

# TRANSCRIPT

## STANDING COMMITTEE ON LEGAL AND SOCIAL ISSUES

### Inquiry into the public housing renewal program

Melbourne — 5 December 2017

#### Members

Ms Margaret Fitzherbert — Chair

Ms Nina Springle — Deputy Chair

Mr Joshua Morris

Mr Daniel Mulino

Ms Fiona Patten

Mrs Inga Peulich

Mr Adem Somyurek

Ms Jaclyn Symes

#### Participating Members

Mr Greg Barber

Ms Georgie Crozier

Mr Nazih Elasmar

Ms Colleen Hartland

Mr Gordon Rich-Phillips

#### Witness

Mr Stephen McMillan, Director, Citta Property Group.

**The CHAIR** — Mr McMillan, welcome to this public hearing. All evidence taken at this hearing is protected by parliamentary privilege. Therefore you are protected against action for what you may say here today, but if you go outside and repeat the same things those comments may not be protected by this privilege. We have been asking people to, if they wish, make an opening statement of between 5 and 10 minutes and then we will open it up questions. We have half an hour for this section of evidence, so we will be finishing at 12.30 p.m. I am in your hands.

**Mr McMILLAN** — Okay. I was invited to attend last week, I think it was. I did not seek to come. But having been invited, obviously it is good to be here. I imagine why I was invited was that the company that I am involved in, Citta Property Group, together with Frasers, is the developer that has done the Living Carlton program in Carlton. I do not know whether your committee has been examining it, but it is obviously one of the most significant public housing renewal programs that has been going on. We are the developer of it. We are up to the final two buildings of private housing. All of the public housing has been built. There are 246 public housing dwellings. I think the final number of private housing is about 840. We have just commenced construction on the second-last building, and the other ones to come are in the market at the moment.

The other thing I would like to say at the beginning is that together with Frasers, who are our partners, we are prospective bidders on the next phase of the social housing program. I have signed a confidentiality agreement in relation to that bidding process. Obviously my obligation is to uphold that confidentiality agreement.

**The CHAIR** — Can I just specify: when you said the next stage of development, do you mean —

**Mr McMILLAN** — No, this is the next stage. There are a number of sites that are currently being bid for redevelopment under this program. My company, together with Frasers, are prospective bidders for that. We have put a submission in, and it is probable that we will be on the shortlist and then be asked to submit a tender, or what is called a request for a proposal. I personally have signed a confidentiality agreement and so have my colleagues in relation to that tender process. This is quite normal. It says that I cannot disclose information. It is to make sure that that the competition is held in a reputable way and that there is no collusion and —

**The CHAIR** — That is understood. Does the confidentiality agreement extend to time frames?

**Mr McMILLAN** — Yes, it extends to the whole bidding process, so I am not at liberty —

**The CHAIR** — Including time frames?

**Mr McMILLAN** — Yes. I do not have a copy of it with me, but I am not allowed to discuss the bidding process that is going on at the moment.

**The CHAIR** — Okay. That is understood.

**Mr McMILLAN** — And I do not want to discuss it because I owe an obligation to the people who are running the process to keep it to the way they want to run it, and that is the best chance I have got of winning it.

I think the Carlton project has been a success. Why do I say that? The residents, both public and private residents, that have moved in are very happy there. The industry has judged it a success — our competitors — and the market has, because it has been a commercial success, so we have made good sales. Admittedly it has been in good market conditions. We work with social housing programs in other places, and the other states that I deal with, particularly New South Wales, hold out the Carlton project as one of the, if not the, best examples of urban renewal of social housing in Australia. That is what they think of it. That is the similar authority in New South Wales.

**Ms CROZIER** — Sorry, Mr McMillan, could you provide the name of that urban renewal program?

**Mr McMILLAN** — It is called the Land and Housing Corporation of New South Wales. The director of that is a woman called Anne Skewes.

Let me give you some context to what I just said. The biggest social housing redevelopment project in New South Wales is called Ivanhoe, and it has just been bid on. We have been the successful developer, along with Frasers. It is 3500 dwellings on a site which currently has only 259 dwellings on it. It is at Macquarie Park, next to Macquarie University, and it is within walking distance of the new metro station. There is a new metro going

straight through it. There was a strong planning desire in that particular case to increase the density. We have taken it from 259 dwellings — this is subject to planning — to approximately 3400, I think it is. So it is very, very significant upgrade.

**Ms SPRINGLE** — And that is a public-private mix —

**Mr McMILLAN** — Correct.

**Ms SPRINGLE** — And what is the ratio of public?

**Mr McMILLAN** — The ratio is 70-30 — 70 per cent private and 30 per cent public. The project is still subject to a planning process, but these details that I am telling you have been announced. The land is being developed, and from that redevelopment process the state, New South Wales, is giving up 259 social housing buildings, which are obsolete, I would argue, and they are getting back 950 — it could go up to approximately 1000 — brand-new social housing dwellings. They are multistorey, admittedly — up to 14 storeys in buildings of approximately 140 to 150. Each of these social housing dwellings has got a market value of \$800 000 to \$1 million. It is a very high-value location.

**Ms CROZIER** — How much?

**Mr McMILLAN** — It is \$800 000 to \$1 million. That is what each social housing dwelling is worth.

**Ms PATTEN** — In Macquarie Park?

**Mr McMILLAN** — Macquarie Park

**Ms PATTEN** — Wow. It is not like it used to be, then.

**Mr McMILLAN** — It is quite common for apartments there — brand-new apartments — to be over \$1 million.

**The CHAIR** — When you say they are social housing, does that mean they are leased back to the operator and at some point it is anticipated they will be sold?

**Mr McMILLAN** — No. In this particular case the ownership is retained by the state, but Mission Australia are going to be the manager of it. I know Mission Australia have made a submission to you, and I think in their submission they referred to this. They were our partner in relation to —

**Ms SPRINGLE** — So it is community housing. It is not public housing.

**Mr McMILLAN** — It is public housing.

**Ms SPRINGLE** — If it is managed by a third party, it is community housing.

**Mr McMILLAN** — No, it is not community housing. It is public housing. They come off the public housing list. It is owned by the state of New South Wales and managed on their behalf by Mission Australia for people off the public housing list. It is not community housing.

**Ms CROZIER** — Sorry to interrupt you, but this is actually an important point. Does Mission Australia also undertake the maintenance? They do the management, but do they undertake the maintenance?

**Mr McMILLAN** — Yes, they do the maintenance, correct. There is a 20-year agreement for them to do that on an agreed-fee basis. This was all tendered. We were one of three consortiums. Mission Australia was with us, and I think St George Community Housing or someone else was with us. We all had to bring along with us during the bidding process a manager — a community housing provider — notwithstanding it is not community housing; it is social housing.

Going back to Carlton: during this process, the process of Ivanhoe in Sydney, which is the one at Macquarie Park, it was one of the reasons why I think we were successful there. The feedback we were getting was that Carlton was held out as an exemplar of these sorts of developments. It has also won lots of architectural awards.

**Ms PATTEN** — Carlton or Ivanhoe?

**Mr McMILLAN** — Carlton. I am back to talking about Carlton. The institute of architects like to hand out lots of awards, so you can view that with some cynicism, but it has won lots of awards. Regarding the density and height, I do not know whether your committee has been to Carlton and had a look at it —

**The CHAIR** — No, we have not, but it is known to a number of people who are on this committee.

**Mr McMILLAN** — It would be worth visiting. The architecture is very good. It is quite diverse, so you cannot tell what is private housing and what is social housing. You cannot discern it. It is equal in architectural quality, and you cannot tell.

**Ms PATTEN** — But it is not salt and pepper?

**Mr McMILLAN** — It is not salt and pepper.

**Ms PATTEN** — It is very much the privates over here and the publics over there, and never the twain shall meet.

**Mr McMILLAN** — Okay. They butt up to each other; they touch each other. There are buildings which have —

**Ms PATTEN** — But there is a private courtyard in the middle that segregates them.

**Mr McMILLAN** — That is not true.

**Ms PATTEN** — That is not true; okay.

**Mr McMILLAN** — I think there is one small instance where there is a small piece on one particular site — there are three sites — that has been earmarked as a small piece of private open space for a private dwelling. That was not our doing, but there is one small piece. Typically all of the open space is shared. Your point is right — and this is not our decision; this is the state's decision about the nature of how the social housing is configured — that in this particular case the state made a clear decision to keep them separate. They do butt up to each other, but they are indistinguishable, one from the other.

The process that the New South Wales state government has just gone through is exactly the same as that. They left it open as to whether to do salt and pepper, but a clear decision was made that they did not want to do that and that they wanted to keep them as discrete buildings, indiscernible from each other. There is no poor door and rich door or anything like that; you cannot tell.

**Ms SPRINGLE** — Do you know what the rationale for that was?

**Mr McMILLAN** — Yes.

**Ms SPRINGLE** — Are you able to share that with us?

**Mr McMILLAN** — Yes. I think there are a number of points. From the state's perspective they prefer to manage a building which they totally control. If you want to do salt and pepper, the state's apartments get sprinkled through a body corporate, and you lose control. You do not have total control. You have to follow the rules of the body corporate. So there is a very clear view that the state wants to keep control of its assets and not be dictated to by a body corporate. There is also a view that it is more efficient to manage it if all of the units are in one building, and then they are not having to pay body strata fees et cetera.

**Ms SPRINGLE** — So is it purely, from your perspective, an asset management decision as opposed to an issue of social cohesion?

**Mr McMILLAN** — No, it is not. Sorry, the third point I would like to make is that, if the state required it to be sprinkled through, that would significantly diminish the value of the apartments we are selling. Right? That might be an unfortunate reality, but that is the reality. If the social housing apartments are sprinkled through a private dwelling, there is no doubt that that building would have to be discounted in the market. You could just imagine yourself as the salesperson, and you are selling an apartment. One building has got social housing in it;

the one next door does not. The sales guy has got a much tougher job, and it is just a very difficult process to try and convince someone to buy an apartment in a building which has got social housing sprinkled through it. That might not suit people's view of the way it should be, but that is just the reality.

**Ms SPRINGLE** — Only if people know there is social housing there.

**Mr McMILLAN** — We would have to disclose. We are a reputable company; we would have to disclose that. You have to give a disclosure statement to your customers, and something that is material like that would have to be disclosed.

**Ms PATTEN** — So this effectively means that the whole notion of the salt and pepper approach, which we keep hearing about from the department that it is the best option, is obviously impossible.

**Mr McMILLAN** — It is not impossible. Nothing is impossible. But it will impact the value that we can sell to private and therefore the value that is being extracted out of the land is decreased, and therefore you, the state, are paying for it, if you know what I am saying. It is all one big equation. There is no magic pudding here. If we are selling the apartments for less because of this, then —

**Ms PATTEN** — So what happens in Carlton, because the initial thought was that that was going to be a salt and pepper integrated site, and obviously the government put that out to tender that it would be salt and pepper. Then, as the project —

**Mr McMILLAN** — That is not true.

**Ms PATTEN** — Right. Okay. That is not true?

**Mr McMILLAN** — That is not true. That was absolutely clear right from the start.

**Ms PATTEN** — Right from the start, that it would be segregated.

**Ms CROZIER** — What are the time frames we are talking about here with the Carlton project? Excuse my ignorance.

**Mr McMILLAN** — I think we started the bidding process in 2009. I have got two colleagues in the gallery. Sarah? It was bid during 2007 and 2008. I think we ultimately signed the deal in 2009. So that is now eight years ago. Each of these projects take an extended period.

**Ms SPRINGLE** — Before you move on, there must be still enough of a profit for your company to want to bid for a tender that has a salt and pepper model. You said you do not make as much, but you still must make money. Otherwise you would not be interested.

**Mr McMILLAN** — Now I have got to tell you my commercial secrets.

**Ms SPRINGLE** — No, I mean conceptually.

**Mr McMILLAN** — The commercial logic of everything we do is that we want a 20 per cent margin approximately. The industry operates on a 20 per cent margin. As a return on capital, all of our competitors, the banks, the whole industry operate on certain metrics that have these sorts of things built into them, so it does not matter.

**Ms SPRINGLE** — What does not matter?

**Mr McMILLAN** — It does not matter to our return. It matters to you because you are the landowner. If you impose upon us a requirement that we have got to do salt and pepper, the imposition of that policy means that that land is less valuable. It is as simple as that. It does not impact the profitability from a developer's point of view. We will just price the deal differently. Do you understand what I am saying?

**Ms SPRINGLE** — Sure.

**Mr McMILLAN** — Would we tender if it was insisted that it was salt and pepper? I think we would have a hard think about that. Right?

**Ms SPRINGLE** — Would it be a deal-breaker?

**Mr McMILLAN** — I do not know. We would have to think about it. It would depend on the location. But if I could go back to New South Wales, we have just been through an exhaustive bidding process. The whole industry wanted that deal. Everyone lined up for it, and it was open to the tenderers to suggest what they wanted to do, and no-one bid on salt and pepper basis, as I understand it.

**Ms CROZIER** — Could I just follow up on Ms Springle's question? Mr McMillan, in 2006, when you went to the government to bid on this site to undertake this work, did they indicate to you that they wanted the salt and pepper approach or did you say to them, 'Look, this is the best way that we think it should proceed', and that you would be interested if it was, as you describe it, as what has occurred? What was their direction to you at the time?

**Mr McMILLAN** — It was a long time ago.

**Ms CROZIER** — I realise that, so your memory might be a bit —

**Mr McMILLAN** — Can I give you a written response to that?

**Ms CROZIER** — Yes, of course.

**Mr McMILLAN** — My recollection is that there was a clear policy that they were in discrete buildings, but I would like to go back and just check.

**Ms CROZIER** — That is absolutely fine.

**Ms PATTEN** — That would be great, because the information we have received is slightly different than some of the reviews. Can I also ask: again this is probably drawing back on your memory, but we were told that in 2006 or 2009 when the first development was being discussed and tendered for it was envisaged that there would be about 500-odd private dwellings. The result was about 800. How did that significant difference result?

**Mr McMILLAN** — Okay, fair enough. Before we got involved, the department had gone ahead and got what I think was then called 'design and siting' approval. I think that that was what it was called then. Essentially that is a first-stage planning permit. That establishes envelopes, and within those envelopes one could assume that there might have been 500 or whatever, but with a few tweaks we were able to make along the way we have gotten more. It is quite normal that you would make it more efficient. It is not necessarily making apartments smaller or anything, but you just make the buildings more efficient.

**Ms PATTEN** — Was the aged-care facility that is in there one of the tenderers well?

**Mr McMILLAN** — It was. When we were tendering we teamed up with Australian Unity, and part of our tender was that we would develop these sites and Australian Unity would purchase that site for, I think it was, \$14 million or something. I do not know exactly what the number was, but it was around that. They have purchased it and are progressively developing it. They have just finished a building, and I think they have got one to go, as I understand it. Australian Unity has been very successful.

**Ms PATTEN** — I know. I am very familiar with it.

**The CHAIR** — My understanding of the Carlton development is that there have been a number of significant variations along the lifetime of that project. I may be wrong on that, but if that is the case, what were the reasons and what were the lessons out of that?

**Mr McMILLAN** — I do not think there have been any material variations. There might have been some reallocation of which stage was going to be done next. Things happen at tender. You say, 'Let's do it this way', and you lay the program out. But then you get into it and you realise, 'Okay, maybe it's more efficient, maybe there is a reason why we should do it slightly differently'. In our tender what was established were deadlines for the commencement and completion of each phase. That is normal. I think there might have been some renegotiation of the various phases as to when they were going to be done.

**The CHAIR** — Why was that?

**Mr McMILLAN** — I do not know. I cannot remember. There was certainly nothing sinister about it. It was just normal process. Projects are funny things. You think you have got the right answer to start with, and then you get involved and work your way through and you come up with a better idea on how you might phase it. For instance, each of the phase numbers have been retained — numerically retained — but they have all happened in non-numerical sequences. I think that is what you are referring to.

**The CHAIR** — Yes.

**Mr McMILLAN** — The other point I would make, just on that, is that we have completed, or will complete, the project within the time frames allowed in the original tender, so there was just some reallocation.

**Ms PATTEN** — What is the completion date?

**Mr McMILLAN** — Soon. I do not know.

**Ms PATTEN** — You have got a bit of work to do on Elgin Street then.

**Mr McMILLAN** — There is one under construction in Elgin Street now, beside the two red-brick buildings. The first one is just going into construction.

**The CHAIR** — I guess from the perspective of government, we have got a situation where we have had evidence from people earlier today and in earlier hearings expressing uncertainty about their homes and their futures. We do not see business cases for these projects. We do not have insight into the tendering process. People's lives are up in the air, and it is also a public asset that we are supposed to be looking after, so there is a bit of frustration about the sort of process that you are outlining.

**Mr McMILLAN** — We are a participant. We are a developer. We just have to come along and play by the rules. We do not influence public policy. You set the rules.

**The CHAIR** — Actually, no, we do not set the rules.

**Mr McMILLAN** — Sorry, you are the executive, or whoever the executive government is.

**Ms SPRINGLE** — We are not the executive government

**Mr McMILLAN** — Okay, you are the upper house then. Let us call you that. Someone in the executive government sets the rules, and we just have to go with them. It is not our position to be dictating policy. But am I a believer in this program? Yes, I am a believer. I think we can create better outcomes for your occupants.

**Ms SPRINGLE** — As a believer in the program, though, do you think that the mix of public-private is at the right balance, or do you think there should be more public or more private?

**Mr McMILLAN** — There is a lot of discussion. Carlton is a hard one because there was a lot of embedded social housing there already. It was just a number of discrete sites that we demolished. It was the old three-storey stuff that was obsolete. If you are doing a greenfield site or a site which is discrete, everyone is now arguing for the 70-30 split; 70 per cent private and 30 per cent public is an optimal arrangement.

**Ms SPRINGLE** — Why is that?

**Mr McMILLAN** — You ask the departments. I am not an expert, but I am told —

**Ms SPRINGLE** — You are saying that that is what is coming from the departments?

**Mr McMILLAN** — That is what is being —

**Ms SYMES** — Is that consistent nationwide?

**Mr McMILLAN** — That is globally. If you go on YouTube, there is a professor from London University who has got a big YouTube film on why 70-30 is the right split.

**Ms PATTEN** — But for most of this it is 80-20, from what we can see.

**Mr McMILLAN** — Is it?

**The CHAIR** — Yes, that is what is being told to residents and councils.

**Mr McMILLAN** — It is hard to say exactly.

**Ms SPRINGLE** — When you say 70-30 is the optimal, is that evidence based?

**Mr McMILLAN** — For us it is okay.

**Ms SPRINGLE** — No, evidence based. Is there an evidence base to that? What is that based on? Who has decided that?

**Mr McMILLAN** — Look, I do not know. These are academics who specialise in this field and social workers or departments who think about the policy objectives.

**Ms SPRINGLE** — Except that this is 80-20.

**Mr McMILLAN** — All I can say to you is the current wisdom on this — not us — is 70-30.

**Ms SPRINGLE** — But this is 80-20.

**Mr McMILLAN** — Which one are you pointing at?

**Ms PATTEN** — Carlton and Ivanhoe.

**Mr McMILLAN** — Ivanhoe was 70-30.

**Ms PATTEN** — I thought you had said 80-20.

**Mr McMILLAN** — Carlton is difficult because there is a lot of social housing that has been left behind. If you go and have a look at it, there were only a select number of buildings demolished, and many buildings have been retained. On the sites that we have developed the ratio is 240 to 800. So you are right, but if you measure the precinct, the ratio is entirely different.

**Ms CROZIER** — Mr McMillan, I just want to go back to the site in Ivanhoe, New South Wales, that you said has had an uptake I think of 3500 dwellings. What is the make-up of those 3500 dwellings in terms of bedrooms and the private-public split?

**Mr McMILLAN** — The private split is 950 of 3400. It is going to vary a little bit on the planning outcome, but that is roughly it. So it is a 70-30 split. The private dwellings are typically a mix of ones, twos and some threes.

**Ms CROZIER** — And what about the public?

**Mr McMILLAN** — The public is about 40 per cent ones. I will provide that information to you if you do not mind.

**Ms CROZIER** — That would be very helpful as well. Thank you.

**Mr McMILLAN** — In one of the submissions from Dr Kate Shaw from the University of Melbourne school of geography she said that Carlton was mainly one-bedders. This goes to your point. In actual fact — and I can leave this with you — it is 11 per cent one-bedders; 37 per cent what are called one-and-a-half-bedders — one large bedroom and one small bedroom where you can put a baby or a visitor; 30 per cent two-bedders; 13 per cent three-bedders; and 8 per cent four-bedders. I just think that there is some information being provided which I would dispute.

**Ms PATTEN** — Is that overall?

**Mr McMILLAN** — That is the social housing. There are 246 social housings, and that is the split.

**Ms PATTEN** — Are you directed on that split?

**Mr McMILLAN** — Yes, correct.

**Ms PATTEN** — So as part of the tendering process they say —

**Mr McMILLAN** — Correct, yes. I think on this particular case we had to give them a price per type of dwelling, and then they could modify the mix according to a matrix of prices.

But if I could just make one other point, in Dr Shaw's submission she made an assertion that revenue sharing was a bad idea. She said that 'while superficially attractive' this idea is 'undermined by previous experience that shows developers can easily disguise profits'. I would reject that wholeheartedly. Everything that we have done in Carlton has had to be independently certified. Any payment we make is certified and any sale that we make has to be signed off by the valuer-general. At the end of each year we have to provide an audited statement by one of the top four auditors, so —

**Ms PATTEN** — So someone should be able to very clearly go, 'Right, this was the business model, this is how much the land was sold for, this is how many properties were put on it, this is how much they were sold for and this is what the profit is'?

**Mr McMILLAN** — The state is in possession of all of this information. And, sorry, I just do not know what she is talking about, to be frank.

**The CHAIR** — In relation to the tender process I take and respect your point about the confidentiality agreement you have signed in relation to a specific development or developments, but are you able to tell us which tenders are open? I think that is not information we have had previously.

**Mr McMILLAN** — Sorry, I am just looking at my colleague. Is it public knowledge? It has not been fully released yet.

**The CHAIR** — Okay, so you have signed a confidentiality agreement —

**Mr McMILLAN** — We have.

**The CHAIR** — but the process has not started yet.

**Mr McMILLAN** — I do not think I am entitled to talk about the process.

**The CHAIR** — I am just asking whether it has opened or not, that is all, because it is not information that I think has been shared with us as a committee. I guess we will have to follow that up elsewhere.

**Mr McMILLAN** — Sorry, I think you are better off asking the department. If you speak to Nicole Opie in the department of human services, she is the responsible executive, so you can go and talk to her.

**Ms CROZIER** — Great, thank you, and thank you for providing the answers that you have to us. Can I ask you — and, again, I appreciate that you have got a confidentiality agreement — it has been understood that super profits have been part of the government's direction, especially with some estates. Was that a part of your discussions in terms of the government and super profits?

**Mr McMILLAN** — It is normal. Can I just answer it in general: it is absolutely normal.

**Ms CROZIER** — What do you mean by 'normal'?

**Mr McMILLAN** — With everything that we would bid on a project like this — and we have done two in Victoria: one is Parkville and the other is Carlton — it is normal that, one, it is totally open book so that all the costs and revenues are known to the state and that once profit gets to a certain threshold it is shared.

**Ms CROZIER** — What is that threshold?

**Mr McMILLAN** — Okay, it varies. On the Commonwealth Games or the Parkville one it is 50 per cent over a threshold of internal rate of return. Internal rate of return is a technical measure of return, and I think it is 25 per cent or something like that. On Carlton it is a percentage over a margin. But, look, I think you are better off going to the department. They will have that information for you.

**Ms CROZIER** — I have tried.

**Mr McMILLAN** — You tried?

**Ms CROZIER** — Yes. They will not release it for me.

**Mr McMILLAN** — Okay. But, sorry, back to your point, it is absolutely normal, and the New South Wales government does it too.

**The CHAIR** — So super profits are normal?

**Mr McMILLAN** — No. If you make a profit over a certain threshold, you have to share that with the state. That is normal. Super profits are not normal in our industry. That is why a lot of my competitors go broke. It is a tough industry. But sometimes the market runs with you, sometimes you get a little bit lucky and sometimes you make some extra money. In the case where you do it on these sorts of things, you have to share it.

**Ms SPRINGLE** — And what is the ratio? When you say share it, what does that mean? How much are you giving back to the state?

**Mr McMILLAN** — Fifty per cent. 50-50.

**The CHAIR** — We are very close to time, so unless there are any further questions, I think we will close now. Mr McMillan, thank you very much for your time today.

**Ms PATTEN** — That was really great.

**Mr McMILLAN** — Thank you for the opportunity.

**Witness withdrew.**