Midland Oval Precinct Business Plan Submission [1]

By Humphrey Boogaerdt

This submission is to show why **<u>I object</u>** to the business plan for the Midland Oval Redevelopment Precinct. Throughout this submission many questions are asked to be answered by the City of Swan, that means I expect to the answers to be published, which I believe is a basic right as a ratepayer. It is the ratepayers money the City of Swan is using and transparency is paramount [2] .

There is nothing wrong with the concept of redeveloping Midland Oval; however the proposed development model poses a financial risk to the ratepayer which is too high to make it justifiable in this form.

The City of Swan mentions Section 3.59 of the LGA that states it has to prepare a Business Plan for this type of development.
<u>Question</u> : So, how is it possible that work on Midland Oval Re-development site could start without this business plan being presented for public comment and adopted by council?
<u>Answer</u> :

The Risk Analysis tables in the section of the business plan (page 21, section 9.1 and 9.2) show that 6 out of 8 categories are **high risk**.
<u>Question</u> : One has to ask the question and demand an answer "WHY PROCEED IF THE RISKS OF MAJORITY OF CATEGORIES ARE HIGH?"
<u>Answer</u> :

The financial modelling in the business plan has to be based on the underlying notion that the population of Midland will increase and that people living in surrounding suburbs will come more often to shop and work.
<u>Question</u> : Midland Gate is expanding by a 1/3 and on top of that how much retail and office space stands current empty in Midland? Therefore, why does Midland need all that extra retail and office space?
<u>Answer</u> :

<u>Question</u> : What were the terms of Reference for the WATC modelling? With the economic circumstances changing quite a bit worldwide there does not seem to be an updated version of the WATC modelling? New results could change the viability of the project. There is no reference when the WATC did the modelling and where to find it easily.
<u>Answer</u> :

1 City of Swan staff and others involved in putting together and promoting this business plan should **not** be involved in assessing the submissions in this case. That would be a **conflict of interest**!!! Question : How is this issue been resolved?

2 The current Royal Commission into Banking is showing clearly how important financial transparency is.

If part of the WATC modelling is based on the "Perth and Peel @ 3.5 million" report by the WAPC they have used a very flawed report as input [3] . The WAPC report depicts only one rosy scenario of a great influx of people into WA from eastern states and overseas due to a never ending mining construction boom. The last few years have shown that these figures were incorrect and WA was experiencing a net outflow of people to the eastern states.
Question : How has Midland benefited from the above mentioned mining construction boom? If not, why not? Why would the current proposal be able to attract all these shoppers and workers while the extensive mining construction boom could not?
Answer :

The premise of huge increases in people using the Midland Oval Development is over optimistic and based on incorrect logic. The population of the Swan Valley is static. Most population increases are in Ellenbrook, Aveling, Brabham and Dayton. What is the evidence that people that live in Ellenbrook, Aveling, Brabham, Dayton or Ballajura will be shopping in Midland, especially taking in consideration the new Metronet lightrail towards Perth.
Question : Where does the data come from supporting these assumptions?
Answer :

The proposal of developing a multideck carpark.
Question : Before deciding on developing a multideck carpark the question has to be answered "Are Multideck carports are they really needed in 20 years' time with the advent of shared autonomous vehicles that will be mainstream by then?"
Answer :

Ordinary Meeting of Council, Page 9
In all scenarios an estimated asset value has been included. Scenario 1, consistently achieves the highest estimated value while other scenarios achieve lower and varying asset values.

In the scenarios table the estimated Asset Values for Scenario 1 & 2 in 10 years' time are $167,492,000 and $118,922,000 respectively. On page 4 of the enclosed report it states "*….and development costs in the order of $190 million…..*". So even after 10 years the values are multiple million dollars short of the development costs.

Scenario-1 also has consistently the largest negative NPV. To focus on just one aspect of the scenarios, namely of a potential high asset value in 20 years in the future, shows the City's bias towards Scenario-1. A balanced approach should also include the negative NPVs; than the risk for the city's ratepayers can be better established, with questions to the ratepayer like what is better "a positive NPV for next 20 years" or "a possible high asset value in 20 years' time"? By the way we should only look at 10 years in the future. Modelling 15 and 20 years from now are just too far

3 For more detail look at "Perth Peel 3.5 Million – Submission" and "Perth Peel Green Growth Plan @ 3.5 Million – Submission" downloadable from www.payung.biz

away. In the recent federal debate about tax cuts in 7 years' time many economists say that is even too far in the future because of uncertainty. But, if we say 10 years as acceptable as the modelling shows that the best NPV is scenario-3.
Question : What is there in it for the City of Swan itself, some of its employees or councillors to promote scenario-1?
Answer :

Business Plan page 5 under 1.1.c "*..The financial effect to the City will not be fully realized until the MORM is fully developed and necessary property acquisitions and disposals of land parcels have been completed.* ...".
Since the City is using Ratepayers money to fund this project for the next 20 years before it can be assessed if it was a good plan. Then the MORM is a flawed proposal, especially with the financial risks to the ratepayers involved.

Business Plan page 7
States *the Midland Oval precinct will be vibrant because of this MORM development.*
The City can create Vibrant community by a well thought out development guidelines, principles and zoning for this land before the land is sold, without being involved in property development

Business Plan page 9 point 2.2.8 "*….its fast growing, young population, supporting large and expanding population serving industries.* ..."
Question : Just a sweeping emotion laden statement. Where are the figures the support these claims and it is another claim without reference data?
Answer :

Business Plan page 21
The risk tables under section 9.1 and 9.2 talk about "*injury or death during construction*", which are issues related to the construction company and should not be part of a high level business plan. Besides that is an insurance issue.
Question : In the risk analysis why is there is no Risk Legend or proper explanation provided? There is also no mention what the actual risks are to the City and to the Ratepayers.
Answer :

From the "*Midland Oval Economic Impact Estimate Update*" report by Pracsys (2018), a consultancy used by City of Swan.

Page 5
It is important to note that because these measures are based on national averages there is a significant margin for variation.
Question : Where in the business plan is there reference to these large variations?
Answer :

Page 7.
Direct employment generated through the construction phase of the Midland Oval project totals 254 per annum.
Question : How can one draw the conclusion that these construction workers will live in Midland? Some construction workers may live locally, but most will likely come from elsewhere. So the question is, what is the real economic impact on Midland by construction workers, besides buying some lunches. The construction workers that already live in City of Swan spend their money there now, so there is no change in economic impact. Is the report saying this construction that it will attract construction workers to move to Midland and where are they going to live in the development they are helping to build?
Answer :

Page 10
The estimated direct output from Midland Oval is approximately $344 million. The development could contribute up to $990 million to the broader economy at full build out, though this will depend on the specific uses that locate within the precinct.
Question : These are just numbers not put into context. How is it possible to assess if these figures are good or not? Which broader community, City of Swan, Perth Metropolitan or Western Australia?
Answer :

NOTE : If the above excerpts from the Pracsys report are also part of the basis for the City of Swan to promote Scenario 1 the City the foundations of the business plan are shaky.

Related Information

Below some extracts from interesting papers which support the notion why the by the Council favoured Scenario-1 is overly optimistic.

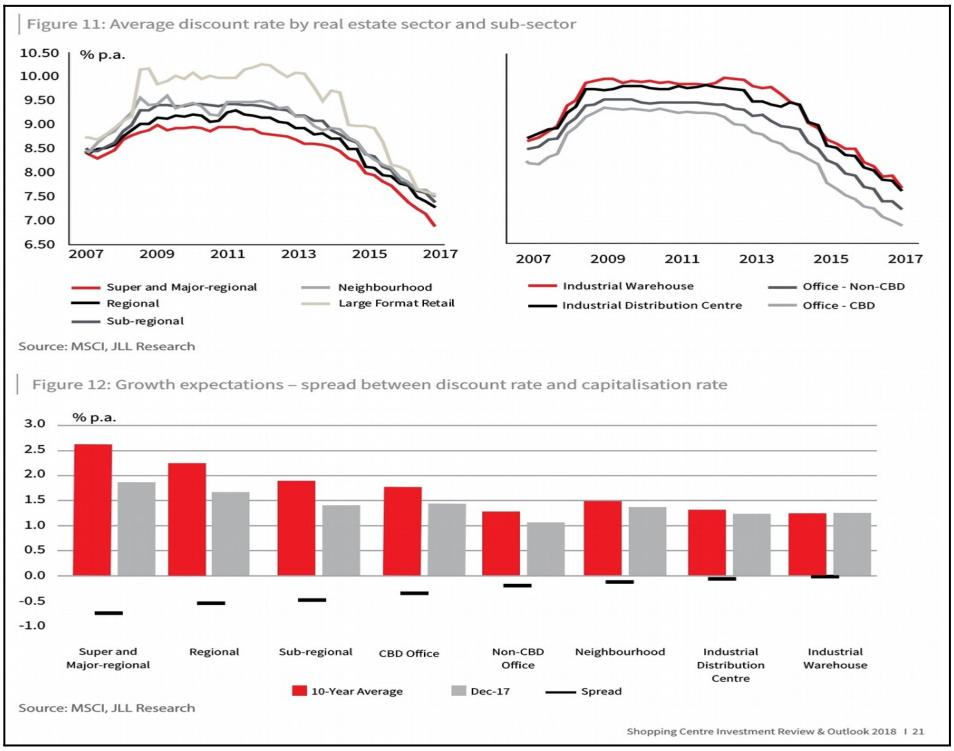
JLL (an international property group) : Australian Shopping Centre Investment Review & Outlook 2018

http://www.jll.com.au/australia/en-au/Research/JLL-AU-ShoppingCentreInvestmentReview-2018.pdf

Western Australia is gaining renewed investor interest, with a growing view that market conditions have bottomed and an economic rebound will be supportive of retail spending over the medium term. Investors with a long-term investment horizon will be actively seeking opportunities in Perth for relative value, as opportunities arise. However, Perth has a number of major development projects in the pipeline between now and 2020. This predominantly includes extensions to regional shopping centres, which may increase competition in the leasing market if they progress as planned. Transaction volume was $633.4 million in 2017 and has been relatively stable at around $600 million per annum (p.a.) since 2013.

Discount rates for all commercial property sectors have compressed significantly since 2013, by approximately 181 basis points, reflecting the adjustment in return expectations and the low-growth environment (Figure 11). The "lower-for-longer" thesis has driven a structural shift towards lower capitalisation rates and lower income growth for property in the long term. The combination of these adjustments has resulted in a reduction in the capital growth component of discount rates over time. Figure 12 shows the spread between the discount rate and capitalisation rate.

Super and major-regional centres have seen the greatest downward revision in the capital growth component across the realestate sectors. However, in absolute terms, this sub-sector is still expected to have the highest annual capital growth on the long-term view across retail, office and industrial.



"The retail investment market has moved to a two-tier position where yields for high quality retail assets have shown further compression over the past 12 months, particularly in the regional shopping centers sector, while weaker performing retail properties are being priced at discounts. Equally discount rates for the better quality retail assets have compressed as return expectations shift lower. There appears potential for further yield softening for non-core assets, coinciding with increase in stock (supply) as owners seek to re-balance portfolios. Interestingly, average neighborhood shopping center yields tightened in 2018 and are now below sub-regional center yields for the first time on record, reflecting a re-rating of the relative risk profile of the two asset classes. The subdued sales performance of discount department stores and a greater weighting of apparel stores) (and increased activity of digital disruptors) has weighed on sub-regional sector, while non-discretionary supermarket-anchored centers have performed well." A comment by John Burdekin, Head Retail Valuations & Advisory, Australia.

Coiacetto, Eddo & Baker, Douglas (2006) : **Public Real Estate Development in Queensland Local Government as Developers** ; *Urban Policy Research*.

Simons (1994) argues that the public sector lags seriously behind in its skill level and expertise resulting in suboptimal management of public lands, and putting the public sector at a disadvantage when dealing with developers in joint projects. Often cities are seen to have given too much to developers on joint projects (Frieden, 1990). In addition, large public developments or joint projects pose problems for planners in the public sector, with the regulator and developer being the same entity.

Conclusion

All the arguments and questions above underline the reason why **I Object** to the Midland Oval Redevelopment Precinct Business Plan because the financial risk to the rate payer is too high.

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