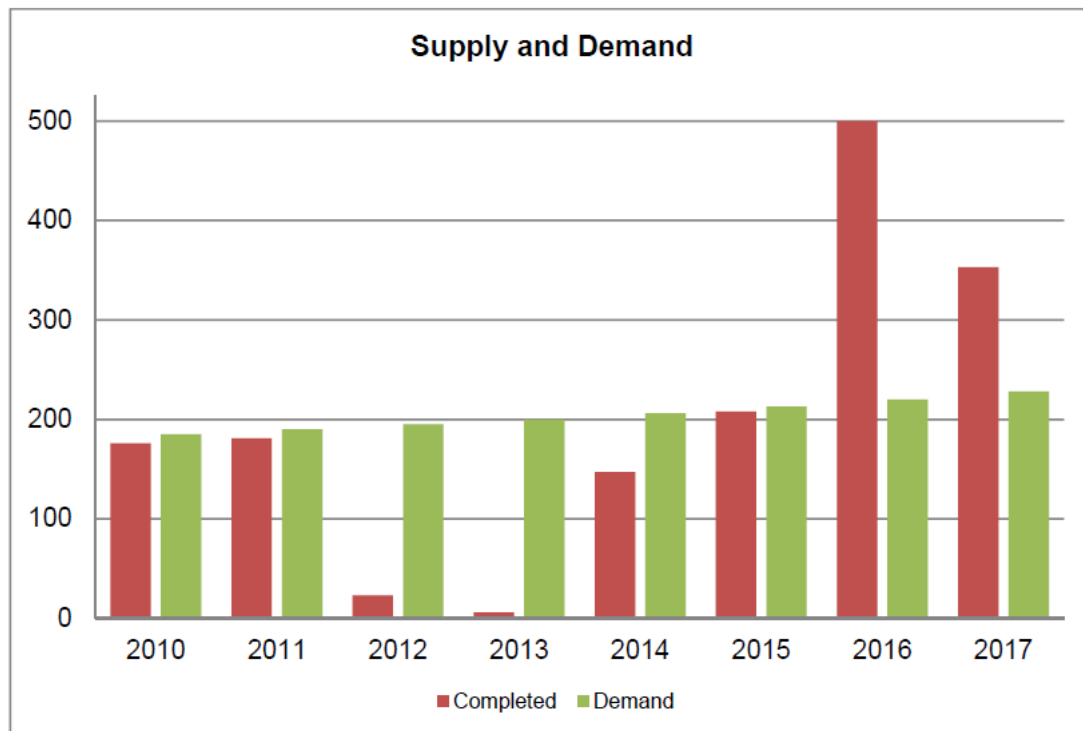
The steady increase in prices, even during the GFC period, is reflective of the Newcastle market in general that does not suffer from significant price movements, primarily due to the affordability of most stock within the region that allows first home buyers to enter the market at any given stage. Similarly, it is not subject to a strong presence of overseas purchasers, as evidenced in capital city markets that can distort market trends.

It is our opinion that the recent gains in prices will stabilise primarily due to the amount of stock coming onto the market, most of which has met with strong demand.

Supply

Demand for inner city units has been estimated by the Department of Planning in the *Lower Hunter Regional Strategy* at 3% growth for "new" apartments, recognising general downsizing in household sizes and probable influx of tenants associated with proposed relocation of parts of the University to the CBD and a general desire to live near services and amenities.

The following graph represents a comparison of demand and supply over a seven-year period. It is generally considered a long term average of approximately 200 new units per year is a realistic baseline measure (2013).



Supply figures for 2015 represent new residential developments that will be completed during the year. Our 2016 to 2017 projections are projects known to us that are proceeding or we feel will proceed. However, this is based to a large degree on subjective judgement, and withdrawal of one or two marginal developments will alter this dramatically. The status of presales and bank funding for some of these projects is unknown. It should also be noted that many of these projects offer apartments at the lower end of the price range.

The above figures do not include the proposed GPT / Urban Growth redevelopment of Hunter Street Mall, which has the potential to supply some 400 units, however timeframes for this are uncertain.

Throughout 2015, it is anticipated that a large number of residential developments will be completed providing an estimated 700 units over the next four years to the CBD. This would still be insufficient to make up for the complete lack of supply in 2012 / 2013, which should underpin values in the CBD for the short term.

Similarly, the relocation and construction of the new University of Newcastle in the civic centre in 2017 is estimated to bring 3,500 students and staff to the city, of which it is calculated 30% will require housing in the immediate vicinity. This will coincide with the completion of many of the proposed developments and should cater for this demand.

In addition to this, Newcastle CBD is increasingly being seen as a desirable residential location due to the revitalisation of social amenities and proximity to the beach and harbour. With an aging population looking to downsize, organic growth in this sector is expected to continue.

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The Hon. LYNDA VOLTZ: What is your understanding of the amendments to the SEPP in 2014?

The Hon. CATHERINE CUSACK: Point of order: The witnesses have told the member three times now that they are not answering UrbanGrowth questions. They are here as a courtesy to answer on their portfolio.

Mr DAVID SHOEBRIDGE: This relates to the SEPP.

CHAIR: Let the member continue asking the questions.

Mr HAWES: We have a clear understanding of what the implications are for Honeysuckle. As to what other people who own properties across the CBD do with their sites is particular to their particular circumstances. We are not in a position to comment contemporaneously on what those impacts might be immediately as opposed to our continued support for renewal and further growth in the Newcastle CBD.

The Hon. GREG DONNELLY: Have you done any modelling or what are your projections about what that might be?

Mr HAWES: On our site we have, yes, quite a lot of modelling and detailed projections.

The Hon. GREG DONNELLY: Are you able to provide them to the committee?

Mr HAWES: Yes. We can provide you with the estimates for the Honeysuckle site and HDC's interest, absolutely.

The Hon. GREG DONNELLY: The whole lot?

Mr HAWES: No. We have not done them. You would have to direct that question to either the Department of Planning or UrbanGrowth because we have not done those projections.

The Hon. GREG DONNELLY: So you have done none at all, notwithstanding the fact that you own large parcels of land?

Mr HAWES: I have just said that we have done extensive projections on Honeysuckle, Hunter Development Corporation's land ownership, but we have not done them across the whole breadth of the LEP or the DCP changes.

Mr DAVID SHOEBRIDGE: I suppose the question is: Have your projections taken into account the increased development on the East End site, because clearly that would be relevant to what return you get on your site? You have been boxing around about that, but that is the issue and I think it would be good if you addressed it.

Mr HAWES: Okay, I will clarify it. Our projections are based on what the capacity and the capability of our sites are in terms of the zoning, the DCP and the development controls that will apply to our sites. As to what other people do who have other sites across Newcastle, how they develop them and when they develop them, no, I do not have that information.

The Hon. GREG DONNELLY: In regard to that projection material that you have developed, that modelling, you have done some work, from what you have just described. Are you able to provide that to the committee?

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Mr HAWES: Yes. As far as HDC's interests are concerned we can.

see over

Summary of Potential Honeysuckle Yields

Units (90m ² internal area)	Commercial (m ²)
1,100	140,000

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Mr DAVID SHOEBRIDGE: Mr Broad, in terms of how the board deals with a conflict of interest when your general manager owns property at a site central to the proposed redevelopment, are you saying that every time the conflict of interest arose Mr Hawes stated the conflict of interest and then stepped out of the board meeting?

Mr BROAD: Absolutely. And it was the same with me when I was appointed chief executive officer of Snowy Hydro. Before I took the job with Snowy Hydro they started looking at land that the Hunter Development Cooperation owns. I have been excluded from those discussions. The board papers, and I can show them to you, show I have been deliberately excluded from those components. To the extent that we were doing something that affected Bob's land in any way he would be expected to be excluded. I am not sure how much experience you have with governance issues—

Mr DAVID SHOEBRIDGE: This is more like the Warren Harding administration or the Bob Askin administration than it is about good governance in New South Wales.

CHAIR: Order! Let the witness answer the question.

Mr BROAD: When you have worked with boards as long as I have, you run these things really clearly. We are deliberate on this. It goes right to the heart of governance on our board. Every board member is responsible for maintaining that clear record. We have it on the record. People can see it and make their own judgement call.

Mr DAVID SHOEBRIDGE: Will you provide to the Committee the minutes of the board that show each occasion that Mr Hawes has declared his conflict of interest and exited the board meeting by reason of that conflict of interest? Mr Broad, will you provide those minutes to this Committee?

Mr BROAD: If they are in the minutes, the Committee can have them. We can get the minutes of the last five years, no problem.

I note that on 2 December 2014, I provided answers to supplementary questions from the Committee relating to minutes of the HDC Board. I refer to Questions 1-4 in this tranche of supplementary questions. As previously indicated, a standing item on each HDC Board agenda is an invitation to disclose conflicts of interest in relation to agenda items. Accordingly, I note that occasions where the Board has made a decision endorsing the Newcastle Urban Renewal Strategy and/or the future possible truncation of the rail line would be applicable to this question. Consistent with the limited decision-making role that the Corporation has on these matters, there were no occasions since the commencement of Mr Hawes' employment where this has occurred. I also note, as indicated in the evidence given at the Inquiry that Mr Hawes is not an executive member of the Board and does not have a vote at HDC Board meetings.

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The Hon. GREG PEARCE: You indicated that you might be able to give a description of the activities of the corporation and the economic benefit that has come to Newcastle and the Hunter as a result of your activities.

Mr BROAD: It is powerful to look at the pictures. If you look at those old goods yards of days gone by—I know a lot of people think of yesterday and the creation of tomorrow—it took a vision at the time. It was Gough Whitlam and his vision for urban cities at the time. And those of us who are old enough to be around in those days, urban growth, concepts of revitalising cities became a hallmark, and that came some time later when they bravely made a decision. It was the political parties. It was the conservatives in New South Wales, Labor federally and they came together, not continually throwing rocks at each other. They came together for the good of Newcastle. That was \$100 million back in those days so it is a couple of hundred million today, and out of that economic multiplier effects were ginormous.

The Hon. GREG PEARCE: If you can take that on notice.

Mr BROAD: We will bring you a good model and show you in some detail.

Impact of the Honeysuckle project

When Honeysuckle was first conceived around 20 years ago the city was facing serious challenges:

- declining Inner City population;
- declining CBD Workforce;
- declining CBD Retail;
- deterioration of heritage assets;
- alienation of the city from the harbour; and
- lack of private sector investment.

The State, Commonwealth and Local Governments came together and put \$100 million towards the Honeysuckle project (Building Better Cities).

Employment

Today Honeysuckle is an important employment hub, with A-grade commercial office space used by some **2,500** workers.

There is **56,000** square metres of A-grade office space in Honeysuckle, with the potential for an additional **140,000** square metres more.

(In 1992 there was **164,000** square metres of office space in the city centre which has increased to **248,000** today – more than half this growth has been at Honeysuckle).

(In Newcastle, city centre employment has grown from **14,000** people in 1991 to over **22,000** today).

Residential

Today Honeysuckle has a residential population of around 2,200 people.

170 affordable housing units

Infrastructure

The project has delivered essential infrastructure such as bridges, power, telecommunications, roads, drainage, and extensive repairs to seawalls.

The Honeysuckle project was responsible for re-locating Fisherman's co-op, and the development of a marina, yacht club and maritime supplies and repair services.

Heritage

With an investment of around **\$10 million** in the early to mid-1990s, nine heritage listed buildings were restored and are now being adaptively re-used. This includes the railway workshop buildings, three of which now house the popular Newcastle Museum.

Other heritage buildings have or are being used as:

- student accommodation;
- affordable housing;
- boutique hotel;
- gymnasium; and
- Wine Selectors call centre.

Economic Impact

Since 1992:

- the project has generated some **\$2.05 billion** in economic activity;
- **7,323** jobs;
- **\$267.7** million in public sector investment has attracted some **\$767.7** million in private sector investment; and
- generated **\$1,016.8** million in flow-on investment in the regional economy.

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The Hon. GREG PEARCE: Earlier we spoke about the sites that you continue to own. I think the Opposition was asking you about the development potential of those sites. Would you be able to give us a map—again you could take this on notice—and identifying the sites that you own? We can then, if necessary, come back to you on notice if there are further questions about any of those sites.

Mr HAWES: We can do that.

CHAIR: Can you mark them on the map or would that be too difficult?

Mr HAWES: We will accompany it with a plan, which will focus on the HDC-owned sites.

