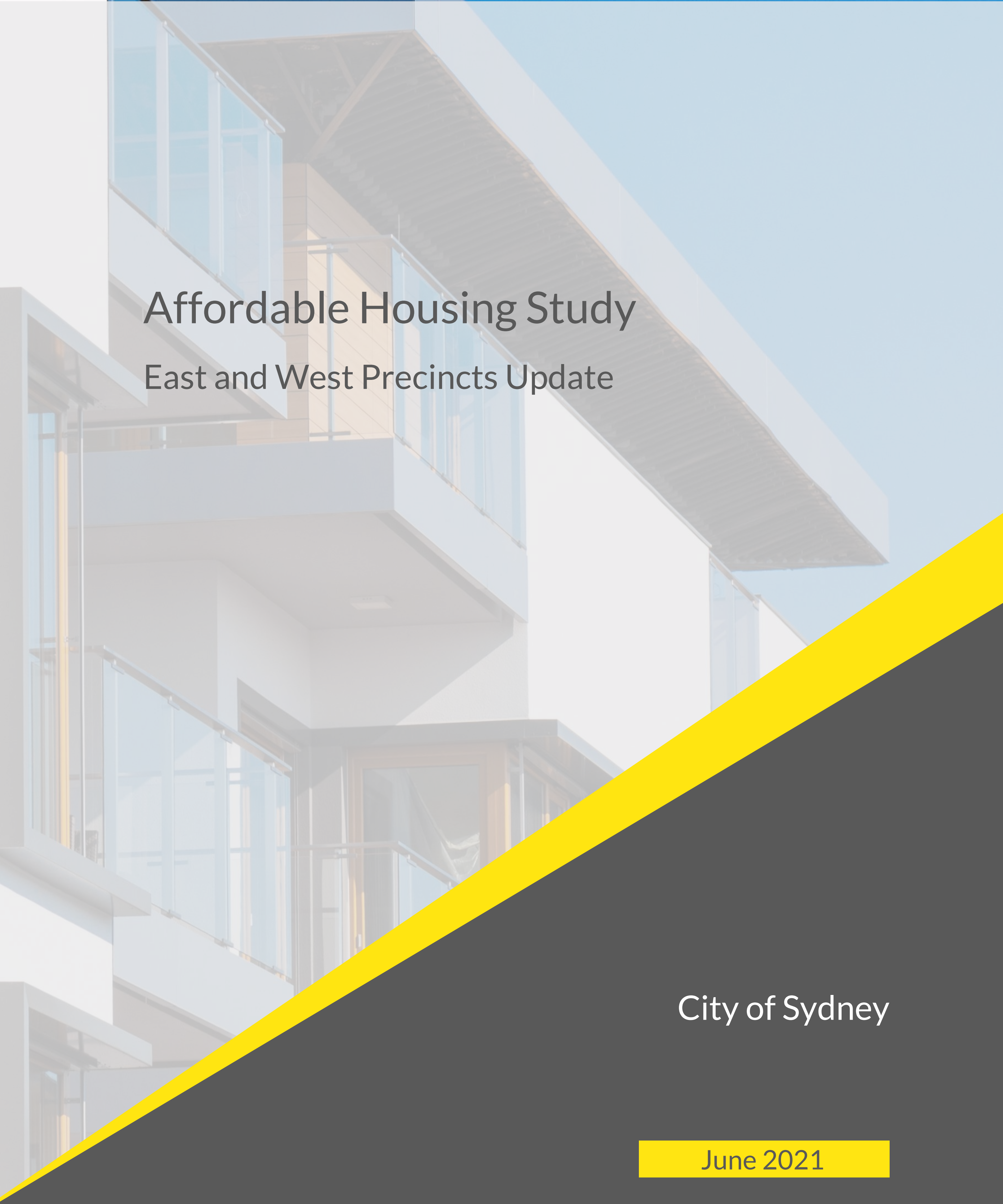

Affordable Housing Study

East and West Precincts Update

City of Sydney

June 2021

Atlas Urban Economics

Document Control

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Job ID: J131
Job Name: Affordable Housing Program East and West Precincts

Client: City of Sydney
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Document Name: City of Sydney AH Feasibility Analysis - East and West Precincts Update final

Last Saved: 6/07/2021 7:38 PM

Version	Date	Reviewed by	Approved by
Draft	30 June 2021	Jacob Vince	Esther Cheong
Final	6 July 2021	Jacob Vince	Esther Cheong

Executive Summary

BACKGROUND

The City of Sydney (the City) proposes to amend the Sydney Local Environmental Plan 2012 (clause 7.13) to expand the operation of affordable housing contribution schemes to all other land (not currently subject to an affordable housing contribution scheme) and where the City is the consent authority.

The City publicly exhibited a planning proposal to amend the LEP in June/ July 2018 which and the City of Sydney Affordable Housing Program (**the Program**) was adopted on 17 September 2018. In August 2020 the Program was updated to include the Green Square Town Centre and adopted again by the City.

Two tiers of affordable housing contributions are proposed to be required:

1. A contribution to apply to new development, different rates for residential and non-residential.

Table ES.1 shows the proposed contribution rates (referred to as '**clause 7.13 contributions'**).

Table ES.1: Proposed Contribution Rates, Clause 7.13

Date of Determination of DA	Total Floor Area (non-residential)	Total Floor Area (residential)
To 31 May 2021	0%	0%
1 June 2021 to 31 May 2022	0.5%	1.5%
1 June 2022 onwards	1.0%	3.0%

Source: City of Sydney

The current equivalent monetary contribution rate is $10,588/sqm (indexed to 1 March 2021).

2. A contribution on 'Planning Proposal' land by precinct. **Table ES.2** shows the Planning Proposal land rates by precinct.

Table ES.2: Proposed Contribution Rates, Planning Proposal land

Precinct	Proportion of Additional Floor Area for Affordable Housing
West	12%
South	12%
East	24%

Source: City of Sydney

The contribution rates in **Table ES.2** are applicable only where the site-specific planning proposal is for FSR increase on land. Where other changes to planning controls are being made (e.g. rezoning or significant increase in height), site-specific analysis will be required to determine an appropriate contribution rate.

Atlas Urban Economics ('Atlas') is engaged by the City to undertake a review and update the Planning Proposal land contribution rates that were proposed for the East and West Precincts in the City of Sydney Affordable Housing Program.

CONTRIBUTION CAPACITY TESTING

Where a site is the beneficiary of planning uplift (e.g. increase in FSR) there is generally a commensurate increase in land value and development profit. It is through this increase that a site will have the capacity to contribute to affordable housing while remaining viable for development.

The Study investigates the capacity of land that is subject to a site-specific planning proposal ('Planning Proposal land') to contribute to affordable housing (over and above clause 7.13 contributions).

For any (additional) contributions to be viable, development without the contribution needs to be viable in the first instance. The analysis presumes that land progressed under a site-specific planning proposal is viable even without an (additional) Affordable Housing contribution requirement for Planning Proposal land.

The contribution capacity testing is undertaken in three steps:

3. **Step 1 - Identification of areas/ locations and notional development scenarios for testing**

   Atlas worked with the City to identify appropriate sites in the Study Area for contribution capacity testing. This step develops notional development yields based on planning uplift nominated by the City for testing in Step 2 and Step 3.

4. **Step 2 - Baseline testing (with clause 7.13 Affordable Housing contribution)**

   Generic feasibility testing is carried out on sites selected in Step 1 based on notional development yields also developed in Step 1. The testing in Step 2 assumes all applicable statutory fees and charges including Clause 7.13 contributions.

5. **Step 3 - Iterative testing of *additional* Affordable Housing Contributions (for Planning Proposal land)**

   Step 3 includes Planning Proposal land contributions to test the capacity of the selected areas to contribute. A rate of 9% in the West Precinct and 21% in the East Precinct are initially tested before testing alternate rates as required. Step 3 also considers the sensitivity of the results to varying the cost of land.

The objective of the contribution impact testing is to assess if, after contribution to Affordable Housing, residual land values and hurdle rates (development/ profit margin, and project IRR) are within acceptable range.

Contribution impact testing makes the following observations:

- **West Precinct**
  - The tested Planning Proposal land contributions in the West Precinct (9%) is generally well tolerated, with impact to profit margin and project IRR and resultant feasibility either Feasible or Marginal-to-Feasible.
  - While the Study does not assume land is purchased speculative on the presumption of rezoning, the testing results indicate reasonable tolerance even if a higher, speculative price were paid for land.
- **East Precinct**
  - The tested Planning Proposal land contributions in the East Precinct (21%) is generally reasonably tolerated, with impact to profit margin and project IRR and resultant feasibility Marginal-to-Feasible.
  - While the Study does not assume land is purchased speculative on the presumption of rezoning, the testing results indicate marginal tolerance if a higher, speculative price were paid for land.
  - The Study tests a lower Planning Proposal land contributions rate of 18% This lower rate improves tolerance - impact to profit margin and project IRR either Feasible or Marginal-to-Feasible.

The key to mitigating feasibility impacts is notice. Advance notice would allow sites already purchased to be progressed for development and for due diligence investigations to account for any increased contributions prior to site purchase.

RECOMMENDATIONS

The Study recommends that the Planning Proposal land contributions are updated to:

- West Precinct - 9% of additional residential GFA (to total 12% of additional residential GFA including clause 7.13)
- East Precinct - 18% of additional residential GFA (to total 21% of additional residential GFA including clause 7.13)

The Planning Proposal land contribution rates presume no public benefit contributions would be required pursuant to a planning agreement (VPA). If VPA contributions are required, the Planning Proposal contributions would require adjustment.

As with all contributions policy, landowner expectations and industry behaviour are expected to adjust over time. Implementation that provides clear notice to the market will ensure any adverse impact to future investment is mitigated as far as possible. The Study notes that proposed affordable housing contributions were exhibited for public comment in 2018 before being adopted by the City in 2018 and again in 2020 including the Green Square Town Centre. Advance notice allows:

- Sites already purchased and developments already in the pipeline to be progressed and delivered.
- Market participants to factor-in the revised incentive contribution rate/s in due diligence and purchase negotiations.

Regular review of development activity should be carried out to monitor impacts and implications of the updated rates.

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Schedule

1. Introduction

1.1 Background

The City of Sydney (the City) adopted the City of Sydney Affordable Housing Program (the Program) in July 2020. The City proposes to amend the Sydney Local Environmental Plan 2012 (clause 7.13) to expand the operation of affordable housing contribution schemes to all other land (not currently subject to an affordable housing contribution scheme) and where the City is the consent authority.

A contribution requirement would be required on 'residual land' and 'Central Sydney' to apply to 'new' floor area (i.e. additional to existing floor area) and/ or to the floor area that is changing in use.

The affordable housing contributions are to be phased-in over time to allow for market adjustment. It is expected that affordable housing contributions will be payable at 50% from when the Sydney LEP 2012 (Amendment No. 52) is made (originally intended at 1 June 2020). The full contributions (100%) are expected from 1 June 2022.

Table 1.1: Proposed Contribution Rates, Clause 7.13

Date of Determination of DA	Total Floor Area (non-residential)	Total Floor Area (residential)
To 31 May 2021	0%	0%
1 June 2021 to 31 May 2022	0.5%	1.5%
1 June 2022 onwards	1.0%	3.0%

Source: City of Sydney

The current equivalent monetary contribution rate is $10,588/sqm (indexed to 1 March 2021).

Planning Proposal Land

The Program proposes to amend the Sydney LEP 2012 to provide for a new framework to identify sites (as "Planning Proposal land") that will benefit from increased development capacity through a site-specific planning proposal process where a supplementary affordable housing contribution has been identified.

This would mean the affordable housing contribution requirement under clause 7.13 and a supplemental contribution would apply to land identified. The requirement may specify how the contribution requirement is to be satisfied, by either:

- An in-kind dedication of completed affordable rental housing dwellings in a development; or
- An equivalent monetary contribution payment.

Once land is identified, the contribution requirement is calculated at the DA stage and will be applied under s7.32 of the *Environmental Planning and Assessment Act 1979* as a condition of consent.

The proposed contribution rates applicable to Planning Proposal land by precinct are shown in **Table 1.2**.

Table 1.2: Proposed Contribution Rates, Planning Proposal land

Precinct	Proportion of Additional Floor Area for Affordable Housing
West	12%
South	12%
East	24%

Source: City of Sydney

The above contribution rates are applicable only where the site-specific planning proposal is for FSR increase on land. Where other changes to planning controls are being made (e.g. rezoning or significant increase in height), site-specific analysis will be required to determine an appropriate contribution rate.

Contribution rates are to be reviewed to ensure they continue to align with market realities.

1.2 Scope and Approach

Atlas Urban Economics ('Atlas') is engaged by the City to undertake a review and update the proposed contribution rates (specifically the rates that are applicable to Planning Proposal land) that were proposed for the East and West Precincts (referred to as the Study Area) in the City of Sydney Affordable Housing Program which was adopted by the City in July 2020 (City of Sydney, 2020).

In undertaking the review of the Affordable Housing contribution rates, the Study considers the following matters:

- Economic and market context in the Study Area by precinct.
- Nature of development activity (historical and current) in the Study Area.
- Financial benefit conveyed by additional floorspace provisions to development in the Study Area.
- Tolerance of development to the proposed contribution rates.

Atlas worked with the City to carry out the following tasks:

- Review of planning proposal activity and nature of planning amendments sought.
- Property market appraisal of the Study Area to identify patterns of supply and demand, the trends and drivers that influence land use and market activity.
- Generic feasibility testing of notional development schemes to examine the financial impact of proposed contribution rates (under clause 7.13 and for Planning Proposal land).
- Recommendations on updated contribution rates applicable to Planning Proposal land.

The Study additionally considers the implications of recommended contribution on future take-up and development in the Study Area.

1.3 Assumptions and Limitations

The Study highlights the necessity of assumptions made and acknowledges the limitations of an aggregate study such as this.

Generic feasibility testing is based on notional development yields formulated for the purposes of contribution capacity testing. The development yields tested are notional only; they have not been urban design or engineering tested.

Generic feasibility testing is based on high-level revenue and cost assumptions and does not consider nuances of a site typically considered in detailed feasibility analysis.

A desktop appraisal of 'as is' or existing property values is carried out without the benefit of site inspections or property financial information (i.e. rental income and investment returns).

Despite the assumptions made and limitations of generic feasibility testing, the analysis is considered to be appropriate in examining the opportunity for, and impacts of affordable housing contribution rates in the Study Area.

2. Market Context

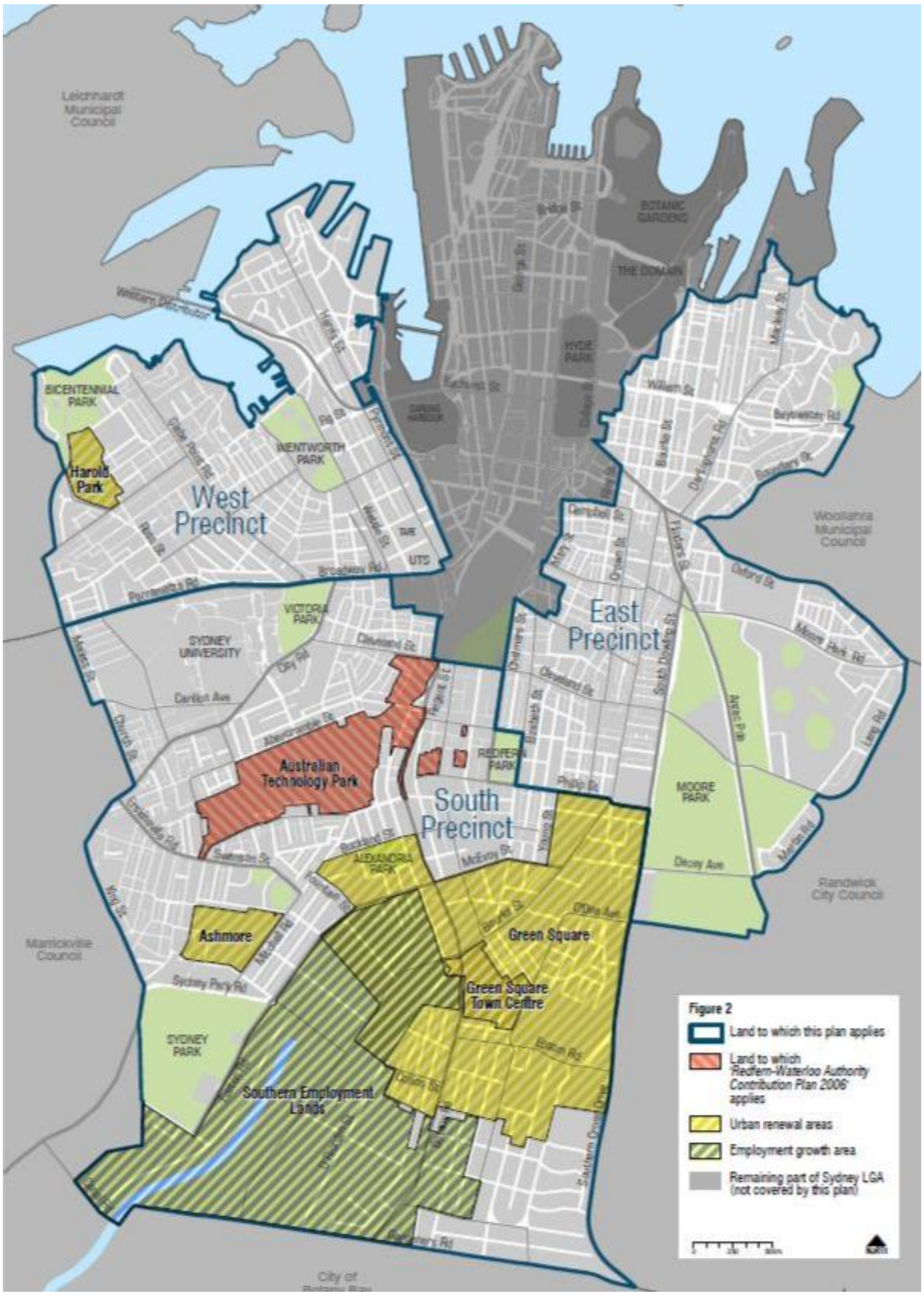
2.1 Study Area

This Study focuses on the capacity of development within the East and West Precincts to contribute to affordable housing. These precincts can be broadly as the following:

- **East Precinct**: includes the suburbs of Centennial Park, Darlinghurst, Elizabeth Bay, Moore Park, Paddington, Potts Point, Rushcutters Bay, Surry Hills and Woolloomooloo.
- **West Precinct**: includes the suburbs of Camperdown, Chippendale, Darlington, Erskineville, Forest Lodge, Glebe, Newtown, Redfern and St Peters.

Figure 2.1 depicts the East and West Precincts (the Study Area).

Figure 2.1: Study Area (East and West Precincts)



Source: City of Sydney

2.2 Development Activity

The demographic, economic and market characteristics of the Study Area's two precincts are different. This has implications for land use and development activity. This section considers the nature of recent and ongoing development activity across the Study Area at a precinct and suburb level.

2.2.1 East Precinct

Development activity in the East Precinct is characterised by a high proportion of alterations and additions compared to comprehensive redevelopment (i.e. demolish and rebuild). This is a reflection of a number of factors - high property values, fragmented lot and landownership patterns and heritage designations. Overall, the residential pipeline suggests some ~400 dwellings could be delivered across the East Precinct, if all eventuate into delivery.

Surry Hills has been the focus of development activity in the East Precinct over the past 12-24 months, followed by Potts Point, Darlinghurst and Woolloomooloo. A broad range of development typologies are observed, ranging from mixed-use buildings (4-19 storeys), residential flat buildings (3-10 storeys) and low-rise townhouse and apartment developments.

The largest development recently completed in the East Precinct was the conversion of the former Crest Hotel which converted the hotel into 134 residential apartments and ground floor retail uses.

Table 2.1 summarises the residential development pipeline in the East Precinct as at Q2 2021.

Table 2.1: Development Pipeline, East Precinct

Suburb	Projects	Dwellings				
		Under Assessment	Approved	Under Construction	Recently Completed	Total
Centennial Park	2	-	3	-	15	18
Darlinghurst	13	8	77	12	41	138
Elizabeth Bay	3	11	34	-	-	45
Potts Point	6	54	17	2	180	253
Rushcutters Bay	1	-	8	1	1	10
Surry Hills	24	-	106	64	236	406
Woolloomooloo	5	-	22	-	66	88
Total	**54**	**73**	**267**	**79**	**539**	**958**

Source: Cordell Connect

Whilst development activity across the East Precinct is broadly comparable, some suburbs are subject to a greater volume of development activity as opposed to others. A snapshot of development activity in each locality is provided below.

- **Centennial Park**
  Very little development activity is observed in Centennial Park with just two projects identified in the pipeline or having been recently completed. The largest of these was a 15-unit, 6-storey residential flat building located on Cook Road (zoned R1 General Residential, FSR 1.5:1) which was completed over two years ago.

- **Darlinghurst and Potts Point**
  There has been a significant uptick in development activity across Darlinghurst and Potts Point in recent years as the former night-time precinct has begun to gentrify. There are some 19 projects identified in the development pipeline or having been recently completed, the largest of this being the conversion of the former Crest Hotel.

  Development activity is predominantly occurring within the B4 Mixed Use zone with buildings generally ranging from 3 to 8 storeys.

- **Elizabeth Bay and Rushcutters Bay**
  Very little development activity is observed in Elizabeth Bay and Rushcutters Bay precincts, a reflection of high existing property values and limited development opportunities. Four projects are identified in the pipeline with three of these being alterations and additions. The largest project and sole redevelopment is a 5-storey, 30-unit residential flat building proposed at Greenknowe Avenue (zoned B4 Mixed Use with FSR 6:1).

- **Surry Hills**
  With over 20 projects in the pipeline or recently completed, Surry Hills is the focal point of development activity in the East Precinct. Activity is a mix of alternations and additions, adaptive reuse (particularly of warehouse buildings) and comprehensive development. Development is mostly mixed use in nature, with buildings ranging from 3 to 10 storeys.

  Development activity does not appear to be focused within any single land use zone, instead developers are pursuing opportunities where existing properties can be economically acquired.

- **Woolloomooloo**
  Whilst there has been some level of residential development activity observed across Woolloomooloo in recent years, little has been completed in the past 12-18 months. A development observed in the pipeline is a 5-storey, 22-unit residential flat building along Palmer Street (zoned B4 Mixed Use, FSR 3:1).

Development Site Sales

Over the 2014-2015 period, development sites in the East Precinct were found to transact for prices ranging from $3,800/sqm to $8,500/sqm of GFA potential and $330,000 to $600,000 per unit/site.

A review of recent site sales activity has shown a limited number of development site transactions over the past 12-18 months. The most recent sale was that of 232-240 Elizabeth Street (Surry Hills) in January 2021 which sold for $33 million (~$6,600/sqm of GFA) for construction of a 10-storey mixed-use development.

The most significant sale in terms of price was that of 11-13 Greenknowe Avenue (Elizabeth Bay) which was acquired for $35.75 million (~$10,500/sqm of GFA) for development of a premium, 5-storey residential flat building. This price reflects the premium attributed to the affluent markets of Elizabeth Bay/ Rushcutters Bay in the East Precinct compared to markets such as Surry Hills.

Overall, analysis of recent site sales shows developers and investors are paying in the order $3,200/sqm to $10,500/sqm of GFA potential and $312,000 to $1,200,000 per unit/site.

Table 2.2 provides an analysis of several residential development site sales in the Eastern Precinct in recent years.

Table 2.2: Key Residential Development Site Sales (2017-2021), East Precinct

Address (Suburb)	Site Area (GFA)	Sale Price (Sale Date)	Price Analysis	Description
232-240 Elizabeth St (Surry Hills)	906sqm (4,969sqm)	$33,000,000 (Jan 2021)	• $6,641/sqm GFA • $451,442/unit equiv. • $36,424/sqm site area	Two low rise, aged commercial buildings zoned B4 Mixed Use (FSR 5:1) opposite Central Station. Sold with Stage 1 DA approval for a 10-storey mixed use building comprising 42-units, hotel suites and commercial spaces.
11-13 Greenknowe Ave (Elizabeth Bay)	1,347sqm (3,419sqm)	$35,750,000 (Nov 2020)	• $10,456/sqm GFA • $1,191,667/unit • $26,540/sqm site area	Aged, 4-storey boarding house (R1 General Residential; FSR 2.5:1) sold for construction of a premium, 5-storey residential flat building comprising 30 apartments (5 x 1, 11 x 2, 14 x 3 bedroom).
117 Flinders St (Surry Hills)	978sqm (2,660sqm)	$8,585,000 (Dec 2019)	• $3,227/sqm GFA • $312,677/unit • $8,778sqm site area	Development site (B4 Mixed Use; FSR 3:1) directly adjacent a ventilation shaft servicing Sydney's Eastern Distributor tunnel sold at auction with existing DA approval for a 5-storey mixed use building comprising 25 apartments and four ground-floor retail suites.
495 Crown St (Surry Hills)	109sqm (186sqm)	$1,435,000 (July 2019)	• $7,715/sqm GFA • $357,464/unit equiv. • $13,165/sqm site area	Proposed demolition of existing 2 storey terrace for construction of a 4-storey mixed use building to comprise a small commercial suite and three apartments. The DA was subsequently refused in mid-2021.
184 Victoria St (Potts Point)	138sqm (284sqm)	$2,300,000 (July 2017)	• $8,099/sqm GFA • $383,873/unit equiv. • $16,667/sqm site area	Construction of a 3-4-storey mixed use building with 5 apartments and 2 ground floor retail shops. Project has since been abandoned.

Note: Unit equivalent converts non-residential floorspace into residential units for the purposes of comparing residential and mixed-use site sale sales
Source: Atlas/CoreLogic

2.2.2 West Precinct

Compared to the East Precinct, a greater volume of residential development is observed in the West Precinct. The development pipeline suggests almost 1,400 dwellings could be delivered in the short-term, following the circa 2,000 dwellings which have been recently completed.

Trends in development activity observed over the 2015-2016 period across the West Precinct remain consistent with a broad range of development typologies and activity. Acquisition and demolition of ageing commercial and industrial buildings for mixed-use and/or residential development is commonly observed with fine grain allotment patterns and high existing property values making consolidation of large sites in residential areas more challenging.

Erskineville has the key source of residential development activity in recent years, as several major developments in the Ashmore Precinct have reached completion. Chippendale and Glebe have also been key sources of development in recent years, with Redfern now emerging as a key precinct with several large projects in the pipeline.

Table 2.3 summarises the residential development pipeline in the Western Precinct as at Q2 2021.

Table 2.3: Development Pipeline, West Precinct

Suburb	Projects	Dwellings				
		Under Assessment	Approved	Under Construction	Recently Completed	Total
Camperdown	6	-	48	-	62	116
Chippendale	6	-	3	2	627	638
Darlington	1	-	1	-	-	2
Erskineville	14	10	403	-	495	922
Forest Lodge	1	-	-	-	75	76
Glebe	12	77	19	15	530	653
Newtown	2	-	5	-	7	14
Redfern	10	1	367	376	197	951
Total	**52**	**88**	**846**	**393**	**1993**	**3,372**

Source: Cordell Connect

Similar to the East Precinct, the quantum and type of development in the West Precinct varies by locality. A summary of development across the West Precinct is provided below.

- **Camperdown, Chippendale and Darlington**
  Chippendale has been a major source of residential development activity in recent years - the Central Park development comprising the majority of new supply. The residential pipeline shows some five projects underway with these generally being small scale. The two largest projects being progressed are both in Camperdown and located along Parramatta Road and are proposing mixed-use buildings ranging from 6 to 7 storeys.

  Owing to limited development opportunities and modest planning controls, no development activity is observed in Darlington.

- **Glebe and Forest Lodge**
  Glebe and Forest Lodge have also seen strong levels of development activity with affordable housing projects in Harold Park (Forest Lodge) and Bay Street (Glebe). Looking forward, the development pipeline shows some 6 projects being progressed and/or delivered – all of these located in Glebe with five being medium-density typologies. The sole high-density residential project being progressed is a 3-8 storey mixed-use development on Cowper Street.

- **Erskineville and Newtown**
  The ongoing redevelopment of the former Ashmore industrial precinct in Erskineville has been the key source of development activity in the Erskineville and Newtown markets in recent years, with a mix of residential flat buildings ranging from 4 to 8 storeys. Development activity outside of this precinct has been limited.

  The pipeline shows some 11 projects currently being progressed and delivered with 8 of these being located within the Ashmore precinct. The remaining projects are small scale, medium-density projects with sub-10 dwellings per project.

- **Redfern**

  Redfern is quickly becoming a key source of new residential development activity. Some ~200 dwellings have been completed in recent years, with the development pipeline showing some 7 projects are actively being progressed.

  Development is predominantly mixed-use in nature with buildings ranging from 4 storeys and up to 18 storeys (e.g. Lawson Square). Two major projects currently being progressed are the Surry Hills Shopping Village site (B2 Local Centre) and NSW Government's Build-to-Rent project on Elizabeth Street, both proposing ~150 units and ~350 units respectively.

Development Site Sales

Development sites in the West Precinct achieve prices analysing to $1,600/sqm to $3,500/sqm of GFA potential and $140,000 to $270,000 per unit/site in 2015/ 16.

A review of recent site sales activity has shown a limited number of development site transactions for high-density residential development over the past 12-18 months in the West Precinct. Conversely, there have been several sales for development of student housing and/or boarding houses.

For instance, the most recent sale within the precinct is that of 104-116 Regent Street in Redfern which sold for $50.71 million ($5,300/sqm of GFA) in November 2020 for development of an 18-storey student housing tower.

Overall, analysis of recent site sales shows developers and investors are generally paying in the order $3,200/sqm to $6,700/sqm of GFA potential for development opportunities in the West Precinct.

Table 2.2 provides an analysis of several residential development site sales in the West Precinct in recent years.

Table 2.4: Key Residential Development Site Sales (2017-2021), West Precinct

Address (Suburb)	Site Area (GFA)	Sale Price (Sale Date)	Price Analysis	Description
104-116 Regent St (Redfern)	1,366sqm (9,562sqm)	$50,710,000 (Nov 2020)	• $5,303/sqm GFA • $37,123/sqm site area	Demolition of existing service station for construction of an 18-storey mixed use building comprising 412 student accommodation beds and ground floor retail.
175 Cleveland St (Redfern)	1,066sqm (3,717sqm)	$18,775,000 (Oct 2020)	• $5,051/sqm GFA • $17,613/sqm site area	Sold with DA approval for 45-room hotel, apartments and retail. Being progressed for construction of a 6-storey mixed use boarding house comprising 115 beds.
21 Missenden Rd (Camperdown)	238sqm (669sqm)	$2,700,000 (June 2020)	• $4,036/sqm GFA • $270,000/unit • $11,345/ sqm site area	Single storey detached house (B2 Local Centre; FSR 3:1) opposite Sydney University acquired for construction of a 6-storey residential flat building a ground floor retail suite and 10 apartments.
90-102 Regent St (Redfern)	1,307sqm (9,015sqm)	$98,000,000 (June 2020)	• $5,324/sqm GFA • $36,725/sqm site area	Mix of low-rise residential buildings acquired for construction of an 18-storey mixed use building comprising 408 student beds and ground floor retail.
130 Parramatta Rd (Camperdown)	493sqm (1,784sqm)	$5,250,000 (July 2019)	• $2,943/sqm GFA • $10,649/sqm site area	Existing commercial building acquired for construction of a 5-7 storey mixed-use building comprising a ground floor retail suite and 51-boarding rooms.
13-23 Gibbons St (Redfern)	1,396sqm (10,513sqm)	$52,000,000 (Feb 2019)	• $4,946/sqm GFA • $37,249/sqm site area	Medium rise apartment block acquired in one-line for construction of an 18-storey comprising 420 student accommodation rooms and a ground floor retail suite.
142-152 Broadway (Chippendale)	518sqm (3,108sqm)	$21,000,000 (Nov 2017)	• $6,757/sqm GFA • $40,541/sqm site area	Sold without DA. Early planning in progress for an educational establishment/ student accommodation/ commercial development.

Source: Atlas/CoreLogic

2.3 Key Findings and Implications

Land use and market dynamics across the Study Areas' East and West Precincts are different. These varying dynamics influence the nature of development activity pursued by developers in both precincts.

East Precinct

The following high-level findings on development activity in the East Precinct can be drawn out from the above analysis:

- **Development Typologies**
  Owing to high existing property values, environmental and heritage conservation areas and in some localities low FSR controls, comprehensive redevelopment in the East Precinct is less commonly observed compared to other areas in the City of Sydney. Alterations, additions and the adaptive reuse of existing buildings (particularly warehouse buildings) are frequently observed across the precinct, particularly in localities such as Darlinghurst, Potts Point, Elizabeth Bay and Rushcutters Bay.

  Residential-only and mixed-use development is observed with mid-rise buildings ranging from 3 to 10 storeys, being the most commonly observed typologies in the precinct.

- **Location of Development**
  Development activity is predominantly focused in the large locality of Surry Hills where developers are actively pursuing a mix of comprehensive and incremental development. The Darlinghurst and Potts Point localities are seeing an increasing number of development applications, whereas there remains a low number of opportunities in the Elizabeth Bay, Rushcutters Bay and Woolloomooloo markets.

- **Prices Paid for Development Sites**
  Where comprehensive development opportunities become available, intense competition results in significant prices being paid for residential development sites. This can be observed with the recent sale of 11-13 Greenknowe Avenue in Elizabeth Bay. A review of recent development site sale activity has shown that prices paid for development sites over the past 2-3 years are higher than those paid in 2015-2016.

West Precinct

The observations are made on development activity in the West Precinct:

- **Development Typologies**
  A broader mix of development typologies are being progressed and delivered across the West Precinct compared to its East Precinct, a reflection of a greater variety of development opportunities across several its key localities. More comprehensive redevelopment is observed in the West Precinct, though alterations and additions do form a key component of overall activity.

  Development is predominantly mixed-use in nature, with areas such as Redfern attracting significant interest from student accommodation developers. Development is typically ranging from 3 to 8 storeys, though several developments being proposed in Redfern (where the Sydney LEP does not apply) are proposing student accommodation towers of up to 18-storeys.

- **Location of Development**
  Erskineville remains a key location for high-density residential development in the West Precinct as the former Ashmore industrial precinct continues to be redeveloped. Glebe has also seen strong development activity in recent years, whilst Redfern is emerging as a key focal point moving forward.

- **Prices Paid for Development Sites**
  Prices paid for development opportunities in the West Precinct have risen significantly since 2014-2016 as developers compete for a gradually declining number of potential sites. Recent sales indicate development opportunities are valued at $3,200/sqm to $6,700/sqm of GFA potential compared to $1,600/sqm to $3,500/sqm of GFA potential in 2014-2016.

The next Chapter considers the capacity of development in the Study Area to contribute to affordable housing.

3. Impact of Affordable Housing Contributions

3.1 Contribution Capacity Testing

Where a site is the beneficiary of planning uplift (e.g. increase in FSR) there is generally a commensurate increase in land value and development profit. It is through this increase that a site will have the capacity to contribute to affordable housing while remaining viable for development.

This section investigates the capacity of land that is subject to a site-specific planning proposal ('Planning Proposal land') to contribute to affordable housing (over and above the contribution requirement in clause 7.13). The two tiers of affordable housing contributions are referred to as '**Clause 7.13 contributions**' and '**Planning Proposal land contributions**'.

For any (additional) contributions to be viable, development without the contribution needs to be viable in the first instance.

Approach and Methodology

The analysis presumes that land progressed under a site-specific planning proposal is viable even without an (additional) Affordable Housing contribution requirement for Planning Proposal land.

The contribution capacity testing is undertaken in three steps:

1. **Step 1 - Identification of areas/ locations and notional development scenarios for testing**

   Atlas worked with the City to identify appropriate sites in the Study Area for contribution capacity testing. This step develops notional development yields based on planning uplift nominated by the City for testing in Step 2 and Step 3.

2. **Step 2 - Baseline testing (with clause 7.13 Affordable Housing contribution)**

   Generic feasibility testing is carried out on sites selected in Step 1 based on notional development yields also developed in Step 1. The testing in Step 2 assumes all applicable statutory fees and charges including Clause 7.13 contributions.

3. **Step 3 - Iterative testing of *additional* Affordable Housing Contributions (for Planning Proposal land)**

   Step 3 involves the inclusion of Planning Proposal land contributions to examine the capacity of the selected sites to contribute. A rate of 9% in the West Precinct and 21% in the East Precinct are initially tested before iteratively testing alternate rates should they be required.

   All things being equal, sites in receipt of greater planning uplift will have greater capacity to contribute to affordable housing (or other infrastructure or public benefit). The tolerance of development and capacity to pay is analysed in the context of the respective quantum of planning uplift assumed on the sites tested.

   Step 3 also considers the sensitivity of the results to varying the cost of land.

In assessing the tolerance of development to contributing to Affordable Housing, key performance indicators relied upon are residual land value[1] and hurdle rates (development margin[2] and project IRR[3]).

The objective of feasibility testing is to assess if, after contribution to Affordable Housing, residual land values and hurdle rates are within acceptable range.

The rationale of Planning Proposal land contributions is that Planning Proposal land has the capacity to contribute from the receipt of planning uplift which then results in an increase in development profit and the value of the land (or 'Surplus Value[4]'). After contributing to Affordable Housing, the Surplus Value declines however should decline by no more than 50%.

[1] Residual Land Value is the amount remaining once the gross development cost of a project is deducted from its gross development value and an appropriate return has been deducted.
[2] Development Margin is profit divided by total costs (including selling costs)
[3] Project IRR is the project return on investment, where the discount rate where the cash inflows and cash outflows are equal
[4] Surplus Value is defined as the difference between the assumed cost of land and residual land value of development without Planning Proposal land Affordable Housing contributions

3.1.1 Step 1 - Identify Areas and Development Typologies for Testing

Generic feasibility testing is based on notional development yields formulated for the purposes of contribution capacity testing. The development yields tested are notional only; they have not been urban design or engineering tested.

Two locations/ areas in each precinct are selected for the capacity testing. The selection of locations is based generally on relative value of their residential markets - the intention is to enable observation of the testing outcomes in 'high value/ low value' markets within each precinct.

Table 3.1 summarises the areas selected and the notional development typologies formulated for capacity testing. The development typologies are developed based on a review of development activity, existing planning controls and planning proposals received by the City. A generic site area of 1,000sqm is assumed.

Table 3.1: Areas and Notional Developments Tested

Area	Suburb (Precinct)	Notional Development 1	Notional Development 2
1	Surry Hills (East)	• Mixed use development • Existing FSR 4:1 • Proposed FSR 5:1	• Residential flat building • Existing FSR 3:1 • Proposed FSR 4:1
2	Elizabeth Bay (East)	• Mixed use development • Existing FSR 2.5:1 • Proposed FSR 3.5:1	• Residential flat building • Existing FSR 2:1 • Proposed FSR 3:1
3	St Peters (West)	• Mixed use development • Existing FSR 2.5:1 • Proposed FSR 3.5:1	• Residential flat building • Existing FSR 2:1 • Proposed FSR 3:1
4	Redfern (West)	• Mixed use development • Existing FSR 2.5:1 • Proposed FSR 3.5:1	• Residential flat building • Existing FSR 2:1 • Proposed FSR 3:1

Source: Atlas

3.1.2 Step 2 - Baseline Testing (with Clause 7.13 Contributions)

Based on the profiled areas and notional development typologies in Step 1, Step 2 undertakes generic feasibility modelling assuming existing planning controls. Applicable statutory fees and charges are assumed, as well as clause 7.13 contributions.

The testing in this step establishes the baseline from which to compare the impact of the proposed Planning Proposal land contributions.

3.1.3 Step 3 - Iterative Testing (Contributions for Planning Proposal land)

Step 2 considered the baseline feasibility of development in the Study Area assuming all statutory fees and charges as well as clause 7.13 contributions.

Step 3 tests the capacity of 'Planning Proposal land' to make Planning Proposal land contributions in addition to the clause 7.13 contributions.

Feasibility modelling in this section assumes a notional increase in FSR to test the impact of the proposed Planning Proposal land contributions. The 'impact' is made with reference to development margin and project internal rate of return (IRR).

The impact of the proposed Planning Proposal land contributions is measured with reference to the project internal rate of return (IRR) and development/ profit margin. Project IRR in the baseline testing (Step 2) assumes a target hurdle rate of 18%.

When the Planning Proposal land contributions is included as a cost, the change to the project IRR is measured. Where the project IRR falls below 18% but remains above 17%, the project is considered to still be overall feasible, however with a reduced return and profit. Where the project IRR approaches 17% the development is considered marginal, and where project IRR falls below 17% the development is considered not feasible.

Similarly, where development margin falls below 20% but above 18%, the project is considered marginal-to-feasible, however with a reduced profit. Where the development margin falls below 18% the development is considered not feasible.

Benchmark hurdle rates and their 'feasible' ranges are indicated in **Table 3.2**.

Table 3.2: Benchmark Hurdle Rates*

Performance Indicator	Feasible	Marginal to Feasible	Not Feasible
Development Margin	>20%	18%-20%	<18%
Project IRR	>18%	17%-18%	<17%

Source: Atlas

*We note historic low interest rates (which are expected to endure at least for the medium term) have re-set market expectations and lowered benchmark project returns (IRR).

The Study highlights that where development is not feasible in the first instance (e.g. due to valuable existing uses), there will be no tolerance to any contribution, regardless of the Planning Proposal land contributions. Many instances of this are observed in the Study Area - where properties are purchased at prices reflective of their investment value and not for their development potential.

The Study Area by and large is comprised of various established markets and sub-markets, many of which are well-functioning, amenable and that are beneficiaries of a depth of market demand. Not all sites will be viable for redevelopment - due to valuable existing uses and fragmented ownership patterns. This observation is borne out in the development activity observed and described in Chapter 2.

The analysis in this section is therefore only relevant for sites with development potential.

3.2 Feasibility Testing Outcomes

The capacity of development to pay the Planning Proposal land contributions varies across the Study Area.

In this section a series of graphs show the impact of the Planning Proposal land contributions on profit margin in four stages. These stages are described in **Table 3.3**.

Table 3.3: Capacity Testing Stages

Ref.	Stage/ Scenario	Statutory Fees and Charges	Cost of Land
1	Existing planning controls	• All applicable fees and charges • Clause 7.13 contributions	• Site value reflective of existing planning controls
2	Proposed planning controls • Increased FSR (+FSR 1:1)	• All applicable fees and charges • Clause 7.13 contributions	• Site value reflective of existing planning controls + premium
3	Proposed planning controls Increased FSR (+FSR 1:1)	• All applicable fees and charges • Clause 7.13 contributions • Planning Proposal land contributions	• Site value reflective of existing planning controls + premium
4	Proposed planning controls • Increased FSR (+FSR 1:1)	• All applicable fees and charges • Clause 7.13 contributions • Planning Proposal land contributions	• Higher cost of land - site value reflective of proposed planning controls (representing speculative purchase assuming rezoning)

Source: Atlas

The cost of land is a critical variable to the feasibility of development. If the price paid for land exceeds its value as a development site as permitted, its viability as a feasible development will be undermined. The consolidation of a development site can be a high-risk, high-resource activity for developers, particularly when site and ownership patterns and fragmented and/ or existing buildings are functional and valuable.

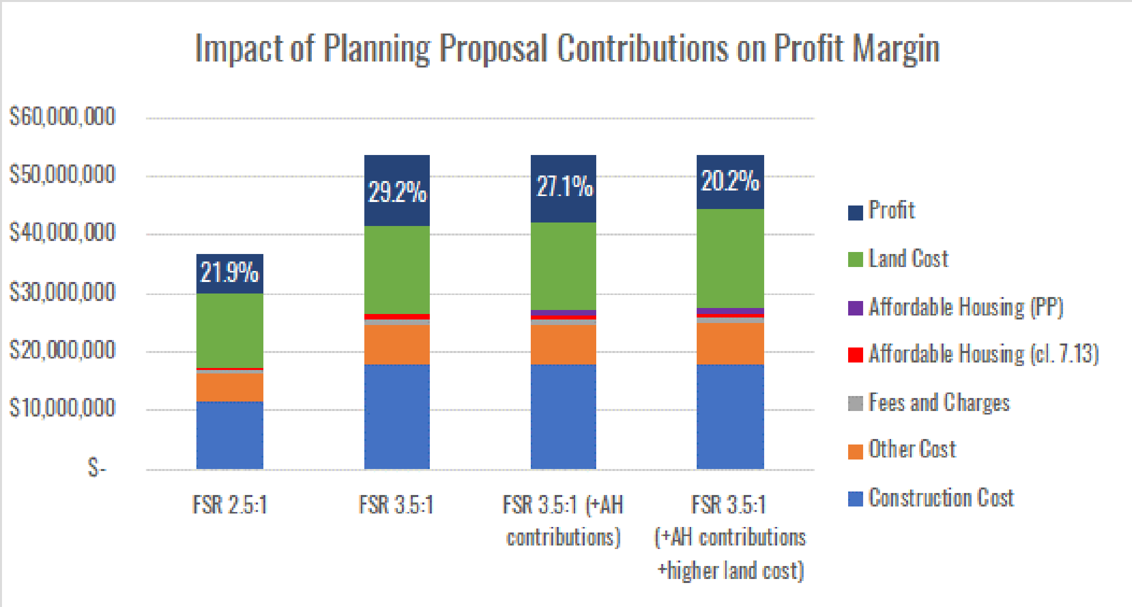
The contribution impact testing assumes that the price paid for land reflects the permitted development potential, and where an increase to FSR is sought, a reasonable premium is paid to the landowner.

Sites that are speculatively purchased at a price that presumes successful rezoning to higher FSR controls represent a risk to the developer. While the impact testing assumes the cost of land is reflective of its permitted development potential, the testing examines the implications for development capacity to pay the Planning Proposal land contributions if a speculative, higher price were paid for land.

3.2.1 West Precinct

Figure 3-1 shows the impact of Planning Proposal contributions on profit margin of a mixed use development in Redfern.

Figure 3-1: Redfern, Impact of Planning Proposal land Contributions (9%)



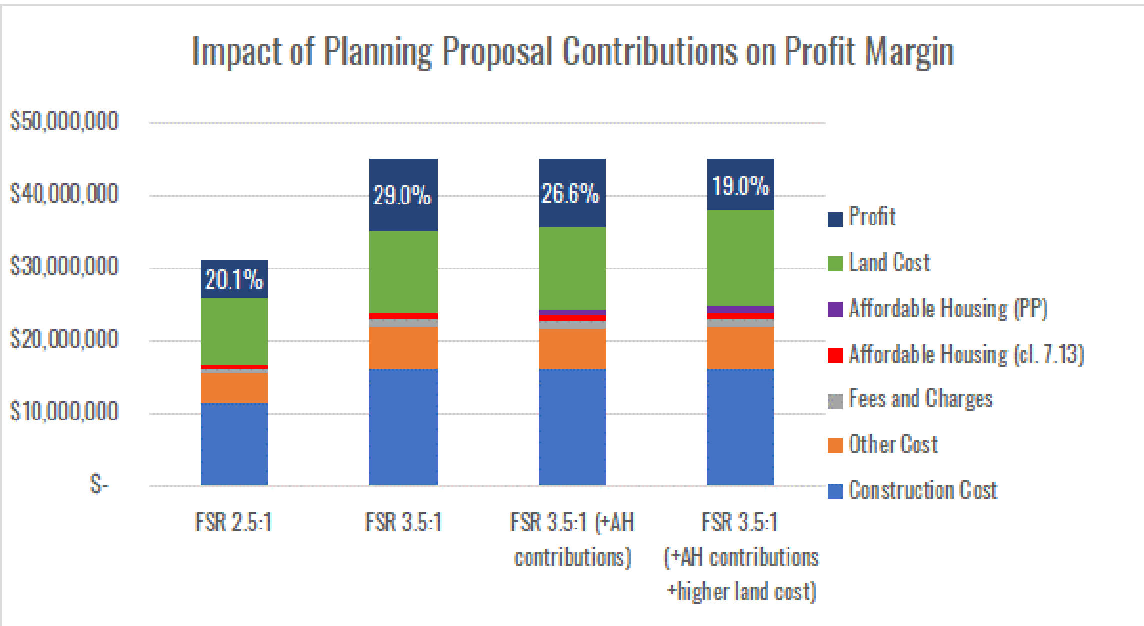
Source: Atlas

The following observations are relevant:

- A rezoning from FSR 2.5:1 to FSR 3.5:1 results in larger development with greater sales revenue potential.
- Assuming land cost that is reflective of existing planning controls (in this case FSR 2.5:1) and a reasonable premium to the landowner, the profit margin increases to 29.2%.
- If Planning Proposal land contributions were paid (at 9% of additional GFA), the profit margin falls to 27.1%.
- If the land was purchased speculatively assuming a successful rezoning to FSR 3:1, the profit margin falls to 20.2%.

Figure 3-2 shows the impact of Planning Proposal contributions on profit margin of a mixed use development in St Peters.

Figure 3-2: St Peters, Impact of Planning Proposal land Contributions (9%)



Source: Atlas

The following observations are made:

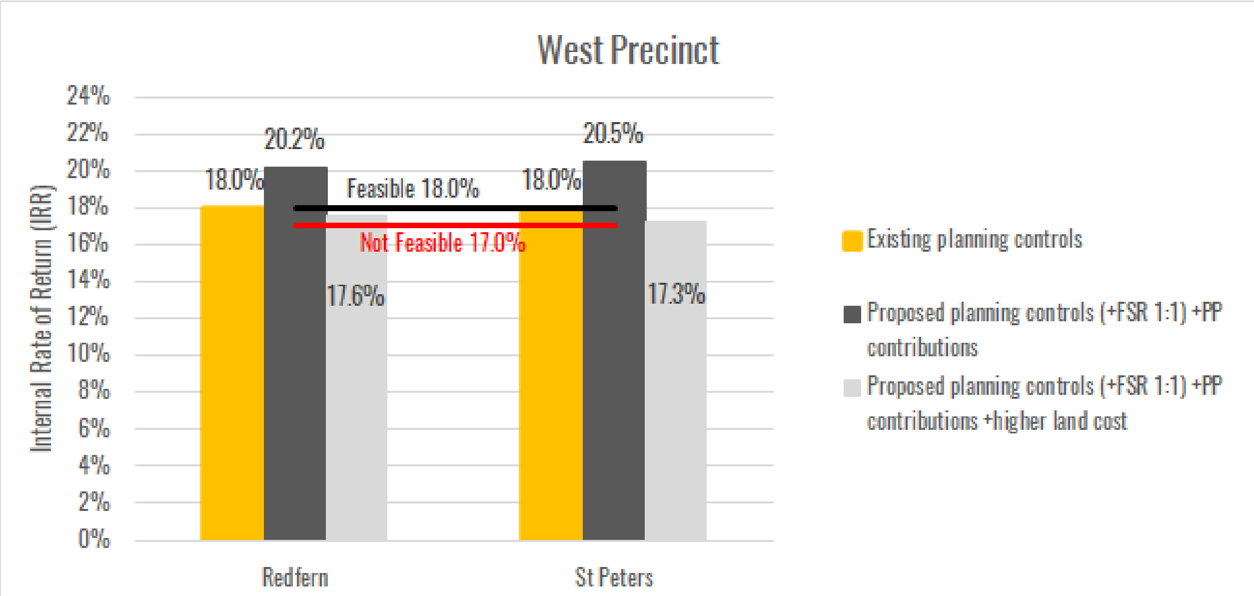
- A rezoning from FSR 2.5:1 to FSR 3.5:1 results in larger development with greater sales revenue potential.
- Assuming land cost that is reflective of existing planning controls (in this case FSR 2.5:1) and a reasonable premium to the landowner, the profit margin increases to 29.0%.
- If Planning Proposal land contributions were paid (at 9% of additional GFA), the profit margin falls to 26.6%.
- If the land was purchased speculatively assuming a successful rezoning to FSR 3:1, the profit margin falls to 19.0% (Feasible to Marginal threshold) when the Planning Proposal land contributions are paid.

The results at St Peters are slightly less favourable than Redfern owing to generally lower values in the St Peters market.

Figure 3-1 and **Figure 3-2** considered the impact of the Planning Proposal land contributions on profit/ development margin in selected areas in the West Precinct.

Figure 3-3 considers the impact on project IRR in the West Precinct.

Figure 3-3: West Precinct, Impact of Planning Proposal land Contributions (9%) on Project IRR



Source: Atlas

The Planning Proposal land contributions are tolerated when land cost is reflective of existing planning controls and a reasonable premium to the landowner (project IRR between 20% and 21%).

If the land was purchased speculatively assuming a successful rezoning, the project IRR falls to between 17% and 18% (Feasible-to-Marginal) when the Planning Proposal land contributions are paid.

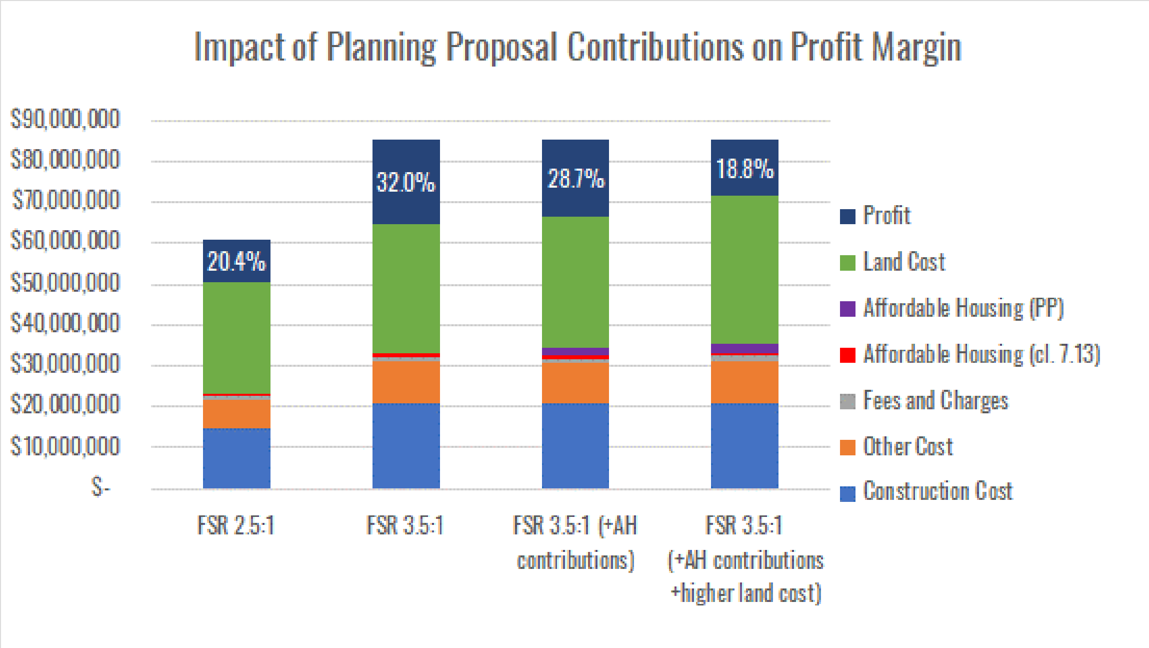
3.2.2 East Precinct

Figure 3-4 shows the impact of Planning Proposal contributions on profit margin of a mixed use development in Elizabeth Bay.

The following observations are relevant:

- A rezoning from FSR 2.5:1 to FSR 3.5:1 results in larger development with greater sales revenue potential.
- Assuming land cost that is reflective of existing planning controls (in this case FSR 2.5:1) and a reasonable premium to the landowner, the profit margin increases to 32.0%.
- If Planning Proposal land contributions were paid (at 21% of additional GFA), the profit margin falls to 28.7%.
- If the land was purchased speculatively assuming a successful rezoning to FSR 3:1, the profit margin falls to 18.8%.

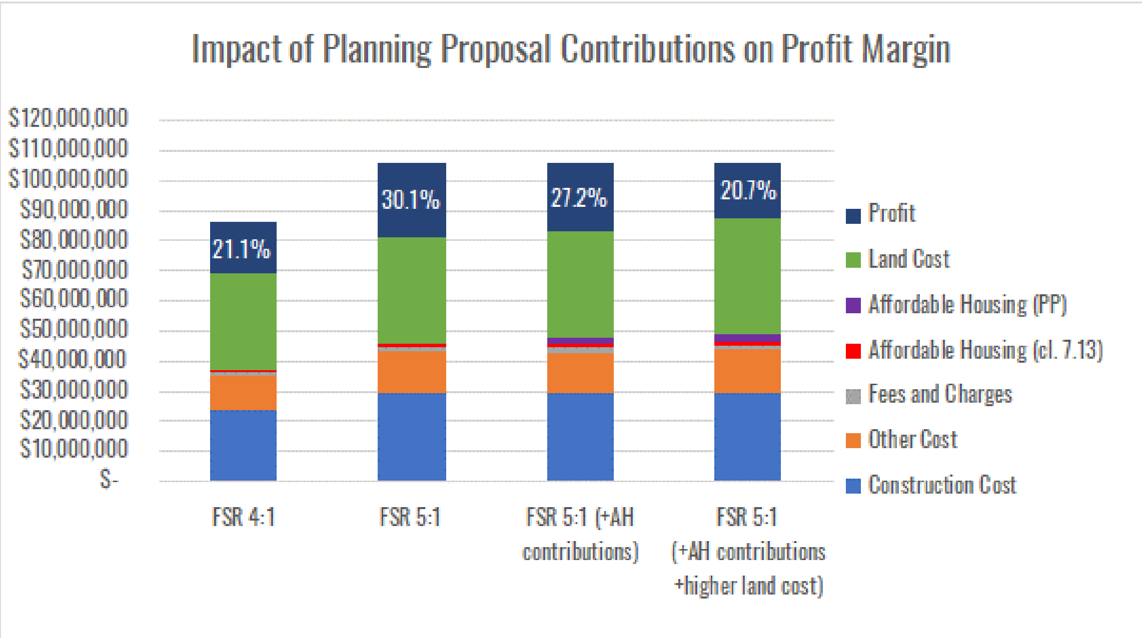
Figure 3-4: Elizabeth Bay, Impact of Planning Proposal land Contributions (21%)



Source: Atlas

Figure 3-5 shows the impact of Planning Proposal contributions on profit margin of a mixed use development in Surry Hills.

Figure 3-5: Surry Hills, Impact of Planning Proposal land Contributions (21%)



Source: Atlas

The following observations are noted:

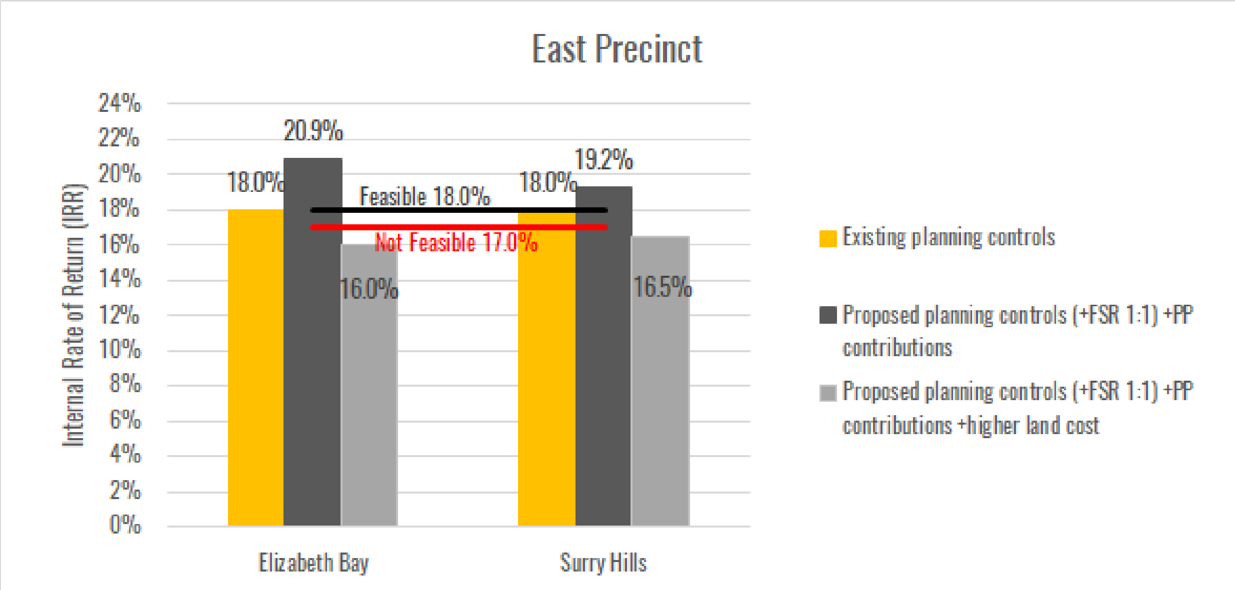
- A rezoning from FSR 4:1 to FSR 5:1 results in larger development with greater sales revenue potential.
- Assuming land cost that is reflective of existing planning controls (in this case FSR 4:1) and a reasonable premium to the landowner, the profit margin increases to 30.1%.
- If Planning Proposal land contributions were paid (at 21% of additional GFA), the profit margin falls to 27.2%.
- If the land was purchased speculatively assuming a successful rezoning to FSR 5:1, the profit margin falls to 20.7%.

The results at Elizabeth Bay are marginally more favourable than Surry Hills owing to generally higher values in the Elizabeth Bay market.

Figure 3-4 and **Figure 3-5** considered the impact of the Planning Proposal land contributions on profit/ development margin in selected areas in the East Precinct.

Figure 3-6 considers the impact on project IRR in the East Precinct. While the Planning Proposal land contributions are tolerated from a profit margin perspective (margins not falling below the Not Feasible threshold), project IRR falls to Not Feasible (between 16% and 17%) when a higher cost of land is paid.

Figure 3-6: East Precinct, Impact of Planning Proposal land Contributions (21%) on Project IRR



Source: Atlas

<u>Alternate Planning Proposal Land Contributions Rate</u>

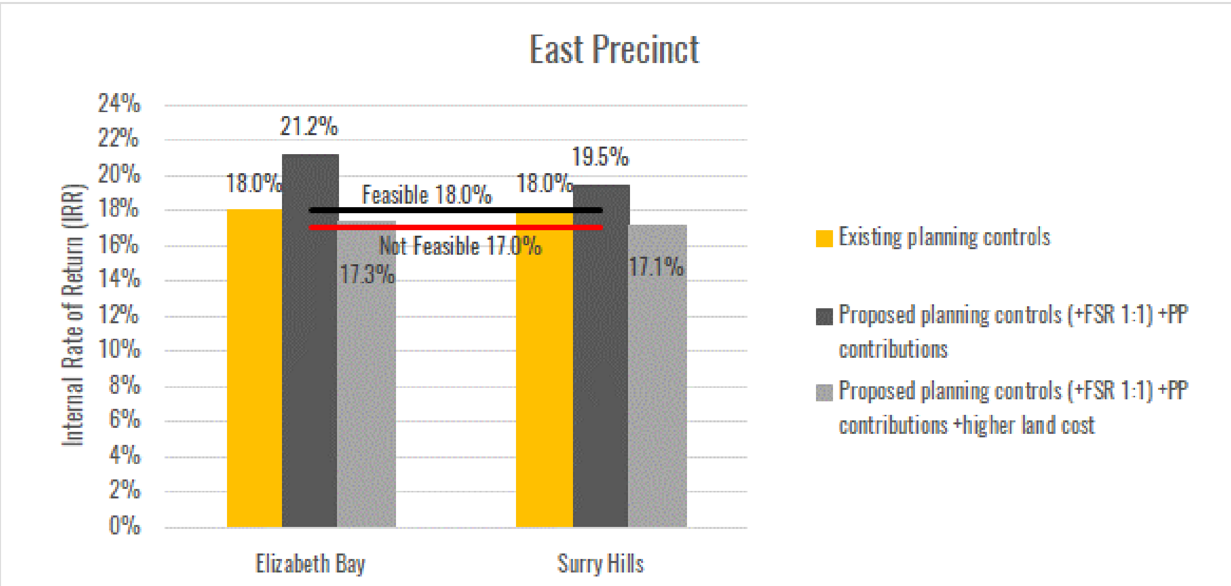
An alternate Planning Proposal land contributions rate of 18% of additional GFA is examined.

The Planning Proposal land contributions are tolerated when land cost is reflective of existing planning controls and a reasonable premium to the landowner (project IRR between 19% and 21%).

If the land was purchased speculatively assuming a successful rezoning, the project IRR falls to between 17% and 18% (Feasible-to-Marginal) when the Planning Proposal land contributions are paid.

The impact on project IRR is shown in **Figure 3-7**.

Figure 3-7: East Precinct, Impact of Planning Proposal land Contributions (18%) on Project IRR



Source: Atlas

3.3 Observations of Impact

In existing urban areas, the feasibility of development is influenced by myriad factors including, critically, the cost of land and end sale values of completed floorspace. Where existing buildings are functional and valuable, their value may be too high to be economically feasible for redevelopment. Sites that are not feasible to develop in the first instance have no capacity to contribute to infrastructure.

Contribution impact testing in section 3.1 and 3.2 makes the following observations:

- **West Precinct**
  - The tested Planning Proposal land contributions in the West Precinct (9%) is generally well tolerated, with impact to profit margin and project IRR and feasibility either Feasible or Marginal-to-Feasible.
  - While the Study does not assume land is purchased speculative on the presumption of rezoning, the testing results indicate reasonable tolerance even if a higher, speculative price were paid for land.
- **East Precinct**
  - The tested Planning Proposal land contributions in the East Precinct (21%) is generally tolerated, with impact to profit margin and project IRR and feasibility Marginal-to-Feasible.
  - While the Study does not assume land is purchased speculative on the presumption of rezoning, the testing results indicate marginal tolerance if a higher, speculative price were paid for land.
  - The Study tests a lower Planning Proposal land contributions rate of 18%. This improves tolerance - the impact to profit margin and project IRR either Feasible or Marginal-to-Feasible.

The key to mitigating feasibility impacts is notice. Advance notice would allow sites already purchased to be progressed for development and for due diligence investigations to account for any increased contributions prior to site purchase. Supportive market conditions are also critical to the offset and mitigation of impact.

Table 3-4 compares the impact of the Planning Proposal land contribution rates (9% in West Precinct and 18% in East Precinct) in various assumed rezoning scenarios in the selected areas.

Table 3-4: Comparison of Impact in Assumed Rezoning Scenarios

Particulars	Reference	West Precinct		East Precinct	
		Redfern	St Peters	Elizabeth Bay	Surry Hills
GFA Before Rezoning (sqm)	a	2,500	2,500	2,500	4,000
GFA After Rezoning (sqm)	b	3,500	3,500	3,500	5,000
GFA Uplift (sqm)	c = (b - a)	1,000	1,000	1,000	1,000
Site Value Before Rezoning	d	$11,500,000	$8,700,000	$25,200,000	$29,700,000
Site Value After Rezoning	e	$15,800,000	$11,900,000	$33,850,000	$36,100,000
Surplus Value	f = (e - d)	$4,300,000	$3,200,000	$8,650,000	$6,400,000
Planning Proposal Land Contributions	g = ($10,588 x c x r)	$952,920	$952,920	$1,905,840	$1,905,840
% Surplus Value	h = (g ÷ f)	22%	30%	22%	30%

Where r = 9% in West Precinct and 18% in East Precinct
Source: Atlas

As a proportion of Surplus Value, the Planning Proposal Land Contributions range from 22% to 30%. It is through this Surplus Value that development has the capacity to contribute and yet remain viable for development.

3.4 Key Findings and Implications

Where a site is the beneficiary of planning uplift (e.g. increase in FSR) there is generally a commensurate increase in land value. It is through this value increase (or Surplus Value) that a site will have the capacity to contribute to affordable housing while remaining viable for development. Surplus Value is the difference between the assumed cost of land and residual land value of development without Planning Proposal land contributions.

If a development without a Planning Proposal land contribution (but with clause 7.13 contributions) is in the first instance viable, there will be some capacity for Planning Proposal land to contribute in addition to clause 7.13.

The analysis demonstrates that a 9% Planning Proposal land contributions rate is tolerated by the areas tested in the West Precinct, with marginally better tolerance at Redfern than at St Peters. This is because the revenue levels for completed dwellings assumed at Redfern are higher than those assumed at St Peters.

While the analysis indicates there is capacity for 'higher value' locations (such as Redfern) to contribute at a rate higher than 9%, the analysis also acknowledges the need to 'strike' a rate that is generic and capable of viability across the West Precinct.

The Study notes that the Planning Proposal land contributions rate of 9% is in addition to the clause 7.13 contributions (3% of residential GFA). This would mean total affordable housing contributions would apply to the additional GFA a result of a Planning Proposal.

The Study further notes the analysis has considered the tolerance of the Planning Proposal land contributions by ***additional residential GFA*** that is unlocked by a Planning Proposal. The contributions would not be applicable to non-residential GFA.

Impact of COVID-19

Australia has arguably largely been in control of infection outbreaks, with business sentiment overall reported to be cautious but optimistic in Q2 2021. Notwithstanding, the markets of the East and West Precinct are generally desirable locations for investment and are well placed to be resilient in the wake of COVID-19. On balance, we expect the foregoing affordable housing contribution rates will be tolerated when they are eventually made.

4. Conclusion and Recommendations

4.1 Matters for Consideration

The Planning Proposal land contribution rates have varying impact on feasibility. Impact varies by revenue expectations (low value markets more vulnerable to impact) but is critically influenced by the ability to mitigate, i.e. if advance notice is given.

In a buoyant and active market, competition for development opportunities is fierce. In a rising market, developers are generally more willing to pay premiums for sites in anticipation that rising end sale values will help offset the cost of land.

We consider the following issues important to consider:

- **Applicability to 'additional' residential GFA**

  The Planning Proposal land contribution rates are tested for tolerance against additional ***residential*** GFA unlocked by a planning proposal. They are not applicable to non-residential GFA that may be subject to a planning proposal.

- **Baseline development feasibility**

  Thresholds and requirements for take-up of development opportunities is subject to land use and existing land values.

  The viability of Planning Proposal land contributions (over and above clause 7.13 contributions) is subject to baseline development feasibility. Development must be feasible in the first instance for an affordable housing contribution rate to be viable. It is reasonable to assume that a Planning Proposal would not be advanced if it were not feasible to develop.

  There are different sub-markets within the Precincts (e.g. the value of development sites in St Peters is different to say Pyrmont). The Study therefore considered the range of tolerance variation in the context of opportunity for planning uplift (and consequently likelihood of planning proposals) in the selection of updated affordable housing rates.

- **Phasing-in and notice to the market**

  Clear and definitive notice for new contributions and their staged phasing-in for implementation will be critical for managing impact on feasibility. Sites already purchased can be progressed for development and sites yet to be acquired can be purchased at prices that allow for the new contributions.

Advance notice to the market of the City's intentions to implement the Planning Proposal land contributions would provide certainty for investment and development planning. This enable parties to be informed at the outset and make informed decisions on site purchase. Over time, market dynamics will adjust as the market accounts for the cost of the contributions.

4.2 Recommendations

The Study recommends that the Planning Proposal land contributions are updated to:

- West Precinct - 9% of additional residential GFA (to total 12% of additional residential GFA including clause 7.13)
- East Precinct - 18% of additional residential GFA (to total 21% of additional residential GFA including clause 7.13)

The Planning Proposal land contribution rates presume no public benefit contributions are required pursuant to a voluntary planning agreement (VPA). If VPA contributions are required, the Planning Proposal contributions require adjustment.

As with all contributions policy, landowner expectations and industry behaviour are expected to adjust over time. Implementation that provides clear notice to the market will ensure any adverse impact to future investment is mitigated as far as possible. The Study notes that proposed affordable housing contributions were exhibited for public comment in 2018 before being adopted by the City in 2018 and again in 2020 including the Green Square Town Centre. Advance notice allows:

- Sites already purchased and developments already in the pipeline to be progressed and delivered.
- Development momentum that is already building to continue.
- Market participants to factor-in the revised incentive contribution rate/s in due diligence and purchase negotiations.

Regular review of development activity and take-up of development opportunities should be carried out to monitor impacts and implications of the updated rates.

References

City of Sydney (2020). City of Sydney Affordable Housing Program. 24 August 2020. Available here: https://www.cityofsydney.nsw.gov.au/affordable-housing-contributions/city-of-sydney-affordable-housing-program

Schedules

SCHEDULE 1

Analysis of Residential Sales Activity

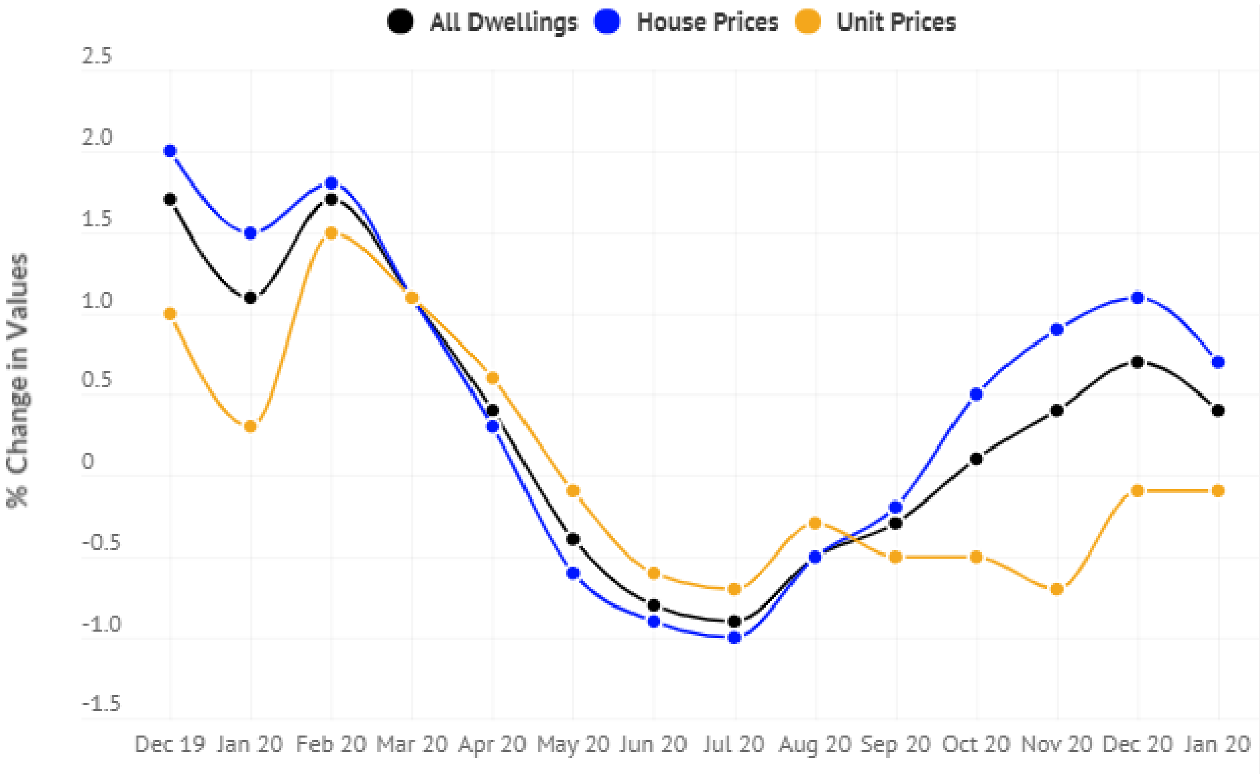
General Market Conditions

Australia's east coast housing boom of 2012-2017 resulted in extraordinary price growth across Greater Sydney. Tightening credit conditions over the course of 2017-2019 saw a slowdown in market activity, with many purchasers (notably investors) retreat from the market. Price declines occurred across many markets in Greater Sydney (including Bankstown and Campsie) throughout 2018 and 2019, with purchasers becoming more selective on location and overall product quality.

Following the Federal Election in May 2019, market conditions began to improve driven by cash rate reductions by the Reserve Bank of Australia (RBA), a review of servicing buffer requirements for banks by APRA which eased lending conditions for purchasers and policy certainty around treatment of negative gearing and capital gains tax.

This renewed burst of activity halted in Q1 2020 as a result of the COVID-19 outbreak. Soft market sentiment in the wake of a major uptick in unemployment saw dwelling values fall over the first half of 2020. However, since June 2020, market sentiment has improved with a 'two speed' change in dwelling price growth now observed. A preference for traditional housing as compared to smaller housing typologies has been observed throughout this period. This is reflected in house prices having returned to positive growth whereas apartments have continued to decline.

Figure S1.1: Change in Dwelling Values (Dec 2019-Jan 2020), Greater Sydney



Source: CoreLogic RP Data (2021)

This flight to traditional housing compared to smaller housing formats (i.e. townhouses, apartments) is not expected to persist over the medium to long-term. Housing affordability in Greater Sydney remains a central issue, with recent price growth offsetting much of the declines observed over the course of 2018-2019. Well-located apartments proximate public transport, amenity and green spaces will remain a popular typology for a large cohort of the market.

This suggests the medium-term outlook for apartment markets in the East and West Precincts is positive, particularly given the pace at which house prices in both these precincts has grown over the past 6-months.

East Precinct

There are multiple projects across the East Precinct which are currently or have recently completed off-the-plan marketing, particularly in the Surry Hills and Darlinghurst/ Potts Point markets. Most of these have been small-scale, 'boutique' style developments with a limited number of apartments.

Price points achieved for new apartments has been strong, reflective of the premium nature of many of the East Precinct's residential markets. Owing to these high price points, buyers have predominantly been established owner occupier couples and/or families looking to upgrade from their existing accommodation. Few first home buyers have been observed.

Downsizers are identified as a growing component of the East Precinct's apartment market. This growing trend can be directly observed in the design and marketing for 11-13 Greenknowe Avenue in Elizabeth Bay, which has provided a large proportion of three-bedroom apartments and penthouses to target this market segment.

Prices paid for new apartments in Darlinghurst/ Potts Point are found to range from $13,500/sqm to $30,000/sqm of internal area with the highest prices achieved for top-level penthouse product. In Surry Hills, apartment prices analyse to rates ranging from $14,800/sqm to $23,500/sqm of internal area. The highest prices are observed in Elizabeth Bay, where asking prices for 11-13 Greenknowe Avenue equate to $25,000/sqm to $39,000/sqm of internal area.

Table S1-1 illustrates the analysis of recent off the plan sales evidence across the East Precinct.

Table S1-1: Off the Plan Sales Evidence, East Precinct

Address	Unit Mix			Sale Price		Analysis
	Type	NSA (sqm)	Car	Low	High	$/sqm NSA
Sold Prices						
'Advanx' 12, 18-28 Neild Ave 50 Mclachlan Ave Darlinghurst	1b	53-60	0-1	$717,000	$1,100,000	$13,500-$18,300
	2b	97-109	0-1	$1,377,000	$2,550,000	$14,200-$25,500
	3b	113-137	2	$1,950,000	$2,868,000	$17,250-$23,300
'Lachlan' 1 Mclachlan Ave Rushcutters Bay	1b	53	0	$980,000	-	$18,500
'The Hensley' 37-41 Bayswater Rd Potts Point	1b	50-57	0	$850,000	$1,100,000	$15,700-$21,300
	2b	70-80	0-1	$1,385,000	$2,100,000	$19,500-$26,250
	3b	116-120	2	$2,850,000	$3,720,000	$24,600-$31,000
'Omnia' 224-226 Victoria St Potts Point	1b	47	0	$940,000	-	$19,200
	2b	74-104	0-1	$1,617,980	$2,750,000	$20,400-$29,100
'Hutch & Hutch' 26-34 Hutchinson St Surry Hills	1b	50-55	1	$740,000	$950,000	$14,800-$17,272
	2b	72-73	1	$1,395,000	$1,505,000	$19,375-$20,616
'Harmony' 20 Mary St Surry Hills	2b	103	1	$2,230,000	$2,262,500	$21,650-$22,000
'The Rathbone' 23-47 Flinders St Surry Hills	1b	50-74	0	$955,000	$1,160,000	$15,700-$21,800
	2b	72-73	0	$1,300,000	$1,445,000	$17,800-$20,100
	2b	85-95	1	$1,500,000	$2,000,000	$18,500-$23,500
Asking Prices						
11-13 Greenknowe Ave Elizabeth Bay	1b	55-64	0	$1,500,000	$1,800,000	$27,300-$28,100
	2b	85-89	0-2	$,2,200,000	$3,600,000	$25,000-$36,000
	3b	120-140	2	$3,900,000	$5,500,000	$32,500-$39,300

Source: Atlas/CoreLogic RP Data

West Precinct

Similar to the East Precinct, there are several new apartment projects currently marketing across the West Precinct. These are distributed throughout the precinct, including the markets of Redfern, Camperdown, Newtown and Erskineville.

The popularity of the West Precinct to younger, professional couples and families continues to persist. Demand for new apartments is understood to be owner occupier driven, with the precinct's proximity to the Sydney CBD, good public transport offering and high amenity offering the key factors driving demand.

Prices paid for new apartments in Glebe are the highest in the West Precinct observed to range from $13,800/sqm to $19,500/sqm of internal area with the highest prices achieved for top-level penthouse product.

Newtown and Camperdown attract slightly lower price points at $12,000/sqm to $14,900/sqm of internal area, whilst Redfern has attracted prices from $14,300/sqm to $16,000/sqm of internal area.

Table S1-2 shows the analysis of recent off the plan sales evidence across the West Precinct.

Table S1-2: Off the Plan Sales Evidence, West Precinct

Address	Unit Mix			Sale Price		Analysis $/sqm
	Type	NSA (sqm)	Car	Low	High	
Sold Prices						
'Arthouse' 4 Elger St & 6 Cowper St Glebe	1b	52-54	0-1	$750,000	$890,000	$13,900-$17,100
	2b	73-101	1	$1,200,000	$1,390,000	$13,800-$18,900
	3b	104-109	1	$1,650,000	$2,095,000	$15,700-$19,200
'The Foundry' 2-6 Elger St & 1 Sterling St Glebe	1b	50-54	0-1	$740,000	$865,000	$14,000-$16,100
	2b	70-87	0-1	$995,000	$1,350,000	$13,800-$18,800
	3b	104-109	1	$1,700,000	$2,095,000	$14,500-$19,500
Asking Prices						
655 King St Newtown	1b	50-57	0-1	$690,000	$820,000	$12,300-$14,500
	2b	71-85	1	$920,000	$995,000	$12,700-$13,100
	3b	94-100	1	$1,375,000	$1,395,000	$13,740-$14,900
'Laurina' 113-117 Parramatta Rd Camperdown	1b	57-60	0	$750,000	$780,000	$12,000-$13,000
	2b	80-83	1	$1,000,000	$1,050,000	$12,000-$13,000
'TNT' 1A Lawson Sq Redfern	Studio	42-50	0	$695,000	$800,000	$14,900-$18,300
	1b	51	0	$730,000	$745,000	$14,300-$15,500
	2b	81-83	1	$1,230,000	$1,305,000	$15,000-$16,000

Source: Atlas/CoreLogic RP Data

SCHEDULE 2

Generic Feasibility Testing Assumptions

Generic feasibility testing adopts the Residual Land Value approach. This involves assessing the value of the end product of a hypothetical development, then deducting all of the development costs (including site acquisition costs, site demolition, construction costs, consultant fees, statutory fees) and making a further deduction for the profit and risk that a developer would require to take on the project. The land value is the 'residual that remains, i.e. the amount a developer could afford to pay in exchange for the opportunity to develop the site.

Project Timing

The tested sites are assumed to be appropriate zoned and progressed immediately upon settlement and span 6 months. Thereafter a development application is assumed to occur with pre-sales occurring shortly thereafter.

Demolition and construction are assumed from Month 12-18 spanning 12-18 months depending on scale of the development. Development is assumed to be completed in 2-3 years depending on scale after a 12-18 month lead-in period.

Development Yields

Table S2-1 summarises the areas selected and the respective notional development typologies (mixed use development and residential flat building) for contribution impact testing.

Table S2-1: Areas and Notional Developments Tested

Area	Suburb (Precinct)	Notional Development 1	Notional Development 2
1	Surry Hills (East)	• Mixed use development • Existing FSR 4:1 • Proposed FSR 5:1	• Residential flat building • Existing FSR 3:1 • Proposed FSR 4:1
2	Elizabeth Bay (East)	• Mixed use development • Existing FSR 2.5:1 • Proposed FSR 3.5:1	• Residential flat building • Existing FSR 2:1 • Proposed FSR 3:1
3	St Peters (West)	• Mixed use development • Existing FSR 2.5:1 • Proposed FSR 3.5:1	• Residential flat building • Existing FSR 2:1 • Proposed FSR 3:1
4	Redfern (West)	• Mixed use development • Existing FSR 2.5:1 • Proposed FSR 3.5:1	• Residential flat building • Existing FSR 2:1 • Proposed FSR 3:1

Source: Atlas

A nominal 5%-10% of non-residential floorspace is assumed to be provided on the ground floor of a mixed use development, with residential units in the levels above. A residential flat building is assumed to comprise 100% residential uses.

Table S2-2 outlines the unit mix and internal area assumptions (based on research and observations of development activity).

Table S2-2: Residential Unit Mix and Parking Assumptions

<table>
<tr><th>Area</th><th>Precinct</th><th>Internal Area (sqm)</th><th>Unit Mix</th><th>Parking Ratios</th></tr>
<tr><td>1 + 2</td><td>East</td><td>• Studio - 50sqm
• 1 bedroom - 60sqm
• 2 bedroom - 75sqm
• 3 bedroom - 95sqm</td><td>• Studio - 10%
• 1 bedroom - 30%
• 2 bedroom - 40%
• 3 bedroom - 20%</td><td rowspan="2">• Studio - 0.2 space
• 1 bedroom - 0.4 space
• 2 bedroom - 0.8 spaces
• 3 bedroom - 1.1 spaces
• Visitor - 0.167 spaces
• Non-residential - 1 space per 125sqm GFA</td></tr>
<tr><td>3 + 4</td><td>West</td><td>• Studio - 50sqm
• 1 bedroom - 60sqm
• 2 bedroom - 75sqm
• 3 bedroom - 95sqm</td><td>• Studio - 5%
• 1 bedroom - 25%
• 2 bedroom - 50%
• 3 bedroom - 20%</td></tr>
</table>

Source: Atlas

Revenue Assumptions

Average end sale values are adopted based on market research and analysis. Residential revenue assumptions are based on NSA (net saleable area/ lettable area) and detailed in Table S2-3.

Table S2-3: Residential Revenue Assumptions

Land Use	Surry Hills	Elizabeth Bay	Redfern	St Peters
Residential	$20,000 to $22,000	$25,000 to $30,000	$13,000 to $18,000	$13,000 to $15,000
Non-residential	$15,000	$15,000	$9,000	$9,000

It is assumed that 75% of the apartments would be pre-sold prior to completion of construction and the balance would be sold post completion at an average rate of 6-12 units per month.

Other revenue assumptions:

- GST is excluding on non-residential sales and included on the residential sales.
- Sales commission at 2.5% (residential) and 1.5% (non-residential) gross sales.
- Marketing costs of 1.0% on gross sales.
- Legal cost on sales included at 0.25% on gross sales.

Cost Assumptions

- Assumed cost of land based on applicable planning controls, informed by desktop research.
- Legal costs, valuation and due diligence assumed at 0.5% of land price and stamp duty at NSW statutory rates.
- Construction costs are estimated with reference to past experience and cost publications:
  - Retail and commercial construction (warm shell) assumed at $3,000/sqm of building area
  - Residential construction assumed at $3,000/sqm to $4,000/sqm of building area, balconies at $1,000/sqm.
  - Basement car parking at $55,000 per car space.
- Provisional allowance for lead-in and services infrastructure at 2% of construction costs.
- Professional fees at 10% of construction costs expensed 5.5% (pre-construction) and 4.5% (during construction).
- Development management fee of 2%.
- Construction contingency at 5%.
- Statutory fees:
  - DA fees of 1% and CC fees of 0.5% of construction costs.
  - Long service levy of 0.35% of construction costs.
  - s7.11 contributions under Sydney Development Contributions Plan 2015.
- Finance costs:
  - Land value assumed as equity contribution with balance funded at interested capitalised monthly at 6% per annum.
  - Establishment fee at 0.35% of peak debt.

Hurdle Rates and Performance Indicators

Target hurdle rates are subject to perceived risk of a project (planning, market, financial and construction risk). The higher the project risk, the higher the hurdle rate. The following performance indicators are relied upon:

- Development Margin profit divided by total development costs (including selling costs).
- Discount rate refers to the project internal rate of return (IRR) where net present values of an investment is zero.
- Residual Land Value is arrived at by assessing the maximum land value a developer is willing to pay based on both hurdles of development margin and discount rate being met.

The following benchmark hurdle rates are assumed.

Table S2.4: Performance Indicators and Target Hurdle Rates

Performance Indicator	Feasible	Marginal	Not Feasible
Development Margin	>20%	18%-20%	<18%
Project IRR	>18%	17%-18%	<17%

Source: Atlas

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