



Parliamentary Standing Committee on Public Works

REPORT

relating to the proposed

DEVELOPMENT OF 90 APARTMENTS IN DARWIN

(Tenth Report of 2000)

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA
2000

The Parliament of the Commonwealth of Australia

Development of 90 apartments in Darwin

Parliamentary Standing Committee on Public Works

5 October 2000
Canberra

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ISBN 0 642 45208 3

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Mr Colin Hollis MP

Mr Peter Lindsay MP

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Extract from the Votes and Proceedings of the House of Representatives

No. 64 dated Thursday, 2 September 1999

21 PUBLIC WORKS—PARLIAMENTARY STANDING COMMITTEE— REFERENCE OF WORK—DEVELOPMENT OF 90 APARTMENTS IN DARWIN

Mr Slipper (Parliamentary Secretary to the Minister for Finance and Administration), pursuant to notice, moved—That, in accordance with the provisions of the *Public Works Committee Act 1969*, the following proposed work be referred to the Parliamentary Standing Committee on Public Works for consideration and report: Development of 90 apartments in Darwin.

Question - put and passed.



List of abbreviations

ADF	Australian Defence Force
AVO	Australian Valuation Office
ANAO	Australian National Audit Office
CBD	Central Business District
DFR	Defence Force Requirement
DHA	Defence Housing Authority



List of recommendations

Recommendation 1

The Committee recommends that the Department of Defence and the Defence Housing Authority conduct comprehensive and credible surveys of Defence personnel to ascertain accommodation preferences. (Paragraph 2.8)

Recommendation 2

The Committee recommends that any residential apartment development of the Carey Street site comprise apartments with a minimum of two bedrooms. (Paragraph 3.30)

Recommendation 3

The Committee recommends that the Defence Housing Authority re-assess the mix of apartments in the proposed Carey Street development. (Paragraph 3.35)

Recommendation 4

The Committee recommends that the Carey Street project not proceed until the results of tests on the effects of sandblasting have been made publicly available and meet relevant Environment Protection Agency requirements. (Paragraph 4.13)

Recommendation 5

The Committee recommends that the Defence Housing Authority notify the Committee, at the earliest opportunity, of purchases, or commitments for purchases, of land intended for a development which may be referred to the Committee prior to referral of the development to the Committee by the Parliament. (Paragraph 5.5)

Recommendation 6

The Committee recommends that the Department of Finance and Administration undertake a cost benefit analysis of the rental assistance program to determine the extent to which the rental assistance program would provide the best value for money for the provision of Defence personnel housing requirements in each area. (Paragraph 5.10)

Recommendation 7

The Committee recommends that the Defence Housing Authority obtain a clearance from the Attorney-General's Department that there will be no future liability to a Native Title claim with respect to the Carey Street site and that construction of the proposed development not proceed without that clearance. (Paragraph 5.14)

Recommendation 8

The Committee recommends that the Defence Housing Authority ensure that all planning approvals have been received for future projects before appearing before the Committee. (Paragraph 5.20)

Recommendation 9

The Committee recommends that the Defence Housing Authority report to the Committee when it has complied with all the recommendations contained in this report. (Paragraph 6.13)

Introduction

- 1.1 This report presents the Committee's findings and recommendations in relation to a Defence Housing Authority (DHA) proposal to develop residential apartment towers in Darwin.
- 1.2 The task faced by the Committee was made difficult by a major revision of the DHA proposal midway through the Inquiry. The revision involved a number of significant variations to the original proposal, including changes to the number and configuration of apartments. In effect, the Committee was required to examine two significantly different proposals. The Inquiry process is documented in this chapter.

The Defence Housing Authority

- 1.3 The DHA was established in 1987 by the *Defence Housing Authority Act 1987* as a separate legal entity responsible for the administration of the housing requirements of Australia's Defence personnel. Operations commenced in January 1988.
- 1.4 DHA's function is to manage the houses that have been provided to the Department of Defence for the use of service families and Defence's rental assistance program. DHA acquires additional houses through a combination of:
 - construction;
 - spot purchase, that is, direct purchase from the market;
 - lease; and
 - 'sale and lease back' arrangements.

- 1.5 DHA disposes of old and/or poor quality houses by sale.

Referral

- 1.6 On 11 August 1999, DHA sought urgent in-principle approval from the Committee to proceed to contract for the design and construction of the development of 90 apartments in Darwin, Northern Territory.
- 1.7 On 26 August 1999 the Committee responded to DHA advising that the requirements of the *Public Works Committee Act 1969* governed the Committee's activities. The letter further stated that the Committee had no authority to consider any proposal relating to a project until it was referred to the Committee.
- 1.8 On 2 September 1999, the Parliamentary Secretary to the Minister for Finance and Administration referred DHA's proposal for the development of 90 apartments in Darwin, Northern Territory, to the Committee for its consideration and report to Parliament, in accordance with the provisions of the *Public Works Committee Act 1969*.¹
- 1.9 The Committee sought submissions for the Inquiry by advertising in the *Northern Territory News* on 18 September 1999.
- 1.10 Letters seeking submissions were sent also to Territory agencies, Federal and Territory government representatives and a range of peak organisation, professional bodies and individuals representing various interest groups, likely to have an interest in the Inquiry.
- 1.11 The Committee received a written submission from DHA on 10 September 1999.

Inspection and public hearing - 28 & 29 October 1999, Darwin

- 1.12 A public hearing was held at Parliament House, Darwin on 28 and 29 October 1999, at which the Committee heard evidence from DHA representatives and a number of other witnesses. Prior to the public hearing, the Committee inspected the site of the proposed development. A list of witnesses who appeared at the public hearing is at Appendix A and a list of submissions at Appendix B.²

1 The Hon. Peter Slipper MP, Parliamentary Secretary to the Minister for Finance and Administration, Houses of Representatives *Debates*, 2 September 1999, p. 9832.

2 The Committee's proceedings will be printed as Minutes of Evidence.

Additional information requested

- 1.13 During the course of the 28–29 October 1999 public hearings, DHA undertook to provide further information, or clarify a range of matters of interest, to the Committee. These included:
- the feasibility of the project for 60 units;
 - results of tests on pollution that may arise from a nearby industrial ship repair business;
 - a survey conducted by DHA to establish a demand for apartment accommodation by members of the Australian Defence Force (ADF) and their families;
 - the survival of a mature Banyan tree located on the site;
 - an estimation of the headworks costs (that is, the costs of services and access and development off-site); and
 - the final cost of the site after excising Knuckey Street.
- 1.14 On 25 November 1999 DHA provided the Committee with a comprehensive document, which addressed these concerns.
- 1.15 On 21 December 1999, the Committee sought further information from DHA. Among other things, this request sought to establish if planning approval had been obtained for a third tower and to obtain some specific financial information relating to the profitability and cost of the project.
- 1.16 On 11 February 2000, DHA provided another document to the Committee in response to the request of 21 December 1999. This document advised that DHA had decided to modify the proposed concept of the project. The modifications included:
- the deletion of a proposed squash court;
 - the inclusion of units to cater for single people; and
 - an increase in the number of units in the third tower to a total of 35.
- 1.17 The document also noted that planning approval had not yet been obtained by the Northern Territory Planning Authority for the third tower.

Public hearing - 17 February 2000, Canberra

- 1.18 On 17 February 2000, representatives of DHA appeared before the Committee. DHA informed the Committee that it might consider including one and two bedroom apartments in the first two towers as well as the third tower. The previous proposal had been for three and four bedroom apartments.
- 1.19 DHA informed the Committee that the tennis courts had also been removed from the proposal and the pool reconfigured.

Public hearing - 16 March 2000, Canberra

- 1.20 On 16 March 2000, Major General Peter Dunn, Head, Defence Personnel Executive, appeared before the Committee. The Committee explored a broad range of housing issues, and specifically, how the Department of Defence calculated the requirement for housing of ADF personnel. This requirement is known as the Defence Force Requirement (DFR) and is updated monthly and provided to DHA on an annual basis.

Revised submission

- 1.21 On 23 March the Committee requested that DHA provide a revised submission on the Carey Street proposal. The Committee considered the revised submission on 11 May 2000 and requested that DHA and Defence representatives provide further evidence at a public hearing.
- 1.22 DHA provided the Committee with a revised submission on 30 April 2000. It detailed the proposed construction of three towers and 95 apartments. The submission included a commercial-in-confidence volume of project costings.

Public hearing - 1 June 2000, Canberra

- 1.23 On 1 June 2000, representatives of DHA and the Department of Defence appeared before the Committee. The Committee canvassed a number of issues relating to the Carey Street proposal, including the possibility of a joint partnership with a private sector body and the impact of DHA activities on the Darwin housing market.
- 1.24 On 14 June 2000, the Committee wrote to the Department of Defence seeking clarification on Defence's accommodation requirements in Darwin. On 21 June 2000, Major General Willis responded to the

Committee's requests, and on the same date, DHA also provided the Committee with further information.

Private briefing - 29 June 2000, Canberra

1.25 On 29 June 2000, representatives of DHA and the Department of Defence briefed the Committee on a proposed service agreement between the two organisations. Following the briefing, the Committee sought to establish the impact that the agreement would have on the Carey Street development.

Inspection of site and existing accommodation - 18 July 2000, Darwin

1.26 At a private meeting of the Committee on 29 June 2000, a Sectional Committee was established. The Sectional Committee, chaired by the Deputy Chair of the Committee, Mrs Crosio, was tasked with:

- conducting a further inspection of the Carey Street site;
- examining existing accommodation in Darwin that DHA had scheduled for disposal;
- inspecting new houses recently constructed by DHA in the Palmerston area;
- inspecting on-base accommodation at RAAF Base Darwin, HMAS Coonawarra and Larrakeyah; and
- reporting its findings to the Full Committee.

1.27 The Sectional Committee undertook these investigations on 18 July 2000 and reported its findings to the Committee on 17 August 2000.

Scope of the proposal

1.28 DHA's second submission to the Committee, dated 30 April 2000, contained a number of changes to the original proposal. These changes increased the number of apartments from 90 to 95, altered the configuration of apartments to include one and two bedroom apartments across the three towers, and deleted the tennis and squash courts from the development.

- 1.29 The revised proposal comprises 20 one bedroom apartments, 20 two bedroom apartments and 55 three bedroom apartments. All 95 apartments will be sold with 62 apartments to be retained by DHA for Defence through the 'Sale and Lease Back' process.
- 1.30 The revised project involves the construction of:
- 95 apartments within three adjacent tower blocks;
 - one 25 metre and one 20 metre pool;
 - a gymnasium;
 - change rooms, toilets and recreational areas;
 - ancillary buildings, including service buildings, maintenance store, refuse area and apartment storage area;
 - 228 car parks plus three boat parks, ensuring two carparks per apartment plus spaces for visitors; and
 - landscaping, assorted site works and servicing provision.
- 1.31 Table 1.1 summarises the original and revised proposals.

Table 1.1—Comparison of Original and Revised Proposals

	Original Proposal*	Revised proposal
Configuration of apartments	– 30 two bedroom apartments 36 three bedroom apartments 24 four bedroom apartments	20 one bedroom apartments 20 two bedroom apartments 55 three bedroom apartments –
Total apartments	90	95
Number of towers	three adjacent tower blocks	three adjacent tower blocks
Estimated Cost	\$31 million	\$27.5 million

*Note: Based on evidence of composition of two towers -- Transcript of evidence, pp. 30-31. Two towers of 60 apartments comprised 20 two bedroom apartments, 24 three bedroom apartments and 16 four bedroom apartments.

- 1.32 The site is recognised as Lots 6575 and 6576, Carey Street, Darwin. Carey Street bisects the site, with Lot 6575 approximately 5548 m² and Lot 6576 approximately 1699m². The site is zoned 'Darwin Central Business District (CBD)' with a land use objective classification of 'commercial / residential'. Plans of the proposed development are provided in Appendix C and D.
- 1.33 Topographically, the site consists of an elevated, comparatively flat area that falls away to Tiger Brennan Drive and Frances Bay on the eastern boundary. The eastern portion commands an uninterrupted view of

Frances Bay, while the western portion has sea views to the west and Darwin Harbour.

Cost

- 1.34 The estimated cost of the original proposal was \$31 million at July 1999 prices. In DHA's revised April 2000 submission, the estimated cost was \$27.5 million at April 2000 prices.
- 1.35 The revised project cost estimate includes estimated building costs for the proposed three towers, headworks costs, external works, infrastructure works, contingency and fees. Funding will come from any, or all of the sale of surplus housing stock, the public sale of development houses, funds realised from DHA's sale and lease back scheme, application of DHA's surplus operating capital, or debt financing.
- 1.36 A valuation of the proposed site performed by Territory Valuation Services assessed the site as being worth \$2.25 million. DHA paid a 10 per cent deposit of \$220,000 to secure the site and advised the Committee that it was required to pay the balance before 30 June 2000.
- 1.37 The site was acquired by DHA after it made an approach to the Northern Territory Government to access land suitable for development. The Northern Territory Government offered DHA the proposed site. On the recommendation of the Northern Territory Chief Minister, the Northern Territory Government gave ministerial approval for the Department of Lands and Planning to issue DHA with freehold title(s) for the site.

The need for the work

General

- 2.1 During the Inquiry, DHA indicated several reasons why the proposed development was needed. These can be summarised as:
- a desire to offer a choice in accommodation styles to ADF personnel and their families in Darwin;
 - the inability of the Darwin housing market to provide accommodation of the style and standard sought by DHA to meet Defence needs;
 - the limited availability of land in Darwin which could be utilised to provide residential accommodation;
 - a requirement over the next five years to replace existing housing stock that DHA has identified for disposal; and
 - the DFR for Darwin provided to DHA by Defence that required planning for additional houses.
- 2.2 The Committee considered each of these reasons and a number of related factors.

Choice of accommodation styles

- 2.3 DHA advised the Committee that a key driver for the Carey Street proposal was the ability to offer a choice of accommodation styles to ADF personnel and their families. The Committee had two key concerns with DHA's proposal to offer high-rise accommodation:

- the provision of a real choice in accommodation; and
 - the degree to which a survey conducted by DHA demonstrated a demand for high-rise accommodation.
- 2.4 The Committee sought to establish that Darwin-based ADF personnel would have choice in their accommodation. DHA advised that houses would be offered in addition to the Carey Street apartments.¹ The construction of the Carey Street apartments would bring the percentage of apartments in Darwin to approximately 12 per cent of DHA's housing stock.
- 2.5 DHA advised the Committee that a survey conducted by the Darwin Relocation Centre demonstrated ADF personnel were prepared to trade a detached house with three or four bedrooms for the security, amenity and lifestyle offered by an inner city apartment. DHA advised the Committee that over 500 phone calls were made, from which 187 responses were obtained. Fifty-six per cent of the 187 respondents said that they would accept the offer of an inner city apartment.² In effect, the survey's conclusions were based on about 10 per cent of the total number of married Defence personnel in Darwin.
- 2.6 While the Committee endorses the use of surveys as a means of establishing client preferences, it does not consider that the survey conducted by DHA demonstrated a significant demand amongst Defence personnel for inner city apartments in Darwin. This view is based on both the sample size and the number of respondents in relation to the total population of Defence personnel in Darwin. In addition, the timing and nature of the survey left the Committee with some doubts as to its validity. It appeared to be an exercise in supporting the Carey Street development rather than a proper attempt to determine the housing preferences of Defence personnel and their families.
- 2.7 The Committee did not find any compelling evidence to demonstrate that Defence personnel had a strong demand for Darwin inner city apartments.

Recommendation 1

- 2.8 The Committee recommends that the Department of Defence and the Defence Housing Authority conduct comprehensive and credible surveys of Defence personnel to ascertain accommodation preferences.**

1 Evidence, p. 48.

2 Evidence, pp. 32-33.

Spot purchase options

- 2.9 At the 28 October 1999 public hearing, DHA advised the Committee that it had to develop Carey Street because spot purchase options were limited, that is, there was limited ability to purchase apartments in open market. To support this claim, DHA tabled a document from the Australian Valuation Office (AVO) that indicated only 11 apartments were available to meet DHA's needs.³
- 2.10 DHA advised the Committee that most apartments on the market were not acceptable for one or a combination of reasons.⁴ The reasons included:
- poor location in terms of spouse employment, shops or noise;
 - a lack of amenity or quality required by Defence;
 - unacceptable configuration; and
 - rents or capital prices were too high.
- 2.11 In contrast to this view, several witnesses advised the Committee that the Darwin housing market could meet the accommodation needs of Defence. For example, the Property Council suggested that there was an oversupply of apartments in Darwin. The Property Council outlined a number of developments that had received planning approval in the Darwin CBD and which might satisfy DHA's requirements.⁵ However, these apartments were not ready for immediate occupation. Another witness noted that there was an over supply problem in the suburbs of Darwin, but not in properties valued at over \$250,000 in the city of Darwin.⁶
- 2.12 The Committee noted DHA's advice that the 11 units identified by the Australian Valuation Office (AVO) but also that other available apartments had been rejected on the basis of price, location, size or amenity.⁷
- 2.13 A Darwin property developer, Mr James Woodger, supported the view that the local market could supply DHA with suitable properties.⁸ Both Mr Woodger and representatives of the property development company

3 Evidence, pp. 26-27 and 40-41.

4 Evidence, pp. 40-41.

5 Evidence, pp. 111 and 114-115.

6 Evidence, p. 138.

7 Evidence, p. 40.

8 Evidence, p. 123.

Darwin Property Pty Ltd argued that there was a demand for apartments, with oversupply problems occurring outside of the Darwin CBD.

- 2.14 When the Committee inquired further as to the reasons for DHA to develop Carey Street, DHA emphasised that until the Carey Street proposal, DHA had always purchased accommodation from the private sector in Darwin. This amounted to 600 new dwellings, including 13 apartments in a high-rise development purchased, prior to the 28–29 October 1999 public hearings in Darwin.
- 2.15 While the Committee accepts evidence from the AVO that suitable 3 and 4 bedroom apartments were not available to DHA in late 1999, it is of the view that the spot purchase approach remains an effective way to meet the medium to long-term accommodation requirements of Defence personnel in Darwin.

Limited availability of land

- 2.16 DHA submitted to the Committee that the limited availability of land was a key driver for the Carey Street project. The Committee sought advice from DHA as to the sources of land for residential development in Darwin. With respect to the private sector, DHA informed the Committee that it had commissioned a survey of all land available on the market. The survey revealed there was very limited land available, and that which was available was too expensive. For example, to purchase land at Myilly Point would result in apartments with a higher rental range.
- 2.17 With respect to sourcing land from the Northern Territory Government, DHA advised that the Carey Street site was the only land offered.
- 2.18 The Committee then considered the option of obtaining land from the Commonwealth or Defence for ADF accommodation. DHA advised the Committee that a full audit of Defence land had been conducted and that it had first option on any surplus land that became available.⁹ However, the process would require DHA to submit a commercial bid for the land, which may not be accepted by Defence. If the land went to public offer, DHA could purchase the land through that process.¹⁰
- 2.19 DHA advised the Committee that it had been attempting to access Defence-owned land at Lee Point Road. However, there were two

9 Evidence, pp. 167-168.

10 Evidence, p. 168.

problems associated with this land, the timeframe and the style of development. In relation to the timeframe, DHA advised that the latest reports suggested that the land would not be available until 2002. There would then be a 16-month period before the accommodation would be available, past the date to meet the calculated ADF demand.¹¹ In relation to the style of development, the land would be suitable for detached houses and townhouses-type accommodation, and would not offer the choice in accommodation styles that DHA was attempting to provide.¹²

- 2.20 DHA advised that it had looked at excising land at HMAS Coonawarra and RAAF Base Darwin but found there were noise issues associated with HMAS Coonawarra arising from the Hidden Valley racetrack and Tiger Brennan Drive. These issues did not prevent this option going ahead, but would have to be factored into the development. The Northern Territory Planning Authority had advised DHA that noise issues would be considered as a part of the planning process.
- 2.21 The Sectional Committee chaired by Mrs Crosio inspected accommodation and land at HMAS Coonawarra, RAAF Base Darwin and Larrakeyah in July 2000. The Sectional Committee found that there appeared to be land available for accommodation at HMAS Coonawarra and RAAF Base Darwin. The Sectional Committee observed a large parcel of land at Larrakeyah, which was only partially occupied by sheds for a Defence unit no longer based at Larrakeyah. The Committee believes that this land, which is close to Darwin's CBD, could be used for residential development very easily.
- 2.22 The Committee recognises that developing surplus land on the Defence establishments may not provide the choice in accommodation that DHA seeks to provide ADF personnel and their families. Moreover, the Committee recognises that, DHA, with its requirement to operate on a commercial basis, may not consider the development of on-base accommodation as the best option in terms of return on capital.
- 2.23 Nevertheless, the Committee believes there is a demand for on-base accommodation and that on-base accommodation could provide a good value-for-money option for Australian taxpayers. The Committee understands that the Service Agreement¹³, developed between the

11 Evidence , p. 32.

12 Evidence, p. 53.

13 The Committee was briefed on the Service Agreement on 29 June 2000 at which time the Agreement was not publicly available.

Department of Defence and DHA during the course of the Committee's Inquiry, will enable the construction of on-base accommodation that provides a reasonable return on DHA's investment. This type of development is seen as extremely beneficial. It means that DHA should no longer be as keen to have land excised from Defence establishments before construction takes place to maximise its return on investment.

- 2.24 The Committee has concluded that there is demand for quality on-base accommodation and that there is considerable land available for such development in the future. The Committee has also concluded that the newly developed Service Agreement between Defence and DHA will enable development of on-base accommodation and with DHA attaining a satisfactory return on its investment.

Disposal of older houses

- 2.25 DHA advised the Committee that the need for Carey Street was driven partly by a requirement to dispose of a large number of older houses. DHA had identified approximately 800 houses for disposal over the next eight to nine years. These houses are located primarily in the northern suburbs of Darwin.
- 2.26 In July 2000, the Sectional Committee chaired by Mrs Crosio inspected one house identified for disposal in the suburb of Wulagi. The Sectional Committee observed another DHA house in the same suburb, and then inspected two more houses in Gunn, an area of Palmerston. Independent advice obtained by the Committee confirmed that the disposal strategy adopted by DHA would be an effective means of disposing of housing stock no longer wanted.
- 2.27 After all the evidence was received, DHA's disposal strategy for its older Darwin housing stock still remained unclear.

Defence Force Requirement

- 2.28 DHA advised the Committee that the operational requirements of the ADF were a key factor driving the proposed development.
- 2.29 At the time the Committee's Inquiry started, Defence's accommodation requirements were provided to DHA on an annual basis in a document referred to as the DFR. The DFR provided the amount of accommodation

required for married personnel at 30 June each year and projected requirements for the next four years.

- 2.30 The DFR was calculated by combining ADF census data with force structure information to provide a statement on how many people would be allocated accommodation and where. It was updated monthly. Accommodation was allocated on the basis of rank. Despite the significance of the DFR, no information on it was provided to the Committee until DHA's April 2000 revised submission.
- 2.31 The revised Carey Street proposal is supposed to meet the Defence 2002 posting cycle. However, examination of projections for the posting cycle has shown that in 2002 there will be a decrease in Defence personnel in Darwin from 1,987 in 2001 to 1,953 in 2002, with no further increases projected until 2004.¹⁵
- 2.32 During the Inquiry, the Committee obtained information that indicated the DFR did not operate efficiently or effectively in Darwin. There appeared to be two major problems with the system. First, the information provided to DHA on married personnel movements by Defence was inaccurate and secondly, there was a mismatch between accommodation available and the accommodation needed to satisfy rank entitlement.
- 2.33 One outcome of this was dead rent. That is, there were numerous vacant houses in Darwin, for which Defence was paying rent, while at the same time, it was providing rental assistance to Defence personnel to rent in the private market. DHA informed the Committee on 1 June 2000, that 33 out of its 1,807 houses in Darwin were vacant.
- 2.34 The Committee understands that the finalisation of the Service Agreement and related policy changes, should contribute to improvements in the provision of rental accommodation. The Committee notes that the policy changes enable DHA to provide off-base accommodation for singles in some situations and that DHA has adopted the allocation function in addition to the provision of housing.
- 2.35 On 1 June 2000, DHA advised the Committee that it would be providing 15 less houses than the June 2000 DFR demanded, and 34 less houses than the June 2001 DFR.
- 2.36 The Committee is firmly of the view that ADF personnel and their families should be provided with good quality, reliable and safe accommodation.

15 Evidence provided to Senate Estimates Committee A: *Defence Housing Requirement 1999/2000 - 2003/2004*.

The Committee recognises that from time to time there may be some mismatch between suitable DHA accommodation and the demand for accommodation with the result that some Defence personnel will be on rental assistance while some houses are vacant. The Committee also recognises that there has been considerable movement towards designing a more efficient and effective system for the provision of accommodation in Darwin.

- 2.37 The Committee has concluded that the newly developed Service Agreement between the Defence and the DHA offers potential to minimise problems experienced with the DFR.
- 2.38 The Committee has also concluded that the calculation of the DFR with respect to Darwin has been unsatisfactory.

DHA as property developer

General

- 3.1 DHA's Carey Street proposal represents its first venture into the planning, construction and delivery of high-rise apartment accommodation. To supplement its own expertise, DHA proposes to engage a project manager with extensive experience in high-rise construction. The preferred project manager is Incoll Management Pty Ltd.
- 3.2 Expressions of interest were called from firms capable of undertaking the design and construction of the project in mid-1999. DHA has recently advised the Committee that the expressions of interest received in 1999 have been terminated and new expressions of interest have been sought.¹ From a short list of the most suitable firms, the builders will be required to submit plans, costing and schedules to meet DHA's design brief. It is planned that the successful builder will be selected once this material has been submitted.
- 3.3 DHA proposes to establish a Project Control Group to liaise with builders, professional consultants and the project manager. Membership of the Group would include an independent chairman with local knowledge and experience of real estate development, valuation and sales and DHA's Darwin manager; Darwin legal adviser; and General Manager, Development and Sales.

¹ *Northern Territory News*, 24/08/2000.

- 3.4 The Committee questioned DHA extensively on why DHA was single-handedly embarking for the first time on developing a large complex which would all be sold to the private sector.² Three key issues emerged:
- DHA's charter for such a development;
 - competitive neutrality; and
 - the impact the development would have on the Darwin rental market.

DHA charter

- 3.5 The Committee questioned DHA as to whether it had a charter to develop a high rise apartments such as that proposed for Carey Street when all apartments in the development would be sold to the private sector and one third of which would not be occupied by ADF personnel.³
- 3.6 DHA responded that its prime business was property management. It endeavours to ensure that appropriate accommodation was provided to Defence personnel at an appropriate price and in this context it did not matter if DHA owned the property or not. However, in addition to this objective, section 6 of the *Defence Housing Authority Act 1987* required DHA to act in a commercial manner. From DHA's perspective, the Carey Street apartment development fulfilled both of these objectives.⁴

Competitive neutrality

- 3.7 A number of witnesses raised with the Committee the acquisition of the Carey Street site by DHA, indicating that, because the land was a government to government arrangement, no stamp duty was paid on this transaction. Similar arrangements apply for the leases established under DHA's sale and leaseback process.⁵
- 3.8 DHA competes with private sector developers for investors and owner-occupiers, yet is exempt from the stamp duty that private developers must include in their costings.⁶

2 Evidence, pp. 40 and 175.

3 Evidence, p. 176.

4 Evidence, p. 176.

5 Evidence, pp. 111, 137 and 175-6.

6 Evidence, p.125.

Impact on rental market

- 3.9 The impact of the Carey Street development was first raised by a number of Darwin-based property developers at public hearings held in October 1999. The Committee noted this suggestion and observed that DHA had the capacity to impact on the Darwin property market. Moreover, a development such as Carey Street may have a tendency to ramp-up rents in Darwin.⁷
- 3.10 Responding to this issue, DHA advised that there were insufficient apartments available in Darwin to meet the requirements of DHA and Defence.⁸ In such a situation it was appropriate for DHA to develop its own apartments.⁹ From a DHA perspective there was also some advantage in being in control of the whole site.¹⁰
- 3.11 The Committee is of the view that, while it is difficult to measure the impact of DHA in both the Darwin property and rental markets, the purchasing power of the organisation points to it being a significant player and hence able to impact both markets.

Joint venture arrangements

- 3.12 In examining DHA's proposals for Carey Street, the Committee considered the level of risk involved in the development. In this context the Committee saw that a joint venture with a private developer offered potential to minimise risk to DHA, and by extension, the Commonwealth. Accordingly, the Committee questioned DHA as to why the Carey Street development should not be undertaken as a joint venture.¹¹
- 3.13 DHA responded that the Carey Street project was a predominantly ADF arrangement with two-thirds of apartments to be occupied by Defence personnel. The Committee understood this to mean that DHA intended to rely on Defence to ensure the viability of the Carey Street development.
- 3.14 More recently, DHA has acknowledged that the construction industry's response to the project may enable DHA to move into a joint venture type

7 Evidence, p. 124.

8 Evidence, p. 41.

9 Evidence, p. 167.

10 Evidence, p. 175.

11 Evidence, p. 227 and 234-235.

arrangement with responsibility for the private apartments being immediately taken over.¹²

- 3.15 The Committee noted that DHA sought to have the development completed by late 2002 so that apartments could be ready for occupation prior to the ADF's December 2002 posting cycle.

Cost of construction compared with private sector development

- 3.16 In the early part of the Inquiry the Committee received evidence to the effect that a private sector developer could construct the then proposed 90 apartments for less than the DHA-estimated \$31 million.
- 3.17 One witness argued that a similar product could be delivered at an average price of \$340,000 after paying interest, commissions to agents, all government fees and charges, purchasing the land and making a profit.¹³ This witness believed that a preferable course of action for DHA would be to use its purchasing power to negotiate a good price for units from private developments that could then be rented fairly and on-sold at market rates with a lease in place.¹⁴ Another witness believed that at \$340,000 average cost per unit, DHA was paying over 30 per cent more for the product than the private sector.¹⁵
- 3.18 In response, DHA argued that there were few, if any, three-bedroom apartments of the quality, price and amenity proposed for Carey Street.¹⁶ DHA also submitted that in developing the cost of the project, it included finance charges, profit, evaluation and project management costs and had anticipated costs associated with Darwin City Council requirements.¹⁷
- 3.19 The Committee notes that this issue was considered during the early part of the Inquiry and revised estimates were not sought after it received DHA's April 2000 submission, which significantly changed some of the fundamental characteristics of the development.
- 3.20 While the Committee was not convinced by DHA's response, it recognised that in a competitive market place there would be suppliers willing to
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12 Evidence, p. 227.

13 Evidence, p. 124.

14 Evidence, p. 124.

15 Evidence, p. 136.

16 Evidence, p. 40–41 and 166.

17 Evidence, p. 167.

provide a product at a lower price. The Committee notes that real estate sales have reached a six year low in the Northern Territory.¹⁸

Sale and lease back

- 3.21 In the early part of the Inquiry the Committee examined the sale and lease back arrangements used by DHA.
- 3.22 An analysis of the original submission indicated that each of the 90 apartments would have to retail for an average price of \$344,000 to recover the total cost of \$31 million. Evidence from private developers suggested that this price was at the top end of the Darwin market.
- 3.23 DHA indicated that it would seek to sell individual apartments at higher prices but in conjunction with a DHA nine-year lease back arrangement that added to the value of the property. In contrast to this, private developers told the Committee that there was no market for the apartments at such price levels.
- 3.24 It has been noted that DHA would have to market the apartments at an average price at the upper end of the market. There is some concern by the Committee that the involvement by DHA in the market actually drives up the rent in Darwin.
- 3.25 The Committee noted that as all buildings would be leased at approximately the same time, all proposed 60 leases would expire at once. This could generate a glut of apartments on the Darwin market.

One bedroom apartments

- 3.26 In the early stages of its Inquiry the Committee was advised by DHA that one bedroom apartments were unacceptable to Defence. The Committee was therefore somewhat surprised by DHA's April 2000 submission, which provided for 20 one bedroom apartments.
- 3.27 Following the Sectional Committee's inspection of Defence and DHA housing stock in July 2000, the Committee commissioned an independent report, which in part addressed the issue of the demand for one bedroom apartments in Darwin. The report concluded that, unlike East coast

18 *Northern Territory News*, 5/09/2000.

capital cities, there was a very limited market for one bedroom apartments in Darwin.

- 3.28 In addition to this, the Committee is of the view that single residents would invariably prefer a two bedroom apartment over a one bedroom apartment. A second bedroom could serve various purposes, including guest accommodation, a study or an additional storage area.
- 3.29 The Committee has concluded that there is limited demand for one bedroom apartments in Darwin.

Recommendation 2

- 3.30 The Committee recommends that any residential apartment development of the Carey Street site comprise apartments with a minimum of two bedrooms.**

Mix of apartments

- 3.31 The Committee received conflicting evidence from DHA concerning the overall number of apartments in the proposed Carey Street development to be occupied by Defence personnel. In relation to the issue of the number of one bedroom apartments the Committee considered the overall number of apartments in the proposed Carey Street development to be occupied by Defence personnel. The Committee received conflicting evidence from DHA.
- 3.32 On the one hand DHA's advised that it preferred not to have a concentration of Defence dwellings in any one residential development. DHA cited the example of land available for lower density housing in areas such as Palmerston. Such land was not considered viable because DHA already managed 30-50 per cent of the houses in the area. There were social and economic reasons for not wanting to have too many Defence personnel in the one area.
- 3.33 In contrast to this view DHA advised that two thirds of the Carey Street development would be occupied by Defence personnel.
- 3.34 The Committee is inclined to agree with the view that concentrations of Defence personnel in any one area may not produce good outcomes for residents or investors. The Committee therefore believes DHA needs to reconsider the mix of apartments in the proposed Carey Street

development in terms of apartments to be occupied by Defence and non-Defence personnel.

Recommendation 3

- 3.35 The Committee recommends that the Defence Housing Authority re-assess the mix of apartments in the proposed Carey Street development.**

Environmental issues

- 4.1 The Committee examined three main environmental issues. They were:
- the proximity of the Carey Street site to a fuel tank terminal;
 - the impact of the proposed development on a Banyan tree; and
 - the impact of a nearby sandblasting operation.

Proximity of fuel tank terminal

- 4.2 The Carey Street site is adjacent to a fuel tank terminal where several companies store bulk petroleum products. Shell tank No. 9 is located 33.7 metres from the edge of one of the towers.
- 4.3 The proximity and visibility of the fuel tank terminal was of concern to the Committee. The Committee noted the views of Mr Matthew Coffey, a private citizen resident in Darwin, that, under Australian Standards, the Shell tank was too close to the development site and questioned DHA accordingly. DHA advised that:
- the proposed development was in accordance with the relevant Australian standard;
 - the fuel in Tank No 9 was avgas/kerosene; and
 - the fuel tank terminal would be relocated to the East Arm Port in the last quarter of 2002.¹
- 4.4 The Committee subsequently learned from the owners of the terminal that the proposed relocation would not take place until 2003.

¹ Defence Housing Authority, Revised Proposal, April 2000, p. 18.

- 4.5 The Committee was of the view that the proposed relocation could have a significant impact on the commercial viability of the Carey Street development and was therefore pleased to learn that the fuel tank terminal would be relocated. The relocation would eliminate any perceived or real hazard from area.
- 4.6 The Committee understands that contrary to advice provided by DHA, the relocation is scheduled to occur in 2003. This could create a problem for DHA in so far as it has indicated it wished to have apartments ready for the December 2002 Defence posting cycle.

Impact of development on mature Banyan tree

- 4.7 At the 28 October 1999 public hearing in Darwin, the Committee heard evidence that a mature Banyan tree located on the site may not survive if the development went ahead.
- 4.8 The Committee was advised that Banyan trees have a long life and are considered sacred by Aboriginal people. Banyan trees are described as '50/50 trees', meaning that the root system is approximately equal to the size of the tree above ground.
- 4.9 Following the October public hearings, DHA redesigned the development to ensure the survival of the Banyan tree. The Committee endorses this action.

Impact of nearby sandblasting operation

- 4.10 During an inspection of the Carey Street site on 28 October 1999, the Committee observed a nearby ship repair yard and learned that its operators occasionally used sandblasting to clean ships' hulls.
- 4.11 The Committee subsequently heard evidence that such cleaning could have an impact on the amenity of the Carey Street development. While DHA advised that the sandblasting operation conformed to all relevant Northern Territory guidelines, the Committee requested tests be conducted to establish whether the Carey Street site was being contaminated by the operation.
- 4.12 DHA engaged an expert to undertake appropriate tests and advised that such tests were best conducted during a sandblasting process. DHA undertook to provide the Committee with the results of these tests. The

Committee has not received advice from DHA since the 1999 public hearing that sandblasting has taken place and tests conducted.

Recommendation 4

- 4.13 The Committee recommends that the Carey Street project not proceed until the results of tests on the effects of sandblasting have been made publicly available and meet relevant Environment Protection Agency requirements.**

Other issues

- 5.1 This chapter address four issues. They are:
- the procurement of land prior to parliamentary approval;
 - Defence's rental assistance program
 - Native title; and
 - Planning approval.

Procurement of land prior to Parliamentary approval

- 5.2 A difficulty associated with the proposal to redevelop Carey Street and other DHA developments referred to the Committee was that the land, upon which the developments were proposed, had been either purchased or commitments for purchase made prior to examination by the Committee and consideration of the Committee's findings by the Parliament.
- 5.3 In the case of the Carey Street, a deposit was paid on 25 February 1999 with the development being referred to the Committee on 2 September 1999.
- 5.4 On a related matter, the Committee notes that it was not informed by DHA during the initial part of the Inquiry that there was a \$100,000 a year caveat on the land payable should the development not proceed. The Committee obtained this information through its own investigation process from the Northern Territory Department of Lands, Planning and Environment.

Recommendation 5

- 5.5 The Committee recommends that the Defence Housing Authority notify the Committee, at the earliest opportunity, of purchases, or commitments for purchases, of land intended for a development which may be referred to the Committee prior to referral of the development to the Committee by the Parliament.**

Rental assistance

- 5.6 The Department of Defence has a rental assistance program which assists Defence personnel with short term accommodation needs, particularly where there is a shortfall in DHA supplied housing or unsuitable DHA supplied housing and market flexibility is restricted.
- 5.7 Evidence provided to the Committee by the Department of the Defence and DHA indicated that the program is extremely costly. In this context the Committee noted the recommendations of the Australian National Audit Office (ANAO) in its 1994-95 Efficiency Audit - *Australian Defence Force Housing Assistance*.¹
- 5.8 From evidence presented to the Committee, it was unclear the extent to which implementation of the recommendations of the ANAO had contributed to a reduction in the net cost to Defence of rental assistance, particularly with respect to Darwin.
- 5.9 The Committee believes there is an urgent need to review and clarify the Department of Defence rental assistance program, and particularly in relation to the Group Rent Scheme.

Recommendation 6

- 5.10 The Committee recommends that the Department of Finance and Administration undertake a cost benefit analysis of the rental assistance program to determine the extent to which the rental assistance program would provide the best value for money for the provision of Defence personnel housing requirements in each area.**

¹ Australian National Audit Office, *Australian Defence Force Housing Assistance*, Audit Report No. 13, 1994-95.

Native title

- 5.11 DHA's September 1999 submission noted that a Native Title claim had been made on the proposed site.² In negotiations with the Northern Territory Government, DHA stated that it would not finalise the purchase of the Carey Street site unless the Native title issue was clarified. The Northern Territory Government subsequently compulsorily acquired any Native title interests relating to the site.³
- 5.12 The Committee notes advice from DHA that, in the event a future Native title claim is lodged over the site, the Northern Territory Government will be liable for any compensation.⁴
- 5.13 While some may take some comfort from this advice on future liability, the Committee's experience with other proposed developments, and the perfunctory nature of the advice, lead it to conclude that the issue requires careful examination.

Recommendation 7

- 5.14 The Committee recommends that the Defence Housing Authority obtain a clearance from the Attorney-General's Department that there will be no future liability to a Native Title claim with respect to the Carey Street site and that construction of the proposed development not proceed without that clearance.**

Planning approval

- 5.15 It is proposed that two towers be situated on the eastern portion of the Carey Street site, overlooking Frances Bay, with the third tower on the western portion. Each tower would have three apartments per level.
- 5.16 DHA advised the Committee that the planning approval for the two lots was undertaken separately to allow the opportunity to assess market and Defence needs.⁵

2 Evidence, p. 6.

3 Evidence, p. 166.

4 Evidence, p. 178.

5 Evidence, p.12.

- 5.17 DHA advised the Committee that due process had been followed in seeking planning approval for the 60 apartments in two towers and that the proposal met the land use objectives of the Northern Territory Government.⁶ At the time of the October 1999 public hearings, DHA had only received planning approval for 60 apartments in two towers.⁷ The Committee noted comments from a witness at the hearings, who said that planning approval was given on 9 January 1999, in the middle of the wet season with many people away from Darwin.⁸
- 5.18 On 1 June 2000 DHA advised the Committee that the Northern Territory Planning Authority had approved the construction of the third tower with 35 apartments.
- 5.19 The Committee has formed the view that the two-stage planning process adopted by DHA was administratively inefficient and, more significantly, that the process could have created a perception of a lack of transparency in DHA's management of the project. From the Committee's point of view, examination of the two-stage planning process was complicated by the change in the nature of the Carey Street proposal midway through the Inquiry.

Recommendation 8

- 5.20 The Committee recommends that the Defence Housing Authority ensure that all planning approvals have been received for future projects before appearing before the Committee.**

6 Evidence, p. 166.

7 Evidence, pp. 29 and 31.

8 Evidence, p. 152.

General comments

- 6.1 The original Carey Street proposal was referred to the Committee in the context of an urgent need for housing for Defence personnel and their families in Darwin. As with other similar proposals, the Committee commenced its Inquiry with a view to completing its examination expeditiously. However, a number of factors worked against this.
- 6.2 First, the process was complicated by the significant change in the nature of the project midway through the Inquiry.
- 6.3 Secondly, difficulties associated with DHA's Housing Development at Parap Grove, Darwin¹ provided a reason for the Committee to examine the Carey Street proposal with a greater degree of caution. DHA withdrew that proposal before the Committee had concluded its investigation. This followed the voluntary administration of Bayview Homes, the developer for Parap Grove.
- 6.4 Thirdly, from the Committee's point of view, it is regrettable that DHA's initial submission on Carey Street lacked detail and was unconvincing in its justification of the proposal. DHA's revised submission, which was submitted to the Committee in April 2000, represented a marked improvement and facilitated more detailed consideration by the Committee.
- 6.5 Fourthly, a significant issue for the Committee was the quality of evidence provided during the Inquiry by Defence in relation to the DFR. The Committee found inconsistencies in the evidence it received and that presented to Senate Estimates Committee A. This did not inspire confidence and remained a matter of concern to the Committee.

1 Parliamentary Standing Committee of Public Works, *Housing Development At Parap Grove, Darwin*, Fourth Report of 2000.

Inevitably the poor quality of evidence led the Committee to seek more detailed evidence and to seek to corroborate this evidence with that provided by DHA. This meant holding further public hearings.

- 6.6 It is a matter of regret that Defence, DHA's primary client, experienced difficulty in stating and justifying its accommodation needs. The Committee is firmly of the view that the provision of clear, soundly based evidence would have enabled it to consider the merits of the Carey Street proposal and to conclude its Inquiry in a much shorter timeframe.
- 6.7 In the Committee's opinion, these process-related issues have had a significant impact on the time it has taken for the Committee to fulfil its statutory role.
- 6.8 The Inquiry serves as a reminder to all agencies with proposals before the Committee of the need to fully appreciate the Committee's legislative basis and the need for the Committee's proper scrutiny of major projects, no matter how urgent they may be perceived or represented to be.
- 6.9 The Inquiry has also highlighted tensions associated with scrutinising a Commonwealth organisation that is required to operate in a commercial fashion. Even with endorsement from the Committee, the operation of a commercial organisation and the use of the 'design and construct' methodology creates an array of contingencies, which the Committee is not necessarily well placed to predict.
- 6.10 The duration of the Inquiry presented the Committee with certain difficulties, not least of which was an assessment of the business cases for the initial and revised Carey Street proposals. However, the Committee recognises that the Carey Street site has the potential to be one of Darwin's prime residential locations, particularly when the adjacent tank terminal is relocated to the East Arm Port. The Committee notes the Northern Territory Government's intention for urban redevelopment of the tank terminal site.
- 6.11 After months of investigation the Committee still has serious concerns about aspects of the proposal and the need as outlined in this report. The Committee believes DHA must do more work before the Parliament can endorse the proposal.
- 6.12 The Committee concludes that the development of apartment towers in Carey Street, Darwin by the Defence Housing Authority should not proceed until all the Committee's recommendations have been met.

Recommendation 9

- 6.13 The Committee recommends that the Defence Housing Authority report to the Committee when it has complied with all the recommendations contained in this report.**

Hon Judi Moylan MP
Chair

5 October 2000



Appendix A—Witnesses

Barry, Mr Eugene Herbert— Strategic Projects Officer, Darwin City Council

Bear, Mr Richard—General Manager, Development Sales, Defence Housing Authority

Bell, Mr Brian Gregory, Director Housing, Defence Personnel Executive, Department of Defence

Brown, Mr George—Lord Mayor, Darwin City Council

Clinch, Miss Margaret Anna—Convener, Planning Action Network

Coffey, Mr Matthew Martin Joseph

Dalton, Mr Trevor Paul—Executive Director, Property Council of Australia, Northern Territory Division

David, Mr Edwin Joel—General Manager, Operations, Defence Housing Authority

Dunn, Major General Peter James—Head, Defence Personnel Executive, Department of Defence

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

Martin, Mr Lex Stephen

Mcmillan, Mr Peter John—Managing Director, Darwin Property Pty Ltd

Narayanasamy, Mr Raja—Project Officer, Defence Housing Authority

Tsoukalis, Mr John—Solicitor / Legal Adviser to Defence Housing Authority

Wesley-Smith, Mr Robert Nuttall—Deputy Convenor, Planning Action Network

Willis, Major General Simon—Group Head, Department of Defence

Wilson, Mr John—Acting Manager, Darwin, Defence Housing Authority

Woodger, Mr James Parkes—Proprietor and Director, Northern State Property Services, Glenmae Pty Ltd and Samvirs Pty Ltd



Appendix B—Submissions

Annear, Mr Geoff—Tipperary Waters, Marina Estate

Coffey, Mr Matt—private citizen

Darwin City Council

Darwin Property Pty Ltd

Defence Housing Authority (August 1999)

Defence Housing Authority (September 1999)

Defence Housing Authority (April 2000)

Department of Lands Planning and Environment, Northern Territory Government

Environment Australia, Department of the Environment and Heritage

Luxton, Mr Richard—private citizen, Convenor PLAN

Martin, Mr Lex—private citizen

McVann, Mr Peter, Director, Kennedy McVann

PLan: The Planning Action Network

Property Council of Australia (Northern Territory Division)

Royal Australian Institute of Architects

Sitzler Bros (Darwin) Pty Ltd

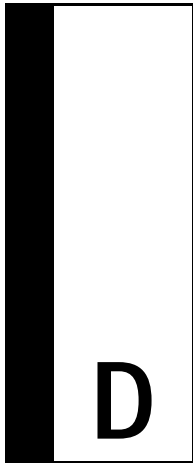
Woodger, Mr James P—Property Developer.



Appendix C—Associated Drawings, Original proposal, September 1999

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DIAGRAMS NOT AVAILABLE IN ELECTRONIC FORMAT.



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DIAGRAMS NOT AVAILABLE IN ELECTRONIC FORMAT.