



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE ON PUBLIC WORKS

Reference: Housing development at Parap Grove, Darwin, Northern Territory

FRIDAY, 29 OCTOBER 1999

DARWIN

BY AUTHORITY OF THE PARLIAMENT

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

JOINT COMMITTEE ON PUBLIC WORKS

Friday, 29 October 1999

Members: Ms Moylan (*Chair*), Mrs Crosio (*Vice-Chair*), Senators Calvert, Ferguson and Murphy and Mr Forrest, Mr Hollis, Mr Lindsay and Mr Ripoll

Senators and members in attendance: Senators Calvert and Murphy and Mr Forrest, Mr Hollis, Mr Lindsay, Ms Moylan and Mr Ripoll

Terms of reference for the inquiry:

Housing development at Parap Grove, Darwin, Northern Territory

WITNESSES

DAVID, Mr Edwin, General Manager, Operations, Defence Housing Authority	1
.....	68
GOURGAUD, Mr Robb, Manager, Construction and Development, Defence Housing Authority	1
.....	68
GRASBY, Mr Charlie, Manager, Darwin Housing Management Centre, Defence Housing Authority	1
.....	68
HUNTINGFORD, Mr Steven, Incoming President, Northern Territory Chapter, Royal Australian Institute of Architects	56
LYON, Mr Keith, Managing Director, Defence Housing Authority	1
.....	68
McMILLAN, Managing Director, Darwin Property Pty Ltd	50

Committee met at 10.16 a.m.

DAVID, Mr Edwin, General Manager, Operations, Defence Housing Authority

GOURGAUD, Mr Robb, Manager, Construction and Development, Defence Housing Authority

GRASBY, Mr Charlie, Manager, Darwin Housing Management Centre, Defence Housing Authority

LYON, Mr Keith, Managing Director, Defence Housing Authority

CHAIR—I declare open this public hearing of the Parliamentary Joint Committee on public works for its inquiry into housing development at Parap Grove, Darwin, Northern Territory. This project was referred to the Public Works Committee for consideration and report to the parliament by the House of Representatives on 23 September 1999 with an estimated budget of \$17 million. In accordance with subsection 17(3) of the Public Works Committee Act 1969, in considering and reporting on a public work, the committee shall have regard to:

- (a) the stated purpose of the work and its suitability for that purpose;
- (b) the necessity for, or the advisability of, carrying out the work;
- (c) the most effective use that can be made in the carrying out of the work of the moneys to be expended on the work;
- (d) where the work purports to be of a revenue producing character, the amount of revenue that it may reasonably be expected to produce; and
- (e) the present and prospective public value of the work.

Earlier this morning, the committee received a briefing and inspected the site of the proposed works. Today the committee will hear evidence from Defence Housing Authority, Darwin Property Pty Ltd and the Royal Australian Institute of Architects. I now call representatives from Defence Housing Authority. The committee has received a submission from the Defence Housing Authority dated September 1999. Do you wish to propose any amendment?

Mr David—No.

CHAIR—It is proposed that the submission be received, taken as read and incorporated in the transcript of evidence. Do members have any objections? There being no objection, it is so ordered.

The document read as follows—

CHAIR—Would a representative of the Defence Housing Authority now read the summary statement briefly. We are going to put a time limit on this, because otherwise the committee does not have time for questioning.

Mr David—Madam Chair, I am quite happy to have that statement placed on the record, if that is acceptable to the committee.

CHAIR—Yes, thank you. It is proposed that the summary statement be received, taken as read and incorporated in the transcript of evidence. Do members have any objections? There being no objection, it is so ordered.

The document read as follows—

CHAIR—Do committee members have any questions then?

Mr FORREST—I would like to ask for the representatives to take us through the procurement process for this facility, starting from the way the land was developed and the status of whether we are buying land or we are buying packages—I do not want to call it a partnership with the developer but I need to know what the distinction is.

Mr Grasby—This project is actually a spot purchase. So it is the purchase of a package with land and house. It consists of 50 houses as a land and house package.

Mr FORREST—So a developer has independently developed this large piece of land. You have come along and said, ‘We want 50 sites.’

Mr Grasby—Correct.

Mr FORREST—You have purchased the sites independently and then you have the same developer building the houses. That is why I need that distinction clarified.

Mr David—If I might comment, Madam Chair: because of land shortages in Darwin and as in other cities quite often if the developer is in control of the land and if the developer is tied up or is a builder himself, you buy a package. That means if you want the land you get the house as well. What happens from time to time, both in Darwin and elsewhere, is that developers with estates like Bayview have out at Parap come to people like the authority and say, ‘Okay, we have this estate going. Have you got a requirement?’ If we have a requirement, we stipulate that requirement. Then our own processes require us to assess what risk we are taking out from that development to ensure we negotiate the best price.

Mr FORREST—It is still not clear to me. I put it to you this way: did DHA have any discussion with the developer before any sod was turned on this site?

Mr David—I am not in a position to be definitive on it but, from my understanding, Bayview Homes had obtained the site, obtained all approvals to the site and commenced with the development of the site. We were aware of what was happening. We have a lot of dealings with Bayview. They would have known that we had a requirement and they approached us.

Mr FORREST—So they approached you with an offer and said, ‘We can provide you with a certain number of packaged houses on this development.’ Did they give you any choice about where they would be and a range? I am just worried about the probity of the whole thing. You have to convince me that this is all proper.

Mr David—I am happy to deal with that. In fact, initially our take out was going to be 30 homes. Our customer, the Department of Defence, had a look at the site and said, ‘No, we would prefer 50 homes.’ Because 50 is a substantial part of the development, we naturally want to use leverage where we can. Our normal processes are that a project of this size has to be approved by our board and approved by our minister and naturally the Public Works Committee. That was made clear to all parties.

Then our processes require us to assess value for money. That is done in a number of ways. We had a quantity surveyor—again, Rider Hunt—assess what we were getting in terms of bricks, mortar, roadworks and things like that. We had a valuation on what the value was of both house and land. That is the first starting point as to whether we are even in a position to start talking to the developer.

Once that is done, we then sat down with the developer in a negotiation. We would have some concerns about the size of the lots, the location of the lots and the street appearance, because we have to worry about whether we put these things on the sale and lease-back program and whether they will sell. Our marketing people have an input into that process. The negotiation is on how many we want, where we want them, what they will look like, what they will have in them and how much we are prepared to pay for them.

Mr FORREST—Where was the market test? At which point was the market test so that you had access to some sort of competitive comparison? It has not happened, has it?

Mr David—I would draw the distinction between a construction project and a spot purchase. If you are doing a construction project, generally you are in control of the land and you then go out for expressions of interest in a tender process. Where someone else is in control of the land, the market test still happens but it is done in a different way. It is done—in this case for large projects—by way of a quantity surveyor's report to say that the developer is putting that much amount in, in terms of actual bricks and mortar and labour, and therefore the price that he is asking fits in with what is a reasonable amount that he has to take plus his risk.

Then the other test is a valuation: is this thing worth the amount that we are considering paying in the market? Then it is a question of our judgment on how much risk we are taking out of this project for the developer and therefore how much discount we can get. That has to be balanced with: is there plenty of land around that area; can we go to three or four other developers or is this really a fairly limited development? The other market test for spot purchased properties is that we are constantly in the market looking elsewhere. If we can get 50 houses, perhaps not exactly at Parap Grove but elsewhere in reasonable distance and the price that we can obtain is better, that is the market test.

Mr FORREST—You are not satisfying me. If DHA goes out and 50 sites all around Darwin, that is one scenario, and then you use this other competitive design construct package that you have set up where every bolt and nail is specified. But this is not like that: this is a case where it is the same developer that has developed the land and that is packaging you a house. I am not convinced that there has been a competitive test as to whether that package is the best you can get, because another builder has not had an opportunity to tender for the house part of the component. The land is one component; the house is a different part.

Mr David—But we do not control the land and that is why we are buying it as a package. Bayview would not sell us the land alone.

Mr FORREST—That is why I am worried. There is a probity problem here. I am really concerned about this. I have to say to you that the cost of development here in Darwin is just ginormous. Maybe some of these things are the reason why—

Mr David—I agree with that.

Mr FORREST—It is a nest of people protecting their interests. There is no competition. There is something wrong up here in Darwin, and I do not want the DHA being part of it. My problem is with the competitive test for the building, the bricks and mortar that go on the land.

Mr David—I will try to get back to that from another direction: if we could have got our foot on that block of land, then we would have treated it in the way that you have outlined. We would have gone out to tender and got other builders to bid. But, because we could not get our foot on that block of land, we have to approach the people who control the land who are going to be doing the building. That is part of the definition of the package approach—the developer wants to develop the land and build himself—and you cannot get onto that land and just buy the land.

The other options for us were: can we get 50 houses in the vicinity of that area as suitable for our needs as this site? The answer was generally no. We are not taking too much in that area but 50 for defence purposes was regarded as being valuable and providing choice to the customer. As I say, initially we went for 30. It was Defence that asked us to take 50. The other options are into Larrakeyah where a house and land package is far more expensive. You are not getting generally new houses unless you can knock something down and build it yourself. The test, which you are rightly concerned about from the probity aspects, is that in spot purchased situations the negotiations should be based on the best price you can get. Our framework for that is first of all a QS assessment as to precisely what the builder's costs would be in putting it there. So we know that it will be a certain value in relation to that price—

Mr FORREST—I am not satisfied with any of that. The problem here is that DHA is setting the benchmark, the standard. You say you sell it to a valuation but you are in the market. You are such a consumer that you are setting the standard yourself by falling into this kind of an arrangement where you are basically captive to a developer who says, 'I am not selling you the land. You can't have it unless I have the deal to build the house on it as well.'

Mr David—Madam Chair, I do not think we are setting the benchmark because we are only part of the people buying into that development.

Mr FORREST—Yes, but you are accepting the price, and then you justify accepting that price because that is what the sworn valuer says it is. But the valuation is that high because you are such a large player in the market that you are putting the value up high. It is like a cat chasing its tail. We are not getting any competition here.

Mr David—But if there is a shortage of land, as there is, and if there is prime land and we want to have some housing on that prime land, then the developer that controls the

land—in any market, be it Sydney, Darwin or Perth—has an interest in doing the house and land package, then if you want a house on that land you have to go through that process. Then we need to ensure both from the DHA board's and from the Commonwealth's points of view—we need to convince the committee—that our processes for assessing value for money and our negotiating techniques are such that we get the best outcome for the authority and the Commonwealth.

Mr FORREST—I am just not happy. This is an uncomfortable nest up here. Someone has to put some proper competition into the market here.

Senator MURPHY—Is part of your market test the price of purchasing other properties?

Mr David—Part of our market test would be that we would know. The valuer uses a comparative process for assessing the value. So the valuer would first look at recent sales in the area. He would then look at the superiority or inferiority of the dwellings as compared with those and arrive at a judgment on what the value is. In addition to the processes we can bring to the table through the QS process, we have a licensed valuer making an assessment based on what the market is doing. I cannot dispute the point you made that, being a player in the market and having a large demand, undoubtedly we have made some impact on the market.

Senator MURPHY—Do you have any agreement with the developer—you are effectively taking 50 per cent of the risk out—that in respect of your proposal when you go to a purchase and then you sell lease-back, do you have any agreement with the developer about the price that you will put those houses that you have acquired on the market?

Mr David—No, that is a DHA internal decision.

Senator MURPHY—I assume the developer is going to have another 63 house and land packages that it is going to put on the market to be sold over whatever period it takes to sell them.

Mr David—Yes.

Senator MURPHY—And DHA having bought 50 is going to put on the market, I assume—

Mr David—That will be a decision to be taken.

Senator MURPHY—And compete in the same marketplace. So you have no obligation to the developer that you might put the same house on the market next door to one that the developer has for sale for \$10,000 less?

Mr David—No, we have no constraints on us at all because the product we would be putting onto the market is different from what the developer will be putting on. Ours is going with a DHA lease attached, and that differentiates the product in the market.

Senator CALVERT—If I can follow on from that: do you actually request the developer to make changes to the plans and whatever to suit your requirements?

Mr David—Yes, we do. I can outline some of the changes that not only we might request but also the defence people asked for certain changes when they went through. These were negotiated with the developer. If the committee would like, I can outline some of the changes that we have sought.

Senator CALVERT—Perhaps one or two of the major ones where they differ from normal suburban—

Mr Grasby—We fully air condition the houses with split units. We put ventilators on the roof. We do extra insulation and normally put an extra room in—a better study or a rumpus room. Of course, the gardens will be fully landscaped with automatic irrigation. They will also have security screens.

Senator CALVERT—I understand in this particular case that one of the matters that has been a concern is noise from the Stuart Highway. Does that happen very often where you require a noise barrier to go in?

Mr Grasby—There is a two-metre concrete fence going along the Stuart Highway which will block the noise, and they are only single level houses.

Senator CALVERT—Has that been done at your request or is that something in the builder's proposal?

Mr Grasby—The developer has put that in as part of the package. There is also a row of trees to make it aesthetic.

Mr David—At the expense of stirring up a discussion, I would like to reassure Mr Forrest that, in addition to the valuation process and the QS, we ourselves from our database would know what the value of the land is and be able to make an assessment.

Mr FORREST—I am sorry, you have the developer here with all the control. There is no probity. I am not really happy with this approach at all. You cannot assure me that there has been a competitive market test. If you are going to revert every time to a valuation, I do not believe it because the valuation is affected by the fact that you are already in the market inflating it. It will be a cat chasing its tail all the time. There is no probity here. There is no competitive test.

Mr David—The only point I can make is that, when you enter the spot purchase method of delivery rather than construction, you cannot tender for spot purchase. What you can do is to make sure that the market is aware of what you are looking for and that you are across what is available on the market and then use traditional forms, such as the quantity survey method and the valuation method, to reassure yourself about value for money.

Senator CALVERT—The only other alternative is to go and build high-rises yourself where you can keep the costs down.

Mr David—That is one of the good alternatives.

CHAIR—If I can ask two questions, one of which concerns a letter we received from the Institute of Architects in regard to the design of these houses. We are going to hear evidence from the institute, but I want to raise this with you now. The letter reads:

Masonry walls on concrete ground slab—

which is what you are proposing—

produce a very unsatisfactory thermal performance in tropical Darwin. This has already been acknowledged by Defence Housing Authority, in its booklet "Housing in the Nineties" (see attached copy of extracts).

Can you respond to that comment?

Mr Gourgaud—When that publication was prepared, the Defence Housing Authority saw itself as a leader in the field of provision of housing and indeed responded to the need to satisfy the tenants' needs for climate assimilation. We have found over time that the performance of the products we prepared as a result of that booklet has been fairly poor. In other words, we have gone to the extent of lightweight construction with all the necessary attributes to satisfy the climate. However, the costs to maintain that product have been significantly more than what would normally be the case.

The market generally is not equipped to construct in this particular fashion, and the construction costs back then were in the order of \$363,000 per unit. We have recently had a valuation done on those houses—as of last week or the week before—and the valuation was \$163,000. So the construction costs are still over the current valuation by some \$200,000. As an organisation that has to respond to our board and to act commercially, we are finding that we cannot be in the marketplace now as a provider of model type housing. We have to respond to what the market creates.

In terms of thermal issues, there is a recent cabinet decision that all government owned and leased houses have to achieve a particular energy rating. The houses in this case have been tested. They all achieved that energy rating in accordance with the requirements of the cabinet decision.

CHAIR—How do other developers get on in this regard? What is the norm and how does this vary from that, if at all, here in Darwin?

Mr Gourgaud—What we are proposing is the norm. We have been in the marketplace now for quite some time. As of late, the developers that produce not only for us but for other consumers are producing identical products.

CHAIR—The other matter was the contamination on this site. When you purchased this property, as you would have from the Department of Administrative Services, were you aware that the site was contaminated?

Mr David—We did not purchase the land from the Department of Administrative Services; the developer did. Our board was extremely conscious of the issue of

contamination. In addition to the normal warrant that the developer has to give council, as a special condition of the contract we will be asking for certification from an independent expert.

CHAIR—I am trying to get at a different point. Were you party to this when the developer purchased the land? You came in at a later date.

Mr David—No. We wish we had been.

CHAIR—When you did come into it, did you know that the land had this problem?

Mr David—It was declared by the developer.

CHAIR—Did you make an assessment of the cost of actually cleaning it up at that time before purchasing in this project?

Mr David—It is the developer's responsibility to clear it up and to bear the costs for it. We wanted to have additional safeguards. We had special conditions to ensure certification for our purposes, and that was that the site had been cleaned up.

CHAIR—The Defence Housing Authority bore no additional costs in relation to the clean-up of this land. Is that correct?

Mr David—We bought it as a package.

Mr LINDSAY—In the confidential cost estimates provided to the committee there are two pages. On the first page, the total amount is arrived at with two figures. The first one is an order of cost estimate. There is then an amount for land purchase. On the second page, it indicates the total cost of 113 blocks, a proportion of the subdivisional costs and so on. It adds to that the construction of houses and arrives at the same figure as the order of costs estimate on the first page. Have you counted the cost of the land purchase twice?

Mr Gourgaud—No. It is a total package. The information provided has been broken down for valuation purposes. However, the total package price is set.

Mr LINDSAY—On the second page you talk about the total cost of the blocks, which you would assume includes the cost of land. On the first page it adds the land purchase price. Why is that?

Mr Gourgaud—In assessing these costs, it appears that the cost of the raw land has not been included. It has costs for subdivision and houses, but the actual cost that the developer paid for the land has not been included in that.

Mr David—The first figure is the subdivision costs; that is, the cost of creating the subdivision rather than the purchase price of the raw land. It includes roads and sewage and all that. Add to that the actual construction cost of the houses. That gives you the unknown figure, which we only obtain through valuation, as against the QS process, which is the land cost to the developer as against subdivision costs.

Mr LINDSAY—But this document says that the above estimate includes the developer's profit. Surely the cost to the land should have been in there.

CHAIR—How can you estimate the developer's profit if you do not know the cost of the land?

Senator MURPHY—It says subdivision costs, including allowances for land costs to the developer.

Mr David—Land costs to developer, infrastructure and subsurfaces, road works, landscaping and all other items. But we do not know exactly what he paid for the land. That is the estimate that Rider Hunt would have put on it.

Mr LINDSAY—You are double-counting the cost of the land, if that is the case.

CHAIR—How can you enter into an agreement with someone on a development when you do not know what the original cost of the land is?

Mr David—We get the valuer to tell us what the cost of the land is. In the valuation report, Territory Valuation Services would have given us what they think the land values are. In the case of each block, they have said the land value is \$125,000, for example.

Mr LINDSAY—That is irrelevant. Senator Murphy's point is valid. This Rider Hunt document says subdivision costs, including allowances for land cost. Why are you then having to put all that together and adding another land cost and coming up with the final cost?

CHAIR—Rather than delay the proceedings here, we need much clearer figures and a much more detailed breakdown of costs on this aspect of the project.

Mr David—I want to make only one point, and I will emphasise it: there is a difference between land costs as against the land price that the developer is charging us.

CHAIR—We all understand that. Nevertheless, these figures are confusing, to say the least.

Mr LINDSAY—The land development is well under way. If the Public Works Committee does not approve this development, where does that leave DHA?

Mr David—Any agreement with the developer is subject to approval by the Public Works Committee.

Mr LINDSAY—So it is at the developer's risk that he or she is proceeding?

Senator MURPHY—I have passed a written question across the table. I would like an answer to it.

Mr David—Yes.

CHAIR—Thank you, gentlemen.

[10.51 a.m.]

McMILLAN, Managing Director, Darwin Property Pty Ltd

CHAIR—The committee has received a submission from Darwin Property dated 13 October 1999. Do you propose any amendment to your submission?

Mr McMillan—No, I do not.

CHAIR—It is proposed that the submission received, taken as read and incorporated in the transcript of evidence. Do members have any objections? There being no objection, it is so ordered.

The document read as follows—

CHAIR—I now invite you to make a short statement. We are on a time limit today. If you can finish in about five minutes, that would be good.

Mr McMillan—Guaranteed. Basically, I believe that this is a genuine partnering approach between the development community and DHA. I am supporting what DHA is doing in this instance. One proviso concerns a point that Mr Forrest alluded to earlier. Having such a big player in the market making the market is dangerous for the development community here. In this instance, we have the purchase of a land and house package at \$340,000. That will in turn be on sold using previous experience at a 10 per cent margin for \$375,000. It will be sold with a DHA lease in place that yields the purchaser approximately 6.5 to 6.75 per cent gross. That converts to a weekly rent of \$490.

Over the last three years in Darwin, I have developed a rental index showing that in all of Darwin in 1996-97 the rents were \$226 on average. In 1998-99, it had fallen to \$219, which is a fall of 3.1 per cent. This is the real situation and what is happening in the marketplace at the moment. We need to guard against the creation of false markets by a single customer. Whilst I support the direction the DHA is taking in effectively partnering with a developer, it needs to take another step. The government should not be called on to provide money for DHA to buy housing and then on sell it. Developers should be encouraged to lease directly to DHA and for DHA to then take up their primary function, which they have stated as being the management of property for defence families rather than get into the development field.

The example of the \$340,000 being paid for the house and land package in Parap Grove through to a rent of \$490 when that property gets on sold. The cost to the developer of that product would be in the order of \$270,000. If the developer were to do a direct deal with DHA, they could afford to rent to DHA directly for a very acceptable yield on their cost of around about eight per cent. DHA is paying \$415 per week, not the inflated \$493. It is this inflation of rents and the major role that DHA is playing in the market here that is really getting things out of kilter.

In the promotional material that DHA put with its sales information, we have as a condition of the nine-year lease a rent review in the market each year. In order to sell the property at a 6.75 per cent yield and get \$375,000 for a suburban home, they have to offer rents of \$490. The purchaser is exposed the very next year to a market review that has to reflect the pressure that is on rents in Darwin. If we are looking at average rents in June 1999 across the board in Darwin of \$224, it is beyond me how we can have \$490 as a benchmark for DHA with this property. I think my five minutes is up.

Mr FORREST—What is the status of the tabulation that you have been referring to?

Mr McMillan—I was formerly a finance director of the Lend Lease group. I was horrified to find when I came to Darwin, after spending six years in Singapore, that there was no reliable rental information here. Like you, I was concerned about the cost of property on the market here and the whole development formula. I went to the trouble of going back for three years each week to the NT news rental page of a Saturday and creating my own rental index. It was built up over three years and shows average rents by suburb and by real estate agent. It is quite an amount of information, but I am happy to share it with you.

Mr FORREST—Could you table it for us so that we can check its veracity?

Mr McMillan—Yes.

CHAIR—Those of us who have had anything to do with the property market over the years and development know that this has been a technique used particularly in commercial industrial property, where often the rents are inflated to show a particular return. Once the tenant vacates the property, the investor is in deep trouble, particularly if they had borrowed the bulk of the money. It is a technique we have seen. The committee would be concerned about the use of that technique here both in ramming up rents to an unrealistic level in the marketplace and in terms of the outfall later with the investor.

Mr FORREST—I move that this information be incorporated into the evidence.

CHAIR—It is proposed that the table be received, taken as read and incorporated in the transcript of evidence. Do members have any objections? There being no objection, it is so ordered.

The document read as follows—

Mr FORREST—I am interested in your expertise and familiarity. Is there much medium density housing provided? In the southern states, we call it a strata subdivision, with four or five units being in a single storey of medium density. Is that occurring in Darwin? It could be the link that is missing. You go from conventional houses to multi-storey developments and there is nothing in between.

Mr McMillan—I attempted to enter that market with a 10-unit development with amenity, including a 15 metre swimming pool. I tried to test the idea that there was support for product around \$250,000. These are three-bedroom apartments. The market has been difficult here in the last six to nine months, but that development I tested was most successful. I managed to sell seven out of the 10 units in three weeks at that price point. There is a missing link; I agree with you.

Mr FORREST—Is there an aversion for it in Darwin for climate reasons or something? Most cities have a medium density apartment development. They are single storey and strata title, and it is not here.

Mr McMillan—After the cyclone—I am speaking as a student, not as a resident of Darwin; I am studying the history of it—there was an explosion of three-storey walk-up apartments. Thousands upon thousands of them were built. They had no amenity. We are talking about concrete yards, one car space per dwelling and very basic finishes. The investors were getting good rents for that sort of product. The developers of high-rise dwellings, beyond the medium density that you are talking about, have been able to shift tenants from that inferior product into multi-storey places in town and then sell to investors quite easily. People are happy to move from paying \$250 per week in the suburbs to paying \$275, \$280 or \$300 in town. It is much more convenient for them. You have this movement from the three-storey walk-up, which was a medium density form that was affordable, into the high-rise. They have not gone back and reworked the three- and four-storey format. They have not bothered yet. I think it is coming. It is something I am exploring.

Mr FORREST—I am talking about single storey dwellings with four to an average size block.

Mr McMillan—Clusters. That is happening.

CHAIR—Thank you very much, Mr McMillan.

[11.02 a.m.]

HUNTINGFORD, Mr Steven, Incoming President, Northern Territory Chapter, Royal Australian Institute of Architects

CHAIR—I welcome Mr Huntingford representing the Royal Australian Institute of Architects. The committee has received a submission from the Royal Australian Institute of Architects dated 18 October 1999. Do you wish to propose any amendments?

Mr Huntingford—No.

CHAIR—It is proposed that the submission be received, taken as read and incorporated in the transcript of evidence. Do members have any objections? There being no objection, it is so ordered.

The submission read as follows—

CHAIR—I invite you to make a short opening statement in support of your submission.

Mr Huntingford—The institute's main concern—it has already been touched on today—is with the nature of the housing that is being procured. As the largest procurer of housing in Darwin, in our opinion, the Defence Housing Authority should be taking the lead in the promotion of a design that is appropriate to a humid tropical climate. We have concerns that this is not the case with the acquisition of the type of housing proposed in Parap Grove.

When DHA came to Darwin at the beginning of the 1990s, it was greeted as a breath of fresh air and with great anticipation, particularly with the publication of such excellent documents as this booklet *Housing in the Nineties*. The document itself recognises the tropics as a unique climate with unique requirements. I quote from the document:

... much of the housing constructed in Darwin by developers in the years after Cyclone Tracy reflected an over-reaction to cyclone resistant design and in recent years an emphasis on economy rather than liveability with masonry walled slab on ground construction.

In the early 1990s, the DHA took a lead, initially through the design construct method of procurement—procuring well-designed, elevated, lightweight framed and clad housing solutions, some of which are demonstrated in this booklet. Usually they also combined some masonry construction at ground level where the storeroom effectively became a cyclone shelter. These houses were provided with air conditioning in two bedrooms and living areas. But this was basically an option available to the tenant because the houses did not rely on air conditioning to provide the tenant with a certain level of comfort.

The institute is concerned that, from this encouraging position in the early 1990s, the DHA seem now to be almost exclusively procuring housing such as we see in their submission for the Parap Grove development, which in the case given here they are sort of neo-Tuscan, ground level, solid masonry dwellings with full air conditioning. Apparently they rely on air conditioning and high energy consumption to achieve a level of comfort far more than their lightweight elevated counterparts ever did.

We are aware that the DHA must achieve a four star energy rating under the NATHERS system, which is the National Housing Energy Rating Scheme, but we are very suspicious of any energy rating model which would give an air conditioned, ground level masonry house in the tropics four out of five for energy efficiency. We believe the problem is that this is not yet a truly national model in its current form, and it is not really appropriate for assessing houses in tropical climates.

To this end, I spoke at length with the author of the NATHERS model, John Ballinger, who acknowledged that, while he considers the model currently being used by DHA as an improvement on the original model, it still relies on air conditioning as an integral component and as not yet sophisticated enough to rate a full natural ventilation solution. We understand the current model does not have the ability to account for such factors as the changing of orientation to pick up wet and dry season breezes, nor does it recognise the cooling effect of ceiling fans.

John Ballinger did say that a working party has been set up specifically to address and hopefully to come up with a fully national model by the end of next year, which does have

the ability to recognise all climatic regions within the country in a meaningful way. We understand this working group is to be chaired by the NT government Energy Management Program, which is a unit that has been set up under the Power and Water Authority.

The institute is certainly not antidevelopment and we acknowledge that, given the time frame for delivery of defence housing, we are not about necessarily stopping this development. Given the current apparent shortcomings of the NATHERS system being used to rate performance of housing in Darwin, we believe the best outcome we could achieve from this hearing is a commitment for perhaps federal funding to expedite the development of a truly effective national energy rating model and a commitment from DHA to adopt this model once it is in place.

In summary, DHA offers very attractive sale and leaseback deals to their investors, guaranteeing up to 12 years leaseback. But, in our opinion, what we believe their current approach is doing for their investors, particularly in tropical climates, is leaving them after the 12 years is up with housing that is inappropriate in its context and expensive to maintain. That is really all I have to say.

CHAIR—Thank you very much.

Mr FORREST—There is a few sample building plans and so forth around that we have seen. Mr Huntingford, what would you do differently that does not need a hell of a lot more space?

Mr Huntingford—Obviously, if you go over two levels, an elevated solution gives you more space on the same sized block.

Mr FORREST—So you would elevate the building, you would put it up on stilts.

Mr Huntingford—That is right. You would basically have your store areas and the laundry at ground level and the living areas above, which is what was being produced in the early 1990s by DHA. I think that has been doing very well within its design construct approach. I am not here to give you a lecture on building construction but, obviously, in the tropics a lightweight clad building responds much quicker to temperature changes and breezes. You can throw it open at night and it cools off quickly; whereas heavy masonry soaks up the heat through the day and reradiates it back to you through the night, which means you have more of a requirement for air conditioning to keep that comfortable level.

Mr FORREST—Would it cost more to build or would it be cheaper to build, the way you would built it?

Mr Huntingford—Traditionally, lightweight construction elevated has had a premium on cost, but the information we are getting from the quantity surveyors at the moment is that there is not much of a difference now. Darwin industry is more geared up to the lightweight construction now. There is not a big premium between lightweight and heavy masonry.

It is more of a perception. We understand the problems DHA have with their tenants and investors, many of whom are from down south, who have this perception that a lightweight

house will fly away in Darwin in a cyclone, which is incorrect. We can understand these perceptions. In our view, the correct response is not to retreat and give them the bunkers they are after but try through some educative process to change that, but we realise that it is easier said than done.

CHAIR—By using these standard construction of masonry on slab designs, is that creating a problem for architects in this area in terms of their not getting so much work?

Mr Huntingford—We certainly do not get as much of the housing market in Darwin as we wish, because again there is the perception that it costs more money to have an appropriate architectural design and historically there has been some case of that. But it certainly does not need to be the case: good design does not have to cost money. In fact, good clever design should save money. Again, it is a public perception thing.

We certainly do not see as much of the domestic market, except perhaps nationally renowned tropical architects who have a very solid marketplace. Not as much of the domestic market is done by architects in Darwin as we would like. Darwin is very developer driven. We have had developers come into our office and we have talked to them about sun shading. The simple response is: 'We are going to sell it. It is not our problem after six months,' which is wrong. But that is the mentality which unfortunately is in place in Darwin to a large extent.

CHAIR—And it is impacting on architects in the area; thank you.

Mr FORREST—Why should the DHA be required to be different from anybody else? They have a demand. As you say, people from the south want to live in a house that looks like what they have lived in down there, so why should they build something that people are not going to want to rent?

Mr Huntingford—Our position is simply that, as they are such a high profile procurer of houses in Darwin, they started off on the right track. We are conscious that they have been taking steps backwards over the last five or six years in our opinion and we just think that is a shame. They have that opportunity; they are very high profile; and they should be taking a lead and hopefully producing better architecture.

CHAIR—What is your response to the evidence received from DHA that these houses have actually dropped dramatically in value on resale?

Mr Huntingford—I cannot really respond to that. I am aware that when—

CHAIR—Have you done no research into resale value of these particular designs?

Mr Huntingford—Not on the DHA designs, no.

CHAIR—The evidence we have received under oath was that these houses are diminishing in value very rapidly.

Mr Huntingford—That comment surprises me, quite frankly. I am aware that, in the first two or three years when DHA were initially producing the design construct method to produce elevated lightweight housing, the manager at the time told me they were costing between \$150,000 and \$180,000 to construct. I think there was some blow-out in the years to follow but I am not sure what the position is now.

Senator CALVERT—I can recall seeing them up around the \$200,000 mark and looking at some of the new designs where the house was designed to bring the breezes through and natural cooling. I recall that back in the early to mid 1990s. I agree that there seems to have been a shift to more conventional style homes in recent years.

Mr Huntingford—Again, touching on that sort of cultural appropriateness as well: in Darwin in the evening it is nice to be able to go out and have your dinner on the balcony. It is a unique way of living when it gets dark and it cools off a bit, which is not encouraged by this style of development. It is a bit of a shame in a cultural context.

CHAIR—It just appears that if people are not prepared to pay the price for these then not every person appreciates the benefits as you have outlined them.

Mr Huntingford—That is no doubt a problem. I guess the institute could be taking a lead in trying to market the advantages and hopefully to try to start swaying people. Again, it is hard to overcome people's perceptions sometimes, but that is part of our role.

Senator CALVERT—In the case of Parap Grove, the one we are looking at now, because of the proximity of the housing to the Stuart Highway having elevated houses there would tend to get a lot more noise than one sitting on the ground, would they not?

Mr Huntingford—That probably is a point, yes. You would probably have to have a more substantial buffer or a different sort of buffer that would deflect sound. This is a point I cannot really deny with that proximity.

Senator CALVERT—If you were moving further back or near the waterfront, you would have a big advantage by being elevated where you could pick up the breezes and whatever. That is the other thing. I do not think you get a lot of breeze in that area, do you?

Mr Huntingford—No, but ground level dwellings are not designed to capture what breeze there is anyway. The noise from Stuart Highway could be addressed, but it would have to be something other than a 1.8-metre high wall.

CHAIR—The noise would also be accentuated by lightweight fabrics used in construction.

Mr Huntingford—Not necessarily, because insulated lightweight construction performs acoustically as well as mass concrete.

Mr FORREST—Mr Huntingford, are you based in Darwin?

Mr Huntingford—Yes.

Mr FORREST—Could you give me a bit of a feel about your satisfaction with the building industry here in Darwin—that there is proper probity in the way that approaches finally get put to the consumer with proper competition? I am very concerned.

CHAIR—Mr Forrest, I think that question is out of order. Mr Huntingford has come to speak to a submission which goes to the issue of design. I think it is unfair to ask him under oath to make comments about the general building situation in Darwin.

Mr Huntingford—I heard the comments you were making before. Personally I have not had an involvement in a similar sort of development, because normally we competitively tender. The standard process is that we do a design, we get an estimate from a quantity surveyor and we put in a tender. So in that respect the probity is not an issue. But I acknowledge your points earlier and I can see how it can be perceived as a problem. The quantity surveyors, Rider Hunt, are professionals. If you are using professional valuers and professional quantity surveyors then I think that would help the probity situation, quite frankly. It is not in their interests—

Mr FORREST—I was more interested to find out why the building costs in Darwin are so much higher now than other places in Australia. Cordell's put the basic building rate in Cairns at about \$1,300 a square metre, but here it is \$1,800.

Mr Huntingford—Traditionally, it is this remoteness and the labour market is very transient very well. The lack of stability I think does affect costs as well. That is why people often go to masonry, because masonry is traditionally what builders have done up here. Traditionally, it has been the most economical form of construction because it is what has been the most commonly used and it is what is known. But the other forms of construction are becoming more prevalent now. That is why the cost of lightweight is now coming down to meet the masonry. But the relative costing compared with the rest of Australia is high. I am not sure whether it is justifiably high, but certainly the remoteness of Darwin is a factor. Hopefully the railway might fix that.

CHAIR—Thank you very much, Mr Huntingford. I now recall the Defence Housing Authority.

[11.17 a.m.]

DAVID, Mr Edwin, General Manager, Operations, Defence Housing Authority

GOURGAUD, Mr Robb, Manager, Construction and Development, Defence Housing Authority

GRASBY, Mr Charlie, Manager, Darwin Housing Management Centre, Defence Housing Authority

LYON, Mr Keith, Managing Director, Defence Housing Authority

CHAIR—I would like to start the questioning. The issue that really concerns me is the one raised by Mr McMillan in his submission on rental values. I would like you to respond to what Mr McMillan had to say.

Mr David—Madam Chair, I have not seen the schedule that Mr McMillan passed around but, if we are talking about the average price, then we need to be very aware that that takes into account both the lower and upper ends of the market. In the old Darwin and city of Larrakeyah figures, there is a lot of three bedroom walk-ups which would be at the low end of the market that we cannot pass on to our customer. There would also be older units and older houses which would not comply with the customer's requirements.

CHAIR—We understand there are variations but can you tell us how you have arrived at the fair rental value on these properties? Have you started from a point of providing what you think is an acceptable return on investment; or did you actually do a comparison of rental values, provide a fair market value and then work out your return on investment?

Mr David—Our procedure is to use a licensed valuer. The licensed valuer's brief is to value it at vacant possession and not take into account the value of the lease. The licensed valuer is given the usual instructions about an arm's length deal about seller and buyer—

CHAIR—Are you telling me that you base your rental value on the actual value of the property?

Mr David—Value of the property based on comparable values of rental properties and vacant possession—not taking into account the value of the lease.

CHAIR—Hang on, if we can just go back over that: I thought you were saying that the valuer based the value on the value of the property and land?

Mr David—No, sorry. They base it on the normal rental assessment—

CHAIR—So they are doing a comparison of rent for similar properties in Darwin in a similar locality and they are assessing \$490 a week as the rental value in some cases.

Mr David—Yes, based on comparables and, just to put it as clearly as I can, there is no yield based approach to assessing the rental for these properties.

CHAIR—Can the committee then have a copy of that rental assessment by the valuer?

Mr David—I would like to give the rental assessment plus the brief to the valuer for the committee's records.

CHAIR—Thank you.

Senator MURPHY—I want to go back to the cost question that I raised with you before. I have a major concern with what Rider Hunt provided you with, what we have now identified have been paid for these units, and also another point that was made by Mr McMillan on the likely cost to this developer of producing these units and the purchase price and the profit that this person may be making. That is of significant concern to me and, in fact, it is a matter that I want to raise in this committee in private meeting because I think this might need to be investigated further.

Mr David—The only way I can allay your concerns is to put to the committee in great detail what we assess to be the developer's profit and then, based on the value of similar properties in that area and the purchase price that we are paying, why we believe we are getting value for money. In our negotiation we do assess the profit that the developer has made both on the land component and on his its construction costs. Rider Hunt as a quantity surveyor would be required to assess what would be in their view a profit based on the construction and on the land. But then it is an issue of shortage. That is counterbalanced by a licensed valuer determining what similar sales have occurred in the past. If you have that concern, Senator, we would need to put a very detailed submission to you on that.

Senator MURPHY—I do have that concern if I take what Mr McMillan has submitted to this committee as reasonable evidence on the part of a person who is involved in development in Darwin. If he says to me that the cost to this developer is \$275,000 per unit and then, on top of that, 25 per cent profit makes these things cost out at about \$343,750 we are talking about an average purchase price here of \$360,000.

Mr David—It is quite open to any person to make these assertions and I think it is quite valid for the committee to hear them and be concerned about them. It is equally incumbent on us as people who are seeking committee approval for expenditure of Commonwealth money to justify the process that we have taken, and I am happy to do that.

Senator MURPHY—Can I say that at this point Rider Hunt's submission would support Mr McMillan's statement.

Mr David—That is based on the cost that Rider Hunt has put in and his estimate of the profit. Then there is the question of how the market plays it—to add to that, I think I have to put the counterbalancing view—and how a licensed valuer places the assessment of the price being sought by the developer.

Senator MURPHY—Can I again go to the Rider Hunt submission that you tendered which gave you an assessment of what you could expect to pay. Obviously you then go into a process of negotiation, and I accept that. But the negotiated price is somewhere in the

order of in excess of \$28,000 per unit above what Rider Hunt estimated you could expect to pay.

Mr David—And what we have paid is less than what the licensed valuer assessed the similar unit to be, based on market comparables in the Parap area and most recent sales.

Senator MURPHY—I think we probably should deal with this in a more official way.

Mr David—I think so. There will be some commercial information that I would want to deal with in order to put our position, which I would not expect to have on the record.

Senator MURPHY—I am not happy with regard to this issue as it stands at the moment.

CHAIR—With the rental values?

Senator MURPHY—Not just the rental values—that is another question again. What I am not happy with is the purchase price proposed at this point and the evidence that has been submitted to us in part by DHA but also, as I put to DHA with regard to Mr McMillan's submission, as to what the cost of production of these units would have been to the developer and taking account of very high profit margins up here—in the order of 25 per cent—which seems to be common practice—

Mr David—Or more in some instances.

Senator MURPHY—Or more, and in this case it might be a lot more.

CHAIR—It could be. But, of course, to finance these developments there is the bankers require a certain profit and risk factor to be factored in—of 20 or 25 per cent.

Senator MURPHY—Absolutely. We get submitted to us on this under oath from a person who is involved in the industry here. I went to Mr McMillan and asked him again because this is a fairly serious matter and, in my view, I think we have to check this out. This is a very serious matter, because we are talking about significant amounts of money. I am not happy at the moment with regard to the explanation.

CHAIR—We can seek to have that information again tabled in camera. There being no further questions from the committee, I thank you again for appearing today. It is proposed that a letter from Environment Australia be received, taken as read and incorporated in the transcript of evidence. Do members have any objections? There being no objection, it is so ordered.

The document read as follows—

CHAIR—Before closing I would like to thank again the witnesses that have appeared today and also the committee members, Hansard and the secretariat.

Resolved (on motion by **Senator Calvert**;

That, pursuant to the power conferred by section 2(2) of the Parliamentary Papers Act 1908, this committee authorises publication of the evidence given before it at public hearing this day.

Committee adjourned at 11.30 a.m.

