Economic Review of Proposed Planning Controls

Berala Village

DRAFT

Prepared for

Auburn City Council

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CONTENTS

LIST OF FIGURES

LIST OF TABLES

APPENDIX

ABREVIATIONS

NPV – Net Present Value

RLV – Residual Land Value

LEP – Local Environmental Plan

DCP – Development Control Plan

DEFINITONS

Existing Improvement Value: the value of an asset based on the continuation of its existing use, assuming the asset could be sold as part of a continuing business regardless of whether that use represents the highest and best use.

Net Present Value (NPV): the measure of the difference between the discounted revenues, or inflows, and the costs, or outflows, in the DFC analysis.

Residual Land Value: This is the purchase price of the land whilst achieving a zero Net Present Value (NPV).

Development Profit: Total revenue less total cost including interest paid and received.

Development Margin: Profit divided by total development costs (including selling costs).

EXECUTIVE SUMMARY

Following Auburn City Council's resolution on 3rd April 2013, this Study was commissioned to provide economic and commercial advice concerning the suitability of the development controls that apply to Berala Village Centre and its 600m radius (the Study Area). More specifically this Study was commissioned to test from a development feasibility perspective whether the existing planning controls that apply to Berala are sufficient enough to incentivise change, promote renewal and revitalisation in support of the following objectives of the draft Berala Village Study:

- *To identify opportunities to revitalise and improve Berala;*
- *To inform Council's strategic planning, particularly Council's Delivery Program, and inter agency initiatives;*
- *To bring together information which will inform the future upgrade of Berala's main street area; and*
- *To consider which building types and heights are suitable for Berala in the future.*

Of relevance to this Study, the draft Berala Village Study provided a comprehensive assessment of existing built form to find that there was physical capacity for additional building density in the Study Area. As a result of this finding, together with community concerns regarding higher density development (i.e. 3 storeys and above), the draft Berala Village Study recommend the retention of the existing planning controls in addition to a series of economic revitalisation strategies and village centre improvements to achieve the aforementioned objectives.

THE CURRENT PROPERTY MARKET

To inform the Study and our testing of the feasibility of development in today's market, as a preliminary step we undertook market research to determine the scale and scope of demand for various uses within the Study Area. With respect to housing it was found that in recent years demand for housing had been growing and geographically spreading across Auburn LGA from Lidcombe (which has experienced notable growth over the past two years) to Berala (particularly over the past 12 months). This growth has led to a 12% increase in Berala's median house prices from June 2012 to June 2013 along with a 6% increase in apartment prices for the same period[1].

This demand is being fuelled by a growing number of young professionals and families attracted to the suburb on account of its village characteristics and relative accessibility. Industry sources also advise that this changing market is increasing demand for apartment style dwellings owing to its lifestyle benefits (i.e. less maintenance). Of interest demand for apartments in Berala is growing despite the entry point for a single detached dwelling in the Study Area today being $445,000 in comparison to the median apartment price as of June 2013 of $323,000 (i.e. a price difference in the order of $122,000).

With respect to commercial uses, Berala Centre has gained a good reputation as a community focused local neighbourhood centre. In recent years the Centre has strengthened its food and convenience offer on account of

[1] It is important to note that this classification refers to all strata titled dwellings including units, townhouses, terraces and semi-detached dwellings.

the new Woolworths full line supermarket an associated tenancies. The supermarket, together with a variety of specialty food and grocery stores has created a strong food focus for local residents. On account of this role, our market research also found that retail properties are tightly held in the Village Centre (i.e. infrequently bought / sold) yet there is limited to nil demand for commercial office space on the upper floors of buildings. Rather demand for commercial uses is mostly limited to local services such as real estate agencies, banks and medical centres that seek to locate at ground floor level.

SELECTING TEST SITES

Building on our market and Study Area analysis, two hypothetical development sites were nominated for the purpose of testing the feasibility of the existing controls. The two sites shown in Figure 1 were nominated owing to their locational merits as well as the information they would provide to inform the Study as listed in Table 1.

Figure 1 - Aerial View of Test Site 1 and Test Site 2

Source: Red Square as amended by Hill PDA

Table 1 - Summary of Test Site Characteristics

Test Site 1: 178 – 184 Woodburn Street	Test Site 2: 30-34 Campbell Street and 20 Burke Avenue
B2 Local Centre Zone	R3 Medium Density Zone
FSR 2:1 and 3 Storey Maximum Height	FSR 0.75:1 and 2 Storey Maximum Height
Located within the Village Centre	Located outside of the Village Centre
Located on the north west side of railway line	Located on the south east side of railway line
Low flood risk	Medium flood risk
Mixed use development – ground floor retail and shop top housing	Residential only development

The feasibility of redeveloping the Test Sites was subsequently modelled using the hypothetical development feasibility approach and industry standard Estate Master Development Feasibility software. In this approach a target profit margin (called the Development Margin) and project internal rate of return (called the IRR) were used

to test whether under the existing planning controls that apply to the Test Sites are financially attractive to a potential developer to purchase for redevelopment in today's market.

SUITABILITY OF CURRENT PLANNING CONTROLS

Having selected and tested various different development scenarios for both Test Site 1 and Test Site 2, it was found that:

1. Under the current planning controls the redevelopment of both Test Sites was not viable (IRR of -13% and -12% respectively);
2. By reducing the car parking rate, the IRR improves yet remains unviable for Test Site 1 (IRR of 2%) and Test Site 2 (IRR of 2%) owing to notable cost of excavation; and
3. By increasing FSR and number of building storeys, but not altering Council's car parking standards, development could become financially viable on each Test Site at this point in time (IRR of 29% and 28% respectively).

On this basis, our testing shows that in today's market for both Test Sites, the following minimum density thresholds and building storeys would be required for their viable redevelopment:

- an FSR of 3:1 and height of 5 storeys for mixed use development within the B2 Local Centre Zone (an increase from the existing permissible maximum FSR of 2:1 and 3 storey maximum building height); and
- an FSR of 1.5:1 and height of 4 storeys for residential only development within the R3 Medium Density Zone (representing a doubling from the current FSR of 0.75:1 and 2 storey maximum building height).

These changes represent a notable increase from the existing controls. We therefore believe it is important to highlight the potential impact these densities and associated building heights and scale could have to the character of the Study Area. This matter is particularly pertinent in light of the key findings of the community engagement undertaken to inform the draft Berala Village Study. This analysis advised that whilst the local community supported revitalisation in Berala it did not necessarily support significant or wholesale increases in built form density across the Study Area to achieve this outcome. For this reason we recommend caution in implementing the above referenced increases in FSR without a more detailed review of the implications through an urban design study or analysis. This recommendation is considered in line with Council's objective for the draft Berala Village Study to *"consider which building types and heights are suitable for Berala in the future*".

We also highlight the findings of our research that existing FSR's within the Study Area are not out of order with other comparable centres. Rather in some cases the FSR's that are currently permissible for the Study Area (i.e. the R2 Low Density and R3 Medium Density Zones) are notably higher than other village centres in Sydney.

As a final matter we wish to reiterate that not all sites within the Study Area would require as significant an uplift in density to make their redevelopment attractive in today's market. Some sites may benefit from lower development costs owing to site ownership or environmental characteristics and therefore would be more likely to be feasible under the existing planning controls. These sites would however be the exception rather than the rule.

KEY FINDINGS AND RECOMMENDATIONS

In summary our research finds that whilst demand for housing is growing, the redevelopment of properties and land from medium to high density within Berala has been limited in recent years. Our research and industry experience finds that such a predicament is rarely a result of any one factor (such as planning controls). Rather the successful redevelopment of an area relates to a range of market and socio-economic conditions including the ability to raise finance (which has been a key challenge during and post GFC), the availability of land for redevelopment (which relates to the willingness of existing land owners to sell), the cost of construction, the desirability of the Study Area by the market and the capacity of development permitted under the current planning controls.

Whilst the desirability to live in Berala is growing, our analysis indicates that the economics of redeveloping to medium density in the Study Area is not yet at a stage whereby there is sufficient reward (i.e. profit) for the developer to overcome the risk of site acquisition, finance and redevelopment. This is particularly the case on smaller, more complex sites that are fragmented in ownership. Conversely, our analysis suggests that some of the larger consolidated sites might still provide good options for redevelopment however, as with any development scenario, their redevelopment is dependent on the intent and willingness of the existing landowner.

In light of this research and our Study Area analysis, some of the key development opportunities and constraints from an economic perspective that we have identified have been summarised in the table below.

Table 2 - Development Opportunities and Constraints within the Berala Study Area

Strengths and Opportunities	Weaknesses and Constraints
Some large sites with good redevelopment potential in the B2 Local Centre Zone i.e. hotel and car park sites	Flooding potential and associated cost implications to development
Growing market attraction to professionals and families	Current market economics
Good rail access to / from the Study Area	Limited development applications for redevelopment
Established village character and retail market	Tightly held retail properties limiting redevelopment opportunities
Limited acid sulphate soils (i.e. Class 5)	Strata titled units on edge of B2 Local Centre Zone i.e. within the R4 High Density Zone limiting redevelopment opportunities
Limited heritage constraints	Community concerns regarding poor quality development
Full line anchor supermarket acts as attractor	
Good level of public car parking in the Centre	

RECOMMENDATIONS AND IMPLICATIONS

In light of the findings outlined above, we recommend two potential approaches or options to be considered by Council with respect to Berala's Strategic Planning framework. We believe both options should be considered in the context of the extensive analysis already undertaken to inform the draft Berala Village Study. To assist this deliberation, we set out the pros and cons of each option in light of the Study's objectives as set out above.

Option 1 Increase Existing Controls - this approach would seek to increase the FSR for each zone tested in accordance with the findings of our development feasibility modelling. It would help to incentivise redevelopment and thereby revitalisation of the Village Centre and broader Study Area by making redevelopment a more financially attractive option to build higher density apartment style dwellings in today's market. This option would however result in development at a notably higher density than existing and may be at odds with the community's vision for the Study Area.

Option 2 Retain Existing Controls: This option would be a 'wait and see' approach that recognises the existing planning controls are not at odds with other locations and that the housing market in the Study Area is on an upward trend. This approach would have a less immediate effect than Option 1 yet would be more in keeping with community expectations. This Option would be likely to see some redevelopment (i.e. less complicated sites in consolidated ownership) yet would have less immediate and apparent revitalisation outcomes in terms of built form in comparison to Option 1.

As a variation to this Option, Council could consider a reduced requirement for onsite car parking in the Village Centre in recognition of its accessibility and the benefits this would have to development feasibility. This change, together with the potential for further market improvements could have an overall positive impact on the attraction of developing within the Study Area under the current controls.

1. INTRODUCTION AND CONTEXT

Following Auburn City Council's resolution on 3rd April 2013, the following Study was commissioned to provide economic and commercial advice concerning the suitability of the development controls that apply to Berala Village. The economic analysis has sought to test from a financial feasibility perspective whether the existing controls are sufficient enough to incentivise change, promote renewal and revitalisation in Berala Village in accordance with the objectives of the draft Berala Village Study (hereafter referred to as the draft Village Study).

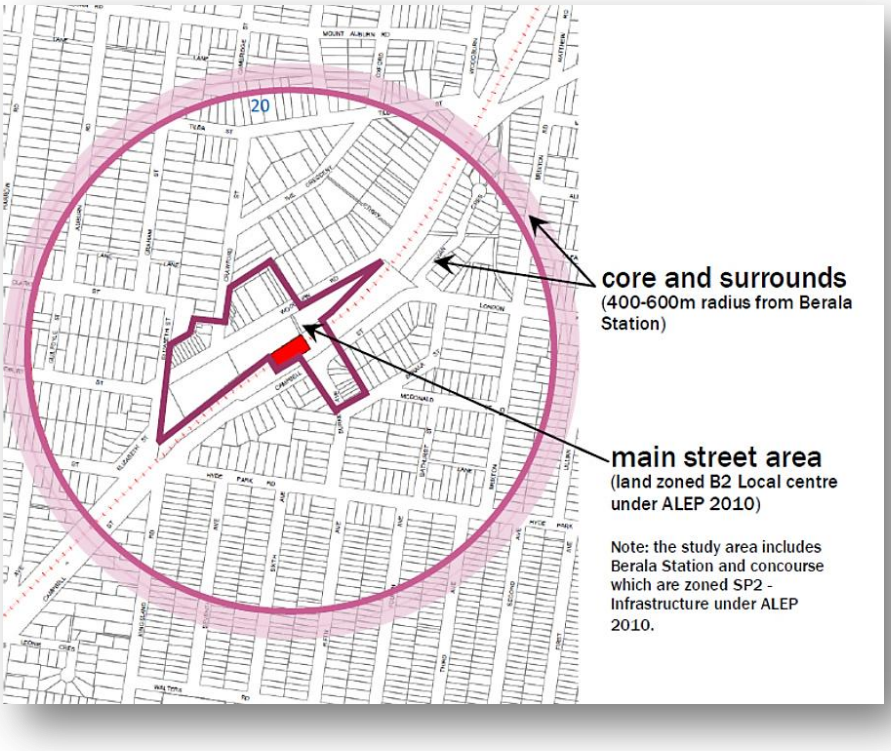
1.1 THE STUDY AREA

The Study Area for the purposes of our assessment aligns with the Study Area of the draft Village Study as shown in Figure 1 below. More specifically this includes:

- *The main street area (Woodburn Road) which is zoned B2 Local Centre by the Auburn LEP 2010; and*
- *The residential area within a 400-600m radius of the station and Berala Village Centre.*

For the purposes of context, the suburb of Berala is located approximately 16km west of Sydney CBD and is surrounded by the suburbs of Lidcombe, Rookwood, Regents Park and Auburn.

Figure 2 - Plan of the Study Area

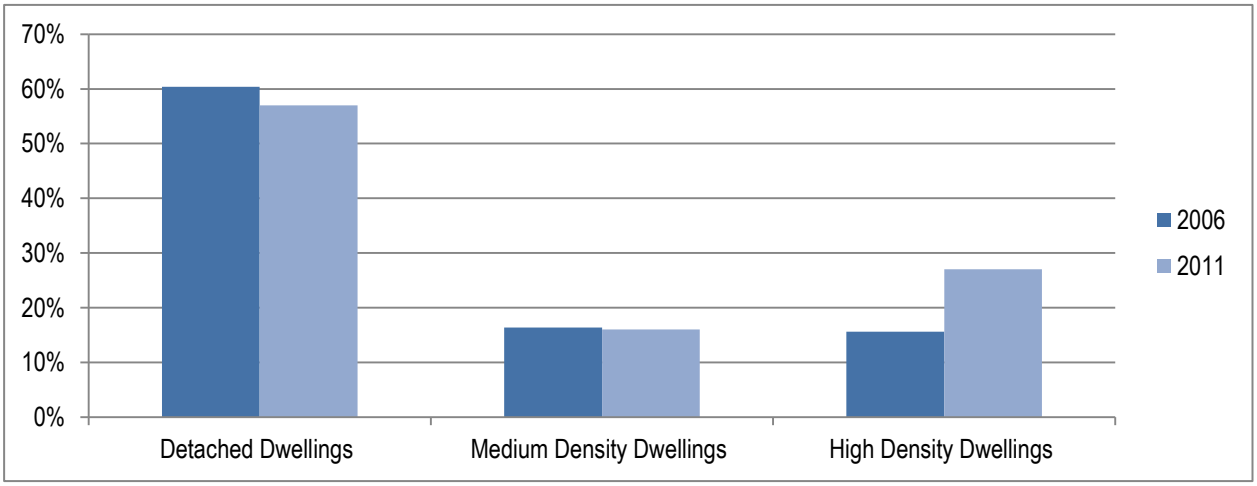


Source: draft Berala Village Centre Study 2012

As of 2011, the suburb of Berala had an estimated population of 8,800 residents representing an 11% increase since 2006 (7,900). Looking forward modest growth is forecast to occur within the suburb (+0.35% per annum) compared to the +2.05% per annum forecast for Auburn LGA as a whole.

Also of relevance to this Study, as of 2011 57% of Berala's housing stock was detached dwellings, 16% was medium density and 27% high density as compared to 60%, 16% and 16% respectively in 2006. As shown in the graph below, the proportion of residents living in higher density dwellings increased notably with a more modest decline in the proportion living in detached dwellings or medium density.

Figure 3 - Dwelling Type Comparison between 2006 and 2011



1.2 Built Form and the Draft Berala Village Study

Following Council's resolution in 2010, Council's Strategy Unit commenced a programme of detailed analysis and engagement with Berala's business and resident communities to prepare the draft Berala Village Study (hereafter referred to as the draft Study). The key objectives of the draft Study are to:

- *Identify opportunities to revitalise and improve Berala;*
- *Inform Council's strategic planning, particularly Council's Delivery Program, and inter agency initiatives;*
- *Bring together information which will inform the future upgrade of Berala's main street area; and*
- *Consider which building types and heights are suitable for Berala in the future.*

The draft Village Study found that the majority of development in the suburb occurred between the 1940's and 1970's with the 1960's seeing the construction of 3 to 4 storey walk up buildings. Since the 1980s there has been comparatively less development of medium to high density buildings. The exceptions being some sites on the periphery of the Centre and townhouse / dual occupancy developments. The prevalence of the latter form of development is also evident from a list of extant development applications provided by Council showing no developments in the approved pipeline for Berala Village of a scale greater than a dual occupancy.

Of relevance to this Study, community engagement undertaken for the draft Village Study by Council identified a notable resistance by the community to *"more poor quality high rise or overdevelopment"*[2]. This finding was supported by the results of a survey undertaken by residents in 2003 which found that two to three storey developments were generally the preferred built form outcome[3]. Residents also sought a commitment to a higher quality town centre as well as additional community facilities.

Also of note, the draft Village Study provided a comprehensive assessment of existing built form to find that there was physical capacity for additional built form density. As a result of this finding, together with community concerns regarding higher density development, the draft Study did not recommend any changes to the existing planning controls but rather identified as series of alternative recommendations and strategies to achieve the objectives.

1.3 Existing Planning Controls

Four key zones relate to Berala Village as summarised in the figures below.

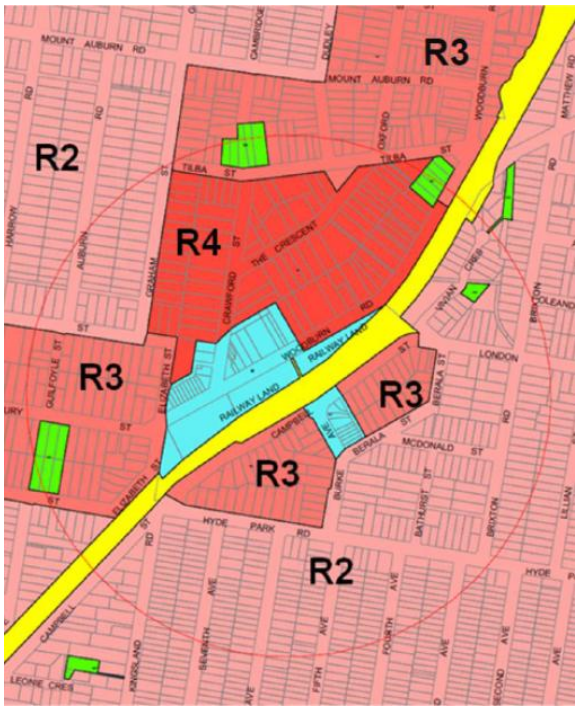
Figure 4 - Existing Planning Controls for the Study Area

Zone	FSR	Max Building Height
R2 Low Density Residential	0.75:1	9m or 2 storeys
R3 Medium Density Residential	0.75:1	9m or 2 storeys
R4 High Density Residential	1.4:1 *Planning Proposal 2:1*	Villas / Town Houses 2- 4 storeys Flat Buildings 16m or 4 storeys
B2 Local Centre	2:1	14m or 3 storeys

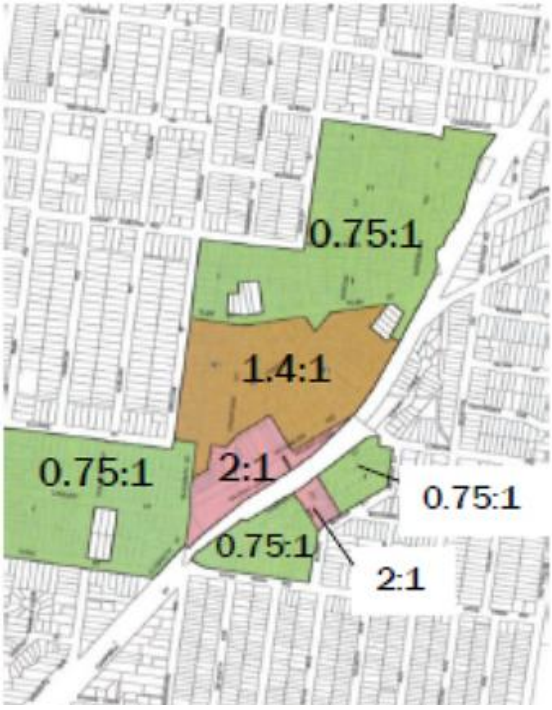
[2] Page 4, draft Berala Village Study

[3] Page 8, draft Berala Village Study

Figure 5 - Plan of Existing Zones and Maximum FSR



Source: Auburn LEP 2010



Source: Auburn LEP 2010

At the time of preparing this Study, we understand that Council is exhibiting a proposed change to the R4 High Density Residential Controls. The Planning Proposal seeks to increase the Maximum Floor Space Ratio (FSR) from 1.4:1 to 2:1 for all land zoned R4 High Density Residential[4].

1.4 Comparison to other Planning Controls

To provide some context to the analysis, as an initial step we compared how the density and height limits for Berala Village to some comparable village centres in other local government areas in Sydney to find:

- For the R2 Low Density Zone – Berala had a greater FSR and height limit (0.75:1 and 9m) than both Burwood (0.55 and 8.2m) and Five Dock Centres (0.5m and 8.5m);
- For the R3 Medium Density Zone – Berala had a greater FSR and height limit (0.75:1 and 9m) than both Burwood (0.55 and 8.5m) and Five Dock Centres (0.5m and 8.5m);
- For the R4 High Density Zone – Berala had an FSR and height limit of 1.4:1 and 16m that was equivalent to Auburn Town Centre yet less than Lane Cove (1.7:1 and 18m);
- For the B2 Local Centre – Berala had an equivalent FSR and height limit of 2:1 to both Seaforth and Lane Cove Centres yet a greater maximum building height of 14m compared to Seaforth (12.5m) and Lane Cove (9.5m) respectively.

[4] There is one exception with respect to land zoned R4 High Density Residential at 2-36 Church Street, Lidcombe.

This comparative analysis shows that for the R2 Low Density and R3 Medium Density Zones shows that development permitted within the Study Area can be at a greater FSR and building height in comparison to some other village and town centres. For the R4 High Density and B2 Local Centre Zones, the FSR and maximum buildings heights varied yet were generally comparable.

Figure 6 - Summary of Planning Control Comparison

R2 Low Density Residential		
	FSR	Max Building Height
Berala Village	0.75:1	9m or 2 storeys
Five Dock Town Centre Canada Bay LGA	0.5:1	8.5m
Burwood Town Centre Burwood LGA	0.55:1	8.2m

B2 Local Centre		
	FSR	Max Building Height
Berala Village	0.08402778	14m or 3 storeys
Seaforth Town Centre	2:1	12.5m
Lane Cove	2:1	9.5m

R3 Medium Density Residential		
	FSR	Max Building Height
Berala Village	0.75:1	9m or 2 storeys
Auburn Town Centre	0.75:1	9m
Five Dock Town Centre Canada Bay LGA	0.5:1	8.5m
Burwood Town Centre Burwood LGA	0.55:1	8.5m

R4 High Density Residential		
	FSR	Max Building Height
Berala Village	1.4:1	Villas / Town Houses 2- 4 storeys Flat Buildings 16m or 4 Storeys for
Auburn Town Centre	1.4:1	16m
Lane Cove	1.7:1	18m

2. MARKET RESEARCH

The following Chapter analyses trends and factors influencing the residential, retail and commercial markets within the Inner West Subregion, Auburn LGA and Berala Village Centre. It also investigates the sale prices and rental values for residential, retail and commercial units based on discussions with market and industry experts as well as a review of relevant property databases.

The data provided in this Chapter has been subsequently used to inform the rates and assumptions used to test the viability of redeveloping sites within the Study Area, as discussed in the following Chapters.

2.1 RESIDENTIAL MARKET OVERVIEW

Overview of the Inner West Subregion

The Inner West has been the subject of much commentary and analysis with its relatively steady demand for dwellings as purchasers take advantage of close proximity to the Sydney CBD and good access to rail and transport networks. The ongoing gentrification of many of the suburbs within the Inner West Subregion has also contributed to its overall attractiveness to a broad market including students, young families, professionals, migrants and artists.

As a result of these factors, the Inner West Subregion's residential property market has performed well through the global financial crisis, recording growth in median values and outperforming many other regions in Sydney.

Auburn LGA and the suburb of Berala

The suburb of Berala is located within Auburn LGA and the Inner West Subregion. Research shows that consistent with the broader Subregion, both Auburn LGA and the suburb of Berala have been experiencing strong residential demand. Demand has also been spreading across the LGA with local selling agents explaining that Lidcombe's residential has market experienced notable growth over the past two years with the demand moving onto the suburb of Berala in the past 12 months for a range of dwelling types.

Discussions with agents have also identified:

- The preferred method of sale is by auction, due to the higher sale values being achieved;
- The suburb of Berala has limited new stock, particularly units /apartments;
- There is a modest gap between the price of a new apartment and an older style house;
- A typical older style brick walk up apartment is on the market for less than a month. This take up rate indicates that there would be good demand for new apartments in the suburb;
- The typical apartments buyers include young professionals and investors; and
- A challenge of developing in the suburb relates to concerns from some members of the local community regarding changes in the scale and density of the neighbourhood.

Residential Houses

The housing stock within Berala comprises of mainly one to two storey weatherboards, fibro concrete and brick houses that comprise of a front lawn and a backyard. Agents also advised that Berala had an ageing population however there was an increasing level of younger families entering into the residential market.

Our market research finds that the median house price for the suburb of Berala (June 2013) was recorded as $622,000[5]. This compares to the median house price achieved as of June 2012 of $556,500[6]. Accordingly over the 12 month period from June 2012 to June 2013 the medium house price increased by 12% in value.

More specifically our research shows that single storey weatherboard houses or single storey brick dwellings with fibro concrete construction currently sell between $445,000-$610,000, whereas a brick house sells from $455,000-$875,000 dependant on the condition, age and location of the building.

To help inform our feasibility analysis for residential sites, we have also analysed the residential sales provided in Table 3 to arrive at a current residential $/sqm of site area. The table shows that residential site sales range between $810/sqm - $1,960/sqm, equating to an average of $1,265/sqm. This range being dependant on the age, scale and condition of the property in question.

[5] Source Residex Market Report June 2013

[6] Source: Residex Market Report June 2013

Table 3 - Sample of Residential House Sales in the Suburb of Berala (2013)

Address	Date	Sale Price	Site Area (sqm)	Analysis $/sqm	Comments
238 Park Rd	10-May-13	$538,000	664	$810	Single storey- brick/ weatherboard
179 Harrow Rd	08-Mar-13	$555,000	671	$827	Single storey - weatherboard
84 Graham St	30-Jan-13	$620,000	697	$890	Single Storey - brick
167 Harrow Rd	20-Feb-13	$641,000	671	$955	Double storey- brick
34 Cambridge St	26-Feb-13	$610,000	637	$957	Single storey - weatherboard
28 York St	01-Jun-13	$844,000	866	$974	Single Storey - brick
77 Cambridge St	29-Apr-13	$561,000	498	$1,128	Single storey- weatherboard
276 Park Rd	10-May-13	$550,000	487	$1,130	Single Storey - Weatherboard
37 Hyde Park Rd	19-Jun-13	$781,000	689	$1,133	Single Storey- brick
34 Kingsland Rd	13-Feb-13	$630,000	519	$1,215	Single Storey- brick
63 Sixth Ave	25-Mar-13	$555,000	446	$1,244	Single storey- weatherboard
60 First Ave	22-Jun-13	$610,000	474	$1,286	Single Storey - brick with fibro cement
8 Campbell St	28-Mar-13	$590,000	455	$1,296	Single storey - brick
68 Dudley St	06-Apr-13	$575,000	429	$1,340	Single storey - weatherboard
24 Judith St	21-Mar-13	$500,000	360	$1,387	Single storey - weatherboard
87 Third Ave	16-Feb-13	$585,000	398	$1,468	Double storey - weatherboard
38A Second Ave	01-Mar-13	$455,000	304	$1,499	Single Storey- brick
18 Burke Ave	14-Jan-13	$425,000	278	$1,528	Single storey- cement fibro
12 First Ave	04-Mar-13	$425,000	278	$1,528	Single storey - weatherboard
94 First Ave	18-Mar-13	$805,000	506	$1,591	Double Storey - brick
12 Wrights Ave	01-May-13	$875,500	525	$1,668	Single storey - brick
126A Nottinghill Rd	11-Jan-13	$570,000	291	$1,960	Double storey - brick

Source: Red square 2013.

Residential Apartment Sales

The apartment market in Berala has performed well over the last year. The predominant form of existing apartment stock in the suburb is 1960's brick walk up apartment blocks. There are also some more modern apartment blocks constructed approximately 5 – 15 years ago. Further analysis reveals that the buyers and rental market tend to invest in two and three bedroom apartments.

The median apartment price for Berala suburb from June 2012 to June 2013 was reported as $323,000 in comparison to a median apartment price 12 months ago of $303,500[7], equating to an 6% increase in value. It is important to note that this classification refers to all strata titled dwellings including units, townhouses, terraces and semi-detached dwellings.

Discussions with selling agents active in Berala, consistent with the trends discussed in this Chapter, identified strong demand for new apartments from young professionals, families and investors. Whilst it can be augured that sale values for an older style single storey freestanding house (shown in Table 3 above) are at a similar entry point to an apartment, the market is increasingly seeking apartments in the suburb over more spacious homes owing to the lifestyle benefits (i.e. less maintenance vs. more space). This choice is becoming particularly apparent for young professionals and small families. As a result of this trend the demand for two and three bedrooms apartments is growing.

Our research also finds that the development of new apartment blocks in Berala has been extremely limited. Our research has therefore focused on apartment blocks that were constructed within the past 1 - 3 years as well as the resale of apartments. Table 4 below, demonstrates the resale $/sqm rate to be between $4,554/sqm and $6,894/sqm.

The comparable information provided in the table shows that residential unit resales may be expected to sell in the current market between $395,000 and $469,000 for two bedroom units whilst three bedroom units may be expected to sell between $460,000 and $560,000.

[7] Residex Market Report June 2013

Table 4 - Recent Sales Activity of Residential Units for Berala Suburb (2012 - 2013)

Address	Date	Sale Price	Site Area (sqm)	Analysis $/sqm	Comments
Constructed Circa 2010					
23/1 Elizabeth St	19-Apr-12	$460,000	101	$4,554	
3/1 Elizabeth St	18-Sep-13	$538,000	94	$5,723	Source: Realestate.com.au
Constructed Circa 2010					
10/6 Hyde Park Rd	11-Jun-13	$455,000	66	$6,894	
5/6 Hyde Park Rd	10-May-12	$397,500	81	$4,907	
6/6 Hyde Park Rd	28-Nov-12	$395,000	66	$5,985	Source: Realestate.com.au
Constructed Circa 2012					
1/132 Woodburn Rd	29-Jun-12	$462,000	77	$6,000	
2/132 Woodburn Rd	23-Mar-13	$465,000	69	$6,739	
3/132 Woodburn Rd	03-Oct-12	$560,000	98	$5,714	
4/132 Woodburn Rd	20-Nov-12	$485,000	83	$5,843	
5/132 Woodburn Rd	04-Apr-12	$450,000	78	$5,769	
6/132 Woodburn Rd	17-Jul-12	$485,000	83	$5,843	
7/132 Woodburn Rd	13-Feb-13	$469,000	78	$6,013	Source: Realestate.com.au

Source: Hill PDA research 2013

2.2 RETAIL AND COMMERCIAL MARKET OVERVIEW

Commercial Market

Market research finds that traditional office space within the Inner West Subregion can be difficult to lease even in the Subregion's more prominent and vibrant centres. These challenges become more apparent on the upper floors of buildings (i.e. first and above) and within smaller centres leading to higher levels of vacancy or a lack of this type of space.

As a smaller, largely retail and service focused centre, Berala has limited commercial office space. Discussions with local real estate agents identified that in addition to the restricted quantum of commercial space, there has been limited selling / buying activity.

It was identified that small businesses such as lawyers, accountants and other professional services would rather be located in more defined commercial areas such as Auburn and Lidcombe. Notwithstanding this, Berala Village Centre does provide some opportunities for commercial uses such as medical practices and real estate agents that tend to prefer ground floor retail units and can afford retail rents as opposed to small businesses that can only afford the comparatively lower rents on the first floor.

Owing to the limited commercial floorspace market activity, to help inform our analysis, we expanded our research scope beyond the Study Area to the surrounding centres of Chester Hill, Sefton and Regents Park that were considered comparable owing to their scale and location by the railway line. Consistent with Berala Village Centre, discussions with local agents found that limited sales and rental transactions had also taken place within these centres as the first floors above retail shops largely comprised of either residential or storage uses associated with the retail premises on the ground level. As a consequence our research has identified limited commercial activity and thereby comparable evidence in the past 12 months.

Retail Market

Berala Village has a strong reputation as a community focused local neighbourhood centre. In recent years it has strengthened its food and convenience offer with the Woolworths full line supermarket and associated tenancies. The supermarket together with a variety of specialty food and grocery stores has created a strong food focus for local residents.

Consistent with the commercial market findings, our research finds limited market activity in Berala Centre as retail properties are tightly held by landowners. For the purposes of our assessment we have consequently once again reviewed sales activity in comparable centres in the broader locality as shown in Table 3.

Table 5 - Retail Sales in Sefton and Regents Park (2012-2013)

Address	Sold date	Sold Price	Building Area	$/sqm	Comments
135 Wellington Road, Sefton	Nov 12	$425,000	190	$2,237	Standard two storey shop at ground floor with residence on the first floor
2a Amy Street, Regents Park	Jul 12	$500,000	177	$2,825	Single storey restaurant
50f Amy Street, Regents Park	Mar 13	$1,300,000	336	$3,869	Two storey brick retail at ground floor, office warehouse at first floor

Source: realestate.com.au

2.3 DEVELOPMENT PIPELINE / INTEREST

A review of property databases[8] shows that in the past few years, the most significant developments completed in the Study Area were the Woolworths development (2011), Lying Yen Mountain Temple - Dharma Centre Berala (2011) and the Tilba Street units (2011).

Notwithstanding the strong and growing demand for residential properties within the Study Area, looking forward, a review of development approvals shows[9] that no new low and medium density development has been approved for development in the past few years. Rather in recent years, development approvals have mostly related to smaller conversions of existing flat, refurbishments, alterations, additions and construction of two storey detached dwellings.

Discussions with industry experts have sought to identify why this might be the case. Local selling agents infer that more developers have not been attracted to redevelop in Berala to date on account of a combination of factors including:

- Difficulties securing finance post the GFC;
- The cost of construction;
- Difficulties with acquiring / amalgamating sites;
- Community concerns regarding additional density; and
- The nature of the existing planning controls (such as height and FSR).

These factors collectively work together to increase development costs whilst restricting development scale. In turn these factors work together to reduce the financial viability and thereby profitability of a development and increase the associated risk.

Notwithstanding comments regarding the restrictive nature of existing planning controls, local industry experts recognise that there is no one size that fits all and that the implications of planning controls to development feasibility must be considered on a site by site basis.

[8] Cordells Connect 2013 – Tracking of Development Applications in Australia.

[9] Information provided by Auburn City Council as of 27 June 2013

3. TEST SITES

In order to better understand the financial incentive offered by Berala Village's existing planning controls, this Study identified two parcels of land for testing. The following Chapter establishes the methodology and logic for identifying each parcel of land that will in turn form the basis of the development feasibility testing discussed further in Chapter 4.

3.1 VILLAGE CENTRE SITE

Three potential parcels of land were identified in the Village Centre for testing as mixed use (retail and residential development) as follows:

- **159 Woodburn Road (**hotel site) – this site was identified as having good redevelopment potential (i.e. consolidated ownership, modest improvements, limited flood risk, central location, significant scale);
- **188 Woodburn Road** (service station site) this site was also identified as having good redevelopment potential (i.e. consolidated ownership, light industrial use, central location, limited flood risk); and
- **178 – 184 Woodburn Road** (small commercial premises adjacent to service station and opposite Woolworths) these sites are well located within the Centre with low flood risk yet were identified as being more challenging from a redevelopment perspective owing to their smaller scale and fragmented ownership.

Whilst there are merits associated with testing each of the three sites / parcels of land referenced above, the third option (178-184 Woodburn Street) was selected as it represented what was likely to be the most challenging scenario in development terms. This is because the successful redevelopment of the parcel would require the acquisition and consolidation of numerous sites that are presently in separate ownership.

Whilst the first option represented a good opportunity for redevelopment, it was dismissed as it would be a 'one off' and would not help to inform our understanding of the challenges facing other sites in the Centre. The second option was similarly dismissed as it was the only light industrial / urban support service in the Centre and therefore was also likely to be a one off redevelopment scenario that could not be translated into alternative opportunities.

Figure 7 - Aerial Image of 178 – 184 Woodburn Street, Berala

Source: Red Square

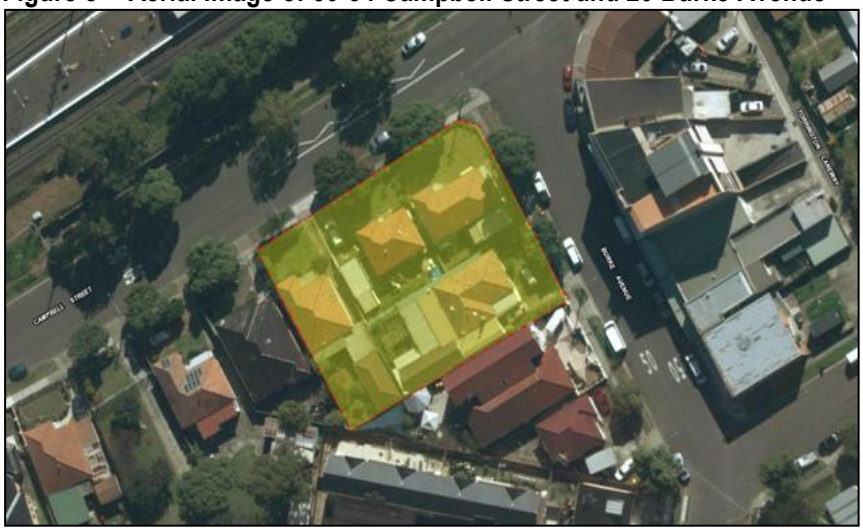
3.2 Residential Site

To test the existing residential controls, two potential sites / development parcels were identified as follows:

- **A strata titled residential building in the R4 High Density Zone;** or
- **30-34 Campbell Street and 20 Burke Avenue** (smaller residential dwellings in separate ownership with medium risk flood zone and in medium condition). Combined these sites could facilitate the redevelopment of a highly accessible corner site for medium density residential.

Whilst it may be interesting to test the change in planning controls required to incentivise redevelopment of existing medium density strata titled development, it is likely that significant uplift in density would be required to overcome the costs of demolishing buildings with a good economic life that are in separate ownership. Given the notable potential of existing low density residential dwellings in the Study Area, it was consequently decided to test the 30-34 Campbell Street and 20 Burke Avenue parcel of land as shown in the figure below.

Figure 8 - Aerial Image of 30-34 Campbell Street and 20 Burke Avenue



Source: Red Square

3.3 Selected Sites

For the reasons given above, two hypothetical test sites were selected for the purposes of Chapter 4 as follows:

Site 1: 178 – 184 Woodburn Street, Berala; and

Site 2: 30-34 Campbell Street and 20 Burke Avenue, Berala.

The two sites provided opportunities to test the difference between:

- Sites on each side of the railway line that divides the Study Area;
- Sites within and outside of the defined Village Centre;
- Sites with low and with medium flood risk;
- A mixed use redevelopment site (i.e. commercial and retail) and a pure residential redevelopment site.

The site selection was also cross referenced with the results of Council's community consultation concerning potential locations for redevelopment at greater densities as shown in Figure 10.

Figure 9 - Site 1 and Site 2 for Testing

Source: Red Square as amended by Hill PDA

Figure 10 - Extract of Community Engagement Opinion Concerning Redevelopment Opportunities

Source: draft Berala Village Study

4. DEVELOPMENT FEASIBILITY RESULTS

The following Chapter explains the methodology and criteria used to assess the financial viability of the two 'Test Sites' identified in Chapter 4 as hypothetical development sites. The Chapter explores a range of potential development scenarios for each site and provides the results of the development feasibility testing, the implications of which are explored further in Chapter 6.

4.1 METHODOLOGY AND DEFINITIONS

To undertake this analysis, Hill PDA has adopted the hypothetical development feasibility approach utilising the industry standard Estate Master Development Feasibility software. In this approach a target profit margin (called the Development Margin) and project internal rate of return (called the IRR) are set to test whether under the existing planning controls that apply to the Test Sites are financially attractive to a potential developer to purchase for redevelopment in today's market.

Whilst Hill PDA has adopted the project IRR as the primary indicator of performance (feasibility) consideration has also been given to the following additional performance criteria:

- **Residual Land Value** – this is the purchase price of the land whilst achieving a zero Net Present Value (NPV). 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 redeveloping land that returns lower Residual Land Values than current values;
- **Development Profit** – this is the total revenue less total cost including interest paid and received; and
- **Development Margin** – this is profit divided by total development costs (including selling costs).

Our testing involves assessing the value of the end product of the hypothetical development, and then deducting all of the development costs including site acquisition costs, site demolition and / or clearance, consultant fees for design and project management, developer levies and taxes, construction costs, and making a further deduction for GST, land holding costs, marketing and financing costs. If the resulting profit from this feasibility analysis is large enough to meet the target hurdles for both the development margin (DM) and the project IRR, the project is considered financially viable for redevelopment.

In order to arrive at a land purchase price for Test Sites 1 and 2, we have used a land value based on a dollar per square metre rate which was informed by our market research (Chapter 3). How the various values, on a dollar per square metre rate, apply to the performance criteria described above for each Test Site is shown in the Table below.

Table 6 - Performance Criteria for Development Options

Performance	Test Site 1 Residual Land Value[1]	Test Site 2 Residual Land Value	Development Margin	Project IRR[2]
Feasible	>$2,500/sqm	>$1,100/sqm	≥20%	18%-20%
Marginally feasible	$2,200/sqm-$2,500/sqm	$900/sqm-$1,100/sqm	18%-20%	16%-18%
Not feasible	<$2,200/sqm	<$900	<18%	<16%

1 - Residual Land Value (RLV): the purchase price for the land to achieve a zero Net Present Value (NPV)
2 - Project Internal Rate of Return (IRR): the discount rate where the Net Present Value (NPV) equals zero

4.2 Test Site 1: Mixed Use Development in Village Centre

Test Site 1 relates to land located within the Berala Village Centre at 178 – 184 Woodburn Street, Berala. The Site is zoned B2 Local Centre and has an existing FSR of 2:1. Accordingly we have tested the implications of demolishing the existing buildings on the Test Site to provide ground floor retail with shop top housing in accordance with the uses and densities permitted by the existing planning controls. For the purposes of the analysis we have also tested two additional scenarios to see how varying aspects such as car parking (a notable cost in any development) and FSR and building height (both of which affect the quantum of floorspace for sale and thereby revenue) affects the development feasibility results.

Figure 11 - Aerial Image of 178 – 184 Woodburn Street, Berala

Source: Red Square

Scenario 1 Compliant Development: this Scenario incudes the provision of ground floor retail units, 19 residential apartments from first floor level and two levels of basement car parking (43 car spaces) in accordance with Council's parking standards.

As shown in Table 4 below the testing of **this option was found to result in an IRR of -13% which is not considered financially attractive to a developer or 'feasible' based on our assessment criteria.**

Scenario 2 Reduced Car Parking: given that Scenario 1 (Compliant Development) was not found to be viable, Scenario 2 sought to test whether the existing FSR could be feasible on the test site if the requirement for car parking was reduced from 43 to 21 spaces (reducing the need for and the cost of a second level of basement car parking).

This Scenario therefore modelled the Test Site with the same mix of uses as Scenario 1 yet reduced basement level car parking i.e. to one level rather than two. **It was found that this change did have a positive impact on the return from (-13% IRR) to 2% IRR however the Scenario remained unviable.**

Scenario 3 Non-Compliant: as a final Scenario we modelled the same mix of uses on the Test Site without varying the car parking standards (63 spaces) yet with an increase in FSR to 3:1. This translated into sufficient floorspace for ground floor retail units and 31 residential apartments with two levels of basement car parking. **This Scenario was found to be viable with an attractive IRR of 29%.**

Table 7 - Summary of Results for Scenarios 1, 2, and 3 for Test Site 1

Site / Option Specifics	Scenario 1: FSR 2.1 Compliant Development	Scenario 2: FSR 2:1 Reduced Car Parking	Scenario 3: FSR 3:1 Increased FSR and Height and Compliant Car parking
Site Area (sqm)	1,274	1,274	1,274
Gross Building Area (sqm)	2,548	2,548	3,822
Performance Indicators:			
Residual Land Value (RLV)- Target Margin	$142,092	$1,455,893	$3,311,910
RLV ($/sqm of site area)	$112	$1,143	$2,600
Residual Land Value(NPV)	$1,023,846	$2,120,727	$4,114,950
Development Margin	(12.79%)	(1.82%)	19.14%
Project IRR	(12.20%)	1.89%	28.72%
Feasibility	Not Feasible	Not Feasible	Feasible

A summary of each of the three Scenario's for Test Site 1 and its building height implications are shown in the figure below. In essence the results show that under the current controls, the amalgamation and redevelopment of existing two storey properties in the Village Centre to three storey mixed use schemes is not viable unless.

Whilst Scenario 2 results in an improved financial outcome, the development is still not considered viable. Notwithstanding this, on less complicated sites, a reduced need to provide onsite car parking in an improving housing market could form the tipping point between unviable and viable development. The option to reduce the requirement for onsite car parking in the Village Centre may also be considered an appropriate outcome in light of the Centre's location next to a train station and therefore reasonable level of connectivity to employment and additional services.

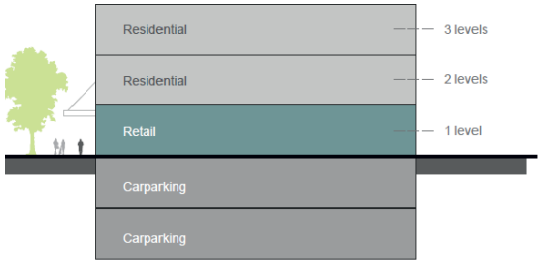
It is also important to note that our assessment of Scenario 1 and 2 assumed that the full FSR could be achieved within the 3 storey height limit. In our experience this is also important to test from an urban design perspective to ensure built form outcomes are desirable.

To achieve a financially attractive development in the Village Centre in today's market on the Test Site (i.e. an IRR over 20%, it would be necessary to increase the existing FSR. This is an iterative process however because as FSR (and thereby dwellings) increase, so too does the requirement for car parking in accordance with Council's parking standards. As car parking is a significant cost in any development, an increase in car parking requires an increase in revenue (floorspace) to offset the additional cost. As a consequence, our modelling has found that the existing FSR would need to increase to 3:1 with a 5 storey height to be financially viable.

As a final note, it should be reiterated that Test Site 1 is a more complex site from a development feasibility perspective owing to its smaller and fragmented nature than other sites in the Centre. Other sites within the Town Centres (such as the Hotel and Car Park Site or the Car Repair Site) that appear to benefit from consolidated ownership may have a more positive feasibility outcome under the existing controls.

Figure 12 - Summary of Development Scenario Results for Test Site 1

Scenario 1:



Zone: B2

FSR: 2:1 + Required Car parking (43)

Retail ground level

2 levels of residential

2 levels of underground car parking (43 spaces) with visitors and retail parking included.

Not Viable – IRR -12%

Scenario 2:

Zone: B2

FSR: 2:1 – Reduced Car Parking

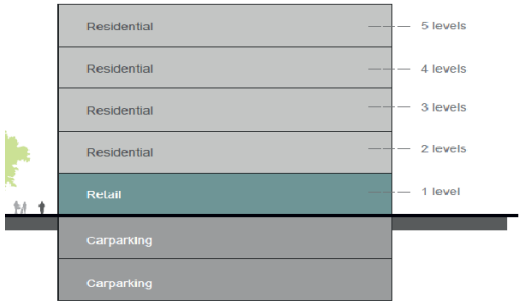
Retail ground level

2 levels of residential

1 Level of underground car parking

Not Viable – IRR 2%

Scenario 3:



Zone: B2

FSR: 3:1 + Required Car parking (63)

Retail ground level

4 levels of residential

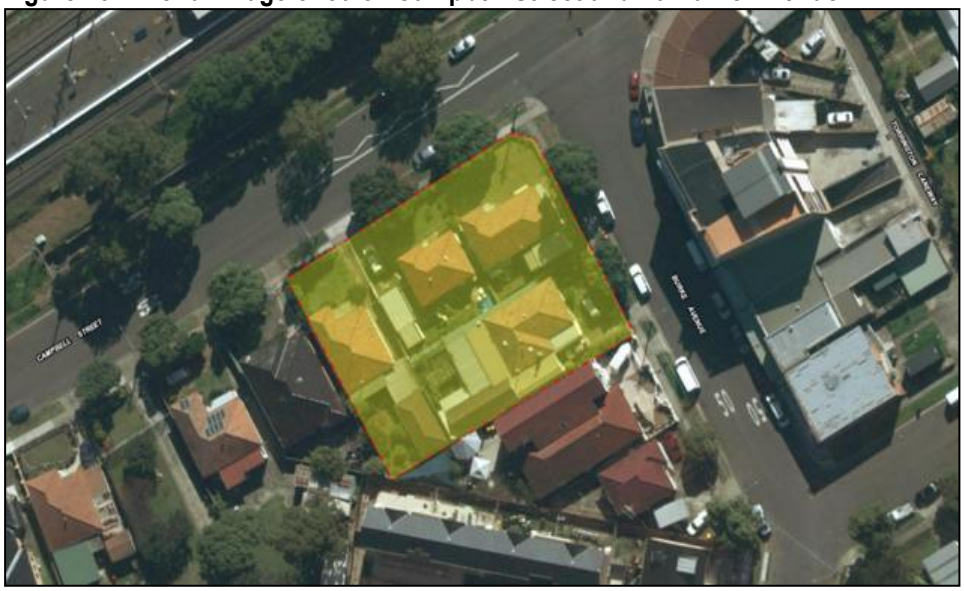
2 levels of basement car parking

Feasible – IRR 29%

4.3 TEST SITE 2: RESIDENTIAL ZONE

Test Site 2 relates to land located at 30-34 Campbell Street and 20 Burke Avenue, Berala. The site is zoned R3 Medium Density and has an existing FSR of 0.75:1. For the purposes of testing we have assumed that the redevelopment includes the demolition of all buildings, occurs in one stage and is a residential only scheme in accordance with the existing planning controls. Consistent with Test Site 1, we have also looked at a number of development scenarios to test the implications to development feasibility of varying factors such as car parking and FSR / building height.

Figure 13 - Aerial Image of 30-34 Campbell Street and 20 Burke Avenue



Source: Red Square

Scenario 1 Residential Compliant: this Scenario would provide 14 residential apartments with basement level car parking in accordance with the existing planning controls. It was found that this option was not feasible as it resulted in a negative IRR of -12%.

Scenario 2 Reduced Car Parking: given the outcome of Scenario 1, the second Scenario altered the quantum and approach taken to car parking to reduce development costs. The number of residential apartments was kept consistent with Scenario 1 however sub-basement car parking was provided. It was found that under this Scenario the IRR improved notably to 2% however not sufficiently enough to make the development attractive to a developer or 'feasible'.

Scenario 3 Increased FSR: the final Scenario therefore sought to identify what FSR and height was required to make development viable on the Test Site whilst providing car parking in accordance with Council's existing standards. This Scenario found that to incentivise change / redevelopment on Test Site 2, an FSR of 1.5:1 would be required at this point in time.

A summary of Test Site 2's results are provided in the following Table.

Table 8 - Summary of Results for Test Site 2

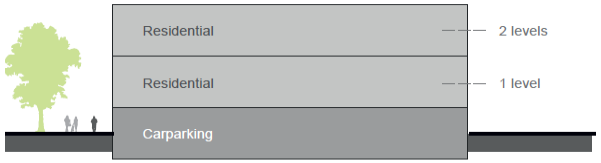
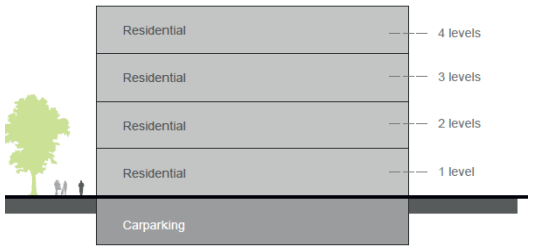
Site / Option Specifics	Scenario 1: Compliant Scheme	Scenario 2: Sub - Basement Parking	Scenario 3: Increased FSR and Height Compliant Parking
Site Area	1,701	1,701	1,701
Gross Building Area (sqm)	1,276	1276	2551
Performance Indicators:			
Residual Land Value (RLV)- Target Margin	$431,246	$1,128,535	$1,923,552
RLV ($/sqm of site area)	$254	$663	$1,130
Residual Land Value(NPV	$831,275	$1,424,180	$2,631,857
Development Margin	(12.86%)	(1.50%)	16.61%
Project IRR	(11.82%)	1.80%	28.37%
Feasibility	Not Feasible	Not Feasible	**Feasible**

A summary of each of the three Scenario's for Test Site 2 and its building height implications are shown in the figure below. In essence the results show that under the current controls, the amalgamation and redevelopment of existing single storey residential properties in the suburb of Berala requires a notable uplift (doubling of FSR) to make it financially attractive. This finding is a result of two key factors:

1. The notable cost of providing underground car parking. This cost increases with each level of underground car parking required; and
2. The modest difference in land value between existing single storey houses in Berala and apartments in today's markets. As a consequence of this factor, a notable uplift in development density is required to offset the additional costs of building apartments (including underground car parking) and to provide sufficient incentive for development to occur.

This finding is not an uncommon one in Sydney, with many locations within Sydney's Inner West (and more so in Sydney's West) having insufficient land value at this point in time to incentivise redevelopment as medium to higher density apartments.

Figure 14 - Summary of Development Scenario Results for Test Site 2

Scenario 1: Existing FSR and Full Car Parking Rate at Basement Level		Zone: R3 FSR: 0.75:1 2 Floors Residential 1 Level of underground Car Parking (22 spaces) with visitors parking **Not Viable – IRR -12%**
Scenario 2: Existing FSR and Sub Basement Car Parking		Zone: R3 FSR: 0.75:1 2 Floors Residential 1 Level of Sub basement parking (22 Spaces) with visitors parking **Not Viable – IRR 2%**
Scenario 3: Increased FSR and Full Car Parking Rate		Zone: R3 FSR: 1.5:1 4 Floors Residential Underground Car Parking (37 Spaces) with visitor's parking **Feasible – 28%**

5. KEY FINDINGS AND RECOMMENDATIONS

This penultimate Chapter reviews the key findings and recommendations of the Study. The Chapter summarises some of the key development opportunities and constraints identified within the Study Area from an economic perspective and translates them into recommendations for Council concerning the suitability of the existing planning controls from a development feasibility perspective.

5.1 DEVELOPMENT OPPORTUNITIES / CONSTRAINTS

Our research has found that demand for residential and retail properties within the Study Area is strong and continuing to grow on the back of the success of areas such as Lidcombe and the growing attraction of Berala as a location for young families and professionals. The market also reports on the benefits generated by the new Woolworths store in the Centre and the role it has had in enhancing the attraction of the Village Centre as a local food and service destination.

Notwithstanding this growing demand, the redevelopment of properties and land within Berala has been modest in recent years. Our research and industry experience finds that such a predicament is rarely a result of any one factor (such as planning controls). Rather the successful redevelopment of an area relates to a range of market and socio-economic conditions including the ability to raise finance (which has been a key challenge during and post GFC), the availability of land for redevelopment (which relates to the willingness of existing land owners to sell), the cost of construction, the desirability of the area by the market and the capacity of development permitted under the current planning controls.

Whilst the desirability to live in Berala is growing, our analysis indicates that the economics of redeveloping to medium density in the area is not yet at a stage whereby there is sufficient reward – or profit – for the developer to overcome the risk of site acquisition, finance and redevelopment. This is particularly the case on smaller, more complex sites that may be in fragmented ownership. Conversely, our experience suggests that some of the larger consolidated sites might still provide good options for redevelopment however as with any development scenario, their redevelopment is dependent on the intent and willingness of the existing landowner.

In light of this research and our Study Area analysis, some of the key development opportunities and constraints from an economic perspective that we have identified have been summarised in the following table.

Table 9 - Development Opportunities and Constraints within the Berala Study Area

Strengths and Opportunities	Weaknesses and Constraints
Some large sites with good redevelopment potential in the B2 Local Centre Zone i.e. hotel and car park sites	Flooding potential and associated cost implications to development
Growing market attraction to professionals and families	Current market economics
Good rail access to / from the Study Area	Limited development applications for redevelopment
Established village character and retail market	Tightly held retail properties limiting redevelopment opportunities
Limited acid sulphate soils (i.e. Class 5)	Strata titled units on edge of B2 Local Centre Zone i.e. within the R4 High Density Zone limiting redevelopment opportunities
Limited heritage constraints	Community concerns regarding poor quality development
Full line anchor supermarket acts as attractor	
Good level of public car parking in the Centre	

5.2 Suitability of Current Planning Controls

As outlined in Section 6.1, there is a range of economic and finance factors that interrelate to influence the feasibility of an individual site's redevelopment with planning controls being but one of these factors. In light of the nature of our brief however, we have tested two of the two main planning parameters that influence development feasibility outcomes – car parking requirements and FSR / Building Height. By varying these factors it was found that:

1. Under the current planning controls the redevelopment of both Test Sites was not viable;
2. By reducing the car parking rate, the return improves but remains a loss and unviable for both Test Site 1 and Test Site 2 owing to notable cost of excavation for car parking; and
3. By increasing FSR and number of building storeys, but not altering Council's car parking standards, development could become financially viable on each Test Site at this point in time.

On this basis, our testing shows that in today's market for both Test Sites, the following minimum density thresholds and building storeys would be required for their viable redevelopment:

- an FSR of 3:1 and height of 5 storeys for mixed use development within the B2 Local Centre Zone (an increase from the existing permissible maximum FSR of 2:1 and 3 storeys building height); and
- an FSR of 1.5:1 and height of 4 storeys for residential only development within the R3 Medium Density Zone (representing a doubling from the current FSR of 0.75:1 and 2 storeys building height).

These changes represent a notable increase from the existing controls. We therefore believe it is important to highlight the potential impact these densities and associated building heights and scale could have to the character of the Study Area. This matter is particularly pertinent in light of the key findings of the community engagement undertaken to inform the draft Berala Village Study. This analysis advised that whilst the local community supported revitalisation in Berala it did not necessarily support significant or wholesale increases in

built form density across the Study Area to achieve this outcome. For this reason we recommend caution in implementing the above referenced increases in FSR without a more detailed review of the implications through an urban design study or analysis. This recommendation is considered in line with Council's objective for the draft Berala Village Study to *"consider which building types and heights are suitable for Berala in the future*".

We also highlight the findings of our research that existing FSR's within the Study Area are not out of order with other comparable centres. Rather in some cases the FSR's that are currently permissible for the Study Area (i.e. the R2 Low Density and R3 Medium Density Zones) are notably higher than other village centres in Sydney.

As a final matter we wish to reiterate that not all sites within the Study Area would require as significant an uplift in density to make their redevelopment attractive in today's market. Some sites may benefit from lower development costs owing to site ownership or environmental characteristics and therefore would be more likely to be feasible under the existing planning controls. These sites would however be the exception rather than the rule.

5.3 Recommendations and Implications

In light of the findings outlined above, we recommend two potential approaches or options to be considered by Council with respect to Berala's Strategic Planning framework. We believe both options should be considered in the context of the extensive analysis already undertaken to inform the draft Berala Village Study. To assist this deliberation, we set out the pros and cons of each option in light of the Study's objectives as set out above.

Option 1 Increase Existing Controls - this approach would seek to increase the FSR for each zone tested in accordance with the findings of our development feasibility modelling. It would help to incentivise redevelopment and thereby revitalisation of the Village Centre and broader Study Area by making redevelopment a more financially attractive option to build higher density apartment style dwellings in today's market. This option would however result in development at a notably higher density than existing and may be at odds with the community's vision for the Study Area.

Option 2 Retain Existing Controls: This option would be a 'wait and see' approach that recognises the existing planning controls are not at odds with other locations and that the housing market in the Study Area is on an upward trend. This approach would have a less immediate effect than Option 1 yet would be more in keeping with community expectations. This Option would be likely to see some redevelopment (i.e. less complicated sites in consolidated ownership) yet would have less immediate and apparent revitalisation outcomes in terms of built form in comparison to Option 1.

As a variation to this Option, Council could consider a reduced requirement for onsite car parking in the Village Centre in recognition of its accessibility and the benefits this would have to development feasibility. This change, together with the potential for further market improvements could have an overall positive impact on the attraction of developing within the Study Area under the current controls.

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4. This report and its attached appendices are based on estimates, assumptions and information provided by the Client or sourced and referenced from external sources by Hill PDA. While we endeavour to check these estimates, assumptions and information, no warranty is given in relation to their reliability, feasibility, accuracy or reasonableness. Hill PDA presents these estimates and assumptions as a basis for the Client's interpretation and analysis. With respect to forecasts, Hill PDA does not present them as results that will actually be achieved. Hill PDA relies upon the interpretation of the Client to judge for itself the likelihood of whether these projections can be achieved or not.

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.

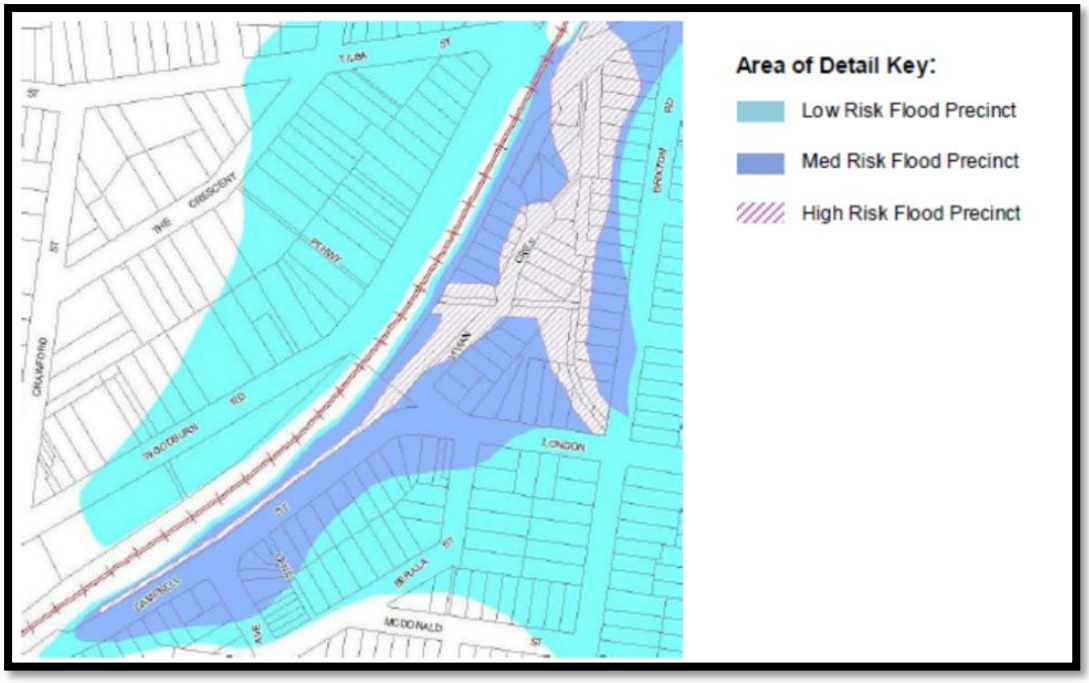
6. This report does not constitute a valuation of any property or interest in property. In preparing this report Hill PDA has relied upon information concerning the subject property and/or proposed development provided by the Client and Hill PDA has not independently verified this information except 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:

8. 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.

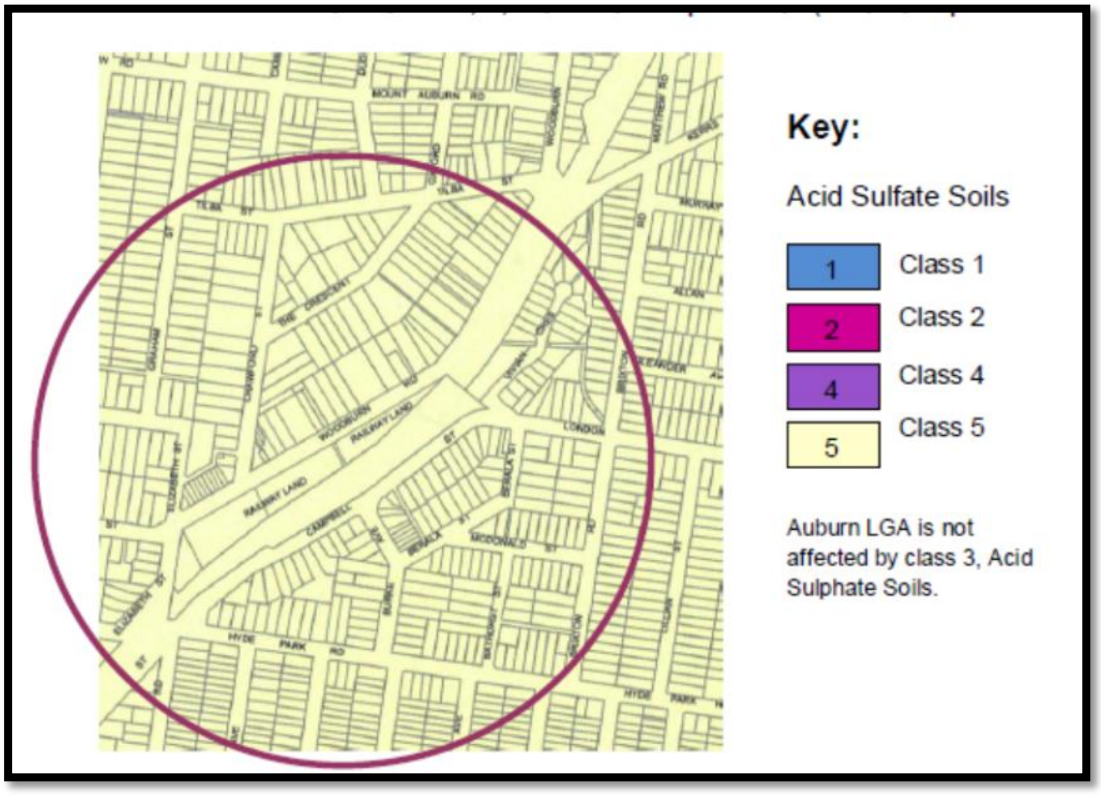
Appendix 1 - **ANALYSIS FROM DRAFT BERALA VILLAGE STUDY**

Figure 15 - Floodprone land within the Study Area



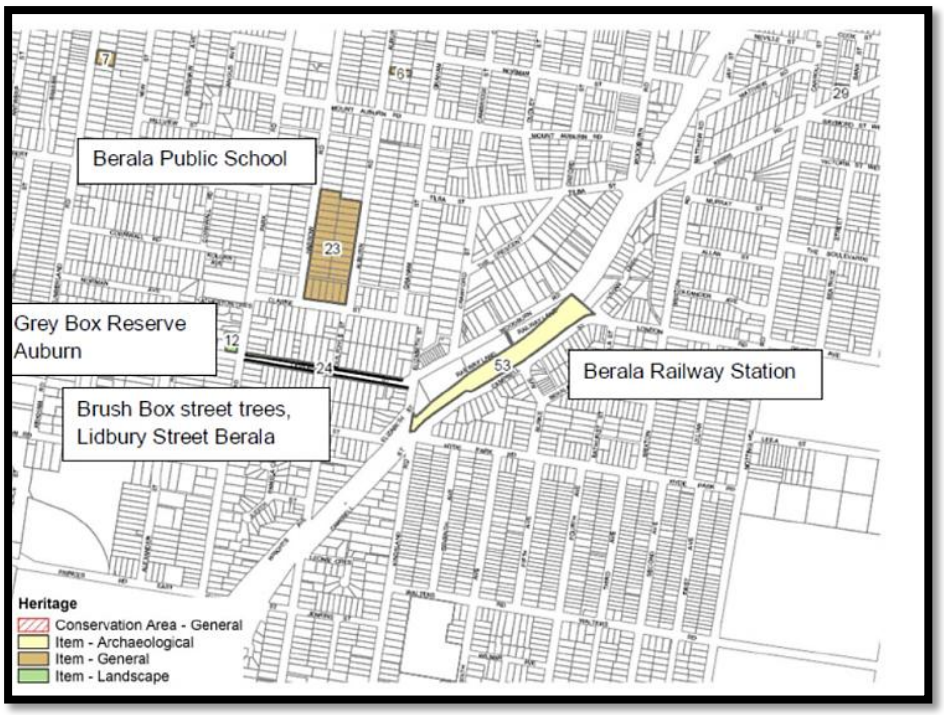
Source: Draft Berala Village Centre Study 2012

Figure 16 - Acid Sulphate Soils within the Study Area



Source: Draft Berala Village Centre Study 2012

Figure 17 - Heritage Items within the Study Area



Source: Draft Berala Village Centre Study 2012

Figure 18 - Strata Subdivision within the Study Area

Source: Draft Berala Village Centre Study 2012

Figure 19 - Building Types and Storeys within the Study Area

Source: Draft Berala Village Centre Study 2012

Figure 20 - Building Age within the Study Area

Source: Draft Berala Village Centre Study 2012

Figure 21 - Building Condition within the Study Area

Source: Draft Berala Village Centre Study 2012

Appendix 2 - **MODELLING ASSUMPTIONS**

Project Timeframe:

- Project commencement in September 2013
- Construction spans 12 months.
- Residential pre-sales of approximately 50% prior to construction with settlement on completion of construction.
- Option 2: Residential pre-sales of Studios, 1 and 2 bedrooms approximately 50% prior to construction with settlement on completion of construction. All 3 bedrooms apartments are sold on completion of construction.

End Sale Values:

- Due to the high-level nature of this assessment and in the absence of detailed plans, Hill PDA has adopted sale value in the order of:
- Site 1 – Residential & Retail
  - Ground Retail - $4,000/sqm.
  - Level 1- $6,000/sqm
  - Level 2 - $ 6,200/sqm
  - Level 3 - $6,400/sqm
  - Level 4- 6,500/sqm
- Site 2 - Residential
  - Level 1- $6,000/sqm
  - Level 2 - $ 6,200/sqm
  - Level 3 - $6,400/sqm
  - Level 4- 6,500/sqm

Additional sales assumptions include:

- Sales escalations at 2.5% per annum.
- GST is included on residential sales but excluded on non-residential sales.
- Selling costs are assumed at 2.2% of residential sales and 1.5% of non-residential sales.
- Legal costs 0.20% of gross sales
- Capital Works, Construction and Land Costs

Constructions costs have been sourced from Rawlinson's Construction Handbook 2013 and are as follows:

- Demolition -$ 45,000
- Residential construction:
  - $1,800/sqm construction;
  - $360/sqm for balconies;
- Retail construction – $1,785/sqm ;
- Basement car parking at $45,000 per car space.

Additional cost assumptions include:

- Professional fees have been assumed at 8% of building construction costs (4% expensed prior to construction of each stage and 4% pro-rated with the costs of development during construction;and
- Construction contingency of 5% of construction costs.

Statutory costs:

- DA and, Section 94A contributions and Construction Certificate fees assumed Councils estimates; and
- Landholding costs estimated based on prevailing statutory rates and assumed to diminish with sales.

Performance Criteria

- Hill PDA has adopted a project discount rate of 18% per annum nominal on the cash flow of the project which includes financing costs but excludes interest.
- Additionally, a developers target development margin of 18% on total development costs (including selling costs) has been assumed both reflecting the size of the development and the associated risk.

Appendix 3 - **DEVELOPMENT FEASIBILITY SUMMARY SHEET**

EstateMaster DF DEVELOPMENT FEASIBILITY

Summary of Stages and Consolidated Project

Option 1

Estate Master Licensed to: Hill PDA Pty Ltd - Administration Account

	1	2	3	4	5	6	7	8	TOTAL
	Option 1 - Scenario 1	Option 1- Scenario 2	Option 1 - Scenario 3	Option 2 - Scenario 1	Option 2 - Scenario 2	Option 2 - Scenario 3 -			
	178-184 Woodburn Street - FSR 2:1 - Council required car parking	Mixed Use FSR 2:1 - 178-184 Woodburn Street- Reduced Car Parking	Mixed Use FSR 3:1 5 Levels, 78-184 Woodburn Street - Mixed use + Council required car parking	R3 Medium Denisty - Residential + Statutory Requirement	30-34 Campbell Street & 22 Burke Street R3 Medium Denisty - FSR:0.75:1 Undercroft Parking	R3 Medium Denisty - FSR 1.5:1 Residential			
	19.1 Units 2,547.8 GFA 1,273.92 SqM	19.1 Units 2,547.8 GFA 1,273.92 SqM	30.6 Units 3,821.8 GFA 1,273.92 SqM	14. Units 1,275.6 GFA 1,700.8 SqM	14. Units 1,275.6 GFA 1,700.8 SqM	25.5 Units 2,551.2 GFA 1,700.8 SqM			
	Miscellaneous Under Review	Miscellaneous Under Review	Miscellaneous Under Review	Miscellaneous Under Review	Residential Under Review	Miscellaneous Under Review			
REVENUE									
Gross Sales Revenue	12,249,432	12,249,432	22,458,672	6,479,531	6,591,247	14,020,364			74,048,677
Less Selling Costs	(278,528)	(278,528)	(520,457)	(155,509)	(158,190)	(336,489)			(1,727,700)
Less Purchasers Costs	-	-	-	-	-	-			-
NET SALES REVENUE	11,970,904	11,970,904	21,938,214	6,324,022	6,433,057	13,683,876			72,320,977
TOTAL REVENUE (before GST paid)	11,970,904	11,970,904	21,938,214	6,324,022	6,433,057	13,683,876			72,320,977
Less GST paid on all Revenue	(912,822)	(912,822)	(1,800,779)	(589,048)	(599,204)	(1,274,579)			(6,089,254)
TOTAL REVENUE (after GST paid)	11,058,082	11,058,082	20,137,436	5,734,974	5,833,853	12,409,297			66,231,723
COSTS									
Land Purchase Cost	3,184,800	3,184,800	3,184,800	2,040,960	2,040,960	2,040,960			15,677,280
Land Acquisition Costs	195,274	195,274	195,274	118,152	118,152	118,152			940,279
Construction (inc. Construct. Contingency)	7,723,493	6,491,271	11,093,371	3,746,878	3,171,156	7,247,479			39,473,647
Professional Fees	617,879	519,302	887,470	299,750	253,692	579,798			3,157,892
Statutory Fees	137,659	125,338	196,402	63,587	59,960	121,319			704,264
Land Holding Costs	262,611	262,611	439,942	40,049	40,049	24,056			1,069,318
Finance Charges (inc. Line Fees)	900	900	900	-	-	-			2,700
Interest Expense	446,605	372,782	702,072	213,643	179,439	384,096			2,298,638
TOTAL COSTS (before GST reclaimed)	12,679,466	11,262,522	16,902,359	6,581,336	5,922,729	10,642,045			63,990,456
Less GST reclaimed	-	-	-	-	-	-			-
TOTAL COSTS (after GST reclaimed)	12,679,466	11,262,522	16,902,359	6,581,336	5,922,729	10,642,045			63,990,456
PERFORMANCE INDICATORS									
[1] Gross Development Profit	(1,621,384)	(204,440)	3,235,077	(846,362)	(88,876)	1,767,252			2,241,267
[2] Net Developer's Profit after Profit Share	(1,621,384)	(204,440)	3,235,077	(846,362)	(88,876)	1,767,252			2,241,267
[3] Development Margin (Profit/Risk Margin)	(12.79%)	(1.82%)	19.14%	(12.86%)	(1.50%)	16.61%			3.50%
Target Development Margin	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%			
[4] Residual Land Value (Target Margin)	142,092	1,455,893	3,311,910	431,246	1,128,535	1,923,552			8,393,228
[5] Breakeven Date for Cumulative Cash Flow	N.A. (Negative Profit)	N.A. (Negative Profit)	Jul-2015	N.A. (Negative Profit)	N.A. (Negative Profit)	May-2015			Jul-2015
Discount Rate (Target IRR)	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%			
[6] Net Present Value @ Start of Stage	(2,253,407)	(1,112,344)	1,115,240	(1,239,378)	(632,745)	606,192			
Date of Commencement	Sep-13	Sep-13	Sep-13	Sep-13	Sep-13	Sep-13			
Holding Discount Rate 10.00%									
[7] NPV at Start of Consolidated Cash Flow	(2,253,407)	(1,112,344)	1,115,240	(1,239,378)	(632,745)	606,192			(3,516,442)
[8] Benefit Cost Ratio	0.792	0.885	1.079	0.781	0.877	1.068			
[9] Project Internal Rate of Return (IRR)	(12.20%)	1.89%	28.72%	(11.82%)	1.80%	28.37%			8.97%
[10] Residual Land Value (NPV) @ Start of Stage	1,023,846	2,120,727	4,114,950	831,275	1,424,180	2,631,857			12,146,834
Peak Debt Exposure	9,410,508	8,018,182	13,594,626	4,499,813	3,852,648	8,533,374			46,130,321
Date of Peak Debt Exposure	Feb-2015	Feb-2015	Apr-2015	Feb-2015	Feb-2015	Feb-2015			Jun-2015
[11] Breakeven Date for Project Overdraft	May-2015	Apr-2015	Jun-2015	May-2015	Apr-2015	Apr-2015			
Total Equity Contribution	3,184,800	3,184,800	3,184,800	2,040,960	2,040,960	2,040,960			15,677,280
Peak Equity Exposure	3,184,800	3,184,800	3,184,800	2,040,960	2,040,960	2,040,960			15,677,280
Date of Peak Equity Exposure	Dec-2013	Dec-2013	Dec-2013	Dec-2013	Dec-2013	Dec-2013			Dec-2015
[12] IRR on Equity	(37.05%)	(4.37%)	53.75%	(29.47%)	(2.96%)	52.50%			9.05%
Weighted Average Cost of Capital (WACC)	6.29%	6.01%	6.83%	5.78%	5.48%	6.81%			

YIELD ANALYSIS	Qty	Area	Qty	Area	Qty	Area	Qty	Area	Qty	Area	Qty	Area			Qty	Area
SALES		SqM		SqM		SqM		SqM		SqM		SqM				SqM
Residential Apartments	0	1,624	0	1,624	0	3,057	0	1,084	0	1,084	0	2,169			0	10,643
Retail Shops	0	541	0	541	0	650	0	0	0	0	0	0			0	1,733
TOTAL	0	2,166	0	2,166	0	3,707	0	1,084	0	1,084	0	2,169			0	12,375
TENANCIES		SqM		SqM		SqM		SqM		SqM		SqM				SqM
TOTAL		0		0		0		0		0		0				0

Footnotes (based on current Preferences):

1. Development Profit: is total revenue less total cost including interest paid and received
2. Developer's Net Profit after distribution of profit share.
3. Development Margin: is profit divided by total costs (exc selling & leasing costs)
4. Residual Land Value: is the maximum purchase price for the land whilst achieving the target development margin.
5. Breakeven date for Cumulative Cash Flow: is the last date when total debt and equity is repaid (ie when profit is realised).
6. Net Present Value: is the project's cash flow stream discounted to present value.
   It includes financing costs but excludes interest and corp tax.
7. Net Present Value of each stage at commencement of the consolidated cash flow using the Holding Discount Rate.
8. Benefit:Cost Ratio: is the ratio of discounted incomes to discounted costs and includes financing costs but excludes interest and corp tax.
9. Internal Rate of Return: is the discount rate where the NPV above equals Zero.
10. Residual Land Value (based on NPV): is the purchase price for the land to achieve a zero NPV.
11. Payback date for the equity/debt facility is the last date when total equity/debt is repaid.
12. IRR on Funds Invested is the IRR of the equity cash flow including the return of equity and realisation of project profits.