

Submission
No 95

**INQUIRY INTO DEVELOPMENT OF THE TRANSPORT
ORIENTED DEVELOPMENT PROGRAM**

Name: Name suppressed

Date Received: 27 March 2024

Partially
Confidential

My family and I live in Roseville. As a resident, I am appalled by what the Government is proposing as it countenances the destruction of our community and environment.

I am also a real estate professional, having participated, either as chairman, chief executive, or director, in multi-billion-dollar investment businesses on four continents for over thirty years. It is my professional view of the Government's initiatives that I want to share with you.

Sovereign Risk

Sovereign risk arises when a government cannot be trusted.

It is manifest as an additional margin required by investors and owners to cover the risk that the government may act in a manner detrimental to their interests without any offsetting compensation. The Minns Government's actions in the TOD project are a text-book example of such behaviour. Further, given this initiative is a short-term solution to a medium-term problem, a prudent investor or owner will foresee this as more than a once-off aberration and expect that the government will continue to destroy the value of real estate as it manipulates market rules to suit developers' demands.

Sovereign risk affects markets, not assets. It influences the funding cost for all investments. It may affect the values of all property in Sydney and possibly all of NSW. It may spread to other asset classes. Depending on the breadth of its fallout and the perception of ratings agencies, it could lead to a premium in the Government's own funding cost.

Global City

There are about ten truly global cities in the world. While for many people, they are great places to visit, for me they were great places to invest. I thought Sydney wanted to be one, fashioning itself as the preferred location for global firms seeking to have an office in the Asian timezone. Research shows that such firms principally look for three things in deciding where to send staff – quality education for their kids, world class health care and a stable, secure place for the family home. Sydney met these criteria.

The Minns Government has now determined to destroy the fabric of the north shore in a manner that disregards the interests of those suburbs' residents. This lack of planning discipline is deliberately destroying some of the key dormitory suburbs that have supported Sydney' proposition as a global city.

Sydney may have some remaining quality residential areas, but soon Melbourne will have more. Furthermore, just as sovereign risk will affect all of Sydney, so will the fear that those remaining suburbs will be the next arena for the developers to plunder, with the Government's endorsement.

While this project alone may not swing the balance between the cities, it gifts Melbourne a competitive advantage it did not previously enjoy.

House prices

The value of property in Sydney will drop.

People once spoke of certain assets being as safe as houses. Owning a house was a compact between you and your neighbours, with the Council maintaining oversight. Planning limited your options, but also limited what your neighbours could do. It made for a safe predictable investment market. Change happened slowly and decisions were made transparently.

The Minns Government has determined to override that.

This initiative will have direct adverse results in some neighbourhoods, including mine. But it will have indirect results in all of Sydney. People will know that they can no longer rely upon the certainty that underpins real estate value. Sydney will become what we, as investment professionals, would describe as uninvestible. That doesn't mean you can't buy assets there. Rather, it means that you can't rely upon the Government not interfering in the market and destroying the value of your investment. Without that confidence, the value of all real estate assets will erode. That is not just the real estate on the north shore – it's all of Sydney.

Some people will celebrate a fall in real estate prices. For others it will be a disaster. Some owners will find their debt exceeds the value of their property – they will owe more than they own and, unless they have sufficient other assets, they will technically be bankrupt. The banks, who had been willing to lend to high levels of gearing, will now need to make provisions.

It's hard to predict but, unless there is a move to mortgagee sales, I believe sales activity will dry up. People will resist realising a loss or selling at prices they previously would not have considered.

Kowtowing to developers

In its efforts to have developers build high rise apartments, the Minns Government is sacrificing good planning to subsidise development profits. The cost of its strategy is not cash from the Government's budget, but rather the destruction of the affected suburbs.

This is not just as a short-term adjustment, with the Government's release making it clear that it wants these changes be built into the Council's planning documents. While it may only be certain councils at this stage, before long it will be all of Sydney. And it will be the baseline from which developers will negotiate when the demand for housing again outstrips supply. In the last round of clandestine meetings, the Government sacrificed floor space ratio, height and setbacks. The next round may be more of the same or reductions to fire protection (Grenfell tower anyone), natural light and ventilation. The only certainty is that the developers' hands will be out and the Minns Government, for so long as it remains in power, will trade away the suburbs to subsidise the developers' profit.

Developers' strategy

It's worth commenting upon the strategy likely to be adopted by developers.

There has been a rush to get existing homeowners signed up to long-dated option agreements. These severely constrain the owners for up to four years, without any guarantee that the option will be exercised. If the owners had been properly advised, as a responsible government would have ensured, then the owners would be appropriately rewarded for this encumbrance. This has seemingly not occurred.

It is likely that the developer will sit on these options for as long as possible. It will use this period to get its approvals and refine the development assessment. Given the option is not costing them anything, it provides no impetus to commence. Meanwhile, the owner endures the constant uncertainty as to whether the sale will occur and is unable to fund his or her relocation or downsizing.

When the developer is ready to proceed, there is a high probability that it will make a last play and advise the owner that it won't exercise the option unless the owner accepts a "haircut" - a significant reduction to the contract price. Given the reduced opportunities available to the owner, he or she may find themselves forced to accept.

Affordable housing

This is an amazing misnomer and, again, the developers are the key winners. Placing some of the least attractive units into a fund that leases them out at below market rents is a really bad strategy. Especially when the developer gets to profit by exceeding limits, the Government otherwise considers to be appropriate limitations. These terms have been set by developers and will inevitably further feather their profits.

If the Government really wants certain "essential service" people to have access to housing in these suburbs, then they need to be subsidised so that they can exercise choice and live alongside the other residents – not treated as a pariah, constrained to the bottom south-facing unit. If there is value in the integration of these people, as I believe there is, the subsidy should be funded in part by the Government, in part by these people's employers and in part by the suburb's other residents, either as a levy or through their rates.

Minns' legacy

All great cities have areas for which they are known. Whether it's the upper-east in New York City, Belgravia in London or the north shore in Chicago, these suburbs are carefully managed to ensure they make a continuing contribution to the city's appeal.

When Roseville was subdivided early last century, there were no trees, roads were unpaved, the train service terminated in Millers Point and the bridge was a future possibility. Over the years since, the efforts of owners and authorities have curated suburbs that are internationally known.

Their destruction will be the Minns Government's legacy.

And even more tragically, this is being done to solve a current problem that, unless there is a change to the nation's immigration policies, will recur regularly. One wonders what neighbourhood will be plundered next.