

Appendix A

Economic Study

prepared by Hill PDA

Preliminary Hornsby West Feasibility Analysis

Commercial/Retail Demand Assessment

Mixed Use Feasibility Assessment

PRELIMINARY HORNSBY WEST FEASIBILITY ANALYSIS

PREPARED FOR

Hornsby Shire Council

August 2012

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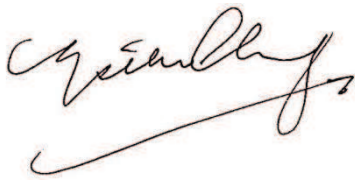
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1. EXECUTIVE SUMMARY

Hill PDA has been instructed to conduct a preliminary feasibility analysis on the requirement for a minimum commercial FSR for Hornsby West Precinct of 2:1. This is required to inform the brief for more detailed studies required for a Planning Proposal for the precinct including urban design, traffic and economic advice.

We have conducted initial market research to inform the feasibility analysis, including residential, commercial and retail property. This has included an analysis of property sales in the area which relate to land which is likely to be redeveloped when appropriate zoning is introduced as well as analysis of the associated improvements.

We note that the area comprises a range of older properties which are often poorly maintained, vacant or occupied with low grade uses indicating the need for redevelopment. A number of properties we understand to be of local heritage significance which may restrict redevelopment of these properties and adjoining properties but we have assumed that no such restrictions would affect the generic site to be analysed.

The nature of land holdings in the precinct varies from car parking lots to multi-storey heritage buildings providing a range of improvement values and constraints. However this advice is geared towards those sites which have improvements generally of at least 1:1 FSR, often with multiple owners.

The analysis has assumed that the ground floor of the proposed development will be retail, possibly including a small supermarket and specialty shops. The first floor and possibly second floor podium, depending on the proportion of commercial floor space, is expected accommodate commercial offices or residential apartments where the minimum commercial FSR permits. Above the podium is a residential tower which has a footprint of between 700sqm and 900sqm.

Minimum commercial FSR of 2:1, 1.5:1, and 1:1 have been tested within building heights which may reach up to 22 storeys for viability. The results are shown in Table 1.

The table indicates the land value and building height required to be viable. Whether the land value is sufficient to facilitate amalgamation of land will depend on the value of improvements which we have estimated to be in the region of \$3,000/sqm to \$5,000/sqm of site area on a range of sites.

The feasibility results for a minimum commercial FSR of 2:1 indicate that such a development is not feasible until heights reach around 16-20 storeys and accommodate total FSR of 7:1. At 1.5:1 minimum commercial FSR the development may be viable with a total FSR of 6:1 subject to the value of improvements on the site and the feasibility of amalgamation. This would require building heights of 13-16 storeys.

With a lower commercial FSR of 1:1, which is still likely to represent a two storey podium, especially where the site has only one street frontage, more residential floor space can be achieved and feasibility improves with a FSR of around 5:1 being feasible. This will require building heights of 12-15 storeys depending on residential floor plates and the value of existing improvements.

Table 1 - Scenario Results

Non-Residential FSR	Residential FSR	Total FSR*	Site Acquisition Cost/sqm	Building Height (storeys) including podium
1.0	3.0	4.0	\$3,298	10-12
1.0	3.5	4.5	\$3,773	11-13
1.0	4.0	5.0	\$4,305	12-15
1.0	4.5	5.5	\$4,811	13-16
1.0	5.0	6	\$5,098	15-18
1.5	3.5	5.0	\$3,404	11-13
1.5	4.0	5.5	\$3,727	12-15
1.5	4.5	6.0	\$4,008	13-16
1.5	5.0	6.5	\$4,181	16-20
1.5	5.5	7.0	\$4,590	17-21
1.5	6.0	7.5	\$4,785	18-22
2.0	3.0	5.0	\$1,962	11-13
2.0	4.0	6.0	\$3,240	13-16
2.0	4.5	6.5	\$3,610	14-16
2.0	5.0	7.0	\$4,061	16-20
2.0	5.5	7.5	\$4,284	17-21

*FSR is floor space ratio and is the developable floor space divided by the site area.

In conclusion the analysis indicates that even with a minimum commercial FSR of 1:1, feasibility requires building heights of 12 -15 storeys depending on the size of the residential floor plate and the value of improvements on the site.

The preliminary feasibility analysis demonstrates that a minimum commercial FSR in excess of 1:1 will not be conducive to land values which support amalgamation and redevelopment and if building heights are considered an issue, an even lower minimum non-residential FSR may be appropriate. It is expected that larger sites with multiple street frontages will be attractive for a supermarket and specialty shops, compared to smaller sites with limited street frontage. However achieving even 1:1 non-residential FSR on larger sites without a supermarket may be a challenging in the current demand environment.

It is recommended that further analysis occur at the next stage of the planning proposal to determine what is feasible on a range of sites and determine an appropriate strategy for optimising non-residential floor space in the precinct. More detailed testing of specific sites during the next stage of the studies will also allow further refinement of the urban design, traffic and demand analysis proposed for the development of the Planning Proposal.

2. INTRODUCTION

Hill PDA has been instructed to prepare a preliminary feasibility analysis for inclusion of a minimum commercial FSR of 2:1 for redevelopment of the Hornsby West Precinct. This is to inform the brief for a more detailed study of the precinct which will underpin the Planning Proposal including urban design, traffic and economic advice.

In order to undertake this analysis Hill PDA has undertaken high level market research to inform financial modelling of a hypothetical site close to the station which is representative of potential amalgamation of land for redevelopment.

2.1 Market Research

2.1.1 Land Values

Hill PDA has researched property transactions in Hornsby and spoken to local real estate agents to gain an understanding of market conditions and likely sales values for both residential, retail and commercial premises.

Higher market values in Hornsby are found in the shopping precinct east of the station which is dominated by the Westfield Shopping Centre. While there have been some multi-storey mixed use projects developed near the centre in George Street and to the south along College Crescent there has been little comparable development to the west of the station, in the area defined as the Hornsby West Precinct. This can be attributed to the difficulty of amalgamating sites which are mostly comprised of older two storey shopfronts with commercial tenancies or residences above.

The lack of new development on the western side of the train line is a product of a number of factors, including size of land parcels, number of land owners, planning controls, and the value of the improvements. Recent sales indicate a range of \$2,550-\$5,064/sqm for various land parcels in the precinct during the last 5 years. 12 Coronation Street sold in 2010 for \$5,064/sqm and represents the upper end of the range for the Hornsby West Precinct. At present four shopfronts located at 272 Pacific Highway, are being marketed with an asking price of \$2.9m, or approximately \$3,700/sqm of the site area (784sqm). This much larger than 12 Coronation Street (125 sqm) indicating that larger sites generally achieve lower prices due to the lower demand at these price points.

Generally we conclude that properties suitable for redevelopment are achieving prices as high as \$5,000/sqm for small sites with significant improvements while larger sites are achieving prices as low as \$3,000/sqm. We have assumed that the generic site which we are testing will need to achieve at least \$4,000/sqm although this will be dependent on the level of improvements and lot sizes.

Table 2 - Recent Commercial Sales, Hornsby

Address Zoning	Sale Date	Sale Price	Land Area	\$/sqm	Comments
272 Pacific Highway	Asking	\$2,900,000	788.5sqm	\$3,677	Four dilapidated double storey shop/residences with approximately 400sqm of retail floor area. Rear lane access.
2 Dural & 193 Pacific Highway, Hornsby	30/11/2011	\$1,650,000	550.2sqm	\$3,000	Two separate properties were purchased together by a developer who already owns lands adjoining the site.
12 Coronation Street Hornsby	05/08/2010	\$635,000	125.4sqm	\$5,064	Double storey traditional retail strip shop. 90sqm of retail at ground level with approximately 90sqm located above.
128 George Street Hornsby	14/12/2009	\$128,000	501.8sqm	\$2,551	Bulky goods retail shop front in average condition, located over 500m north from train station.

Source: RP Data, RealCommercial.com.au & Hill PDA Research, August 2012

2.1.2 Retail

Retail floor space is most sought after on the eastern side of the train line in close proximity to Westfield, and this is reflected in the price for land east of the station and also comparable new development. A real estate agent marketing a new mixed use development located at 8 Edgeworth David Avenue commented on the popularity of small tenancies selling off the plan, which would benefit from the high foot traffic associated with the Westfield. Agents identified that there was strong demand from tenants looking to move from Westfield and he had sold a few small tenancies of 70-80sqm for as much as \$10,000/sqm. An older mixed use development located at 88 George Street that consists of two multi storey buildings, has a large amount of retail and commercial space located from ground to level 4 with apartments above. Whilst the majority of retail tenancies were sold during the peak in 2005-2007, obtaining up to \$7,500/sqm prices seem to have reduced by 10-15% from this period with a few resales in the \$6,100-\$6,300/sqm range. Agents have commented that 88 George Street does not benefit from the heavy foot traffic of premises located closer to Hornsby Town Centre, however it is still very attractive for small business in particular medical services.

Retail leases for the shops located in the western precinct are achieving rents of \$300-\$400/sqm per annum and are dominated by fast food cafes and restaurants. During informal discussions with a leasing agent it was revealed that many properties in the area were on the market for long periods amidst a continued cycle of insolvencies for the businesses in the area.

It is likely that the Hornsby West Precinct will accommodate a supermarket when it is redeveloped with a larger site being able to accommodate a larger supermarket up to 3,000 sqm. From our research we have established that a supermarket of more than 1,000 sqm could be expected to sell for up to \$5,000/sqm and specialty shops for between \$7,500 and \$8,750/sqm. We have adopted the lower end of this range for specialty shops in our analysis for Hornsby West reflecting the lower demand in this location at the present time.

Table 3 - Retail Strata Sales, Hornsby

Address	Type	Area (sqm)	Sale Price	\$/sqm
88 George Street Hornsby (Building 1+2) Retail	Ground floor Retail	80-140	\$485,000-\$635,000	\$5,570-\$7,335

Source: RP Data & HillPDA, August 2012

2.1.3 Commercial

The commercial market has suffered more than the retail market in Hornsby Town Centre since the Global Financial Crisis. Hornsby is known more as a retail centre than as an employment centre. Resales of 88 George Street indicate that a 15-20% decrease in commercial tenancy values has occurred since 2006/2007. Agents have identified that while prices have stabilised since this time there is still some demand from consumer service focused industries such as medical practitioners associated with the Hornsby Hospital. 88 George Street is attractive to medical consulting professionals and there are a number of owners who control several tenancies in the building. The agent selling the mixed use development at 8 Edgeworth David Ave commented that they are waiting until construction commences before marketing the commercial units. While there would be demand from small professional services tenants around the eastern side of the train line, the agent commented that construction needed to be underway before there is buyer interest.

Commercial Strata Sales, Hornsby

Address	Sale Date	Type	Area (sqm)	Sale Price	\$/sqm	Comments
88 George Street Hornsby (Building 1+2) Commercial	Multiple	Commercial Level 1-3	61-136	\$330,000- \$825,000	\$4,050- \$5,450	Two mixed use towers completed in 2006/2007. Three levels of strata commercial space between level 1 and 3. While located on the eastern side of the station the proximity to the Westfield and main shopping precinct is average.
21/14 Edgeworth David Ave Hornsby	01/07/2011	Commercial Level 1	127	\$517,500	\$4,075	Older strata building in close proximity to the Westfield. Purchased by a medical practitioner.

Source: RP Data & Hill PDA, August 2012

The Hornsby West Precinct is not expected to attract the same demand as locations east of the station and therefore values closer to \$4,000/sqm are expected to be achieved for commercial strata units within a mixed use development. Such values are not profitable and therefore we expect developers to minimise such uses within a development. Where such uses are required by the planning authority this will increase the residential floor space required to subsidise these uses.

2.1.4 Residential

The residential apartment market in Hornsby has performed strongly of late and this is exemplified by low vacancies and growth in the rental market. Moreover, analysis of the resales of developments completed in the last five years has shown appreciation in values, especially for one and two bedroom apartments. Prices reflect the proximity to the town centre and the services situated in this area.

While there has been good capital growth in the apartment market since the Global Financial Crisis there has been little development over the last few years, a result of tight capital markets restricting developers undertaking new development. An analysis of the most recent apartment buildings in Hornsby shows that there are no new apartment developments to the west of the Station. The newer developments are located east of the railway line and are particularly focused on George Street, Pound Road and College Crescent.

Table 4 - Residential Unit Sales, Hornsby

Address	Number Analysed	Type	Area (sqm)	Sale Price	\$/sqm
88 George Street Hornsby (Building 1) 100 units	18 6	2b 3b	82.5-96 105-117	\$470,000-\$535,000 \$570,000-\$653,500	\$4,950-\$5,900 \$4,980-\$6,100
88 George Street Hornsby (Building 2) 99 units	17 2	2b 3b	72-96 126-130	\$445,000-\$510,000 \$650,000-\$670,000	\$5,280-\$6,140 \$5,150-\$5,200
14-18 College Crescent Hornsby Block consists of 84 units	5 16	1b 2b	50-52 74-82	\$315,000-\$388,000 \$385,000-\$450,000	\$6,058-\$7,760 \$5,000-\$5,810

Source: Red Square & Hill PDA Research, July 2012

The dearth of new development over the past few years seems to be coming to an end with two new mixed use developments currently underway in close proximity to Hornsby town centre. The Walk, a mixed use development, located east of the station in the centre of Hornsby shopping precinct, is currently selling off the plan. The marketing agent indicates a strong response for 1 bedroom apartments, however the marketing campaign had been limited to internet advertising at this time and while they had passively sold 12 over the last 12 months, it was not a real indication of the take-up.

The Duolos Apartments located to the south of Hornsby's retail precinct consists of 38 apartments in 5 different apartment layouts (1 bed and 2 bed). The marketing agent revealed that most interest was received for the two bedroom apartments, while there was still interest in one bedroom apartments. It was further commented that the development was targeted at a price point above the current stock in the area and this was potentially impeding take-up.

Table 5 - New Mixed Use Developments, Hornsby

Description/ Address	Number	Type	Area (sqm)	Sale Price	\$/sqm
The Walk 8 Edgeworth David Avenue Hornsby	8 14 4	1b 2b 3b	48 77 110	\$420,000-\$450,000 \$510,000-\$575,000 \$715,000+	\$8,750-\$9,375 \$6,600-\$7,500 \$6,500
Duolos 93-103 Pacific Highway Hornsby	15 23	1b+s 2b	62-63 73.5-85	\$420,000-\$430,000 \$550,000-\$560,000	\$6,775-\$6,825 \$6,588-\$7,480

Source: Realestate.com.au & Hill PDA Research, July 2012

2.1.5 Summary

Based on market research of existing and planned developments a summary of values is estimated for the Hornsby West Precinct in Table 6.

Table 6 - Summary Mixed Use Inputs, Hornsby

Tenure	Mix	Type	Size sqm	Price Range	\$/sqm	Average
Retail	NA	Small	125	\$750,000-\$1,000,000	\$7,000-\$8,000	\$7,500
		Large	1250	\$5,000,000-\$5,250,000	\$4,000-\$4,250	\$4,100
Commercial office	NA	NA	75	\$300,000	\$4,000-\$4,250	\$4,000
			150	\$600,000	\$3,750-\$4,250	\$4,000
			500	\$2,000,000	\$3,500-\$4,000	\$4,000
Residential units	30%	1b	50	\$410,000-\$430,000	\$8,000-\$8,600	\$8,200
	60%	2b	85	\$485,000-\$550,000	\$6,000-\$6,750	\$6,500
	10%	3b	110	\$630,000-\$710,000	\$5,750-\$6,250	\$6,000

Source: Hill PDA Research, July 2012

3. FEASIBILITY ANALYSIS

The financial modelling has been undertaken using the Estate Master DF feasibility software to analyse projected cash flows from the hypothetical development with a view to deriving a range of residual land values applicable to a variety of commercial FSR scenarios.

3.1 Financial Modelling Assumptions

A site of 2,200 square metres has been assumed with two street frontages providing potential for a small supermarket on the ground floor or a range of specialty shops. It should be noted that not all sites will be suitable for a supermarket and that this may reduce the value of retail space for sale including specialty shops. In addition a component of commercial office space has been assumed on the first and second floors where necessary, equating to the remainder of the non-residential FSR to be tested. Above this podium a residential tower is assumed to be constructed with the balance of floor space allocated to a footprint of between 700 and 900 square metres.

The following assumptions have been used for the financial modelling:

- Professional design and project management fees of 8% of constructions costs;
- Constructions costs:
 - Residential \$2,250/sqm
 - Commercial \$2,200/sqm
 - Retail \$2,000/sqm
 - Basement Car Parking \$40,000 per space;
- Construction contingency of 5% of costs;
- Marketing Costs of 1% of gross sales;
- Sales commission of 2% of gross sales;
- 50% pre-sales prior to construction;
- Legal fees of 0.2% of gross sales;
- End Sale Values:
 - 1 bedroom unit \$400,000 – \$430,000
 - 2 bedroom unit \$500,000 - \$550,000
 - 3 bedroom unit \$650,000-\$690,000
 - Commercial strata \$4,000 /sqm
 - Retail Strata \$5,000 - 7,500/sqm
- Interest Rate 8%;
- Target IRR – 20%;
- Target Development Margin 20%;
- Escalation costs and sales 3%;

3.2 Feasibility Results

Various scenarios were tested in the financial model to determine thresholds for viability in terms of building height and FSR with minimum non-residential FSR's of 2:1, 1.5:1 and 1:1. Viability is considered to be positive when the target IRR and development margins are achieved and the land value is considered to be at least equal to the market value of the land including improvements.

Improvements vary widely across the precinct ranging from minimal to significant heritage buildings. It is noticeable that many retail tenancies are temporary and offer a low grade product indicating the area is in need of renewal and an increased population to support a higher level of retailing. The analysis has therefore focussed on a fairly improved site with a number of owners for which amalgamation costs are likely to be at the higher end of land values. The sales which have been examined indicate that land has been acquired over the last 5 years for between \$3,000 and \$5,000/sqm including improvements.

For the purposes of the building height it has been assumed that there is a two or three storey podium, with a residential tower above. The residential floor plate is assumed to be between 700sqm and 900sqm for the purposes of calculating building height. Therefore where a site permits a larger floor plate a lower building height would result. We have assumed all basement parking but in some cases on sloping or larger sites some above ground parking may be possible which would improve feasibility.

Table 7 illustrates the range of land values achieved, building heights required and commercial FSR in each scenario. The land value must be enough to acquire existing improvements at values of \$3,000 - 5,000/sqm and for the purposes of determining feasibility we have assumed an average of \$4,000/sqm is required depending on the site.

Table 7 - Scenario Testing Results

Commercial/Retail FSR	Residential FSR	Total FSR*	Land Value/sqm	Building Height (storeys)
1.0	3.0	4.0	\$3,298	10-12
1.0	3.5	4.5	\$3,773	11-13
1.0	4.0	5.0	\$4,305	12-15
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2.0	3.0	5.0	\$1,962	11-13
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2.0	5.0	7.0	\$4,061	16-20
2.0	5.5	7.5	\$4,284	17-21

*FSR is floor space ratio and is the developable floor space divided by the site area.

The results for a minimum commercial FSR of 2:1 indicate that such a development may become feasible with heights around 16-20 storeys and accommodate total FSR of 7:1. At 1.5:1 minimum commercial FSR the development may be viable with a total FSR of 6:1 subject to the improvements on the site and the feasibility of amalgamation. This would require building heights of 13-16 storeys.

With a lower minimum commercial FSR of 1:1, which is still likely to represent a two storey podium, especially where the site has only one street frontage, more residential floor space is achieved and feasibility improves with FSR's of around 5:1 being feasible. This will require building heights of 12-15 storeys depending on residential floor plates, existing improvements and the size of the site.

3.3 Conclusion

The conclusion of the feasibility analysis is that, in order to accommodate a minimum commercial FSR of 2:1 on mixed use sites in the Hornsby West Precinct, building heights of 16-20 storeys will be required and FSR's of at least 7:1. This analysis is based on preliminary research which does not fully assess demand for commercial offices which comprise the majority of this non-residential floor space. However we expect that office space west of the station will be limited to professional and other local services for which this level of commercial floor space is expected to exceed demand. Furthermore should a site not be suitable for a supermarket retail space may be less valuable, reducing land values.

Lower minimum FSR's for non-residential space of 1.5:1 and 1:1 are considered more feasible with building heights of 13-16 and 12-15 storeys respectively and total FSR's of 6:1 and 5:1 respectively being required. We believe that a minimum non-residential FSR of 1:1 could be sustainable on certain sites in the precinct subject to the overall FSR and building height controls.

We understand that more detailed site analysis is to be undertaken during the next stage of the Planning Proposal studies and recommend that such options be further assessed within these studies.

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Appendix 1 - **FINANCIAL MODEL SUMMARIES**

Minimum Commercial FSR's 2.0, 1.5 & 1.0



HORNSBY WEST STAGE 2A: COMMERCIAL/ RETAIL DEMAND ASSESSMENT

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1. EXECUTIVE SUMMARY

This Commercial and Retail Demand Assessment is the second stage of work carried out by Hill PDA to inform a Structure Plan for the Hornsby West Precinct (the Precinct). The findings of this Study are to inform the urban design, traffic and economic analysis components which will contribute to the Structure Plan.

Background and Earlier Work

Hill PDA was earlier appointed to conduct a Preliminary Feasibility Analysis to test the viability of a requirement for a minimum commercial FSR of 2:1 for the Hornsby West Precinct. Market research and feasibility testing indicated that such a development is unlikely to be feasible until heights approach 16-20 storeys and accommodate a total FSR of 7:1.

The Preliminary Feasibility Analysis found that minimum commercial FSRs exceeding 1:1 would not be conducive to support amalgamation and redevelopment. It was suggested that a supermarket and ancillary specialty shops could be accommodated in larger sites that had the benefit of multiple street frontages; it was further cautioned that commercial FSRs at even 1:1 without a supermarket could be challenging in the current environment.

The Preliminary Feasibility Analysis recommended that further analysis be carried out determine the feasibility of development on a range of sites to formulate an appropriate strategy for optimising non-residential floorspace in the Precinct.

Demand for Retail Floorspace

The Study finds that there is some scope to accommodate additional supermarket floorspace in the Precinct over the period to 2016 and beyond. The provision of such a supermarket would support additional specialty retail floorspace in the surrounding area, would improve the trading performance of the Precinct and distinguish the role of the Precinct from that of Hornsby Major Centre, located to the east of the railway line, which serves higher order shopping needs.

In our view Hornsby Shire Council should plan for additional retail facilities in the Precinct including a supermarket of around 1,500sqm (small format, convenience-type) in addition to specialty retail facilities. The location of this facility is critical for the viability of this type of supermarket offer. These facilities would serve a localised shopping role and would assist in ensuring that residents have access to convenience and top-up retail shops and services locally, minimising the need for travel.

Demand for Commercial Floorspace

The Study finds that there is limited scope to provide a meaningful increase to commercial floorspace within the Precinct. Council may seek to adopt a broad approach supporting a mix of residential, commercial and retail uses, possibly at higher densities subject to design testing. An intensification of land uses could allow for new public spaces, promote the 'active' interaction of uses and help establish the Precinct as a destination for visitors. This would not only benefit the existing Precinct but also act as an impetus for future development in the broader locality.

2. INTRODUCTION

Hill PDA has been commissioned to undertake a number of studies examining the Hornsby West Precinct ('the Precinct') for Hornsby Shire Council ('Council'). This Study examines the existing supply of, and forecast future demand for, retail and commercial floorspace within the Precinct. It is based on a floorspace survey, demographic analysis, retail expenditure modelling, employment forecasts and consequent demand for commercial floorspace. The purpose of the Study is to examine the extent to which there is scope for additional retail and commercial floorspace within the Precinct over the next 25 years (2011 to 2036).

This Study follows on from our Preliminary Hornsby West Feasibility Analysis which was prepared for Council in August 2012.

2.1 The Precinct Location

The Precinct comprises land immediately west of Hornsby Rail Station and Station Street. It encompasses units fronting the Pacific Highway, Coronation Street, Jersey Street, Jersey Lane, Station Street, Beattie Lane, Dural Street, Dural Lane, William Street, Ashley Lane and Ashley Street.

The extent of the Precinct is depicted in Figure 1.

Table 1 - Total Floorspace and Units by Land Use in the Precinct (Oct 2012)

Category	Floorspace (GLA ¹)		Units	
	sqm	% of Total	No.	% of Total
Department Store	-	0%	-	0%
Discount Department Store	-	0%	-	0%
Supermarket	-	0%	-	0%
Specialty Food	1,196	4%	9	6%
Specialty Non Food	1,455	5%	10	7%
Convenience Store	-	0%	-	0%
Cafes & Restaurants	1,611	6%	17	12%
Take Away Food	190	1%	3	2%
Clothing	62	0%	1	1%
Bulky Goods	2,038	8%	2	1%
Personal Services	1,257	5%	21	15%
Total Retail Floorspace	7,809	29%	63	45%
Commercial - Finance	742	3%	9	6%
Commercial - General	1,123	4%	20	14%
Commercial - Government	-	0%	-	0%
Commercial - Legal	428	2%	6	4%
Commercial - Medical	536	2%	4	3%
Commercial - Real Estate	1,000	4%	8	6%
Commercial - Travel	-	0%	-	0%
Total Commercial Floorspace	3,829	14%	47	34%
Community	1,980	7%	4	3%
Entertainment	1,500	6%	1	1%
Recreation and Fitness	300	1%	1	1%
Hotel / Pub / Club	8,900	33%	2	1%
Automotive	-	0%	-	0%
Other	50	0%	2	1%
Vacant	2,633	10%	20	14%
Total Floorspace	27,001	100%	140	100%

Source: Hill PDA (October 2012)

Based on the Hill PDA floorspace survey, the Precinct contained (in October 2012) around 27,000sqm of shopfront floorspace in 140 units. The largest land use occupiers in floorspace terms were 'hotels/ pubs/ clubs' which occupied some 8,900sqm or around a third of total shopfront floorspace. This predominately comprised the Hornsby RSL on Ashley Street. Around 7,800sqm of shopfront floorspace (29%) was occupied by retail uses at the time of the Hill PDA survey, with approximately 3,800sqm (14%) of shopfront floorspace being non-retail commercial.

In terms of units retail uses dominated, accounting for 63 units or some 45% of total units. Non-retail Commercial occupiers accounted for 47 units (34%).

¹ Gross Lettable Area - Gross Lettable Area (GLA) is the common measure used for lease and for other descriptive purposes in retail centres and shops. It is usually defined as the total area of the lease and includes back of house, storage, offices and mezzanine levels but usually excludes loading docks and common mall spaces. GLA is more commonly used in the industry because it defines the area of the lease. Shopping centre owners report rents and turnover figures on the leased area and benchmarking is usually made on the GLA. For the purpose of Hill PDA's demand modelling all floor areas expressed are in GLA

Vacancies were relatively high in the centre in terms of both floorspace (2,633sqm or 10% of total shopfront floorspace) and unit (20 units or 14% of total units). This was partially attributable to a fire in October 2012 which led to destruction and damage to several of the units in the centre at 191-203 Pacific Highway.

The Precinct currently functions as a localised provider of retail and commercial goods and services. It is a secondary retail location, given the proliferation of vacancies and lower rent paying tenants within it.

3. RETAIL HIERARCHY REVIEW

This Chapter explores the existing retail hierarchy around the Precinct. For each centre the role, function and shopfront floorspace provision is identified. The purpose of this Chapter is to understand existing retail provision in the area surrounding the Precinct which will assist in defining a trade area for retail uses in the Precinct, and identify any deficiencies or gaps in the hierarchy which the Precinct may be able to address.

3.1 Retail Hierarchy

Hornsby Local Government Area is situated within the North Subregion. The draft North Subregional Strategy (2007) identifies a hierarchy and typology for centres within the Subregion. The table below summaries the hierarchy of centres within the area surrounding the Precinct. Given the modest quantum of retail floorspace currently provided in the Precinct, the artificial barrier provided by the railway line and the close proximity of the Precinct to Hornsby Major Centre, most of the centres identified are located west of the Northern Railway Line.

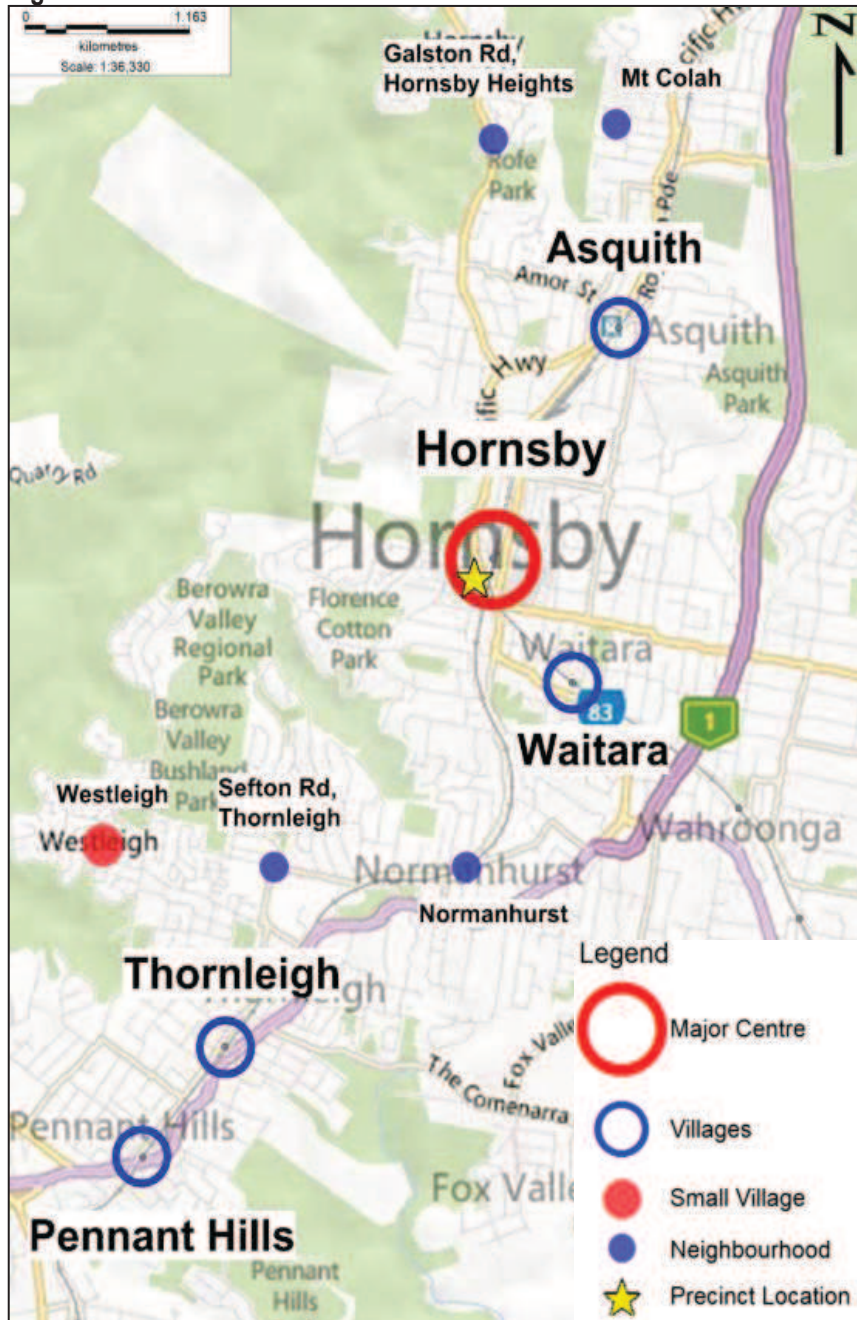
Table 2 - Retail Centres Hierarchy around the Precinct

Centre Typology	Characteristics	Centres
Major Centre	Major shopping and business centre serving immediate subregional residential population usually with a full scale shopping mall, council offices, taller office and residential buildings, central community facilities and a minimum of 8,000 jobs.	Hornsby
Village	A strip of shops and surrounding residential area within a 5 to 10 minute walk contains a small supermarket, hairdresser, take-away food shops. Contain between 2,100 and 5,500 dwellings.	Asquith, Pennant Hills, Thornleigh, Waitara
Small Villages	A small strip of shops and adjacent residential area within a 5 to 10 minute walk. Contain between 800 and 2,700 dwellings.	Westleigh
Neighbourhood Centre	One or more small cluster of shops and services. Contain between 150 and 900 dwellings.	Galston Road, Mt Colah, Normanhurst, Sefton Rd

Source: Draft North Subregional Strategy, NSW Department of Planning and Infrastructure (2007)

The location of these identified centres is depicted in Figure 1 over the page. The remainder of this Chapter examines each of the centres identified in more detail.

Figure 2 - Retail Centres around The Precinct



Source: Map produced by Hill PDA using MapInfo 11.5 software and Microsoft Bing (c) 2011 Microsoft Corporation

3.2 Hornsby Major Centre

The Precinct is located in the area identified as Hornsby Major Centre within the draft North Subregional Strategy. Westfield Hornsby dominates retail provision in the centre and contains approximately 104,440sqm of shopfront floorspace, including around 95,800sqm of retail floorspace². It is located on the eastern side of Hornsby Rail Station approximately a one minute walk from the Precinct. Anchor tenants include David Jones, Myer, Kmart, Target, Woolworths and Coles. Mini-majors include a Dan Murphys Liquor store, JB-Hi FI and an

² Source: Property Council of Australia Shopping Centre Directory 2011/2012

ALDI foodstore. In addition to retail stores the centre contains a cinema multiplex, Fitness First, a food court and several restaurants.

Westfield Hornsby recorded an annual turnover of \$611.6m in 2011³. This equates to a turnover of \$6,813/sqm, marginally greater than the median for the 87 similar sized centres (i.e. centres of greater than 45,000sqm GLA retail floorspace) recorded across Australia by Shopping Centre News (\$6,758/sqm).

Additional strip retail is located east of the railway line adjacent to Westfield Hornsby along George Street and Hunter Street.

3.3 Village Centres

Asquith

Asquith Village Centre is located on the Pacific Highway between the intersections of Bouvardia Street and Amor Street and adjacent to Asquith Rail Station. The centre is situated approximately 2km or a 3 minutes drive north-east of the Precinct⁴. In 2008 at the time of Council's floorspace survey it provided in the order of 7,402sqm⁵ of occupied shopfront floorspace. A full-line Coles supermarket (3,400sqm⁶) is the main retail anchor and other tenants in Asquith include restaurants, real estate agents, a KFC and coffee shops.

Pennant Hills

Pennant Hills Village Centre is situated approximately 6km or a 9 minute drive south of the Precinct⁷, adjacent to Pennant Hills Road and Pennant Hills Rail Station. At the time of Council's 2008 floorspace survey the centre provided some 25,568sqm of 'Retail- Main Street' floorspace and a further 12,914sqm of 'Bulky Goods Retail'⁸. The centre is divided in two by the rail line with the eastern side primary dominated by urban support services and car yards. The western component is located along Yarrara Road and Pennant Hills Road between the intersections of Ramsay Road and Trebor Road. Tenants represented in the centre include Franklins, Harris Farm, Fitness First and KFC. It also includes Pennant Hills Medical Centre and a public library.

Thornleigh

Thornleigh Village Centre is situated adjacent to Thornleigh Rail Station and Pennant Hills Road, approximately 5km or a 7 minute drive south of the Precinct⁹. At the time of Council's 2008 floorspace survey it provided some 11,254sqm of 'Retail- Big Box' floorspace, 7,269sqm of 'Bulky Goods Retail' floorspace and 16,312sqm of 'Retail- Main Street' floorspace¹⁰. The centre is situated is on the eastern side of the railway

³ Source: Shopping Centre News Big Guns 2012

⁴ Source: Googlemaps

⁵ Source: Ku-ring-gai & Hornsby Subregional Employment Study / Final Report 2008

⁶ Source: Measured using Nearmap

⁷ Source: Googlemaps

⁸ Source: Ku-ring-gai & Hornsby Subregional Employment Study / Final Report 2008

⁹ Source: Googlemaps

¹⁰ Source: Ku-ring-gai & Hornsby Subregional Employment Study / Final Report 2008

along both sides of Pennant Hills Road between the intersections of Trelawney Street and Wells Street. Anchor tenants comprise Woolworths (3,688sqm¹¹) and Bunnings.

The Thornleigh Marketplace, which contains the Woolworths supermarket and a Dan Murphy's in addition to specialty retail, achieved a turnover of \$79.03m for the August 2011 to July 2012 period, equating to a turnover per sqm of \$12,902sqm¹². This ranks it 18th nationally based on turnover per sqm out of the 166 similar sized centres of between 6,000sqm and 20,000sqm recorded by Shopping Centre News, and some 58% above the median of \$8,191/sqm. This is clearly a well performing centre.

Waitara

Waitara Village Centre is situated approximately 1km or a 3 minute drive south-east of the Precinct¹³, adjacent to the Waitara Rail Station and the Pacific Highway. It provides in the order of 11,374sqm of 'Retail- Main Street' floorspace and 17,180sqm of 'Bulky Goods Retail' floorspace¹⁴. The retail floorspace is primarily situated on the south of the railway line along the Pacific Highway between the intersections of College Crescent and Carden Avenue. The centre is connected to retail services on the northern side of the railway line via Alexandria Parade and an undercover pedestrian walkway. There is a proliferation of automotive sales yards in Waitara including Toyota, Nissan, Holden, Kia Motors, Mazda and Ford.

Westleigh

Westleigh is defined as a Small Village Centre in the draft North Subregional Strategy. It provides approximately 3,358sqm of shopfront retail floorspace anchored by Franklins (1,459sqm)¹⁵. It is located around a 5.5km or a 9 minute drive south-west of the Precinct¹⁶, adjacent to Eucalyptus Drive between the intersections of Spotted Gum Road and Duffy Avenue.

3.4 Neighbourhood Centres

Galston Road, Hornsby Heights

Galston Road, Hornsby Heights Neighbourhood Centre is located adjacent to Galston Road at the intersection with Grevillea Crescent approximately 4km or a 5 minute drive north of the Precinct¹⁷. It provides 1,161sqm of retail floorspace¹⁸ (Council's 2008 floorspace survey) and performs a localized shopping role.

Mount Colah

Mount Colah Neighbourhood Centre is located along the Pacific Highway between the intersections of Willarong Road and Yirra Road. It is around 4km or a 6 minute drive¹⁹ north of the Precinct. At the time of

¹¹ Source: Property Council of Australia Shopping Centre Directory 2011/2012

¹² Source: Shopping Centre News Mini Guns 2012

¹³ Source: Googlemaps

¹⁴ Source: Ku-ring-gai & Hornsby Subregional Employment Study / Final Report 2008

¹⁵ Source: Property Council of Australia Shopping Centre Directory 2011/2012

¹⁶ Source: Googlemaps

¹⁷ Source: Googlemaps

¹⁸ Source: Ku-ring-gai & Hornsby Subregional Employment Study / Final Report 2008

Council's 2008 floorspace survey it provided 2,466sqm of 'Retail- Main Street' floorspace²⁰. This centre functions as a provider of top-up shopping and retail services to a localised catchment. Tenants include McDonalds and Domino's fast food outlets.

Normanhurst

Normanhurst Neighbourhood Centre is located on the southern side of Denman Parade and Normanhurst Rail Station approximately 2km or 4 minute drive south of the Precinct²¹. At the time of Council's 2008 floorspace survey it provided 1,517sqm of 'Retail- Main Street' floorspace²². It serves the daily and convenience-related retail and service needs of the surrounding residential population.

Sefton Road, Thornleigh

Sefton Road, Thornleigh Neighbourhood Centre provides an estimated 800sqm of 'Retail- Main Street' floorspace²³. It is situated some 4km or a 5 minute drive north of the Precinct²⁴. It caters for local shopping needs only.

Pipeline Development

From examine of the Cordell's database (November 2012), there are no pipeline developments relevant to this Study within the vicinity of the Precinct.

¹⁹ Source: Googlemaps

²⁰ Ku-ring-gai & Hornsby Subregional Employment Study / Final Report 2008

²¹ Source: Googlemaps

²² Ku-ring-gai & Hornsby Subregional Employment Study / Final Report 2008

²³ Ku-ring-gai & Hornsby Subregional Employment Study / Final Report 2008

²⁴ Source: Googlemaps

4. TRADE AREA DEMOGRAPHIC AND GROWTH ANALYSIS

This Chapter undertakes an analysis of the trade area which could be served by the Precinct. Currently the Precinct is part of the Hornsby Major Centre but it acts as a secondary retail area being on the “disadvantaged” side of the railway line. It contains several semi-anchor tenants, such as the Odeon Cinema and the RSL, which may attract trade from a fairly large trade area, but predominately the retail uses in the Precinct perform localised roles only. As such, the trade area which has been defined is aspirational, based on the theoretical role which the centre would perform if it were to provide a stronger retail offer and one which is distinct from that of Hornsby Westfield.

4.1 Trade Area Definition

The trade area served by any retail centre is determined by the consideration of:

- The strength and attraction of the centre and as determined by factors such as the composition, layout, ambience/atmosphere and car parking in the centre/facility;
- Competitive retail centres, particularly their proximity to the centre and respective sizes, retail offer and attraction;
- The location and accessibility of the centre, including the available road and public transport network and travel times; and
- The presence or absence of physical barriers, such as rivers, railways, national parks and freeways.

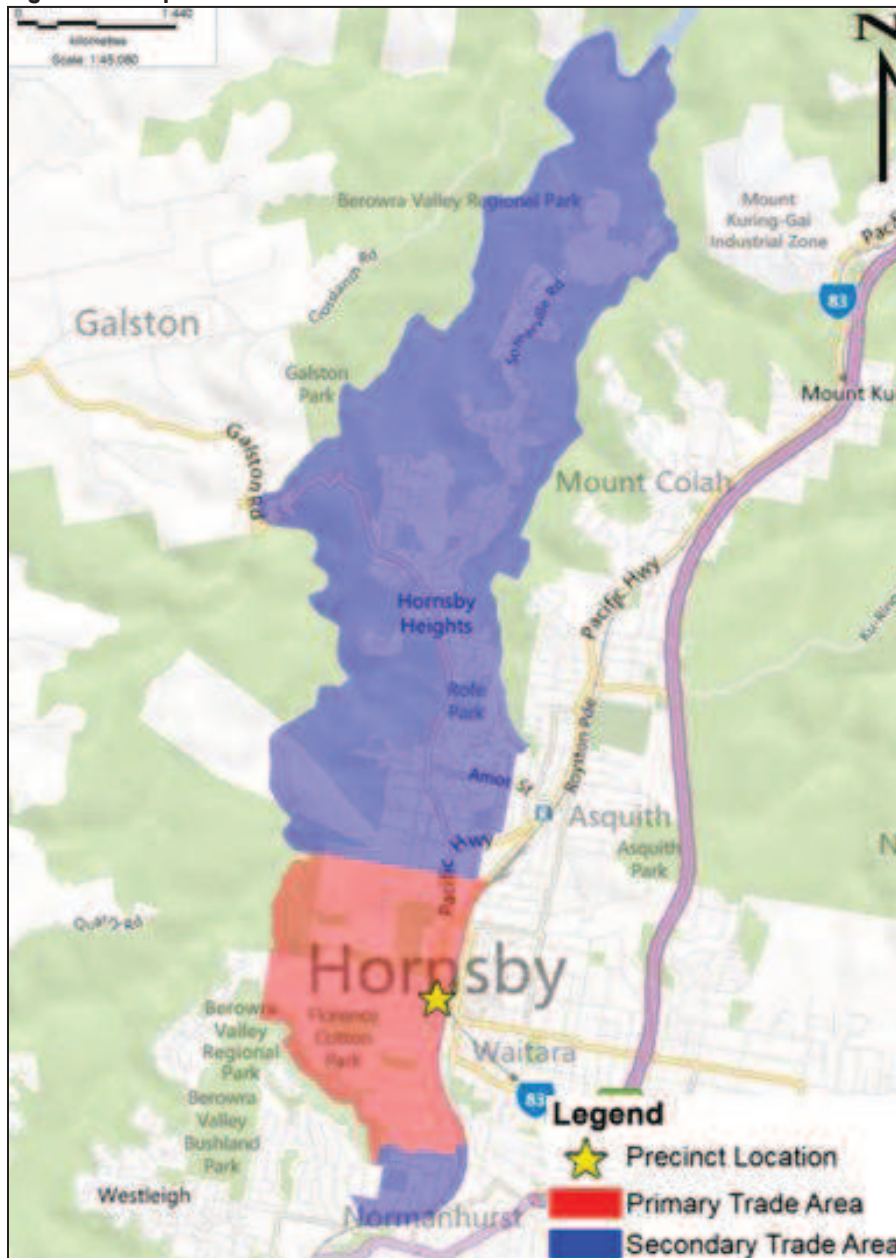
The trade area for the Precinct assumes that it provides a stronger retail offer, akin to that of a Village Centre and containing a supermarket which would act as the main retail anchor. For the purposes of this Study the Main Trade Area has been defined based on the provision of a supermarket in the Precinct as follows:

- A Primary Trade Area (PTA) – the area within which the supermarket would be the primary destination for main food and grocery shopping trips;
- A Secondary Trade Area (STA) – the area from which the supermarket would capture some trade, but would not be the main destination for food and grocery shopping expenditure.
- The Main Trade Area (MTA) – the PTA and STA combined.

The PTA has been defined as comprising the Hornsby suburb located west of the railway line, extending to the boundary with Normanhurst suburb in the south and Mildred Avenue / Watson Avenue in the north. The STA encompasses the Hornsby Heights suburb in the north and the Normanhurst suburb north-east of the rail line in the south. The extent of the MTA is restricted by the railway line and to a lesser extent the Pacific Highway in the east and by the Berowra Valley Regional Park in the west.

The MTA has been defined on the basis of Statistical Area Level 1 (SA1) zones²⁵ as depicted in Figure 3.

Figure 3 - Aspirational Main Trade Area for The Precinct



Source: Map produced by Hill PDA using MapInfo 11.5 software and Microsoft Bing (c) 2011 Microsoft Corporation

The MTA does not contain any supermarkets and currently residents will travel to Hornsby (4,324sqm Woolworths, 4,080sqm Coles, 1,357sqm ALDI), Asquith (3,400sqm Coles) or Thornleigh (3,688sqm Woolworths) to access their closest full-line supermarket.

²⁵ Statistical Area Level 1 - SA1s are built from whole Mesh Blocks. Whole SA1s aggregate directly to SA2s in the Main Structure, as well as all of the Non-ABS Structures except LGAs and Tourism Regions. There are approximately 55,000 SA1s. SA1s do not cross state borders and cover the whole of Australia without gaps or overlaps. SA1s generally have a population of 200 to 800 persons, and an average population of about 400 persons. SA1s in remote and regional areas generally have smaller populations than those in urban areas. SA1s closely bound small rural towns with a population of 180 persons or more.

The Precinct presents an opportunity to cater for the supermarket shopping needs of residents in the PTA who currently have to travel some distance to Hornsby Major Centre, Asquith or Thornleigh to access a full-line supermarket. A supermarket in the Precinct would be convenient for these residents and could expect to capture a significant proportion of their food and grocery spend.

Households residing in the STA are in closer proximity and have easier access to the full-line supermarkets provided at Asquith and Thornleigh. As such, even if a supermarket were provided in the Precinct, residents in the STA are unlikely to use it as their primary food and grocery shopping destination. Notwithstanding this, given its presence close to Hornsby Rail Station and Major Centre it could still expect to capture a proportion of trade from the STA.

The provision of a supermarket within the Precinct could increase accessibility to convenience retail for residents and workers in the defined MTA, in accordance with the principles of ecologically sustainable development (ESD) and the centres approach towards accommodating new retail floorspace. This would create a distinct role for the Precinct differentiated from that of the eastern side of Hornsby Major Centre, and could support other appropriate retail floorspace in the surrounding area.

4.2 Demographic Characteristics

Demand for retail floorspace is dependant not only on the number of households in the MTA but also the demographic characteristics of those households.

This Section examines the key demographic characteristics and trends recorded for the suburbs of Hornsby, Hornsby Heights and Normanhurst ('the three suburbs'). These suburbs wholly (Hornsby Heights) or in part (Hornsby and Normanhurst) constitute the MTA and therefore analysis of the demographic traits of the resident population provides an indication of the characteristics of the MTA in this regard. The demographic characteristics of the three suburbs are benchmarked against those of Hornsby LGA and the Greater Sydney Area²⁶.

The following table identifies local population and age characteristics of the three suburbs.

²⁶ Source: Based on the ABS Greater Capital City Statistical Areas (GCCSAs) for Sydney– The GCCSAs represent the socio-economic extent of each of the eight State and Territory capital cities. The GCCSAs combined with the 'Rest of State' regions cover the whole of Australia without gaps or overlaps and aggregate directly to State/Territory

Table 3 - Population and Dwelling Characteristics (2011)

	Hornsby	Hornsby Heights	Normanhurst	Hornsby LGA	Greater Sydney
Population and Dwellings					
Total Population	19,863	6,192	5,155	156,847	4,391,674
Total Private Dwellings	8,415	2,148	1,845	57,104	1,720,333
Occupied Private Dwellings	7,605	2,024	1,705	52,672	1,521,398
Occupied Private Dwellings (%)	90%	94%	92%	92%	88%
<i>Average Household Size</i>	2.5	3.0	2.8	2.9	2.7
Age Distribution					
0-14	17.8%	21.8%	21.4%	19.4%	19.2%
15-29	20.0%	16.5%	17.2%	18.7%	21.0%
30-44	27.6%	21.5%	17.9%	20.2%	22.5%
45-59	18.5%	22.6%	19.5%	21.8%	19.2%
60-74	10.6%	14.1%	14.0%	12.9%	11.9%
75+	5.6%	3.4%	10.0%	7.1%	6.1%
<i>Median Age</i>	35	39	40	39	36

Source: ABS Census (2011)

The above table indicates that:

- The three suburbs had an above average private dwelling occupancy rate when compared to Greater Sydney, but one broadly comparable to Hornsby LGA;
- The three suburbs had an average household size which varied between 2.5 persons per household (Hornsby) to 3.0 persons per household (Normanhurst). This was within the broad range of Hornsby LGA (2.9) and Greater Sydney (2.7); and
- Residents in the suburb of Hornsby recorded an average age of 35 which was younger than that of Hornsby LGA (39) and the Greater Sydney Area (36). Residents in Hornsby Heights (39) and Normanhurst (40) were more likely to be older. This was reflected in the age cohort distributions recorded in the ABS Census.

Table 4 overleaf details household characteristics in the three suburbs, Hornsby LGA and Greater Sydney based on 2011 ABS Census data.

Table 4 - Household Characteristics (2011)

	Hornsby	Hornsby Heights	Normanhurst	Hornsby LGA	Greater Sydney
Home Ownership					
Owned or Being Purchased	58.4%	90.2%	77.8%	76.7%	65.2%
Rented	39.0%	8.6%	19.2%	20.3%	31.6%
Household Structure					
Family Households	70.2%	85.7%	76.0%	80.1%	73.1%
Lone Person Households	25.9%	12.1%	22.3%	17.7%	22.6%
Group Households	3.9%	2.1%	1.8%	2.2%	4.3%
Family Type					
Couple family w. children	46.8%	58.4%	53.9%	55.7%	48.9%
Couple family w/o children	35.3%	29.4%	33.1%	31.3%	33.5%
One parent family	16.1%	11.3%	12.4%	11.8%	15.7%
Other family	1.9%	0.9%	0.6%	1.3%	1.9%
Dwelling Type					
Separate house	37.8%	96.0%	79.1%	75.5%	60.9%
Townhouse	7.7%	3.0%	10.4%	7.7%	12.8%
Flat-Unit-Apartment	54.2%	0.9%	10.4%	16.5%	25.8%
Other dwelling	0.2%	0.0%	0.0%	0.3%	0.5%

Source: ABS Census (2011)

The data presented above indicates that:

- The Hornsby Heights and Normanhurst suburbs were characterised by a high proportion of home owners. This may imply greater levels of affluence. This was significantly greater than that recorded for Greater Sydney (65%). Conversely the suburb of Hornsby was characterised by a low proportion of home owners and a high proportion of households renting their home;
- The Hornsby suburb contained a lower proportion of family households and a greater proportion of lone person households and group households when compared to Greater Sydney. The reverse was true of Hornsby Heights and Normanhurst. The Normanhurst and Hornsby suburbs both contained a lower proportion of family households and a greater proportion of lone person households than Hornsby LGA;
- The Hornsby suburb recorded a lower proportion of families with children and a higher proportion of couple families without children than Greater Sydney and Hornsby LGA. Couple family households in the Normanhurst and Hornsby Heights suburbs were more likely to have children than the Greater Sydney average; and
- The Hornsby Heights and Normanhurst suburbs contained a significantly greater proportion of separate houses when compared to the wider LGA and Greater Sydney. The Hornsby suburb contained a significantly lower proportion of separate houses and a higher proportion of apartment type dwellings which accounted for other half of all dwellings.

The following table identifies the employment and income characteristics of the three suburbs, Hornsby LGA and Greater Sydney based on 2011 ABS Census data.

Table 5 - Employment and Income Characteristics (2011)

	Hornsby	Hornsby Heights	Normanhurst	Hornsby LGA	Greater Sydney
Labour Force					
Managers	11.4%	14.5%	15.3%	15.1%	13.3%
Professionals	32.3%	29.8%	36.0%	33.1%	25.5%
Technicians & Trade Workers	11.0%	12.4%	8.3%	10.2%	12.2%
Community & Personal Services Workers	9.0%	9.5%	7.8%	8.0%	8.8%
Clerical and Administrative Workers	15.7%	16.2%	15.1%	16.0%	16.2%
Sales Workers	8.8%	8.1%	8.2%	8.4%	9.0%
Machinery Operators & Drivers	3.3%	2.6%	2.3%	2.4%	5.7%
Labourers	6.6%	5.5%	5.5%	5.1%	7.3%
Inadequately described or N.S.	1.8%	1.4%	1.5%	1.6%	2.0%
Weekly Household Income					
\$0-\$599	17.4%	9.8%	17.8%	13.6%	18.2%
\$600-\$1,249	22.7%	16.6%	17.5%	18.3%	21.2%
\$1,250-\$2,499	29.2%	29.1%	22.8%	25.5%	26.6%
\$2,500-\$3,999	18.4%	27.0%	25.0%	24.9%	18.2%
\$4,000+	3.8%	7.3%	7.7%	7.8%	5.5%
Partial income stated	6.5%	8.7%	7.3%	8.2%	7.9%
All incomes not stated	2.1%	1.5%	1.9%	1.7%	2.4%
Median Weekly Household Income	\$1,436	\$2,053	\$1,775	\$1,824	\$1,447
% Unemployment	5.7%	4.2%	5.2%	4.8%	5.7%

Source: ABS Census (2011)

From the table above it can be determined that:

- The three suburbs and Hornsby LGA contained a greater proportion of 'managers and professionals' than Greater Sydney. Residents in the three suburbs were also less likely than those in Greater Sydney to be employed in blue collar professions (e.g. 'machinery operators and drivers' and 'labourers');
- Households in the Hornsby suburb were more likely to be low wage earners (i.e. less than \$2,500/week) compared to the other suburbs, Hornsby LGA and Greater Sydney. This may to some extent reflect the younger demographic of residents in this suburb. Households in the Hornsby Heights and Normanhurst suburbs earned on average more than those in Greater Sydney, with those in Hornsby Heights earning the most;
- The suburbs of Hornsby Heights and Normanhurst had a higher proportion of persons earning \$4,000+ (7% and 8% respectively) when compared to Greater Sydney (6%). Hornsby had a significantly lower proportion of households in this income bracket (4%) when compared to the wider LGA (8%); and
- Unemployment rates in the three selected suburbs and in Hornsby LGA were equal to or less than those for Greater Sydney.

The demographic analysis records distinct characteristics in each of the three selected suburbs. Hornsby is the most populous of the three suburbs and residents within it are more likely to be younger, dwelling renters and lower earners, and less likely to be families or families with children than the Hornsby LGA or Greater Sydney. Hornsby is densely populated as reflected by the majority of dwellings being apartments, and contains the retail and commercial centre of the Hornsby LGA and a main rail station. The provision of additional retail at Hornsby West would widen access to retail facilities in walking distance off these residents who have less

disposable income and are less privately mobile (i.e. likely lower car ownerships and less willing to pay travel costs) than is typical for the Hornsby LGA or Greater Sydney.

Conversely, residents in Hornsby Heights have high levels of affluence, reflected in the greater proportion who own or are purchasing their dwelling, who are managers and professionals and who earn greater than average median weekly incomes. These residents are also likely to be older and couple families than is average for Hornsby LGA and Greater Sydney. Such residents, with greater levels of disposable income, are more willing to pay to travel and will spend greater amounts of their weekly income (in absolute monetary terms) on retail goods and services. The provision of additional retail floorspace at Hornsby West would also assist these residents. The recorded demographics of residents in the Normanhurst suburb are in-between those of Hornsby and Hornsby Heights.

4.3 Existing and Forecast Population for the Main Trade Area

The estimated resident population of the MTA has been derived from 2011 ABS Census data and is based on SA1s²⁷. It has been apportioned between the PTA and STA. Population forecasts have been derived from the NSW Bureau of Transport Statistics (BTS) Population Forecasts (August 2012 release) and are based on travel zones²⁸. As the 2011 ABS Census data does not correlate with the 2011 BTS population data, the BTS forecast population increase in absolute numbers has been added to the 2011 ABS Census-based population for the MTA. The results are shown in Table 6. The BTS also projects job numbers by travel zone and these have also been provided below for the travel zone which includes the Precinct (TZ 2599).

Table 6 - Main Trade Area Population and Employment Projections

Year	Population			Employment
	PTA	STA	MTA	TZ2599
2011	7,229	9,375	16,604	2,058
2016	7,420	10,037	17,457	2,178
2021	7,581	10,652	18,233	2,243
2026	7,771	11,359	19,130	2,300
2031	7,960	12,104	20,064	2,356
2036	8,153	12,930	21,083	2,423
Change 2011-36	+924	+3,555	+4,479	+365
Average Annual Growth (%)	0.5%	1.3%	1.0%	0.7%

Source: 2011 ABS Census, BTS Population Forecasts (August 2012 release), Hill PDA

The MTA contained an estimated 16,604 people in 2011, of which around 44% (7,229) resided in the PTA and 56% (9,375) resided in the STA. The population of the MTA is projected to increase to 21,083 people by 2036,

²⁷ Statistical Area Level 1 - SA1s are built from whole Mesh Blocks. Whole SA1s aggregate directly to SA2s in the Main Structure, as well as all of the Non-ABS Structures except LGAs and Tourism Regions. There are approximately 55,000 SA1s. SA1s do not cross state borders and cover the whole of Australia without gaps or overlaps. SA1s generally have a population of 200 to 800 persons, and an average population of about 400 persons. SA1s in remote and regional areas generally have smaller populations than those in urban areas. SA1s closely bound small rural towns with a population of 180 persons or more.

²⁸ Travel Zone – a small geographic area used as the basis for Bureau of Transport Statistics (formerly Transport Data Centre) modelling and data analysis.

an increase of +4,479 people or 1% per annum over the period. The STA is projected to experience a stronger rate of population growth (1.3% average per annum increase) than the PTA (0.5% average per annum increase).

An estimated 2,058 jobs were provided in TZ2599 in 2011. The number of jobs provided in TZ2599 is projected to increase to 2,423 by 2036.

5. RETAIL NEEDS ASSESSMENT

This Chapter undertakes household expenditure modelling and considers other sources of expenditure potentially available to support the future provision of retail floorspace in the Precinct. The purpose of this Chapter is to quantify the amount of floorspace which future development in the Precinct could accommodate.

5.1 Forecast Household Expenditure in the Main Trade Area

This Section examines growth in household retail expenditure in the MTA as a result of population and growth forecasts. Household retail expenditure has been forecast over the 2011 to 2036 period.

Household expenditure was sourced from:

- ABS Household Expenditure Survey 2003-04 (updated to 2009) which provides household expenditure by broad commodity type by household income quintile;
- Marketinfo 2009 database which is generated by combining and updating data from the Population Census and the ABS Household Expenditure Survey (HES) using “microsimulation modelling techniques”.

MarketInfo combines the data from the Census, HES and other sources to derive total HES by commodity type. This data, which was validated using taxation and national accounts figures, quantifies around 14% more expenditure than the ABS HES Survey. Total expenditure by commodity type generated by residents in the MTA is shown in Table 7.

Table 7 - Total Expenditure Forecast by Broad Commodity Type in the Main Trade Area (\$m2009)

Commodity Type	2011	2016	2021	2026	2031	2036
Primary Trade Area						
Food, Groceries & Liquor take-away	32.8	35.7	38.7	42.1	45.8	49.8
Food Catered	14.7	16.0	17.4	18.9	20.6	22.4
Apparel	8.2	8.9	9.7	10.5	11.5	12.5
Hardware and Bulky Goods Stores	14.1	15.4	16.7	18.1	19.7	21.4
Other Personal & Household Goods	23.3	25.4	27.5	30.0	32.6	35.4
Personal Services	3.3	3.6	3.9	4.3	4.7	5.1
Total Primary Trade Area	96.4	105.1	113.9	124.0	134.8	146.6
Secondary Trade Area						
Food, Groceries & Liquor take-away	45.7	51.8	58.2	65.6	73.9	83.6
Food Catered	20.5	23.3	26.1	29.5	33.2	37.6
Apparel	11.4	13.0	14.6	16.4	18.5	20.9
Hardware and Bulky Goods Stores	19.7	22.3	25.0	28.2	31.8	36.0
Other Personal & Household Goods	32.5	36.8	41.3	46.6	52.5	59.4
Personal Services	4.6	5.3	5.9	6.7	7.5	8.5
Total Secondary Trade Area	134.5	152.3	171.1	193.0	217.5	245.9
Main Trade Area						
Food, Groceries & Liquor take-away	78.5	87.5	96.9	107.7	119.7	133.4
Food Catered	35.3	39.3	43.5	48.4	53.8	59.9
Apparel	19.6	21.9	24.2	27.0	30.0	33.4
Hardware and Bulky Goods Stores	33.8	37.6	41.7	46.3	51.5	57.4
Other Personal & Household Goods	55.8	62.2	68.9	76.6	85.1	94.8
Personal Services	8.0	8.9	9.8	10.9	12.2	13.6
Total Main Trade Area	230.9	257.3	285.1	316.9	352.3	392.5

Note: Excludes Liquor on Premises and Cinema Expenditure
Forecast assumes 1.2% real growth in retail spend per capita per annum in line with historic trend since 1986.

The ABS Retail Survey 1998-99 (Cat No. 8624.0) provides a cross tabulation of store type (defined by ANZIC), by commodity type. Multiplying the percentages in the cross tabulation by total dollars spent generates household expenditure by retail store type. Turnover by retail store type generated by household expenditure is provided in the following table.

Table 8 - Forecast Expenditure by Retail Store Type in the Main Trade Area (\$m2009)

Retail Store Type	2011	2016	2021	2026	2031	2036
Primary Trade Area						
Supermarkets & Grocery Stores	28.4	30.9	33.6	36.5	39.7	43.2
Specialty Food Stores	9.4	10.3	11.2	12.1	13.2	14.4
Fast-Food Stores	7.8	8.5	9.2	10.0	10.9	11.9
Restaurants, Hotels and Clubs*	9.1	9.9	10.7	11.7	12.7	13.8
Department Stores	8.6	9.4	10.2	11.1	12.0	13.1
Clothing Stores	5.6	6.1	6.6	7.2	7.8	8.5
Hardware and Bulky Goods Stores	13.6	14.8	16.1	17.5	19.0	20.7
Other Personal & Household Goods	14.5	15.8	17.2	18.7	20.3	22.1
Selected Personal Services**	3.2	3.5	3.8	4.2	4.5	4.9
Total Primary Trade Area	100.3	109.3	118.5	128.9	140.2	152.4
Secondary Trade Area						
Supermarkets & Grocery Stores	39.7	44.9	50.5	56.9	64.1	72.5
Specialty Food Stores	13.2	14.9	16.8	18.9	21.3	24.1
Fast-Food Stores	10.9	12.4	13.9	15.7	17.6	19.9
Restaurants, Hotels and Clubs*	12.7	14.3	16.1	18.2	20.5	23.2
Department Stores	12.0	13.6	15.3	17.2	19.4	22.0
Clothing Stores	7.8	8.8	9.9	11.1	12.6	14.2
Hardware and Bulky Goods Stores	19.0	21.5	24.2	27.3	30.8	34.8
Other Personal & Household Goods	20.3	23.0	25.8	29.1	32.8	37.1
Selected Personal Services**	4.5	5.1	5.8	6.5	7.3	8.3
Total Secondary Trade Area	140.0	158.6	178.2	200.9	226.4	256.0
Main Trade Area						
Supermarkets & Grocery Stores	68.1	75.8	84.0	93.4	103.8	115.7
Specialty Food Stores	22.6	25.2	28.0	31.1	34.5	38.5
Fast-Food Stores	18.7	20.9	23.1	25.7	28.6	31.8
Restaurants, Hotels and Clubs*	21.7	24.2	26.8	29.8	33.2	37.0
Department Stores	20.6	23.0	25.4	28.3	31.4	35.0
Clothing Stores	13.3	14.9	16.5	18.3	20.3	22.7
Hardware and Bulky Goods Stores	32.6	36.4	40.3	44.8	49.8	55.5
Other Personal & Household Goods	34.8	38.8	43.0	47.8	53.1	59.1
Selected Personal Services**	7.8	8.7	9.6	10.7	11.9	13.2
Total Main Trade Area	240.3	267.8	296.7	329.8	366.6	408.4

Note: * Turnover relating only to consumption of food and liquor (excludes all other types of revenue such as accommodation, gaming and gambling) ** Selected Personal Services includes hair and beauty, laundry, clothing hire and alterations, shoe repair, optical dispensing, photo processing and hire of videos
Forecast assumes 1.2% real growth in retail spend per capita per annum in line with historic trend since 1986.

Residents in the MTA generated approximately \$241m of retail expenditure in 2011. The majority of this expenditure (\$140m or 58%) was generated by residents in the STA and some \$68m overall (28% of total expenditure) was spent in supermarkets and grocery stores.

Due to population and real retail spend growth, total household retail expenditure generated by residents in the MTA will increase to an estimated \$408m by 2036. This equates to an increase of \$168m or 70% over the 2011 to 2036 period. Supermarkets & grocery store related expenditure is projected to increase by \$48m (70%) to \$116m between 2011 and 2036 across the MTA as a whole.

Note that the total expenditure generated by households in the MTA by retail store type (\$240m in 2011 in Table 8) is greater than expenditure by commodity type (\$231m in 2011 in Table 7). This is because retail stores derive a small amount of expenditure from other sources, such as trade-related sales and rentals, which do not form part of household expenditure by commodity type.

5.2 Capture of Expenditure

Not all expenditure will be captured within the trade area. A large proportion of expenditure will continue to leave the trade area to other centres, particularly to the larger centres such as Westfield.

The following table applies assumed capture rates to the retail floorspace demand generated by residents of the PTA and the STA. This is a hypothetical capture rate, given that it is dependent upon the retail floorspace being provided.

The potential for two different supermarket offers in the Precinct are explored, i.e. a 1,500sqm (convenience) and a 3,000sqm (full-line) supermarket. Two different capture rates are accordingly adopted to reflect the potential capture of each supermarket offer, and the speciality floorspace which could be supported in the Precinct as a consequence. The capture rates for each supermarket are shown below.

Table 9 - Assumed Capture Rates for a Supermarket in the Precinct (GLA)

Retail Store Type	1,500sqm Supermarket		3,000sqm Supermarket	
	PTA	STA	PTA	STA
Supermarkets & Grocery Stores	30%	15%	50%	20%
Specialty Food Stores	30%	15%	50%	20%
Fast-Food Stores	25%	10%	35%	15%
Restaurants, Hotels and Clubs*	25%	10%	35%	15%
Other Personal & Household Goods	15%	10%	20%	15%
Selected Personal Services**	25%	15%	30%	15%

Note: * Turnover relating only to consumption of food and liquor (excludes all other types of revenue such as accommodation, gaming and gambling)

** Selected Personal Services includes hair and beauty, laundry, clothing hire and alterations, shoe repair, optical dispensing, photo processing and hire of videos

Source: Hill PDA

5.3 Worker Spend

The presence of workers in the surrounding area will also create demand for retail floorspace within the Precinct. Typically, residents spend around \$2,000 to \$3,000 per annum on retail goods and services close to their place of work²⁹ but this is highly sensitive to the level of retail offer. Predominately this expenditure will be on food and other convenience-related goods including lunches, coffees, snacks and sometimes groceries.

The BTS data presented in Table 6 estimated that the travel zone which included the Precinct (TZ2599) contained 2,058 workers in 2011. We have assumed that:

- Workers on average spend \$2,500 per annum close to their place of work (\$2009 in 2011³⁰);
- Worker spending will increase in line with real retail growth at 1.2% per annum;
- Worker numbers in TZ2599 will increase in line with the BTS forecasts presented in Table 6;
- Worker expenditure will be distributed amongst convenience-related retail store types only.

²⁹ Note: Based on Hill PDA's experience which indicates that around 15- 20% of household income is spent close to workers' place of work. This is variable and highly dependent on the range of retail facilities provided locally.

³⁰ Note: \$2009 in 2011 means that the expenditure estimates are for 2011 but assume a 2009 price base.

The results of these assumptions in terms of demand for retail floorspace are provided in Table 12 below.

Table 10 - Retail Expenditure and Demand from Workers in the MTA

	% Spend	2011	2016	2021	2026	2031	2036
Number of Workers ^A		2,058	2,178	2,243	2,300	2,356	2,423
Average expenditure per worker (\$)^^		2,500	2,654	2,817	2,990	3,174	3,369
Total Retail Expenditure (\$m)		5.1	5.8	6.3	6.9	7.5	8.2
Retail Store Types							
Supermarkets & Grocery Stores	20%	1.0	1.2	1.3	1.4	1.5	1.6
Specialty Food Stores	10%	0.5	0.6	0.6	0.7	0.7	0.8
Fast-Food Stores	35%	1.8	2.0	2.2	2.4	2.6	2.9
Restaurants, Hotels and Clubs*	10%	0.5	0.6	0.6	0.7	0.7	0.8
Other Personal & Household Goods	10%	0.5	0.6	0.6	0.7	0.7	0.8
Selected Personal Services**	15%	0.8	0.9	0.9	1.0	1.1	1.2
Total Main Trade Area	100%	5.1	5.8	6.3	6.9	7.5	8.2

Note: * Excludes Liquor on Premises and Cinema Expenditure ** Selected Personal Services includes hair and beauty, laundry, clothing hire and alterations, shoe repair, optical dispensing, photo processing and hire of videos

Source: ^ BTS (Table 6) ^^ Hill PDA. Note: Assumes 1.2% real growth in retail spend per capita per annum in line with historic trend since 1986.

The presence of workers in the Precinct and the wider area contributed an estimated \$5m in 2011 towards retail facilities locally, which will increase to \$8m by 2036. For the purposes of assessing demand for retail floorspace in the Precinct, we have assumed that 75% of this would be available to be captured by retail facilities locally, whatever sized supermarket is provided.

5.4 Retail Demand in the Main Trade Area

Demand for retail floorspace is determined by applying target turnover rates (or industry benchmarks³¹) to the capture of retail sales generated by households and workers in the MTA by retail store type. The assumed target turnover rates are shown in the following table.

Table 11 - Industry Benchmark Turnover Levels

Retail Store Type	Target Turnover (\$/sqm) ^A
Supermarkets & Grocery Stores	10,000
Specialty Food Stores	7,500
Fast-Food Stores	7,500
Restaurants, Hotels and Clubs*	4,500
Department Stores	3,500
Clothing Stores	5,000
Bulky Goods Stores	3,500
Other Personal & Household Goods	4,500
Selected Personal Services**	3,200

Note: * Turnover relating only to consumption of food and liquor (excludes all other types of revenue such as accommodation, gaming and gambling)

** Selected Personal Services includes hair and beauty, laundry, clothing hire and alterations, shoe repair, optical dispensing, photo processing and hire of videos

^A Source: Various including ABS Retail Survey 1998-99 indexed to 2011 dollars, Shopping Centre News, Urbis Retail Averages, various consultancy studies and Hill PDA research. Target turnover levels are expected to increase at a rate of 0.6% per annum above the CPI rate in line with the historic trend. Assumed to increase by 0.6% per annum reflective of growth in real retail spend

³¹ Derived from various sources including Urbis Retail Averages, ABS Retail Survey 1998-99 escalated at CPI to \$2009, Shopping Centre News, Hill PDA and various consultancy studies.

Demand for retail floorspace in the Precinct under each of the supermarket scenarios (1,500sqm and 3,000sqm) has been calculated in the following manner:

- The capture rates listed in Table 9 have been applied to the household expenditure forecasts in Table 8. This determines the quantum of retail expenditure which the Precinct could expect to capture from residents of the MTA;
- The assumed capture of worker expenditure is applied to estimated worker spend in Table 10. This is then added to estimated captured household expenditure;
- The industry benchmark turnover levels listed in Table 11 are applied to the total available expenditure (from residents and workers) to determine retail floorspace demand;
- An additional allowance is made for non-retail shopfront uses such as travel agents, banks, doctors and so on which do not capture retail expenditure but for which an allowance should be made. Such uses are assumed to represent approximately 15% of total shopfront floorspace demand.

The results of this process are shown in the following table.

Table 12 - Demand for Retail Floorspace in the Precinct from Households in the MTA (GLA)

Retail Store Type	2011	2016	2021	2026	2031	2036
1,500sqm Supermarket						
Supermarkets & Grocery Stores	1,657	1,794	1,930	2,080	2,239	2,415
Specialty Food Stores	782	849	916	989	1,067	1,152
Fast-Food Stores	896	995	1,091	1,193	1,300	1,418
Restaurants, Hotels and Clubs*	1,019	1,109	1,197	1,293	1,395	1,507
Other Personal & Household Goods	1,168	1,273	1,377	1,491	1,613	1,747
Selected Personal Services**	958	1,063	1,167	1,276	1,391	1,518
Non-Retail	1,206	1,322	1,437	1,560	1,691	1,836
Total Retailing	7,686	8,406	9,116	9,882	10,697	11,594
3,000sqm Supermarket						
Supermarkets & Grocery Stores	2,423	2,613	2,800	3,007	3,228	3,470
Specialty Food Stores	1,122	1,212	1,302	1,401	1,506	1,621
Fast-Food Stores	1,073	1,185	1,295	1,411	1,534	1,669
Restaurants, Hotels and Clubs*	1,362	1,477	1,591	1,715	1,847	1,993
Other Personal & Household Goods	1,554	1,691	1,827	1,976	2,136	2,312
Selected Personal Services**	1,009	1,117	1,223	1,335	1,454	1,585
Non-Retail	1,530	1,671	1,809	1,959	2,119	2,295
Total Retailing	10,073	10,966	11,846	12,804	13,824	14,945

Based on Table 12, between 8,400sqm and 11,000sqm of retail floorspace could be supported in the Precinct in 2016 if a supermarket were provided. The quantum retail floorspace demanded could increase to between 11,600sqm and 14,900sqm by 2036, dependent upon the size of the supermarket provided.

5.5 Demand versus Supply

The following table estimates total demand for retail floorspace in the Precinct based on the combined total of resident and worker spend.

Table 13 - Total Demand for Retail Floorspace in the Precinct (sqm GLA)

Retail Store Type	2011	2016	2021	2026	2031	2036
1,500sqm Supermarket Scenario						
Supermarkets & Grocery Stores	1,734	1,881	2,025	2,183	2,351	2,537
Specialty Food Stores	833	907	979	1,058	1,142	1,234
Fast-Food Stores	1,076	1,197	1,313	1,433	1,562	1,704
Restaurants, Hotels and Clubs*	1,105	1,205	1,303	1,408	1,520	1,643
Other Personal & Household Goods	1,254	1,370	1,483	1,606	1,737	1,883
Selected Personal Services**	1,139	1,267	1,389	1,517	1,654	1,805
Non-Retail Shop Front	1,206	1,322	1,437	1,560	1,691	1,836
Total Retailing	8,347	9,149	9,928	10,766	11,657	12,642
3,000sqm Supermarket Scenario						
Supermarkets & Grocery Stores	2,500	2,699	2,894	3,110	3,340	3,593
Specialty Food Stores	1,173	1,270	1,365	1,469	1,580	1,702
Fast-Food Stores	1,253	1,387	1,516	1,651	1,795	1,955
Restaurants, Hotels and Clubs*	1,447	1,573	1,696	1,830	1,972	2,129
Other Personal & Household Goods	1,640	1,788	1,932	2,091	2,260	2,448
Selected Personal Services**	1,190	1,320	1,445	1,577	1,717	1,872
Non-Retail Shop Front	1,530	1,671	1,809	1,959	2,119	2,295
Total Retailing	10,734	11,708	12,658	13,688	14,784	15,994

Table 13 indicates that between 9,149sqm and 11,708sqm of retail floorspace would be supportable in the Precinct in 2016 if a 1,500sqm or 3,000sqm supermarket respectively were provided. Based on the Hill PDA floorspace survey (October 2012, as shown in Table 1) the Precinct contained approximately 5,709sqm of shopfront retail floorspace, in addition to a further 3,829sqm of commercial floorspace of which we estimate around 1,900sqm³² is accounted for by shopfront commercial floorspace. On this basis, there will be unmet retail floorspace demand of between 1,540sqm and 4,099sqm in 2016. These figures are a little conservative since we haven't allowed for any capture of additional expenditure outside of the MTA. A further 5% to 10% could be provided.

We should note that, based on our modelling, there would be sufficient demand to support a 1,500sqm supermarket in 2016 under this scenario but demand for larger supermarket of 3,000sqm is not demonstrable until 2021-26. This is because, as shown in Table 13, under the 3,000sqm supermarket scenario 'supermarket and grocery store' related demand will not reach greater than 3,000sqm until sometime after 2021 (2,894sqm of supermarket and grocery store floorspace demanded) but before 2026 (3,110sqm of supermarket and grocery store floorspace demanded). Notwithstanding this, a 3,000sqm supermarket could be accommodated in the short term only that we would expect it to trade a little below average in its first few years.

5.6 Conclusions

Based on the supply and demand assessment undertaken in this Chapter there is scope to plan for additional retail facilities in the Precinct, including a supermarket of around 1,500sqm or more. These facilities would serve a localised shopping role and would assist in ensuring that residents have access to convenience and top-up retail shops and services locally, minimising the need for travel. It would provide a different retail offer to that of Westfield Hornsby, which serves higher order shopping needs.

³² Note: Based on the total of ground and lower ground floor commercial premises

The provision of localised retail provision is likely to redirect some trade currently directed towards Westfield Hornsby, Asquith and Thornleigh by residents of the MTA. A full economic impact assessment would be required with any development application to quantify the trading impacts on these centres as a result of any development in the Precinct. However given the strong trading performance of Westfield Hornsby and Thornleigh Marketplace, this is not expected to jeopardise the vitality or viability of these centres to any significant level. Hornsby is a Major Regional Centre providing a wide range of retail goods and other services over and above convenience shopping. This role would not be affected by additional convenience floorspace in the Precinct.

Metro style supermarkets (without car parking) such as Coles in St Leonards and Potts Point require high volumes of foot traffic to be viable. We do not believe that Hornsby West precinct has a significant enough level of foot traffic to support such a supermarket. Hence some car parking would be required to support the supermarket in this location – preferably at a rate of around 4 spaces per 100sqm of retail floor area.

A further consideration is the likely operator. With Coles, Woolworths and ALDI all represented in Westfield it raises doubt about who would be interested. However due to competition within the industry one of these operators could take up the space. Coles would have the strongest the concern for any supermarket – particularly a full-line supermarket establishing in the precinct because of the impacts on its store in Asquith. However to keep its competitors out of that corner of the market it may express an interest. Supa IGA / Metcash and Supabarn are also potential operators that are not represented in the Hornsby suburb.

Whilst not essential some specialties to provide a nexus with the supermarket would improve and complement the retail offer. This can include a liquor store, bakery, butcher, newsagent, chemist, fruit store, Asian grocery and the like.

The successful location of a convenience-type supermarket and associated speciality retailers would create a catalyst for the Precinct, increasing its profile and visibility as a retail destination. If a suitable site could be found to accommodate a supermarket, and subject to issues of economic impact, accessibility, traffic and so on being acceptable, such an occupier could act as an anchor for the Precinct. It would attract shoppers into the area who would not otherwise visit, and increase the commercial viability for existing and potential future shopfront occupiers in the surrounding area.

6. COMMERCIAL NEEDS ASSESSMENT

As a result of employment and population growth there will be a commensurate increase in demand for non-shopfront commercial floorspace in the vicinity of the Precinct potentially with scope for some of this demand to be within the Precinct itself. In particular, industries that rely on ease of transport for workers and access to retail facilities locally to serve the needs of workers during lunchbreaks and before and after work would be suitable for the Precinct given that they are office and shopfront based. The proximity of the Precinct to Hornsby Rail Station and the presence of existing retail floorspace locally, and possible additional residential floorspace in the future, would work in favour of accommodating some increase in commercial floorspace in the Precinct.

It should be noted that latent demand for non-shopfront commercial floorspace can be forecast from population, retail and employment numbers. However this may not necessarily translate to effective demand because of market conditions and because the required returns from investment in commercial property cannot be achieved.

The following findings are in the context of two related yet often competing factors in relation to commercial office floorspace being:

1. Forecast demand for office related jobs based on the skills of the resident population; and
2. Demand for commercial office floorspace by occupiers at any given point in time.

It should be noted that the Precinct will only be redeveloped if such a redevelopment would also be financially feasible. Permissibility of such development in planning terms alone will not be sufficient to ensure that it occurs.

It is important to acknowledge that the success of commercial precincts is fundamentally underpinned by 'critical mass', supported by adequate infrastructure and a vibrant mix of uses to facilitate a work life balance for workers.

6.1 Market Research

To inform this section of the Study we have undertaken market research to determine the existing level of demand for commercial office floorspace in the Precinct. Whilst the commercial office market moves in cycles, the outlook for the Precinct and its sustainability as an expanding commercial market does not appear promising at the present time.

Demand for commercial floorspace is largely from local-based businesses whose target trade area is the local area. Examples include a number of legal practices that service needs associated with the nearby law courts and police station. Other occupiers are diverse, from accountancy practices to education related and IT companies.

The main attraction of commercial floorspace in the Precinct is the cheaper rents compared to space on the eastern side of Hornsby Rail Station. Commercial rents (net) range between \$200/sqm and \$250/sqm for first

floor accommodation, yet the leasing market remains soft characterised by prolonged vacancies and short term tenancies.

Whilst there are several commercial buildings in the Precinct which are considered to offer good quality office accommodation (e.g. 185 Pacific Highway, 248-252 Pacific Highway), leasing agents active in the area identify a major issue for commercial tenants to be parking particularly where on-site parking is not available. The competing centres of Hornsby East and to a lesser extent centres further away like Turramurra, Waitara and Pymble are preferred by many occupiers.

Feedback from leasing agents suggests that the Precinct is perceived in the market as a secondary, if not tertiary commercial precinct not just in the Hornsby LGA but within the North Subregion.

The lack of quality retail offer in the Precinct is also a factor in the attractiveness of the Precinct in its commercial floorspace offer. A stigma is commented to be associated with this “older part of Hornsby”, particularly an issue with commercial occupiers whose business depends on visiting clientele.

Given the prevailing rental levels, it is no surprise that large scale upgrade and renewal of commercial buildings is not occurring in the Precinct.

6.2 Development Feasibility

The existing commercial floorspace plays an important role in the provision of urban support services in a highly accessible and central location, reducing the need for local users to travel, and thereby creating a more sustainable environment and affordable lifestyle. Based on employment forecasts that the number of jobs provided in Hornsby LGA will increase from 53,199 in 2011 to 64,021 in 2031, an increase of 10,822 jobs or 20% over the period. Much of these new jobs will be in commercial businesses and will lead to an increase in demand for commercial floorspace as a consequence. Whilst this represents notable potential demand, it must be put in context of Hornsby’s existing employment centres, their capacity for growth and the broader market cycle.

Hill PDA’s previous work recognised that the mandating of minimum amounts of commercial floorspace at this point in time would hinder, rather than support the timely redevelopment of the Precinct. The viability of development into commercial land uses is impeded by the prevailing low rent rates and market demand, consequently making commercial development non-viable now and into the foreseeable future. Commercial space requires considerable cross subsidisation from other land uses – mainly retail and residential. Previous work by Hill PDA concluded that in order to accommodate non-retail commercial to a minimum FSR of 2:1, buildings would need to be mixed use (predominantly residential) with heights of 16-20 storeys and a corresponding FSR in the order of 7:1.

Retail / commercial development is expected to occur in the Precinct when rents and capital values improve to the extent that redevelopment is viable. This will be achieved when business confidence regarding the levels of patronage and custom brings about an increase in the desirability of Hornsby West as a retail strip, translating into higher rents and stronger covenants. The demand for commercial floorspace in the Precinct is however

expected to be largely limited to professional and other local services. Stronger covenants³³ will nevertheless underpin a rise in the performance of a property and thus translate to higher property values. When performance expectations for properties in the Precinct improve sufficiently there will exist a financial imperative to improve and upgrade existing stock.

Some component of non-shop front commercial space could be provided as part of a mixed use building. This would be in the form of B-grade professional suites. Other land use components, namely retail and residential would be required to cross-subsidise the commercial space.

6.3 Role of Commercial Floorspace

The BTS forecast a modest growth in the number of jobs in Travel Zone 2599 of 242 from 4,069 in 2006 to 2,300 in 2026. However a majority of these additional jobs are forecast to be in public administration, health care and education. Almost no jobs are forecast to be in retail. Travel Zone 2599 includes not just the study area but the institutions to the north up to Bridge Street including Australia Post, Police, Court House, Council and TAFE which is where the majority of new jobs, as forecast by BTS, will be located.

We believe that some proportion of non-retail commercial space could be provided in any redevelopment in the study area. Presently there is around 3,800sqm of non-retail commercial space in the precinct of which almost half is occupying shopfront space. A further 1,500 to 4,000sqm of shop front space will 'be required' or could be provided by 2016 assuming a new supermarket is part of the mix. By 2026 additional shop front space required will be 3,000 to 6,000sqm.

We would expect that a small component of that space would be non-retail commercial space. Further commercial space (say shop top) could be provided but it is likely that it would comprise no more than say 1,000sqm to 1,500sqm.

6.4 Conclusion

Given the prevailing vacancies and corresponding low rental levels of commercial space in the Precinct, the provision of additional commercial floorspace within new developments is unlikely to occur. Additionally, there is currently insufficient incentive for existing commercial floorspace to be upgraded / refurbished.

A broad approach to support a mix of residential, commercial and retail uses could be adopted, possibly at higher densities subject to design testing. An intensification of land uses could allow for new public spaces, promote the 'active' interaction of uses and help establish the Precinct as a destination for visitors. This would not only benefit the existing Precinct but also act as an impetus for future development in the broader locality.

³³ A covenant refers to a lease agreement; the 'strength' of a covenant is a function of various factors including the reputation and financial standing of the lessee, how favourable the terms of the lease are (e.g. rental levels, rent reviews, etc.) and length of the lease.

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Hornsby West Stage 2B: Mixed Use Feasibility Assessment

PREPARED FOR

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QUALITY CONTROL

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EXECUTIVE SUMMARY

This Mixed-Use Feasibility Assessment is one of the various bodies of work carried out by Hill PDA in the second stage to inform a Structure Plan for the Hornsby West Precinct (the Precinct). The findings of this Study, along with urban design, traffic and economic analysis components will contribute to the Structure Plan. To date, a Preliminary Feasibility Analysis has been carried out, as has a Commercial / Retail Demand Assessment.

Preliminary Feasibility Analysis

Hill PDA was earlier appointed to carry out a Preliminary Feasibility Analysis to test the viability of a requirement for a minimum commercial FSR of 2:1 for the Hornsby West Precinct. Market research and feasibility testing indicated that such a development was unlikely to be feasible until heights approach 16-20 storeys and accommodate a total FSR of 7:1.

The Preliminary Feasibility Analysis found that minimum commercial FSRs exceeding 1:1 would not be conducive to support amalgamation and redevelopment. It was suggested that a supermarket and ancillary specialty shops could be accommodated in larger sites that had the benefit of multiple street frontages; it was cautioned that commercial FSRs at even 1:1 without a supermarket could be challenging in the current environment.

The Preliminary Feasibility Analysis recommended that further analysis be carried out to determine the feasibility of development on a range of sites to formulate an appropriate strategy for optimising non-residential floorspace in the Precinct.

Commercial / Retail Demand Assessment

This Assessment found that there is some scope to accommodate additional supermarket floorspace in the Precinct over the period to 2016 and beyond. This would contribute to defining the Precinct as playing a role for convenience / top-up shopping and distinguishing it from that of Hornsby Major Centre which serves higher order shopping needs.

It was recommended that Council should plan for additional retail facilities in the Precinct including a supermarket of around 1,500sqm (small format, convenience-type) in addition to specialty retail facilities, noting additionally that the location of this small format supermarket was critical for its viability.

The Assessment further found there was limited scope to increase the commercial floorspace provision beyond current levels. A broad approach to support a mix of uses was recommended, allowing for new public spaces and promoting the active interaction of uses and help establish the Precinct as a destination for residents and visitors alike.

Mixed-Use Development Feasibility

This component of the brief was intended to examine the feasibility associated with development under various densities (subject to minimum commercial densities of FSR 1:1) following urban design testing by JBA Planning. Two key sites were selected for feasibility analysis, a summary of results is as follows:

Table 1 - Summary of Mixed-Use Feasibility Results

Site Specifics	Site C2		Site F1	
	Base Option	Alternate Option	Base Option	Alternate Option
Site Area (sqm)	3,964sqm	3,964sqm	2,300sqm	2,300sqm
Development Density (FSR)	FSR 5.6:1	FSR 6.2:1	FSR 3.5:1	FSR 5.6:1
Height	20 storeys	23 storeys	8 storeys	14 storeys
Development Yield (GFA)				
Retail / Commercial (FSR 1:1)	3,964sqm	3,964sqm	2,300sqm	2,300sqm
Residential	18,276sqm (198 units)	20,687sqm (224 units)	5,741sqm (63 units)	10,579sqm (116 units)
Performance Indicators:				
Project IRR	19.31%	21.60%	4.39%	17.54%
Development Margin	16.79%	20.28%	0.22%	13.64%
Residual Land Value (RLV)	\$11,482,479	\$13,294,916	\$2,961,806	\$5,907,685
RLV (\$/sqm of site area)	\$2,897	\$3,354	\$1,288	\$2,568
Feasibility	Marginal	Yes	No	No

The following observations and conclusions can be drawn on mixed-use development in the Precinct, applicable to good developable sites (>2,000sqm) unconstrained by environmental or physical factors which could result in increased development cost. Note that these hypothetical density scenarios were not design or engineering tested.

- The inclusion of non-residential floorspace in a development has an inverse relationship with development feasibility, cumulatively due to the lower amount realisable for the completed space and the requirement to provide a greater amount of parking than residential floorspace.
- For sites where a minimum non-residential component (FSR 1:1) is proposed, development feasibility is subject to a higher density threshold, i.e. minimum overall densities between FSR 5.5:1 and FSR 6:1.
- For sites that do not address Pacific Highway (e.g. Site F1), the mandating of minimum non-residential floorspace will require even higher density thresholds (conceivably exceeding FSR 6:1) to compensate for the less than favourable location for commercial and retail floorspace, i.e. without the benefit of a Pacific Highway or other main road frontage.
- While increased densities are generally favourable for development feasibility, the increased cost of construction associated with taller towers can make overall feasibility challenging, particularly if incremental sales revenue is not commensurate with the higher construction cost.

While Site F1 is not feasible to develop at FSR 3.5:1 (i.e. the Residual Land Value falling below the threshold of \$3,000/sqm), there exists an opportunity for the existing number of Council car spaces (87) to be retained within a mixed use development of the site (at densities between FSR 4:1 and FSR 4.5:1).

Subject to current utilisation rates and demand for public parking, Council could either elect to require the existing car spaces to be replaced on the site within a development, or to receive an upfront monetary contribution in lieu of construction and dedication. Based on feasibility testing, construction and dedication of an 87-space Council car park could be feasible amid a redevelopment of Site F1 to densities between FSR 4:1 and FSR 4.5:1. If however Council required an upfront, monetary contribution instead, an upfront payment around \$4m could be tolerated by the development. At current construction rates for basement parking, it could be a challenge to deliver 87 basement spaces within a budget of \$4m.

The selection of delivery method for Council's existing 87 car spaces will depend on the following considerations:

- Council's objectives - based on utilisation rates and current and expected demand, whether a public carpark continues to best located at Site F1 or elsewhere in the Precinct.
- Future maintenance - while basement carparks are preferable in many instances due to the fact they are hidden from view and they free up development opportunity on the site, future maintenance of the basement carpark will vest with Council and have long term cost implications on Council's budget.

The need for higher densities comes with increased heights; many a tall residential tower in the inner ring suburbs of Sydney has been witnessed to be highly sought after. The higher construction costs associated with tall towers are more than offset by the higher sale prices of units on high floors with commanding views. The success of tall residential towers within developments is yet to be witnessed in Hornsby (current developments at heights of between 9 and 12 storeys). While underlying demand is strong the market is nevertheless a price-sensitive market and sensitive to investment yields.

In helping to mitigate development risk, the Structure Plan should as much as is practicable, adopt a flexible approach to defining the mix between residential and non-residential uses as well as the vertical distribution /apportionment of residential floorspace within buildings.

1. INTRODUCTION

1.1 BACKGROUND AND OVERVIEW

Hill PDA has been commissioned to undertake a number of studies examining the Hornsby West Precinct ('the Precinct') to inform a Structure Plan prepared by Hornsby Shire Council ('Council'). This Mixed Use Feasibility Assessment ('the Assessment') is part of Stage 2 of the Planning Proposal and builds on the following pieces of work:

- Hill PDA's market research (Stage 1);
- Hill PDA's commercial / retail needs assessment (Stage 2);
- Urban design studies (JBA Planning) (Stage 2);
- Traffic studies (Bitzios Consulting) (Stage 2).

Following the designation of indicative heights and yields for development blocks within the Precinct, this Mixed Use Feasibility Assessment comprises feasibility analyses of two nominated sites to understand and examine the value of existing improvements and the residual land values applicable under each option.

The purpose of this Assessment is to examine the FSRs for commercial, retail and residential uses to understand the value of existing improvements, identify density thresholds required for feasibility and furthermore understand the implications of increased densities and heights on feasibility.

Figure 2 - Key Sites for Feasibility Testing



Source: JBA Planning, 2012

Considering the outcomes of the commercial and retail demand assessment, the results of the feasibility assessment will inform the refinement of floor space ratios, car parking requirements and urban design proposals to establish feasible options.

1.2 STUDY BRIEF AND METHODOLOGY

Hill PDA worked closely with Hornsby Council to review existing land use designation, density controls as well as consider alternate density options prepared by urban design consultant JBA Planning. As part of the Assessment Hill PDA carried out:

- An analysis of the prevailing property markets to identify patterns of supply and demand for respective land uses and characteristics.
- Feasibility testing on a selection of two key sites to examine various densities and land use mixes to investigate minimum density thresholds required for feasibility when a minimum density of FSR 1:1 is required for non-residential floorspace.
- Feasibility testing on Council's carpark site to examine various methods of retaining the requisite number of spaces on-site.

1.3 SCOPE OF DILIGENCE

In formulating our advice we have relied on information provided by Council, including but not limited to the following:

- Density options and scenarios of key sites prepared by JBA Planning;
- Draft Hornsby Development Control Plan (2012);
- Section 94 Contributions Plan (2007-2011);
- Draft Section 94 Contributions Plan (2012); and
- Rawlinsons Construction Cost Handbook 2012.

Our investigations have included consultation and enquiries with the following parties:

- Hornsby Council;
- JBA Planning;
- Local real estate agents engaged in the sale and lease of property in the Precinct and its surrounds.

In undertaking this Assessment, we have additionally relied on various financial and other property related information available. Where possible, within the scope of our retainer and limited to our expertise as land economists and strategic planners, we have reviewed this information including analysis against industry standards.

2. MARKET COMMENTARY

2.1 RESIDENTIAL LAND USES AND DWELLING SUPPLY

Australia has one of the highest rates of home ownership in the world. Much of the high rate can be attributed to a rapidly increasing standard of living and to high rates of population growth in the immediate post WWII period, and more recently, to ageing of the population.

The key drivers to Sydney's residential property market are:

- Interest rates underpinning affordability;
- A long term trend towards smaller household sizes;
- High cost of ownership forcing more people to rent maintaining a strong demand for rental properties;
- Downsizing of empty nesters, and home owners under pressure of large mortgage repayments; and
- Strong population growth from international migration and natural increase.

Demand for housing in Sydney remains strong as a result of population growth and high levels of employment. Supply has been restricted as a result of high land prices and difficulty for many securing finance. A combination of strong demand and restricted supply indicates that the outlook for the residential property market remains good.

Although housing starts continue to remain well below the 20 year average there are early indications that housing starts may improve over the coming years, with investment incentivised as a result of continued low levels of vacancy (2.2% at October 2012¹) and rising rents (2.8% for units in Hornsby LGA in September 2012 compared to September 2011²). Vacancy rates are a good indicator when assessing the strength of the rental market. Whilst the vacancy rates are slightly higher than previous years, the rate of 2.2% is still representative of a tightly held market³.

In recognising that the housing shortage in Sydney is an acute problem the NSW Government has instituted concurrent measures to achieve the aims and objectives of the Metropolitan Plan. These included the establishment of the State Metropolitan Development Authority tasked with undertaking large scale urban renewal, implementation of a raft of planning policies including the Urban Renewal State Environmental Planning Policy, the Affordable Rental Housing State Environmental Planning Policy and Exempt and Complying Development Codes to expand opportunities to develop affordable, medium density housing.

With Sydney's population and demand for rental housing continuing to grow, it is unlikely that the current rental and affordability issues associated with a tight rental market will abate in the short to medium term. To address this issue, the Minister for Planning and Infrastructure established the NSW Affordable Housing taskforce in July

¹ Real Estate Institute of NSW, Outer Ring Suburbs (>25km from CBD)

² HNSW Rental and Sales Report September 2012, Outer Ring Suburbs (>25km from CBD)

³ A tightly held market is deemed to have a vacancy level of less than 3-4%

2011. The Taskforce aims to identify planning policies to deliver affordable housing to a range of community members in housing need whilst respecting the local character of an area.

As part of its terms of reference, the taskforce is reviewing the amendments made to the State Environmental Planning Policy (Affordable Rental Housing) 2009 in May 2011. The Affordable Housing Taskforce is also developing initiatives and the concept of local strategies to encourage a wide range of housing types.

Hornsby West and its Surrounds

Whilst the long term outlook for the residential market is good and underpinned by strong fundamentals which ultimately form the key drivers to demand, an important factor not to be dismissed is the growing ability of the market to discern quality and residential amenity. In a competitive environment, residential developers increasingly need to 'product-differentiate' by masterplanning developments, incorporating sustainability features and throwing in incentives and inclusions with dwelling sales.

Informal discussions with selling agents reveal that Hornsby is a unique area that attracts a wide range of buyers who tend to be predominantly investors. Hornsby is typically comprised of a high proportion of renters (39%) compared to 31% average in Greater Sydney⁴.

Majority of interest and demand is reportedly from the mass market, a strong underlying demand for affordable accommodation in close proximity to public transport links. It is therefore essential that products taken to the market are accordingly reflective of market need and demand. Extended take-up periods have adverse implications for project feasibility.

2.2 LAND VALUES

Hill PDA has researched property transactions in Hornsby and enquired of local real estate agents to gain an understanding of market conditions and likely sales values for both residential, retail and commercial premises.

Higher market values in Hornsby are found in the shopping precinct east of the station which is dominated by the Westfield Shopping Centre. While there has been some multi-storey mixed use projects developed near the centre in George Street and to the south along College Crescent there has been little comparable development to the west of the station, in the area defined as the Hornsby West Precinct. This can be attributed to the difficulty of amalgamating sites which are mostly comprised of older two storey shopfronts with commercial tenancies or residences above.

The lack of new development on the western side of the train line is a product of a number of factors, including size of land parcels, number of land owners, planning controls, and the value of the improvements. Recent sales indicate a range of \$2,500/sqm to \$5,000/sqm for various land parcels in the precinct during the last 5 years.

- 12 Coronation Street sold for \$5,064/sqm (2010) and represents the upper end observed in the Precinct, also reflective of the small site dimensions (125sqm);

⁴ ABS Census (2011)

- 272 Pacific Highway is on the market at a quoting price of \$2.9m (\$3,700/sqm), the lower rate a function of the relatively large site dimensions (784sqm) and poorer condition of buildings.

Generally we conclude that sites in the Precinct are achieving prices as high as \$5,000/sqm (small sites with significant improvements) while larger sites are achieving prices as low as \$3,000/sqm of site area. We have assumed that sites will generally need to achieve at least \$3,000/sqm of site area in order to be feasible to redevelop.

2.3 RETAIL

Retail floor space is most sought after on the eastern side of the train line in close proximity to Westfield, and this is reflected in the price for land east of the station and also comparable new development. A real estate agent marketing a new mixed use development located at 8 Edgeworth David Avenue commented on the popularity of small tenancies selling off-the-plan, expected to benefit from the high foot traffic associated with the Westfield. Agents identified that there was strong demand from tenants looking to move from Westfield and as a consequence few small tenancies (70sqm-80sqm) were sold for as much as \$10,000/sqm.

An older mixed use development at 88 George Street consisting of two multi-storey buildings, comprises a large amount of retail and commercial space from ground to Level 4 with apartments above. Whilst the majority of retail tenancies were sold in a stronger market (2005-2007) and obtaining up to \$7,500/sqm of building area, prices appear to have declined in the order of 10%-15% with a few re-sales recently occurring in the \$6,100/sqm to \$6,300/sqm range. Agents have commented that while 88 George Street does not benefit from heavy foot traffic being further away from Hornsby Town Centre, it is still attractive for small business, in particular medical services.

Retail leases for the shops located in the Precinct appear to be averaging \$300/sqm to \$400/sqm of building area and are dominated by fast food cafes and restaurants. Informal discussions with leasing agents reveal that properties can be on the market for long periods amidst a continued cycle of insolvencies for the businesses in the area.

A Commercial/Retail Demand Assessment carried out as one of the studies supporting this Planning Proposal finds that there is some scope to accommodate additional supermarket floorspace in the Precinct over the period to 2016 and beyond. Such a supermarket would support additional specialty retail floorspace in the surrounding area and improve the trading performance of the Precinct, and furthermore distinguish the role of the Precinct from that of Hornsby Major Centre.

2.4 COMMERCIAL

The commercial market has suffered more than the retail market in Hornsby Town Centre since the Global Financial Crisis, with Hornsby now known more as a retail centre than as an employment centre. Re-sales of commercial units at 88 George Street indicate that a 15%-20% decline in commercial values has occurred since 2006/2007. Agents have identified that while prices have stabilised since this time there is still some demand from consumer service focused industries such as medical practitioners associated with the Hornsby Hospital.

The selling agent involved in marketing the mixed use development at 8 Edgeworth David Avenue advises they are waiting until construction commences before marketing the commercial units. While demand is expected for small professional services on the eastern side of the train line, construction needs to be underway before there is buyer interest.

Commercial floorspace in Hornsby on the eastern side of the rail station is broadly achieving sales rates in the region of \$3,500/sqm to \$5,500/sqm of building area. The Hornsby West Precinct is however not expected to attract the same demand as locations east of the station and therefore levels in the lower end of the range, closer to \$4,000/sqm are expected to be achieved for commercial strata units within a mixed use development. Sales at those levels are not feasible and therefore we expect developers to minimise such uses within a development. Where such uses are required or mandated this will increase the amount of residential floor space required to subsidise these uses.

2.5 RESIDENTIAL

The residential apartment market in Hornsby has performed strongly and is generally characterised by low vacancies and growth in the rental market. Moreover, analysis of the resales of developments completed in the last five years has shown appreciation in values, especially for one and two bedroom apartments. Prices reflect the proximity to the town centre and the services situated in this area.

While there has been good capital growth in the apartment market since the Global Financial Crisis there has been little development over the last few years, a result of tight capital markets restricting developers undertaking new development. An analysis of the most recent apartment buildings in Hornsby shows that there are no new apartment developments to the west of the rail station. New developments are primarily located east of the railway line and are particularly focused around George Street, Pound Road and College Crescent.

Table 1 - Sales of Existing Residential Units (2011-2012)

Address	No. of Units	Type	Internal Area (sqm)	Sale Price	\$/sqm
88 George Street (Building 1) Hornsby	100	2b	82.5-96	\$470,000-\$535,000	\$4,950-\$5,900
		3b	105-117	\$570,000-\$650,000	\$4,900-\$6,100
88 George Street (Building 2) Hornsby	99	2b	72-96	\$445,000-\$510,000	\$5,300-\$6,200
		3b	126-130	\$650,000-\$670,000	\$5,100-\$5,200
14-18 College Crescent Hornsby	84	1b	50-52	\$315,000-\$390,000	\$6,000-\$7,800
		2b	74-82	\$385,000-\$450,000	\$5,000-\$5,800

Source: Red Square & Hill PDA Research, July 2012

The dearth of new development over the past few years appears to be coming to an end with three new mixed use developments currently underway in close proximity to Hornsby Town Centre. The Walk which is a mixed use development located east of the station in the centre of Hornsby shopping precinct, is currently selling-off-the-plan. The marketing agent indicates a strong response to the 1 bedroom apartments, however the marketing campaign had been limited to internet advertising at this time and while they had passively sold 12 units over the last 12 months, it was not a real indication of the take-up.

The Duolos Apartments located to the south of Hornsby's retail precinct consists of 38 apartments in 5 different apartment layouts (1 bedroom and 2 bedroom units). Discussions with the marketing agent revealed that while there was still interest in one bedroom apartments, most interest was received for the two bedroom apartments. It

was thought that the development was targeted at a price point above the current stock in the area and this was potentially impeding take-up.

Pacific Point is the newest of the three developments currently advertised off-the-plan in Hornsby. The development features a very high percentage (73.5%) of 1 bedroom units, which are targeted primarily at first home buyers. The selling agent indicated sales had been strong with a sales rate of 11 per month for the first three months. While observing that the 1 bedroom units were selling strongly, strongest demand was experienced for 2 bedroom units. There had also been a number of enquires for 3 bedroom units, even though the development contained no 3 bedroom units. The agent commented that premium prices were achieved at heights above Level 11 due to district views enjoyed.

Table 2 - Sales of New Residential Units

Address	No.	Type	Internal Area (sqm)	Sale Price	\$/sqm
The Walk	8	1b	48	\$420,000-\$450,000	\$8,750-\$9,400
8 Edgeworth David Avenue	14	2b	77	\$510,000-\$575,000	\$6,600-\$7,500
Hornsby	4	3b	110	\$715,000+	\$6,500
Duolos	15	1b+s	62-63	\$420,000-\$430,000	\$6,700-\$6,800
93-103 Pacific Highway	23	2b	73.5-85	\$550,000-\$560,000	\$6,500-\$7,500
Hornsby					
Pacific Point	2	Studio	38-41	\$300,000	\$7,500
135-137 Pacific Highway	106	1b	51-64	\$400,000-\$430,000	\$6,700-\$7,500
Hornsby	36	2b	81-86	\$550,000-\$600,000	\$6,750-\$7,000

Source: Realestate.com.au & Hill PDA Research, July 2012

2.6 SUMMARY FINDINGS

Based on market research of existing and planned developments a summary of values is forecast for the Hornsby West Precinct.

Table 3 - Summary of Forecast End Values

Land Use	Type	Internal Area (sqm)	Sale Price	\$/sqm	Average
Retail	small	125	\$750,000-\$1,000,000	\$7,000-\$8,000	\$6,000
	large	1,250	\$5,000,000-\$5,250,000	\$4,000-\$4,250	\$4,000
Commercial	NA	75	\$300,000	\$4,000-\$4,250	\$4,000
		150	\$600,000	\$3,750-\$4,250	\$4,000
		500	\$2,000,000	\$3,500-\$4,000	\$4,000
	studio	45	\$305,000-\$360,000	\$6,750-\$8,000	\$7,500
Residential	1b	55	\$410,000-\$480,000	\$8,000-\$8,600	\$7,500
	2b	82	\$550,000-\$680,000	\$6,000-\$6,750	\$7,150
	3b	100	\$600,000-\$800,000	\$5,750-\$6,250	\$7,000

Source: Hill PDA Research, July 2012

As with any residential high-rise project the benefit of height on district views enables incremental price increases with each level. It is conceivable that a \$5,000 increase per level could be achieved as views improve and kerbside noise reduces with each higher level.

3. DEVELOPMENT ECONOMIC ANALYSIS

Hill PDA has adopted the residual land value approach as the method of assessment and utilised its proprietary software Estate Master in the analysis. This involved assessing the value of the end product of the development, allowing for the development costs, and making a further deduction for the profit and risk that a developer would require to take on the project.

3.1 DEFINITION OF TERMS AND CONCEPTS

The development equation is set out in simple terms as follows:

$$\text{GDV} = \text{L} + \text{B} + \text{F} + \text{P}$$

where GDV = Gross Development Value, L = Land, B = Building, F = Finance, P = Profit

GDV	'Gross Development Value' is based on the capitalisation of net income, or the sales of completed built space.
Land	Land costs are comprised of the cost of the land itself together with its acquisition costs such as stamp duty and conveyancing fees. Landholding costs constitute the statutory charges of land ownership which are payable during the development period. These include council rates, water and sewerage rates and land tax.
Building	Building costs can be predicted by measurement of gross building areas and the application of unit rates for similar buildings completed. Rise and fall in labour and material costs should be allowed for. Building expenses constitute all construction costs and professional fees for consultants engaged including architects, planners, cost consultants and project managers.
Finance	Capital investment generally takes two forms: debt and equity. Debt capital is usually employed during the construction phase following the same 'S' curve along which building costs accrue. On construction completion, construction funding is usually converted to term debt. Equity capital accrues interest on an opportunity cost basis for funds employed, i.e. the investment potential foregone in the 'next best' alternative investment opportunity. Equity capital is usually expended before debt capital is advanced. Arrangement, commitment, establishment, usage and facility fees apply to debt while arrangement fees apply to equity.
Profit	Project is the developer's required margin to compensate for risk and enterprise.

The development equation can be rearranged to calculate land value as a form of residual value:

$$\text{L} = \text{GDV} - (\text{B} + \text{F} + \text{P})$$

where the Residual Land Value is the remainder after deducting all costs from revenue

Hurdle Rates

Target hurdle rates are dependent on the perceived risk associated with a project (planning, market, financial and construction risk). The more risk associated with a project, the higher the hurdle rate.

A site that is covered by clear and unambiguous planning controls is less risky; good planning direction will contribute to mitigating planning risk and thereby reducing the lead-in time to development commencement. The absence of clear planning and development controls will conceivably result in developer resistance and corresponding increases in required hurdle rates to compensate for increased risk and longer holding periods expected, project IRR possibly required between 25% and 30%.

Economic Viability/Financial Feasibility

The assessment of economic viability of various density options can be assessed by comparing the resultant Residual Land Values with the 'as is' land value of sites. Increasing the density or floor space ratio (FSR) specifies higher and more intensive built forms over a site.

By analysing historical sales evidence, land values ('as is') of sites are in the order of \$3,000/sqm to \$5,000/sqm of site area. Sites commanding more than \$4,000/sqm in value imply the buildings are still of good economic useful life and are not as yet ripe for development. Density options that return higher Residual Land Values than the \$3,000/sqm to \$3,500/sqm bandwidth are considered economically viable or financially feasible as it implies that they are a 'higher and better' use than current use, facilitating incentives for their development and renewal.

MIXED USE DEVELOPMENT FEASIBILITY

This section provides an overview of our financial assessment of notional development schemes premised on preliminary densities and land use (and development yields) developed by JBA Planning. Key sites tested are:

- Site C2 (Park Edge) in Area C Park Edge; and
- Site F1 (Council Carpark South) in Area F William Street.

Due to the high-level nature of information available, the notional development schemes are only considered in broad terms with the adoption of generic cost and revenue assumptions (Appendices 1 and 2).

The feasibility of each of the development options has been measured by project Internal Rate of Returns (IRRs) and Residual Land Values (RLVs), the ranges of acceptability are indicated below:

Table 4 - Performance Criteria for Development Options

Performance	Project IRR¹	Residual Land Value²
Feasible	>18%-20%	>\$3,000/sqm-\$3,500/sqm
Marginally feasible	16%-18%	\$2,800/sqm-\$3,000/sqm
Not feasible	<16%	<\$2,800/sqm

Notes:

1 – Project Internal Rate of Return (IRR): the discount rate where the Net Present Value (NPV) equals zero, 'As is' land values of \$3,000/sqm assumed

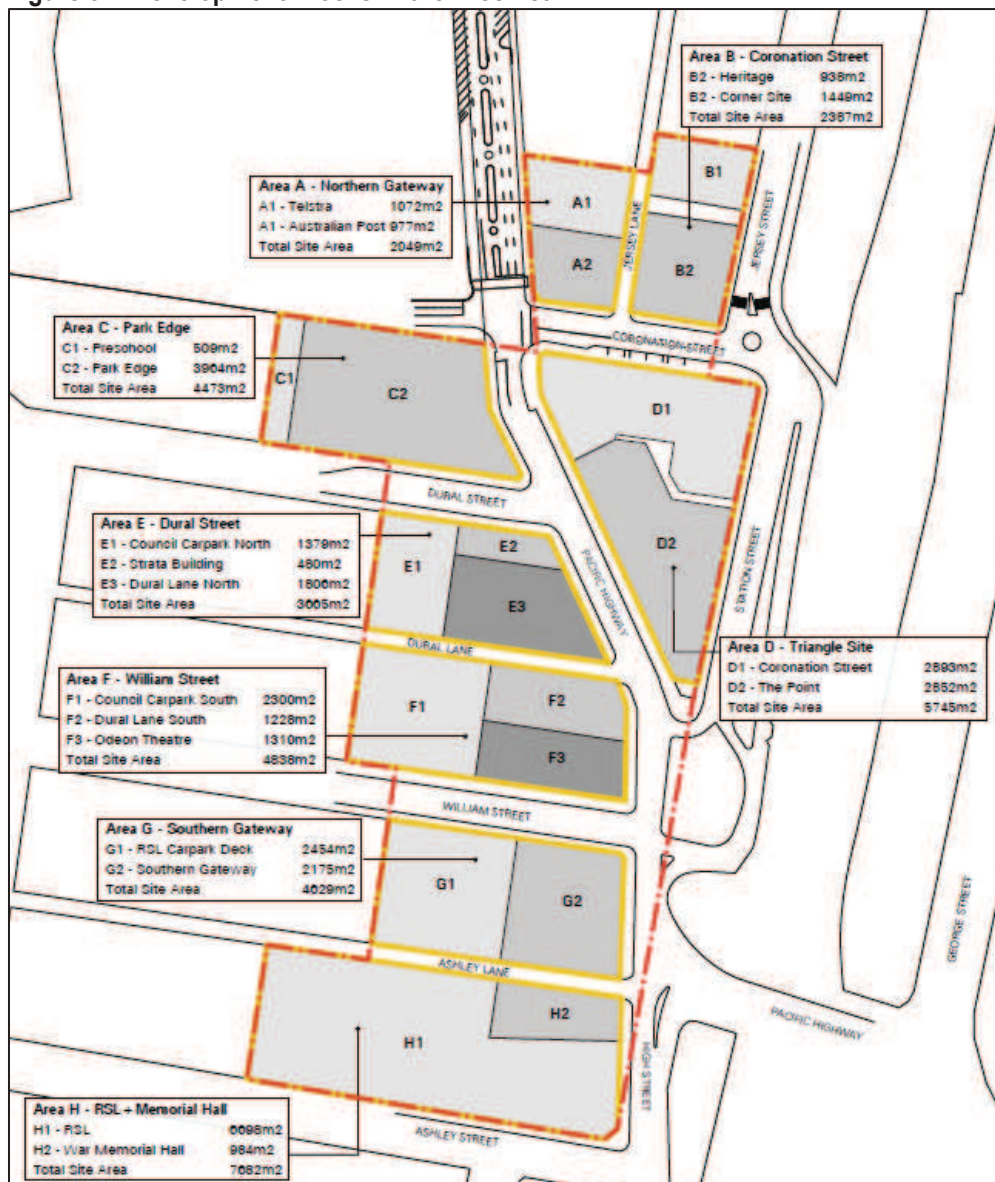
2 – Residual Land Value (RLV): the purchase price for the land to achieve a zero Net Present Value (NPV)

Whilst Hill PDA has adopted the project IRR as the primary indicator of performance (feasibility), regard is also had to the following performance criteria:

- **Residual Land Value:** Purchase price of the land whilst achieving a zero Net Present Value (NPV).
An analysis of transactional activity of sites in the Precinct indicates that under current planning controls 'as is' values are in the region of \$3,000/sqm to \$3,500/sqm of site area. For a use to be considered feasible, the corresponding Residual Land Value needs to be greater than the 'as is' value so as to make it (the proposed use) a 'higher and better use'. There is little economic impetus for effecting land uses that return lower Residual Land Values than current values.
- **Development Profit:** Total revenue less total cost including interest paid and received.
- **Development Margin:** Profit divided by total development costs (including selling costs).

The following plan shows the various development blocks identified within the Precinct and the key sites (C2 and F1) tested.

Figure 3 - Development Blocks in the Precinct



Source: JBA Planning, 2012

3.3 KEY SITES TESTED

Site C2

Site C2 is located within development block Area C (Park Edge), at the corner of Pacific Highway and Dural Street. The site area of C2 is some 3,964sqm and the existing improvements comprise a mixture of single and double storey buildings interspersed with some vacant land, the intensity of use varies from allotment to allotment.

A portion of the site (i.e. 2B Dural Street and 193 Pacific Highway) was acquired in November 2011 for \$1,650,000 (\$3,000/sqm of site area).

Figure 4 - Site C2 (Park Edge)



Source: Red Square

The following development yields are subject to feasibility testing:

Table 2 - Site C2 Development Option

Site C2	Base Option	Alternate Option
Site Area	3,964sqm	3,964sqm
Development Yield (GFA)	FSR 5.6:1 ¹	FSR 6.2:1 ²
Retail / Commercial	3,964sqm (FSR 1:1)	3,964sqm (FSR 1:1)
Residential	18,276sqm (198 units)	20,687sqm (224 units)
Basement parking		
Retail / Commercial	92	92
Residential	192	217
At-grade parking – visitors	27	31

Footnote 1 - 3 towers (3, 8, 20 storeys), Footnote 2 - 3 towers (8, 10, 20 storeys)

Source: JBA Planning, Preliminary Development Yields

Site F1

Site F1 is a Council-owned carpark located within development block Area F (William Street) fronting William Street. There are currently 87 at-grade parking spaces with an average utilisation rate of 67%.

Figure 5 - Site F1 (William Street)



Source: Red Square

The following development yields (outright development) are subject to feasibility testing:

Table 3 - Site F1 Development Option

Site C2	Base Option	Alternate Option
Site Area	2,300sqm	2,300sqm
Development Yield	FSR 3.5:1 ¹	FSR 5.6:1 ²
Retail / Commercial	2,300sqm (FSR 1:1)	2,300sqm (FSR 1:1)
Residential	5,741sqm (63 units)	10,579sqm (116 units)
Basement parking		
Retail / Commercial	53	53
Residential	61	112
At-grade parking – visitors	9	17

Footnote 1 - 3 buildings (5, 8, 10 storeys), Footnote 2 - 3 buildings (5, 12, 14 storeys)

Source: JBA Planning, Preliminary Development Yields

The notion of Council contributing the land for development subject to the retention of the number of car spaces was also tested. Feasibility testing was carried out to determine if retention of Council's 87 car spaces was best provided as a work-in-kind or as an upfront contribution to the provision of car spaces elsewhere in the Precinct.

3.4 SUMMARY OF FINDINGS

The key performance indicator for the assessment of feasibility performance is the project Internal Rate of Return (IRR) in applying the generic assumptions as outlined in Appendices 1 and 2.

The following table illustrates the results of high-level feasibility testing of the selected key sites.

Table 4 - Summary of Mixed-Use Feasibility Results

Site Specifics	Site C2		Site F1	
	Base Option	Alternate Option	Base Option	Alternate Option
Site Area (sqm)	3,964sqm	3,964sqm	2,300	2,300sqm
Development Density (FSR)	FSR 5.6:1	FSR 6.2:1	FSR 3.5:1	FSR 5.6:1
Development Yield (GFA)				
Retail / Commercial (FSR 1:1)	3,964sqm	3,964sqm	2,300sqm	2,300sqm
Residential	18,276sqm (198 units)	20,687sqm (224 units)	5,741sqm (63 units)	10,579sqm (116 units)
Performance Indicators:				
Project IRR	19.31%	21.60%	4.39%	17.54%
Development Margin	16.79%	20.28%	0.22%	13.64%
Residual Land Value (RLV)	\$11,482,479	\$13,294,916	\$2,961,806	\$5,907,685
RLV (\$/sqm of site area)	\$2,897	\$3,354	\$1,288	\$2,568
Feasibility	Marginal	Yes	No	No

The following feasibility outcomes are observed:

Site C2

Development to FSR 5.6:1 is only marginally feasible on Site C2. While the project IRR exceeds the threshold of 18%, the Residual Land Value of \$11.5m is just below the deemed 'as is' site value of \$12m.

By increasing densities of the Base Option to FSR 6.2:1, whilst feasibility is improved the feasibility outcomes are not substantially improved. This is primarily attributed to the following factors:

- Higher cost of construction associated with high-density developments and taller towers;
- Higher cost of providing more levels of basement carparking;
- Higher requirement for carparking in retail / commercial uses; and
- Owing to the lower sale prices of retail and commercial floorspace, the provision of ground floor retail and first floor commercial floorspace is effectively being subsidised by the more valuable residential floorspace.

As a consequence of higher density provision, the cost of construction increases substantially with taller towers, more basement levels, etc. hence the corresponding increase in residential sales revenue needs to be beyond the critical level where the *incremental* net revenue (i.e. sales revenue less development cost for each additional dwelling) is positive.

Site F1

Even at FSR 5.6:1, the development option tested on Site F1 is not feasible if it were owned and developed by a private landowner / developer. The Residual Land Value is less than \$6m (\$5.9m) compared to the opportunity cost of land at \$6.9m. This implies that higher densities are required to make redevelopment financial viable. This is however a Council-owned site presently accommodating 87 at-grade car spaces.

The location of this site away from Pacific Highway renders it less suitable for non-residential uses due to reduced exposure and visibility. It is nonetheless highly suitable as a 100% residential site.

Feasibility testing was carried out to examine delivery methods that could be tolerated by the development, i.e. for the site to be redeveloped and the car spaces to be retained. The results are as follows:

- Upfront payment of around \$4m to Council in return for the opportunity to develop the site into mixed uses of between FSR 4:1 to FSR 4.5:1, or
- Construction of 87 basement car spaces for dedication to Council as contribution in lieu of payment for the land.

Summary

Albeit at a high-level, some observations emerge from the above feasibility analyses. These observations can be taken as rules of thumb to apply to good, developable sites with nominal / insubstantial existing improvements not constrained by environmental or physical factors resulting in an increased cost to develop.

- At minimum non-residential densities of FSR 1:1, overall densities at minimums of FSR 5.5:1 to FSR 6:1 are required for feasible redevelopment.
- Distribution of the developed floorspace in buildings around 9-12 storeys in height will contribute to minimising construction costs and improving development feasibility.
- Densities below FSR 5:1 are not feasible to redevelop; Site F1 is an example of how a Council-owned site could be redeveloped into residential and the number of existing car spaces replaced on the site.
- The designation of non-residential floorspace is inversely related to development feasibility; cumulatively due to the lower sale price realisable and the higher car space requirement for non-residential floorspace.

If, based on utilisation and current parking demand, Council requires equal or more than the existing car spaces to be replaced on the same site (Site F1), it could be preferable for the car spaces to be dedicated via a contribution in-kind (basement construction and dedication) rather than as an upfront monetary contribution. At a high-level, an upfront payment of \$4m translates to \$46,000 per car space (based on 87 existing car spaces) inclusive of all costs. Whilst not impossible to achieve, the cost of constructing basement carparking can conceivably approach a rate of \$50,000 per car space. The selection of delivery method will depend on the following considerations:

- Council's objectives - if a public carpark is best located at Site F1 or elsewhere in the Precinct; and
- Carpark construction - if basement construction is preferable to say an aboveground parking station, also considering future maintenance and cost implications.

Higher densities for Site F1 will enable the capture of corresponding higher land values, either for delivery of more parking spaces or larger upfront monetary contribution.

Construction costs exponentially increase with towers over 12 storeys; sale prices of units required to be sufficiently high to make tower development viable. By way of example, the average base cost of constructing buildings under 10 storeys ranges between \$2,300/sqm and \$2,880/sqm. This increases by 8% for towers between 10 and 20 storeys (\$2,500/sqm to \$3,130/sqm) and by 20% for towers exceeding 20 storeys (\$3,200/sqm to \$3,520/sqm)⁵. In order for a cost neutral position, an average 2 bedroom unit in a 20 storey tower needs to sell for at least \$70,000 to \$100,000 more than one in a 10 storey building.

3.5 ISSUES FOR ECONOMIC VIABILITY

There has been a lack of residential development site sales in many locations, indicative of a lack of developer confidence. This may be attributed largely to a combination of factors, the disparity between the high cost of development, low realisable end sale values and more recently the difficulty in obtaining credit. This problem is not unique to Hornsby but has been prevalent throughout the Sydney metropolitan area and indeed elsewhere in the state. High construction costs coupled with developer contributions in many cases have eroded developer profits and margins, providing an effective disincentive to development in many cases.

There has been a dearth of residential development sites transacted in the region: credit and infrastructure availability issues, economic uncertainty and lack of developer confidence are all contributing factors; even though there is ongoing development activity, many of these subdivision projects are being released from land bank holdings.

The following issues continue to challenge development, with feasibility in many instances delicate:

- **Site assembly** - acquisition of land is a high risk and high resource activity for developers particularly where numerous parcels of land have to be amalgamated prior to development.
- **Site constraints** - physical shape and environmental constraints and the need for infrastructure provision (particularly applicable in release areas) affect the developable area of a site.
- **Intensity of build** - in some cases it is a misconception that 'more is better': as floorspace increases so does the number of storeys and basement levels and hence construction cost. In deciding the amount of capital to apply to a site, i.e. how intensely the site should be developed, developer capital will be applied to the point where incremental revenue is equal to incremental cost.
- **Product type** - residential markets are acknowledged to be diverse, e.g. market acceptance for higher density product is good within most inner suburbs of Sydney, hence end sale prices of the completed product justify the higher cost of construction. There are other markets however where there is an established market for lower density build, e.g. detached or semi-detached dwellings. This is particularly true in outer suburbs and regional areas where there is market resistance to multi-dwelling housing.

⁵ RLB Construction Cost Indicator, 3rd quarter 2012

- **Cost of development** - recent difficulties in securing credit and relatively high statutory cost obligations have exacerbated the overall cost of development. With higher density developments, there may be an opportunity for developer contribution rates per dwelling/lot to be reduced, thus aiding the feasibility of development.

Whilst demand for apartment living is demonstrated to be fairly keen (evidenced by the market's response to Pacific Point and the Duolos projects in Hornsby), the economic viability for apartment development remains delicate primarily due to the high cost of construction involved.

In certain locations where developers are able to capitalise on the ability to offer views on higher floors, the corresponding increase to construction cost associated with taller buildings is more than offset by the higher sale prices of units enjoying views. However this revenue response is not always guaranteed possible given the Precinct's location and price-sensitive nature of the market.

As far as is practicable, distribution of residential floorspace should be accommodated within medium rise towers (9-12 storeys).

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5. Due care has been taken to prepare the attached financial models from available information at the time of writing, however no responsibility can be or is accepted for errors or inaccuracies that may have occurred either with the programming or the resultant financial projections and their assumptions.
6. This report does not constitute a valuation of any property or interest in property. In preparing this report Hill PDA has relied upon information concerning the subject property and/or proposed development provided by the Client and Hill PDA has not independently verified this information except where noted in this report.
7. In relation to any valuation which is undertaken for a Managed Investment Scheme (as defined by the Managed Investments Act 1998) or for any lender that is subject to the provisions of the Managed Investments Act, the following clause applies:

This valuation is prepared on the assumption that the lender or addressee as referred to in this valuation report (and no other) may rely on the valuation for mortgage finance purposes and the lender has complied with its own lending guidelines as well as prudent finance industry lending practices, and has considered all prudent aspects of credit risk for any potential borrower, including the borrower's ability to service and repay any mortgage loan. Further, the valuation is prepared on the assumption that the lender is providing mortgage financing at a conservative and prudent loan to value ratio.

Appendix 1 - FEASIBILITY MODELLING ASSUMPTIONS (SITE C2)

Project Timeframe

For the purposes of assessing the feasibility of each of the development options, depending on the size of the project Hill PDA assumed development to occur either in a single or multiple staged scenario.

- Project commencement in January 2013;
- Construction spans from 9 to 18 months per stage;
- Residential pre-sales of approximately 50% prior to construction with settlement on completion of construction;
- Residential pre-sales at a rate of 4-6 lots per month with rates of sale slightly higher with larger development options where sales occurs on several fronts.

End Sale Values

Depending on the option, residential units are arranged in three buildings that range in height, from 3 storeys to 20 storeys. Sale prices are expected to increase with the number of storeys. Due to the high-level nature of this assessment and in the absence of detailed plans, Hill PDA has adopted composite / average rates in the order of:

- Building T3 (3 storeys)
 - Studios (\$333,850)
 - 1 bedroom units (\$446,050)
 - 2 bedroom units (\$550,000)
 - 3 bedroom units (\$597,500)
- Building T8 (8 storeys)
 - Studios (\$347,550-\$353,100)
 - 1 bedroom units (\$454,650-\$465,300)
 - 2 bedroom units (\$577,500-\$567,500)
 - 3 bedroom units (\$615,000-\$625,000)
- Building T10 (10 storeys)
 - Studios (\$347,550)
 - 1 bedroom units (\$454,650)
 - 2 bedroom units (\$577,500)
 - 3 bedroom units (\$625,000)
- Building T20 (20 storeys)
 - Studios (\$380,600-\$386,100)
 - 1 bedroom units (\$492,800-\$498,300)
 - 2 bedroom units (\$651,750-\$657,250)
 - 3 bedroom units (\$704,000-\$709,500)
- Retail (ground floor) at \$5,500/sqm and commercial (first floor) at \$4,000/sqm.

Additional sales assumptions include:

- Sales escalations at 3% per annum.
- GST is included on residential sales but excluded on non-residential sales.
- Selling costs are assumed at 2% of residential sales and 1.5% of non-residential sales.
- Marketing costs at 0.75% of gross sales, legal costs at 0.25% of gross sales.

Capital Works, Construction and Land Costs

Construction costs have been sourced from Rawlinsons Construction Handbook 2011 and are as follows:

- Demolition and site preparation at \$100/sqm of existing building area.
- Residential construction:
 - \$2,000/sqm and \$2,200/sqm for apartments (3 and 8 storeys respectively);
 - \$2,300/sqm and \$2,800/sqm for apartments (10 and 20 storeys respectively);
 - \$500/sqm for balconies;
 - \$1,800/sqm for non-residential construction.
- Basement carparking at \$35,000 per car space.
- At-grade parking at \$3,000 per car space.
- Landscaping at \$200/sqm.

Additional cost assumptions include:

- Professional fees have been assumed at 10% of building construction costs (7% expensed prior to construction of each stage and 3% pro-rated with the costs of development during construction).
- Construction contingency of 5% of construction costs.
- Development management fees of 1% of project costs.
- Statutory costs:
 - DA fees based on Council's fees;
 - Construction Certificate at \$800 per lot;
 - Section 94 contributions at \$10,082 (studios/1 bedroom units), \$15,736 (2 bedroom units) and \$20,922 (3 bedroom units), \$83/sqm of commercial GFA;
 - Land titling fees at \$800 per unit.
- Landholding costs estimated based on prevailing statutory rates and assumed to diminish with sales.
- Land purchase cost is assumed to be injected as upfront equity contribution with the remaining debt funded at 8% per annum capitalised interest.
- Land purchase cost (opportunity cost of land) at \$3,000/sqm of site area; site assembly presumed to be forthcoming even in multiple holdings.

Performance Criteria

Hill PDA has adopted a project discount rate of 20% per annum nominal on the cash flow of the project which includes financing costs but excludes interest. Additionally, a developers target development margin of 20% on total development costs (including selling costs) has been assumed both reflecting the size of the development and the associated risk.

Appendix 2 - FEASIBILITY MODELLING ASSUMPTIONS (SITE F1)

Project Timeframe

For the purposes of assessing the feasibility of each of the development options, depending on the size of the project Hill PDA assumed development to occur either in a single or multiple staged scenario.

- Project commencement in January 2013;
- Construction spans from 9 to 18 months per stage;
- Residential pre-sales of approximately 50% prior to construction with settlement on completion of construction;
- Residential pre-sales at a rate of 4-6 lots per month with rates of sale slightly higher with larger development options where sales occurs on several fronts.

End Sale Values

Depending on the option, residential units are arranged in two buildings that range in height, from 3 storeys to 13 storeys. Sale prices are expected to increase with the number of storeys. Due to the high-level nature of this assessment and in the absence of detailed plans, Hill PDA has adopted composite / average rates in the order of:

- Building T3 (3 storeys)
 - Studios (\$333,850)
 - 1 bedroom units (\$446,050)
 - 2 bedroom units (\$550,000)
 - 3 bedroom units (\$597,500)
- Building T8 (8 storeys)
 - Studios (\$347,600)
 - 1 bedroom units (\$459,800)
 - 2 bedroom units (\$562,500)
 - 3 bedroom units (\$610,000)
- Buildings T11 and T13 (11 and 13 storeys respectively)
 - Studios (\$358,600)
 - 1 bedroom units (\$470,800)
 - 2 bedroom units (\$572,500)
 - 3 bedroom units (\$620,000)
- Retail (ground floor) at \$5,500/sqm and commercial (first floor) at \$4,000/sqm.

Additional sales assumptions include:

- Sales escalations at 3% per annum.
- GST is included on residential sales but excluded on non-residential sales.
- Selling costs are assumed at 2% of residential sales and 1.5% of non-residential sales.
- Marketing costs at 0.75% of gross sales, legal costs at 0.25% of gross sales.

Capital Works, Construction and Land Costs

Construction costs have been sourced from Rawlinsons Construction Handbook 2011 and are as follows:

- Demolition and site preparation at \$70/sqm of site area
- Residential construction:
 - \$2,000/sqm to \$2,200/sqm for apartments (3-8 storeys);
 - \$2,300/sqm for apartments (11-13 storeys);
 - \$500/sqm for balconies;
- Basement carparking at \$35,000 per car space.
- At-grade parking at \$3,000 per car space.
- Landscaping at \$200/sqm.

Additional cost assumptions include:

- Professional fees have been assumed at 10% of building construction costs (7% expensed prior to construction of each stage and 3% pro-rated with the costs of development during construction).
- Construction contingency of 5% of construction costs.
- Development management fees of 1% of project costs.
- Statutory costs:
 - DA fees based on Council's fees;
 - Construction Certificate at \$800 per lot;
 - Section 94 contributions at \$10,082 (studios/1 bedroom units), \$15,736 (2 bedroom units) and \$20,922 (3 bedroom units), \$83/sqm of commercial GFA;
 - Land titling fees at \$800 per unit.
- Landholding costs estimated based on prevailing statutory rates and assumed to diminish with sales.
- Land purchase cost is assumed to be injected as upfront equity contribution with the remaining debt funded at 8% per annum capitalised interest.
- Land purchase cost (opportunity cost of land) at \$3,000/sqm of site area; site assembly presumed to be forthcoming even in multiple holdings.

Performance Criteria

Hill PDA has adopted a project discount rate of 20% per annum nominal on the cash flow of the project which includes financing costs but excludes interest. Additionally, a developers target development margin of 20% on total development costs (including selling costs) has been assumed both reflecting the size of the development and the associated risk.