



R3 Medium Density Feasibility Study, Bayside LGA

Bayside Council

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1. Introduction and context

SGS understands the following objectives guide Council's housing strategy and direction:

- Planning for supply with sufficient capacity to accommodate the future
- Facilitating new supply located around existing centres
- Production of new supply should deliver greater diversity of housing choice
- Improving housing affordability
- Advocacy and partnerships are supported to encourage collaborative efforts and direct investment in housing and transit
- New supply should be high quality

We understand that in strategising for the future, Council is cognisant of the fact that 80 percent of new supply delivered over the previous decade has been 1- and 2-bedroom apartments in high-density development.

Recognising that the needs of a changing population and a range of household types could be better accommodated in the future through in development typologies, Council has embarked on enabling medium density development through a modification of planning controls.

1.1 Project orientation

SGS understands that the proposed planning controls are one of a number of planning mechanisms that Council is pursuing to address these issues and provide a clear linkage to the objectives abbreviated above.

Following Council's submission of its proposed LEP changes, we understand that DPE's approval letter articulated a number of conditions, including the following, which we interpret as the primary motivators for this effort:

- To ensure housing diversity is achieved by 2026, Council is to expedite the following investigations and obtain Gateway for planning proposals by December 2022:
 - the introduction of dwelling size and mix controls
 - the review and update of medium density controls
 - the review and update of dual occupancy controls

Council should concurrently review development controls including the use of controls to ensure effective design for infill development as outlined in the LHS

- For all future investigation areas (irrespective of their priority), confirm the indicative yields, desired dwelling mix and timeline for future investigation areas, so both Council and DPIE understand the timing of housing delivery in the 10+ year (2026+) period. The investigation area studies may need to be supported by feasibility analysis.

- Provide housing diversity targets including non-standard dwellings in future iterations of the LHS for the entire LGA. This should include student accommodation, key worker housing and seniors housing, and may need to be supported by feasibility analysis

1.2 Project objectives and study area

Objectives for this work were to:

- Inform recommendations to the LEP - Are there barriers or other factors that should be considered in building a case for recommending changes to the LEP?
- Ensure that the proposed planning controls will yield viable development and redevelopment options - How might the proposed changes impact the feasibility of a greater diversity of dwelling typologies?
- Identify the dwelling yield from these changes - To what extent will the proposed planning control changes impact the dwelling yield across the community?
- Identify additional barriers/ blockages - To what extent is there market support or are there barriers to the proposed planning control changes that will impact the potential for desired outcomes?

SGS has responded to three questions of focus:

- Test new site parameters as set out in the LEP for R3 Zones in the former Rockdale LGA;
- Understand impact on feasibility and potential yield; and
- From this, determine any blockages in delivering housing.

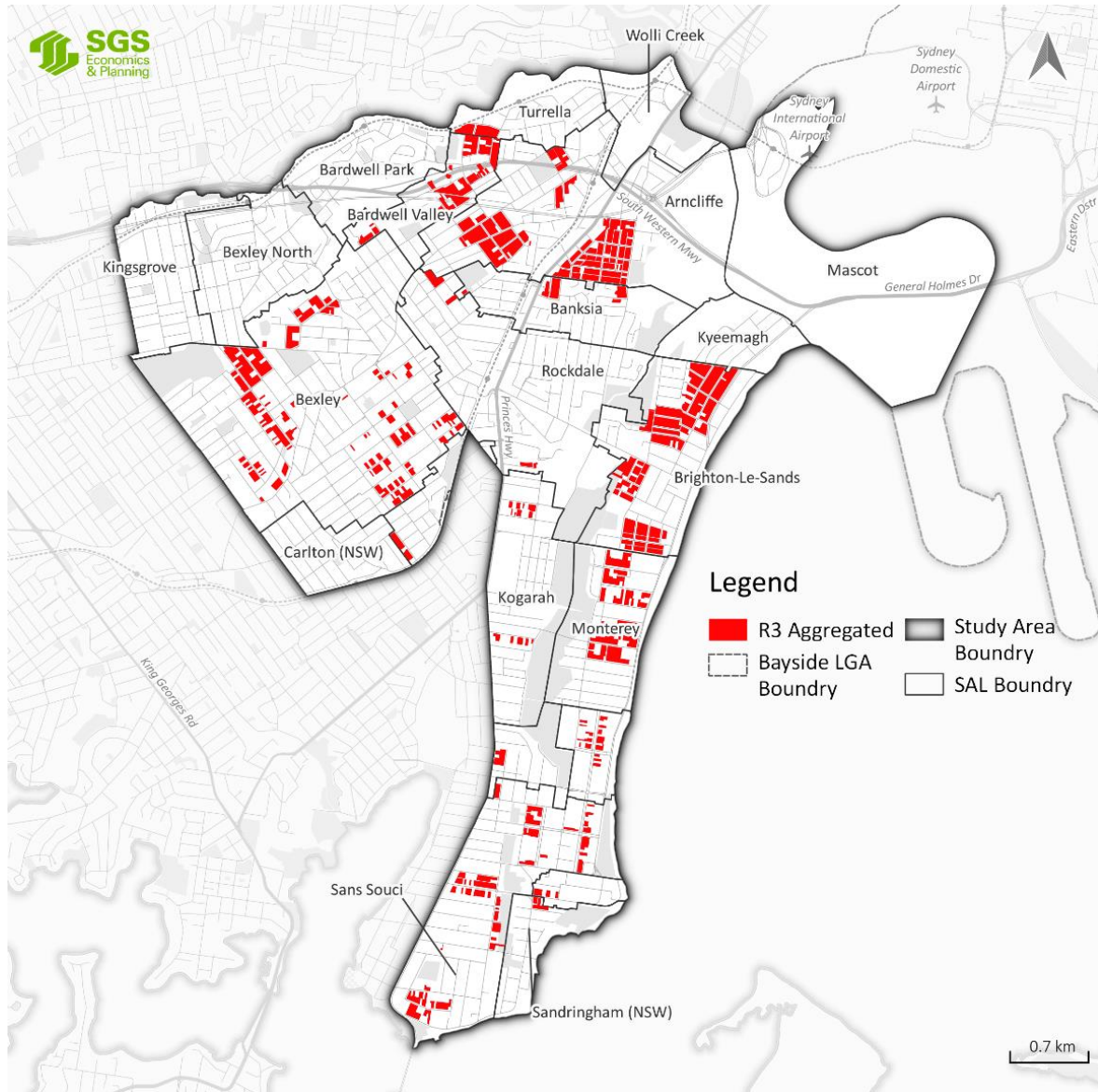
This work is specifically to test the feasibility and impact of a change to the maximum FSR control in R3 zones from 0.6 to 0.7:1.

To achieve these objectives, analysis was undertaken to understand the feasibility of multi dwelling housing in the study area. This typology is well-established in the LGA and typically provides for four or more attached two-storey dwellings, with one facing the road, and the rest behind, accessed via internal circulation. Recent examples, and the typology tested in this work, provide for basement parking to reduce the height of buildings, as well as reducing at-grade vehicular circulation.

The study area for this analysis covers all R3-zoned lots within the former Rockdale LGA boundary¹. The area, with a map aggregated land parcels in the R3 zone, has been presented in Figure 1 below.

¹ <https://www.abs.gov.au/census/find-census-data/quickstats/2011/LGA16650>

FIGURE 1: STUDY AREA R3 ZONED LOTS BY CURRENT FSR



Source: SGS Economics and Planning, 2023.

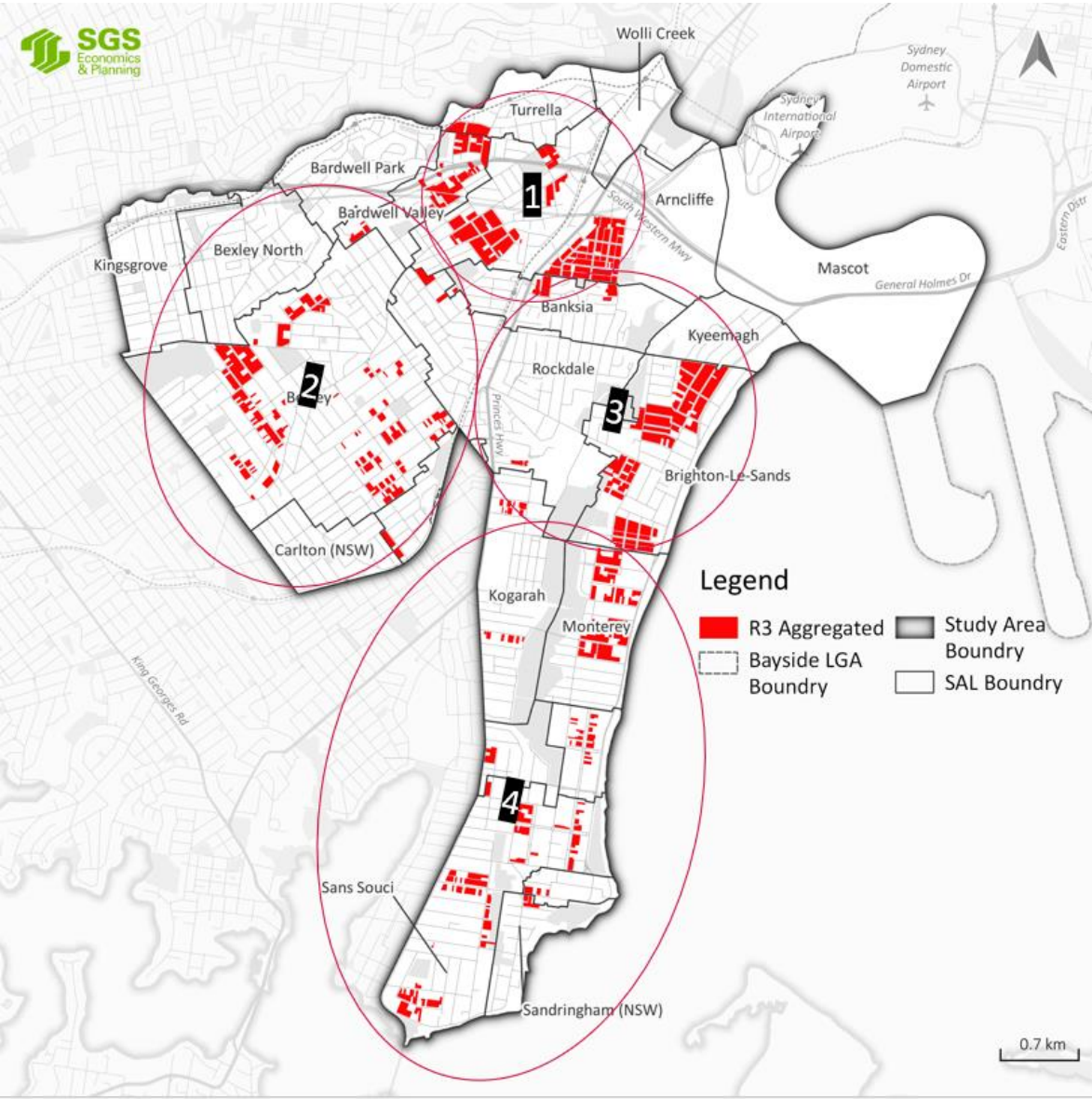
To better understand the variation in prices across the study area, SGS instructed M3property² to gather sales evidence on land and units sold in the R3 zone. The study areas include:

- Arncliffe West – e.g., focus on 1km radius around Arncliffe Park
- Bexley – extending west
- Rockdale and surrounds
- Peninsula (south) – Monterey, Ramsgate area, Sandringham

² <https://m3property.com.au/>

The study area has been mapped in Figure 2 below.

FIGURE 2: SALES EVIDENCE AREAS, STUDY AREA



Source: SGS Economics and Planning, 2023.

2. Development feasibility testing

2.1 Typology overview

For the purposes of this analysis, a townhouse typology was used as a baseline for the assumptions. This was taken from work conducted by Council's urban design team, which provided the following base assumptions:

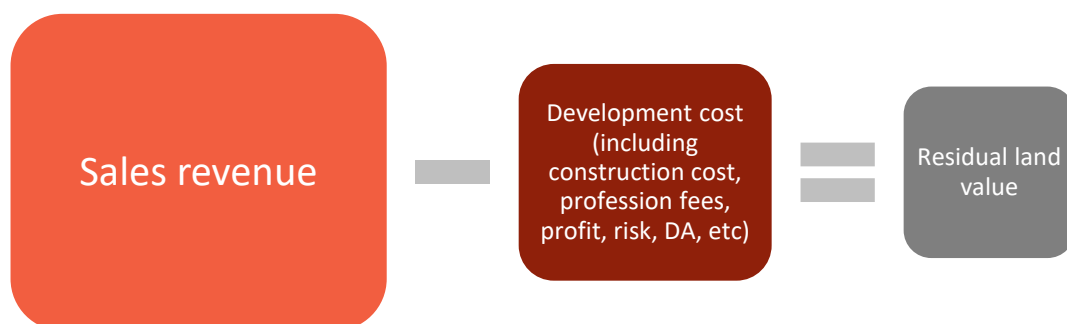
- Site area of an average of 1,300 square metres (informed by analysis of dwelling completions data)
- Basement parking (to achieve an acceptable urban design outcome at a 0.7:1 FSR)
- A yield of seven dwellings, where an average dwelling sizes of 128 square metres (this represents an average dwelling of approximately 3 bedrooms).
- A requirement for 2 parking spaces per dwelling, with 1 visitors park per 5 dwellings

2.2 Residual Land Value method

What is the Residual Land Value method?

The Residual Land Value (RLV) is the maximum amount that a rational developer could pay for a site for redevelopment while still making a profit. It is calculated by deducting all the costs of a development from the sales revenues in the current market. The development costs include construction costs and contingencies, interest and holding costs, professional fees, a developer's profit margin, infrastructure levies or contributions and other council fees. This calculation is illustrated in Figure 3.

FIGURE 3: RESIDUAL LAND VALUE CALCULATION



Source: SGS Economics and Planning, 2022.

If the RLV is much greater than a site's current value including existing improvements such as dwellings, a developer could afford to pay more than the current market value for a site. In this case development is likely to be feasible. If the RLV is much less than a site's value, a developer would not be able to make a sufficient margin from a development to cover the cost of site acquisition, and development would be unfeasible.

Feasibility under the RLV model in this analysis is reported as a dollar value per square metre of land, where the dollar value represents the RLV, less the Existing Use Value (EUV, or land value). A positive value indicates that the RLV is greater than the EUV, and thus development may be feasible.

A negative value indicates that the costs of development are greater than the revenues, and the development is less likely to occur.

Due to the nature of modelling and assumptions based at one point in time, it is possible that sites with a RLV beneath the EUV, due to varying site constraints, will become feasible.

Objectives

A feasibility assessment seeks to determine whether there is sufficient financial incentive for sites to redevelop as a function of costs, profits, risk, and opportunity costs. For the purposes of this model, RLV is used as a key performance indicator to determine whether sites can be feasibly turned over and redeveloped. The model used for this study is a static feasibility model – this refers to the fact that no time value of money, or discount rate, is applied to the costs and revenues of the development. This is considered suitable for high-level feasibility assessments.

The RLV approach acknowledges that landowners are price-takers in the real estate market and that any additional costs accrued to developers, if known at the time of purchase, reduce their willingness to pay for a particular site (reduces their RLV). Conversely, a reduction in cost, or any additional realisable value, will increase the ratio and make a development more feasible.

Critical to understanding whether a development is feasible or not is understanding the relationship between the Residual Land Value and the Existing Use Value (EUV). Determining the EUV is site-specific and may be a function of what the site operates as now, what is currently permitted on the site, or what a rational person is willing to pay for the site at market value.

The RLV to EUV relationship

Once the RLV and EUV are known, ascertaining whether a development is feasible is conducted by subtracting the EUV from the RLV. This is then expressed on a per square metre ratio, which helps to compare sites with each other as an ‘apples to apples’ approach.

Where the value is positive (that is, the RLV is greater than the EUV), the development would theoretically take place, if the developer could acquire the site at the existing value. Where site amalgamations or large-scale acquisitions are required, a higher EUV should be considered. Complex sites may require a premium of up to 25% of EUV to turn over due to last mover dynamics.

The higher the RLV is above the existing use value, the more motivation there is for a site to be redeveloped – as the potential profit is greater.

Typically, the larger the potential building envelope after redevelopment, the higher the RLV will be, and the more likely a project is to be feasible. However, higher underlying existing values will also reduce feasibility, as they increase the hurdle which the project must clear.

2.3 Inputs and Process

To run the RLV feasibility model, the following inputs need to be identified and quantified which are specific to the type of development and area being modelled.

Gross realisable value (revenue)

Gross realisable value (GRV) is the expected value of the development when it is completed and sold. For this analysis, GRV was taken on a basis of dollars per internal square metre. Sales evidence was gathered from M3 Property representative of relevant medium density prototypes and representative of those prototypes found within each of the four areas in the LGA outlined above. As shown in Table 1, there are a range of realisable values for medium density residential products within the outlined areas of the LGA based on sales evidence reflective of the most recent 12 months of transactions.

TABLE 1: RANGE OF GRV, STUDY AREA

Area	GRV Range
1. Arncliffe West	\$8,500 - \$10,500
2. Bexley	\$8,000 - \$10,500
3. Rockdale	\$9,000 - \$12,000
4. Peninsula	\$9,000 - \$13,500

Source: SGS Economics and Planning using sales evidence from M3property, 2023

Development cost assumptions

Existing use values

Existing use value (EUV) is the expected value of the site currently. This is done through an analysis of recent land sales and is presented as a sales value per square metre of land. The ranges consider a series of the past 12 months of transactions across the LGA. As of writing, R2 land sales ranged from **\$1,500-\$3,500 per square metre** and R3 land sales achieved **\$3,000-\$4,000 per square metre**.

Hard and soft cost assumptions are discussed below. These assumptions have not been varied by development location, as all contexts are assumed to have similar characteristics in terms of cost.

Hard costs

The following hard cost assumptions have been sourced from industry publications which reflect recent market trajectories in the cost of materials and labour. The key hard cost assumptions that have been used in the feasibility testing are outlined in Table 2 below. All costs are expressed on a **per-square metre basis**.

TABLE 2: HARD COST ASSUMPTIONS USED IN MODELLING

Costs	Value	Metric	Source
Demolition	\$80	Per square metre of building area	Rawlinsons Australia Construction Handbook 2023
2 Storey townhouse (high standard finish)	\$2,870	Per square metre of building area	Rawlinsons Australia Construction Handbook 2023
Parking	\$70,400 per space	Per parking space	Rawlinsons Australia Construction Handbook 2023

Source: SGS Economics and Planning, 2022.

Soft costs

Assumed soft costs are summarised in **Table 3** below. Within the feasibility modelling conducted, these result in the soft costs being around 40 to 45 per cent of hard costs, which is considered a conservative assessment. The table below outlines the revenue assumptions used.

TABLE 3: SOFT COST ASSUMPTIONS USED IN MODELLING

Costs	Value/ metric	Source
Professional fees and project management	15% of hard costs (HC)	Industry standard
Marketing and advertising	1.0% of gross realisable value	Industry standard
Legal fees	2.0% of HC	Industry standard
Contingency	5% of HC and some soft costs	Industry standard
Cost of financing (assumes financing on 50% of total development costs + estimated RLV)	Approximately 7% of HC Formula, depending on assumed length of project (circa 18 months) and interest rates (currently assumed at 7% borrowing rates)	Formula-based
Statutory fees, including Section 7.12, development application fees	Varies – calculated on individual type of application by value	Bayside Council
Stamp duty	Calculated per formula	Revenue NSW
Car parking rates	3+ bedrooms: 2 spaces (for visitors: 1 additional space per 5 units)	Bayside Council

Costs	Value/ metric	Source
Developer fees, profit, etc ³	20% of total development costs (including estimated RLV)	Industry standard

Source: SGS Economics and Planning, 2022.

Car parking rates

In this RLV modelling, SGS has incorporated analysis of construction costs for Bayside's most recent dwelling completions of developments in R3 zones, which included dwellings and parking in accordance with Council's parking rates. Based on this analysis, SGS has calibrated the per below grade car parking space at an average of \$70,400.

Planning fees and charges

Council-provided goods and services incur fees, which include may charges for requests (e.g., requests for information, or requests to film and associated road closures), building and community services, development applications, approvals, facility hire bookings and memberships.

Development Contributions

The former Rockdale Council has both section 94 (now section 7.11) and section 94A development contributions plans (now section 7.11), however, only one contributions plan is applicable per development. The plans are used to fund infrastructure and upgraded or new facilities and amenities.

Section 7.11 development contributions under the *Environment Planning and Assessment Act 1979* refer to a levy imposed typically on new residential developments where existing dwellings are not replaced. The section 7.11 development contribution rates are as follows in **Table 4**.

TABLE 4: DEVELOPMENT CONTRIBUTION RATES USED IN MODELLING

	Arncliffe (excluding Bonar Street Precinct)	Bexley	Bexley North	Brighton Le Sands	Kogarah	Rockdale	Sans Souci (excluding Ramsgate commercial centre)	Wolli Creek	Ramsgate commercial centre	Bonar Street Precinct
Studio or 1 bedroom	\$5,767	\$4,974	\$2,430	\$3,897	\$4,751	\$2,801	\$2,797	\$7,564	\$916	\$12,348
2 bedrooms	\$9,175	\$7,913	\$3,865	\$6,199	\$7,558	\$4,456	\$4,450	\$12,033	\$1,458	\$19,645
3+ bedrooms	\$11,271	\$9,721	\$4,749	\$7,616	\$9,285	\$9,285	\$5,467	\$14,783	\$1,791	\$24,135
Dwelling houses (per allotment)	\$13,194	\$11,379	\$5,559	\$8,915	\$10,869	\$6,408	\$6,400	\$17,304	\$2,096	\$28,251

³ This is independent of the amalgamation premium for redevelopment prototypes that require parcel assemblage.

Source: Rockdale City Council, 2010.

According to the *Rockdale Section 94A Development Contributions Plan 2008 Amendment 1* (i.e., section 7.11 contribution plans), developments costing between \$100,000 to \$200,000 pay a 0.5 per cent levy (of the proposed cost of development), while developments costing more than \$200,000 incur a 1 per cent levy.

There are specific development contribution plans applicable to certain study areas, which override what is set out in the *Rockdale Section 94 Contributions Plan 2004*. These include the *Ramsgate Commercial Centre Development Contributions Plan 2006* (study area 4 only), *Arncliffe and Banksia Local Infrastructure Contribution Plan 2020 – Revision 1*, and *Wolli Creek and Bonar Street Precincts Urban Renewal Area Contribution Plans 2019* (study area 1 only).

Section 7.12 contribution plans, relevant to this analysis, of 1% will apply where construction costs are greater than \$200,000 and where section 7.11 contributions are not required and is applied when an existing house is demolished and a new one is to be constructed.⁴

Development application fees

When lodging a development application (for work that involves the erection of buildings, carrying out of works or demolition of buildings) development application fees are paid for the application to be processed and assessed. **Table 5** lists the different development application fees payable according to the estimated development costs. For example, a development application for a development costing \$400,000 will have development application fees of \$1,356 plus \$2.34 for each \$1,000 (rounded up) above \$250,000.

TABLE 5: DEVELOPMENT APPLICATION FEES BASED ON APPLICATION TYPE, YR 2022/23

Minimum	Maximum	Base	Plus
\$0	\$5,000	\$129	
\$5,001	\$50,000	\$198	\$3 for each \$1,000 over \$50,000
\$50,001	\$250,000	\$412	\$3.64 for each \$1,000 over \$50,000
\$250,001	\$500,000	\$1,356	\$2.34 for each \$1,000 over \$250,000
\$500,001	\$1,000,000	\$2,041	\$1.64 for each \$1,000 over \$500,000
\$1,000,001	\$10,000,000	\$3,058	\$1.44 for each \$1,000 over \$1,000,000
\$10,000,001		\$18,565	\$1.19 for each \$1,000 over \$10,000,000

Source: Bayside Council, 2022.

Pre-DA

Pre-DA fees are charged for formal advice or consultation services with Council for advice on a preliminary (pre-DA) application before a development application is lodged.

Where a pre-DA application is lodged, Council will provide feedback and the application can be amended and submitted as a final proposal for determination.

⁴ <https://www.bayside.nsw.gov.au/services/development-construction/planning-our-city/infrastructure-contributions>

A pre-lodgement meeting with Council to review the proposal may also be requested.⁵ Fees for development application pre-lodgement services are listed below and depend on the estimated cost of works being undertaken.

TABLE 6: PRE-DEVELOPMENT APPLICATION SERVICES FEES

Minimum	Maximum	Fee
\$0	\$500,000	\$732
\$500,001	\$1,000,000	\$866
\$1,000,001	\$2,000,000	\$976
\$2,000,001	\$5,000,000	\$1,360
\$5,000,001	\$2,000,000	\$2,440
\$20,000,000		\$4,305

Source: Bayside Council, 2022.

Design review panel

Developments may be reviewed by a design panel that comments on the designs of development referred to them. There will costs payable for the referral of a DA or pre-DA application to Bayside Council's Design Review Panel (DRP). This process will help to address design considerations that the development application will be assessed under – the Design Excellence Clause in Section 6.10 of Bayside LEP 2021.

TABLE 7: DESIGN REVIEW PANEL FEES

	Fee
Less than \$10,000,000 estimated construction cost	\$3,508
Between \$10,000,001 and \$50,000,000 estimated construction cost	\$3,508
More than \$10,000,000 estimated construction cost	\$5,105
Design Excellence Fee	\$2,195
Design Review Panel administration fee	\$613

Source: Bayside Council, 2022.

Other fees and charges

⁵ <https://www.bayside.nsw.gov.au/services/development-construction/development-approvals/seek-some-advice>

Expenses for public or neighbourhood notification are required for Council to notify people living near the site of the lodged development application through letters and enables them to comment on the application. It may also extend to notifications on-site and in local newspapers, where the wider public is able to make submissions regarding a development application on exhibition.⁶

Public notification fees are documented in **Table 8**.

TABLE 8: PUBLIC NOTIFICATION FEES

Type of application	Fee
Dual Occupancy	\$172
Town House / Villa	\$817

Source: Bayside Council, 2022.

2.4 Residual Land Value

The RLV can be determined once all the above planned revenues and anticipated costs are known – RLV is the revenue minus costs.

Existing Use Value

The Existing Use Value (EUV) is what the market would pay for the site today. This is typically based on the existing use – in this analysis, the existing use is detached residential dwellings.

Process

Under a static feasibility model, the EUV is a controlled variable and does not change as other costs or revenues change. Revenues and costs are independent variables that are a function of the intensity of development proposed on a site.

FIGURE 4: RLV FEASIBILITY MODEL METHOD



Source: SGS Economics and Planning, 2022.

⁶ <https://www.planningportal.nsw.gov.au/sites/default/files/documents/2019/da-best-practice-guide-for-homeowners-2018-06-07.pdf>

Of further consideration is the fact that the testing undertaken is for a 'typical' site. As such, the outcome will show whether the individual typologies are feasible for such a 'typical' site. However, each site has its own limitations, including existing trees, overshadowing considerations, and topology. These will further combine with a developer's appetite for risk and perception of the market's demand for each typology. Unless RLV:EUV ratios are significantly different, these considerations are likely to have a greater impact on development decisions. This is discussed further below.

2.5 Feasibility Results and the viability of development

As noted previously, this viability testing has been completed to identify and quantify the extent to which redevelopment of existing R3 residential zoned land is viable if redeveloped to the 0.7 FSR threshold as opposed to the current built form control of 0.6 FSR.

It is important to note the differences and relationships comparing *feasibility and viability*.

Feasibility refers to a condition in which a development project's revenues exceed its development costs by a sufficient margin, such that it can be developed with sufficient risk-adjusted investment returns.

Viability, on the other hand, refers to a condition in which a developer's willingness to pay for land in a feasible redevelopment exceeds the existing use value of the parcel land to be redeveloped. The development is considered **viable** because the underlying land transaction may proceed.

In summary, feasibility characterises the relationship between a development's total revenues and costs, while viability occurs when the a developer's willingness to pay for land in redevelopment is greater than the landowners' expectation of existing use value.

Outputs were generated to vary the key assumptions around the EUV and the GRV on a per square metre basis. This allows the relationship between these inputs to be illustrated. Particularly as a range of each of these inputs is likely to be found within the study areas, this illustrates why some sites may develop before others.

The following **Table 9** reflects sensitivity testing for each of the identified areas in the LGA. The per sqm land values shown in the table represent the difference between the Redevelopment RLV and the Existing-Use Value (EUV) RLV. The results are presented along a range of potential GRVs and possible EUVs.

These variables were chosen to illustrate potential changes to the development context. As discussed above, construction costs have increased in the period from 2020, and may rise further. Realisable and Existing Use Values are likely to change in tandem, however the testing indicates the relative effects that these have on the feasibility ratio.

- **Arncliffe West** – this area has among the lowest supportable sales prices in the LGA at an upper bound of \$10,500 for new medium density residential product. With existing use values on the lower end of the EUV spectrum for R3 (\$3,000 per sqm), this prototype would not likely be viable as

a redevelopment under current market conditions, or the expected sales prices as compared to current development costs.

- **Bexley** - this area also has among the lowest supportable sales prices in the LGA at an upper bound of \$10,500 for new medium density residential product. With existing use values on the lower end of the EUV spectrum for R3 (\$3,000 per sqm), this prototype would not likely be viable as a redevelopment under current market conditions.
- **Rockdale** – this area of the LGA is among the areas tested that can support somewhat higher sales price points. As modelled, sales prices could be as high \$12,000 per square metre. With existing use values in the middle of the EUV range for R3 (\$3,500 per sqm), this prototype would fall on the threshold of redevelopment viability. Either buyers would need to be willing to purchase a dwelling for \$500 to \$1,000 more per sqm, or current land owners' expectation of their existing use value would need to drop by approximately \$500 per sqm for these prototypes to be viable within this area of the LGA.
- **Peninsula** - this area is among the higher sales price points supportable across the LGA. As modelled, sales prices could be as high \$13,500 per square metre. With existing use values in the middle of the EUV range for R3 (\$3,500 per sqm), this prototype would be just viable as redevelopment. If, however, landowners expectation of existing use value were on the higher end of the EUV spectrum, this prototype may no longer be viable.

TABLE 9: FEASIBILITY RESULTS (PER SQUARE METRE) IN STUDY AREA

EUV	\$8,000	\$8,500	\$9,000	\$9,500	\$10,000	\$10,500	\$11,000	\$11,500	\$12,000	\$12,500	\$13,000	\$13,500
\$1,500	-\$1,015	-\$718	-\$423	-\$129	\$165	\$460	\$754	\$1,048	\$1,337	\$1,626	\$1,915	\$2,204
\$2,000	-\$1,530	-\$1,233	-\$938	-\$644	-\$350	-\$55	\$239	\$533	\$822	\$1,111	\$1,400	\$1,689
\$2,500	-\$2,045	-\$1,748	-\$1,453	-\$1,159	-\$864	-\$570	-\$276	\$18	\$307	\$596	\$886	\$1,175
\$3,000	-\$2,560	-\$2,263	-\$1,968	-\$1,673	-\$1,379	-\$1,085	-\$791	-\$497	-\$207	\$82	\$371	\$660
\$3,500	-\$3,075	-\$2,778	-\$2,482	-\$2,188	-\$1,894	-\$1,600	-\$1,306	-\$1,012	-\$722	-\$433	-\$144	\$145
\$4,000	-\$3,591	-\$3,293	-\$2,997	-\$2,703	-\$2,409	-\$2,115	-\$1,821	-\$1,527	-\$1,237	-\$948	-\$658	-\$369

Source: SGS Economics and Planning, 2023

The following results by sub-area are presented in Table 10 below.

TABLE 10: SUMMARY OF FEASIBILITY RESULTS DISCUSSION (PER SQUARE METRE) BY SUB-AREA

Sub-Area	EUV (psm)	GRV (psm)	Viability for R3 in existing conditions
1. Arncliffe West	R2: \$1,500-\$3,500 R3: \$3,000-\$4,000	\$8,500 - \$10,500	Unlikely due to low GRV
2. Bexley		\$8,000 - \$10,500	Unlikely due to low GRV
3. Rockdale		\$9,000 - \$12,000	Likely
4. Peninsula		\$9,000 - \$13,500	Likely

Source: SGS Economics and Planning, 2023 (R2 existing use values used due to insufficient sales evidence in the R3 zone).

2.6 Discussion of findings

In general, the findings illustrate that broad increases in value in the property market are associated with improvements in redevelopment viability in all areas analysed. As noted in the methodology section, the development cost, revenue and site assumptions are calibrated at a high-level, as opposed to a site-specific level in which specific site dimensions, development programs and costs can be provided with direct input from contractors, etc.

The results discussed below are intended to allow the Council to understand and interrogate the results of the viability testing for the purpose of understanding the benefits and impacts of the proposed planning control (FSR) change.

Macroeconomic trends

Nationwide and even globally, there is considerable uncertainty impacting the market for real estate development, particularly residential real estate development. On one hand, central banks have been adjusting target cash rates upward to counteract the inflationary pressures weighing on economies. This has translated to increases to borrowing rates for both business and individual (mortgage) lending. As such, purchasing power capacity among borrowers has declined, and the cost of borrowing (i.e., conventional debt for development) has become more expensive.

Meanwhile, constraints and constant demand for goods and services, have led to inflationary trends in materials and inputs to construction, such as labour and construction materials. While there are plenty of commentators on what the future of markets holds, it is fairly certain that there is as much uncertainty in the near term as in the long term.

Relevant to this effort, these underlying trends translate directly to buyers' willingness to pay and supportable sales prices for residential product types modelled. They translate to landowners' understanding and expectation of land value (for existing uses). They also translate to changing (increasing) construction costs, which in turn would all lead to different development feasibility outcomes.

Local considerations of property prices in the study area

Bayside is considered to be a desirable area to live due to proximity to the beach and other amenities like public transportation and closeness to the CBD and airport. Being a desirable area means that single-family house prices are high, falling anywhere from \$1.5m-\$3m.⁷

It is illustrative to consider that existing use values (EUUV) and land sales are difficult to assess across an entire precinct. The concept of "hope value"⁸ is defined as the potential future value of a property a landowner may expect to be realised as a result of escalating prices, rezoning, or improvements made to the surrounding area. In the context of Bayside, increasing sales values, or the expectation of these returns, supercharges asking prices. This means that a wide range of sales values could occur. Particularly where owners are aware of sites selling for redevelopments commanding higher prices than might be expected from the residential market, it is possible that market expectations outpace

⁷ <https://www.htag.com.au/nsw/nsw335-bayside-council/>

⁸ <https://www.savills.co.uk/blog/article/218780/residential-property/in-plain-english-hope-value.aspx>

feasibility, particularly where realisable values may fall with softening economic conditions. While this condition would be expected to ameliorate as the low demand for property at those higher prices reduces prices, high expectations of land prices in the market can serve to slow down development.

There are implications for medium-density feasibility in Bayside and even across Sydney. A recent report by the Henry Halloran Trust⁹ notes that several elements make “missing middle” densities unfeasible despite a loosening of planning controls. This includes typical issues such as mismatched design controls, site-specific constraints such as slope or access, but also that there may be an adverse incentive for developers to build medium-density development compared to high density. In this context, it is important to consider this concept of “hope value” against the sales evidence and the presentation of results across the range of EUVs and GRVs as presented previously in **Table 9**.

Market risks

There are a variety of risks associated with efforts such as these. The Reserve Bank of Australia and other central banks around the world continue adjusting their target rates, which for Australians accustomed to borrowing on variable rate mortgage products, implies immediate and material impacts on purchasing power and supportable residential product sales price points. This implies a downside risk associated with the revenue (sales price) assumptions built into this analysis. Sales evidence from the past year (of existing and off-the-plan product) were used to calibrate the underlying revenue assumptions. While not all price point levels will be impacted by the downward pressures higher interest rates will have, to compensate for this additional risk, the analysis included the sensitivity of higher and lower EUVs and higher and lower sales price points, as discussed previously.

Moreover, there is also uncertainty in the materials and labour markets, which affect the development costs side. Rawlinson’s 2023 construction costs were increased from the January 2023 estimates based on market understanding of the YTD escalation in construction costs (at 5.5 percent). To preserve the simplicity of interpreting results of scenarios and sensitivity results.

In general, however, there are still a variety of factors and conditions in which redevelopment viability for any of the sites could be **improved** and are described as follows:

- Increased FSR when it occurs within a single building form.
- Lease rates or sales prices for *existing uses* are lower than those modelled.
- Construction costs are lower than those modelled.
- Achievable lease rates or sales prices for *redevelopment uses* are higher than those modelled.

Redevelopment could be **negatively impacted** under any one or combination of the following conditions:

- Increased FSR building form shifts to a higher cost of construction (such as a building of two versus four floors).
- Lease rates or sales prices for *existing uses* are higher than those modelled.
- Construction costs are higher than those modelled.
- Achievable lease rates or sales prices for *redevelopment uses* are higher than those modelled.

⁹ <https://www.sydney.edu.au/content/dam/corporate/documents/henry-halloran-trust/feasibility-guide.pdf>

Disclaimer: The modelling in this study has been undertaken to understand redevelopment viability of medium density residential product that has a built form control of 0.7 FSR as compared to the current 0.6 FSR control, while maintaining project returns comparable to the baseline scenario.

Inputs and assumptions relevant to costs and revenues for each development program, such as site dimensions, specific floor area, unit sizes and mixes, demolition costs, hard and soft construction costs, as well as sales price points and lease rates unit sizes have been applied to hypothetical redevelopment sites representative of the selected areas of the LGA.

To the extent that actual redevelopment sites may be identified in the future, including the identification of a site-specific development program, construction costs, lease rates or sales prices, as well as specific EUVs, for example, may result in findings different from those modelled for this study.

3. Yield analysis

3.1 Findings

The purpose of the yield analysis is to understand the impact of modified built form controls (FSR) on potential development sites and to quantify the extent to which such increased FSR would have an impact on theoretical “yield” or net-new “supply” of housing across the R3 residential zones across the LGA. As shown in **Table 11**, the analysis completed shows that

- **Current FSR controls** (of 6 dwellings per lot) produce additional development capacity that could yield a net-new 4,700 dwellings (over existing improvements) to the supply of housing within contiguous R3 residentially-zoned land.
- **Proposed FSR controls** (of 7 dwellings per lot) produce additional development capacity that could yield a net-new 5,900 dwellings (over existing improvements) to the supply of housing. It also represents an incremental increase of 1,200 more dwellings over current FSR controls.

Overall, the proposed built form controls (7 dwellings per lot) will increase dwelling capacity in the study area.

TABLE 11: DWELLING YIELD ACROSS CONTIGUOUS R3 LOTS IN STUDY AREA

Sub-area	Redevelopment Sites (prototypical development)	Existing Improvements (2 dwellings per lot)	Current Controls (6 dwellings per lot)	Proposed Controls (7 dwellings per lot)
	(A)	(B)	(C)	(D)
Arncliffe	240	490	1,460	1,710
Banksia	20	40	130	150
Valley	90	180	550	640
Bexley	200	400	1,190	1,390
Brighton Le Sands	250	490	1,470	1,720
Dolls Point	10	10	30	40
Kogarah	30	60	190	220
Monterey	110	220	650	760
Ramsgate	10	20	50	60
Ramsgate Beach	10	30	80	100
Rockdale	70	130	390	460
Sandringham	10	10	30	40
Sans Souci	120	240	730	850
<u>Turrella</u>	<u>10</u>	<u>30</u>	<u>80</u>	<u>90</u>
Study area total	1,180	2,350	7,030	8,230
Over Existing (B)	---	---	4,680	5,880
Over Current (C)	---	---	---	1,200

Source: SGS Economics and Planning, 2023 (numbers have been rounded to the nearest 10).

Methodology

Analysis was completed in GIS using Council-provided data layers. The analysis aggregated all R3 zoned parcels in the former Rockdale LGA as identified by Bayside Council in their ongoing efforts to review R3 lots (dated July 2022). SGS's analysis was performed as follows:

1. GIS analysis-based yield analysis was completed using a selection of only contiguous lots (where borders are shared) within the LGA (total of 2,996 parcels), as shown below in **Table 12**.
2. Contiguous parcels, or those bordering one another, were identified in GIS (totalling 2,964 parcels). This resulted in a total of 285 developable blocks ranging in size from 100 sqm to as large as 70,300 sqm.
3. Because SGS's analysis of prototypical development assumes a level of amalgamation, the estimate of developable parcels was further reduced to ensure that redevelopment meeting the minimum threshold for the developable lot size (at least 1,287 sqm) would be met. This reduced the count of developable blocks to 240 (relating to 2,934 or 98% of the original 2,996 parcels). This analysis broadly assumes that amalgamation occurs on the blocks that meet this minimum area threshold, whereas the analysis does not factor in other potential site-specific physical characteristics such as environmental or topographic constraints, utility easements, infrastructure limitations, etc.
4. Using the count of developable blocks, the estimates (as presented above in **Table 11**) were calculated. Total yield was determined for existing improvements, the potential under current controls and the proposed controls by multiplying the number of redevelopment sites by their respective yields.

While this analysis controlled for as many exclusions as possible, the data made available from Council did not control for recent developments or parcels in strata ownership.

TABLE 12: CONTIGUOUS PARCEL DATA ANALYSIS

Parcel type	Parcels	Blocks
All parcels	2,996	n/a
Contiguous parcels	2,964	285
Over threshold (1,287 sqm)	2,934	240

Source: SGS Economics and Planning, 2023 (numbers have been rounded to the nearest 10).

4. Synthesis and recommendations

The purpose of this study was threefold:

- Test new site parameters as set out in the LEP for R3 Zones in the former Rockdale LGA;
- Understand impact on feasibility and potential yield; and
- From this, determine any blockages in delivering housing.

Overall, the increase in FSR for the sites results in a corresponding increase in the yield for the development sites. On this basis, SGS can confirm that increasing FSR would not result in a lower potential yield or negatively impact the feasibility as compared to existing controls.

There are a range of feasibility options that can occur, with large variation between the existing use values and the gross realisable values from the multi-dwelling developments. The results show that development is feasible when existing use values are lower in the range and developments can return higher sales values. There is variation between parts of the study area.

Development industry dynamics are complex, particularly at the time of writing, where the prospect of further interest rate hikes mean that there is uncertainty in the market and the world is still facing inflationary pressures brought on by the onset of COVID-19.

This means that any blockages to delivering more housing are likely to be the result of specific property dynamics and should be considered at a site-specific level. The changes in the controls have been assessed not to have an adverse impact on either feasibility or yield.

On a sub-area level considering existing conditions, there is a higher chance of feasibility in areas closer to the Bay due to higher values achieved in new construction. The development dynamics may not be favourable in areas like Arncliffe West and Bexley.

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