Longfield Street, Cabramatta

Feasibility Study

Prepared for Elton Consulting

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TABLE OF CONTENTS

INTRODUCTION

This report presents an independent feasibility study in relation to the use of the Longfield Street site at Cabramatta for industrial uses as compared with residential and other uses.

This report has been prepared in accordance with instructions received from Elton Consulting and is structured and presented in **four (4) sections** as follows:

- **Section 1** provides an overview of the current uses at the subject site and the proposed redevelopment scheme.
- **Section 2** provides a high level cost benefit analysis of the site being used for industrial uses as compared with residential and other uses. This section addresses whether the continued use of the Longfield Street site for industrial uses is economically viable or otherwise.
- **Section 3** provides strategic economic arguments in-line with a check list of industrial zonings in the *Draft Metropolitan Strategy for Sydney* (2013) in the section titled "Productivity & Prosperity".
- **Section 4** summarises the key findings of this analysis.

1 PROPOSED DEVELOPMENT

i. The Longfield Street site encompasses around 38,000 sq.m and is currently occupied by four industrial tenants, comprising 16,500 sq.m of floorspace. An estimated 90 workers are currently employed at the site.

ii. The site is now proposed for a mixed use redevelopment to be known as the Cabramatta Intergenerational Community.

iii. The proposed Cabramatta Intergenerational Community is planned to occupy the entire subject site and is designed to create a vibrant and co-generational residential and mixed use environment that is integrated with the broader community.

iv. The major components include:

- 435 residential apartments in various buildings ranging from three levels up to the highest (in the middle of the site) at six levels, creating sensitive interface to existing surrounding properties.
- Commercial/retail floorspace of 2,397 sq.m, including a small convenience store, pharmacy, medical centre, food catering tenants and the like.
- An aged care facility including a 150 bed nursing home of 8,250 sq.m and an Independent Living Unit of 10,552 sq.m.
- A childcare centre of 500 sq.m, catering for approximately 100 children.

2 COST BENEFIT ANALYSIS

i. Cost benefit analysis is a method for organising information to aid decisions about the allocation of resources and involves an analysis of the cost effectiveness of different alternatives in order to access whether the benefits outweigh the costs.

ii. The following cost benefit analysis assesses whether the continued use of the Longfield Street site for industrial uses is economically viable or otherwise. The development viability of the site is based on the following:

- **Option One:** The "as is" value of the site in light of its current use as large block industrial.
- **Option Two:** Development of the site with small to medium scale industrial uses.
- **Option Three:** The proposed redevelopment of the site as a mixed use development, including residential and other components.

2.1 Purchase Price

i. According to *Colliers International Industrial Research & Forecast Report, 1st Half 2014,* average land values within the Central West region of Sydney (location of the subject site) are $250 - $400 per sq.m.

ii. With a site area of 38,000 sq.m and assuming the land value of the subject site is $300 per sq.m; this indicates a land market value of $11.4 million. This is the market value of the land at which a developer would theoretically purchase the subject site.

2.2 Capital Costs of Construction

i. The estimated capital costs of construction under each option are outlined as follows:

   – **Option One:** there are no capital costs of construction as the site would remain "as is".

– **Option Two:** The gross lettable area (GLA) of the proposed small scale industrial uses at the site is assumed at 25,000 sq.m. According to the Riders Digest Australia 2013 report, construction costs associated with industrial buildings range from $600 - $900 per sq.m. Given the larger size of the development, the cost of construction is assumed at around $480 per sq.m, indicating total capital costs of construction of $12.2 million. This is a conservative estimate and assumes that a portion of the existing building at the site can be used for the redevelopment. If this is not possible, the redevelopment of the site into small scale industrial uses would be a very expensive option.

– **Option Three**: Based on information provided by the current owner, the estimated total capital costs of construction are $125 million. With a total floorspace of 65,199 sq.m, this indicates a cost of construction of approximately $2,000 per sq.m, which is in-line with residential benchmarks outlined in the *Riders Digest Australia 2013* report.

2.3 Economic Viability/Financial Feasibility

i. For the purposes of this assessment, the following performance/feasibility criteria have been adopted:

– **Project Internal Rate of Return (IRR):** The IRR refers to the purchase price of the land while achieving a zero Net Present Value (NPV). This is the interest rate that would make the project breakeven. For example, if the developer put their money in a bank account at this interest rate, they would get exactly the same monetary benefits as they would receive undertaking the project.

– **Development Profit:** Total revenue less total costs (including purchase price).

– **Development Margin:** Profit divided by total development costs.

Option One

ii. The current industrial uses at the site encompass a GLA of 16,500 sq.m. Assuming an average rental level of $90 per sq.m, this indicates annual revenue of $1.49 million. This rental level is based on information provided by the owner of the subject site and its supported by the *Colliers International Industrial Research & Forecast Report, 1st Half 2014,* which indicates average net face rents for the Central West region of Sydney are $85 - $100 per sq.m.

iii. A confidence factor of 75% has been assumed given the industrial floorspace at the subject site is difficult to rent due to a number of factors discussed in Section Three of this report. This indicates total revenue over a 10 year period (2014 - 2023) of $12.8 million.

iv. Taking into account the purchase price of the subject site and building repair costs of $50,000 per annum, this indicates total profit of $867,896 million, which equates to a development margin of 7%. While this development margin is positive, the viability of the project is marginal. It is unlikely that a developer would be willing to purchase the industrial land for $11.4 million and only realise a gain of $867,896 for the project over the period to 2023.

v. Assuming a discount rate of 10% (cost of money), this indicates a NPV of -$3.3 million. This is the value that Option One is economically equivalent to right now. The IRR is 2%.

Option Two

vi. With a GLA of 25,000 sq.m and assuming a rental level of $120 per sq.m, this indicates annual net revenue of $3.0 million from 2016 (assuming the site is purchased in 2014, under construction in 2015 and in operation by 2016). Assuming a confidence factor of 90%, this indicates total revenue over the period to 2023 of $24.0 million.

vii. Taking into account the purchase price, costs of construction, demolition costs and a building repair allowance, this indicates a profit of -$478,193, indicating a development margin of -2%.

viii. Assuming a discount rate of 10%, this indicates a NPV of -$8.9 million. The IRR is 0% indicating that this is not a finically viable option.

Option Three

ix. Revenue has been calculated taking into consideration the residential, retail/commercial and childcare components of the proposed development. This analysis excludes costs and benefits relating to the retirement village component of the proposed development.

x. According to *Price Finder*, the average price for all units (including new and old) in Cabramatta at May 2014 (over the last 12 months) was $320,892. Assuming the proposed 435 units under Option Three sold for approximately 20% higher than the current average level in 2016 and 2017, the market value of the residential component would equate to $167.5 million. This allows for market growth and also a premium on new units. Over the last 10 years, the average unit price in Cabramatta has increased by 51%.

xi. Assuming the proposed retail/commercial component (2,397 sq.m) records an average rental level of $600 per sq.m, this indicates annual revenue of $1.4 million. In addition, assuming the childcare centre (500 sq.m) records an average rental level of $500 per sq.m, this indicates annual revenue of $250,000.

xii. Assuming a confidence level of 97.5%, this indicates total revenue over the period to 2023 of $175.9 million.

xiii. Taking into account the purchase price, costs of construction, demolition costs, building repairs costs and approval/infrastructure costs, this indicates total profit of $37.7 million, representing a development margin of 27%. The NPV of the project is $14.2 million with an IRR at 15%.

2.4 Results and Conclusions

i. Table 2.1 details the results of the high level feasibility testing under various land use scenarios for the Longfield Street site.

ii. As shown, it would not be viable for a developer to purchase the subject site and continue to use it for large scale industrial uses given the difficulty to lease and operate large industrial units at the site as discussed previously (Option One). Similarly, it would not be viable to redevelop the site for small scale industrial uses (Option Two) given the cost to redevelop modern units on the site and the likely low level of return. The only economically viable scenario in this cost benefit analysis is Option Three, involving the redevelopment of the site for residential and other uses.

TABLE 2.1 – COST BENEFIT ANALYSIS

Over 10 Year Period (2014 - 2023)	**Option 1** As Is	**Option 2** Small Industrial	**Option 3** Mixed Use
Site Area (sq.m)	38,000	38,000	38,000
GLA (sq.m)	16,500	25,000	65,199
Land Value ($/sq.m)	$300	$300	$300
Purchase Price	$11,400,000	$11,400,000	$11,400,000
Estimated Cost of Construction	$0	$12,187,500	$125,000,000
Expenses			
• Rezoning Approval & Infrastructure	$0	$0	$1,200,000
• Demolition Cost	$0	$500,000	$500,000
• Building Repair Costs/Maintenance	$500,000	$400,000	$175,000
(A) Total Costs (incl Purchase Price)	$11,900,000	$24,487,500	$138,275,000
(B) Total Revenue	$12,767,896	$24,009,307	$175,930,358
(C = B - A) Development Profit	$867,896	-$478,193	$37,655,358
(D = C / A) Development Margin	7%	-2%	27%
Net Present Value	-$3,304,505	-$8,878,997	$14,155,464
Internal Rate of Return	2%	0%	15%

3 DRAFT METROPOLITAN STRATEGY FOR SYDNEY (2013)

i. The Draft Metropolitan Strategy for Sydney sets the framework for Sydney's growth to 2031. The key focus of the Strategy is to achieve growth in jobs and housing based around five key outcomes:

- Balanced Growth
- A Liveable City
- Productivity and Prosperity
- Health and Resilient Environment
- Accessibility and Connectivity

ii. Of key relevance to this analysis is the outcome of Productivity and Prosperity. In particular *Objective 13: Provide a well-located supply of industrial lands* states that industrial lands close to rail, motorways and other major roads have high strategic value.

iii. According to the Strategy, existing industrial lands, especially in established areas, are under pressure to be rezoned to other uses, despite a need for them in the future. The Strategy provides an Industrial Lands Strategy Assessment Checklist for rezoning of existing industrial land. The criteria is outlined as follows:

Is the proposed rezoning consistent with State and/or Council strategies on the future role of industrial lands?

- No.

Is the site near or within direct access to key economic infrastructure?

- The site is located along Longfield Street, to the west of the Hume Highway. Employment lands within the Cabramatta North Hume Highway Industrial Area (location of the subject site) generally enjoy direct frontage to the Hume Highway, experiencing benefits of direct access. This means vehicle and truck movements are not redirected through residential streets. The subject site does not share this characteristic as there is no direct access to the Hume Highway, with vehicle and truck access provided via residential streets (Longfield Street and Chadderton Street).

- As such, while the subject site is located within close proximity to the Hume Highway, it does not enjoy direct access to this key economic infrastructure.

Is the site contributing to a significant industry cluster?

- The subject site is located within the Cabramatta North Hume Highway Industrial Area which extends west of the Hume Highway and is bounded by Lansdowne Road in the north and Boundary Lane in the south. The precinct is only small, incorporating around 16.5 hectares of land and is estimated to employ some 360 workers *(Fairfield Employment Lands Strategy, 2008, p86).* As such, the subject site does not contribute to a significant industry cluster.

- The Cabramatta North Hume Highway Industrial Area is located on the western side of the Hume Highway, with the Lansvale Industrial Area located to the east. There is a significant degree of barrier separation provided by the Hume Highway between the Lansvale Industrial Area and the Cabramatta North Hume Highway Industrial Area. Land uses on the eastern side of the Hume Highway represent a "cluster" of traditional industrial uses such as car dealerships and warehousing. In contrast, the western side of the Hume Highway primarily includes non-industrial uses, such as retail, bulky goods, food catering, hotels and residential dwellings, even though the land is currently zoned B5 Business Development.

How would the proposed rezoning impact the industrial land stocks in the subregion or region and the ability to meet future demand for industrial land activity?

- A total of approximately 774.4 hectares of industrial land is identified within the Fairfield LGA. The Cabramatta North Hume Highway Industrial Area (approximately 16.5 hectares) accounts for approximately 2.1% of the total. The subject site itself, at around 4 hectares, accounts for less than 1.0% of total industrial land in the Fairfield LGA.

– There is a large supply of industrial zoned land throughout Fairfield that includes modern industrial facilities or is available for the development of modern industrial facilities. There are also a number of proposed developments in the area that are centrally located to transport infrastructure. Consequently, the rezoning of the subject site will not materially impact the availability of suitable industrial land within the Fairfield LGA.

How would the proposed rezoning impact on the achievement of the subregion/region and LGA employment capacity targets and employment objectives?

– According to the *Fairfield Employment Lands Strategy (2008)* and the 2011 Census, industrial lands within the Fairfield LGA employ approximately 30,426 workers. The Cabramatta North Hume Highway Industrial Area employs around 1.2% of this total, with the subject site itself employing less than 0.3% of the total.

– The proposed rezoning of the subject site from industrial uses to residential uses, allowing for the redevelopment of the site under the proposed concept plan, will result in an estimated $125 million investment in the local Fairfield economy.

– Tables 3.1 and 3.2 summarise future employment at the site as a result of the proposed redevelopment. The redevelopment of the subject site would result in an additional 933 permanent employment positions (construction, retail, childcare, aged care), resulting in a further 1,178 jobs a result of supplier induced multiplier effects. As such, total employment generated from the redevelopment of the subject site is estimated at 2,111.

– Total employment from the ongoing operation of the Cabramatta Intergenerational Community (retail, childcare, aged care) is estimated at 246, which is more than double the current employment level at the subject site.

TABLE 3.1 – ESTIMATED EMPLOYMENT BY COMPONENT (OPTION THREE)

Development Component	Employment
Construction of Project	
• Construction	687
• Multiplier Effects	1,101
Retail	
• Ongoing Operation of Retail	81
• Multiplier Effects	77
Ongoing operation of Childcare*	15
Ongoing operation of Aged Care**	150
Total Employment from Redevelopment	**2,111**
Total Employment Excluding Multiplier Effects	**933**
Total Employment from Ongoing Operation	**246**

** Assumes 25% of children aged 0 - 24 months, 25% aged 24 - 36 months & 50% aged over 36 months.*
*** Assumes staff to patient ratio of 1:1.*

TABLE 3.2 – NET GAIN IN EMPLOYMENT

Development Component	Current Employment	Future Employment	Net Gain
Total Employment from Ongoing Operation	90	246	**156**
Total Employment from Redevelopment (Option 3)	0	2,111	**2,111**
Total Employment Excluding Multiplier Effects	0	933	**933**

Is there a compelling argument that the industrial land cannot be used for an industrial purpose now or in the foreseeable future and what opportunities may exist to redevelop the land to support new forms of industrial land uses such as high-tech or creative industries?

– Based on discussions with the owner of the subject site, the main industries seeking to occupy the site are logistics or manufacturing uses. These uses present a conflict with the surrounding residential uses and there is a long history of land use complaints, primarily due to noise and traffic created by industrial tenants.

- The existing composition of tenants at the site is not compatible with the surrounding residential uses given the lack of reasonable separation between the Cabramatta North Hume Highway Industrial Area and the existing residential area of Cabramatta.

- According to the owner, the site is difficult to lease with most industrial tenants requiring 24 hour, seven days a week, as well as B Double/Triple access. These requirements are provided at surrounding industrial precincts such as Wetherill Park, Smithfield and the future Western Sydney Employment Area. In comparison, the Longfield Street site is generally surrounded by residential dwellings and truck movements are limited to daylight hours.

- The proposed redevelopment of the subject site is known as the Cabramatta Intergenerational Community, which is planned to include 435 residential apartments, commercial/retail floorspace of 2,397 sq.m, an aged care facility and child care centre.

- The proposed vision for the site is to create a high quality intergenerational residential and mixed use precinct that will reinvigorate the local area, allowing families, including grandparents, parents and children, to live and age in the one precinct. This is very important culturally to the ethnically diverse population of Cabramatta. Furthermore, the proposed development will provide a range of community facilities, including childcare, aged care and local retail to service the day to day needs of local residents, benefiting the local community.

Is the site critical to meeting the need for land for an alternative purpose identified in other New South Wales Government or endorsed Council planning strategies?

- Based on population projections prepared by *forecast.id*, the Fairfield LGA population is currently estimated at 197,996 in 2013, including 124,769 persons within the Fairfield East SLA. The Fairfield LGA population is projected to increase to 212,306 by 2026, representing an additional 14,310 persons or an average annual growth rate of approximately 0.5% over the forecast period.

- The additional 14,310 persons over the forecast period would require in-excess of 5,500 new dwellings as a minimum to be provided by 2026. This allows for a more conservative average household size, based on the Australian average of 2.6 persons per household.

- According to the *Department of Planning's Subregional Strategy for the West Central subregion,* the Fairfield LGA needs to accommodate an approximate 24,000 additional dwellings by 2031. This is in keeping with Fairfield LGA growing at a much faster rate than outlined by *forecast.id* at closer to 1.0% - 1.5% per annum. On this basis, this indicates a shortfall of around 18,500 dwellings by 2026.

- Overall, significant future population growth is planned for the Fairfield LGA by the State Government. However, population growth has not been as strong as predicted, with a significant shortfall in the number of developed dwellings projected to occur. This partly relates to the difficulty in encouraging residential development in established residential areas of Sydney, particularly middle ring suburbs of the metropolitan area, where a combination of land price, difficulty to acquire and consolidate land as well as a range of other factors mean that redevelopment can be economically unviable.

- Given that the planned residential development at the subject site will comprise 435 apartments located around 1 km to the east of Cabramatta Town Centre and Cabramatta Railway Station, the proposed development is consistent with the submission to the Draft Metropolitan Strategy for Sydney to 2031 by Fairfield City Council which states *"Housing growth in Fairfield should therefore primarily be focused on the renewal of urban areas that are located within, say 1 – 2 km from railway stations and/or established centres within the aim of achieving urban consolidation and good urban design outcomes that are responsive to the local context of the area. Consideration should be given to the dual occupancy, multi-unit housing, courtyard housing and residential flat buildings, rather than detached dwellings, as an appropriate form of housing typologies".*

4 KEY FINDINGS

i. Based on the cost benefit analysis undertaken in Section Two this report, it would not be financially feasible for a developer to purchase the subject site to continue to use it for large scale industrial uses (Option One) or to redevelop the site for small scale industrial uses (Option Two). The only economically viable scenario is Option Three, involving the redevelopment of the site for residential and other uses.

ii. Consequently, the industrial/business development zoning of the subject site no longer represents the 'highest and best use' of the site. While it is important that a provision of industrial/business development land remains within the Fairfield LGA, it is equally important to recognise which areas would represent the optimal location for these types of facilities.

iii. It is clear that the surrounding industrial area represents a key employment generating area within the Fairfield LGA and this should be maintained in the future, however, the subject site itself is no longer suitable or economically viable for industrial/business development uses.

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