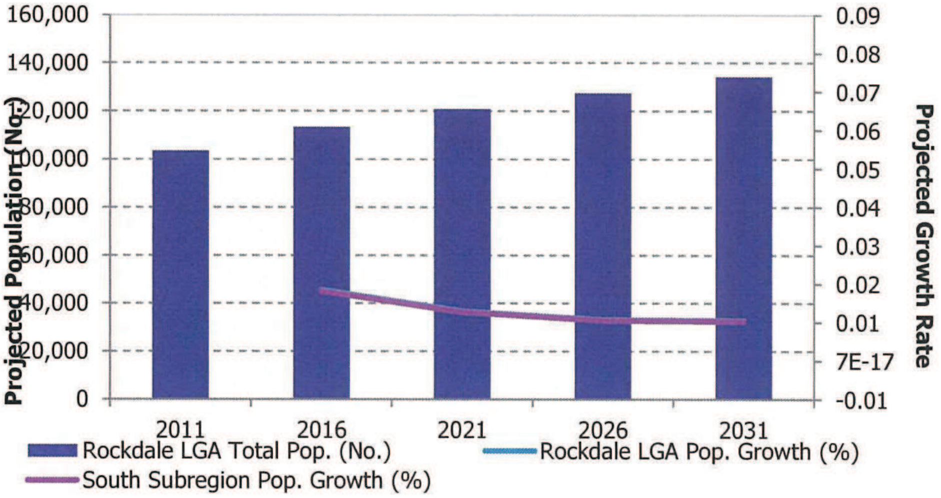
APPENDIX G – Economic Analysis

The Demands of Growth

Our analysis suggests that there is growing pressure on existing residential and commercial floorspace in the Rockdale LGA. This is brought about on several fronts, new growth as well as current floorspace requirements which are evolving:

- **New residents**
  By 2031, it is expected that Rockdale LGA's resident population will grow to 134,335, an average annual increase of 1.3% in the 20 years to 2031. This rate is similar to that predicted for the South Subregion.

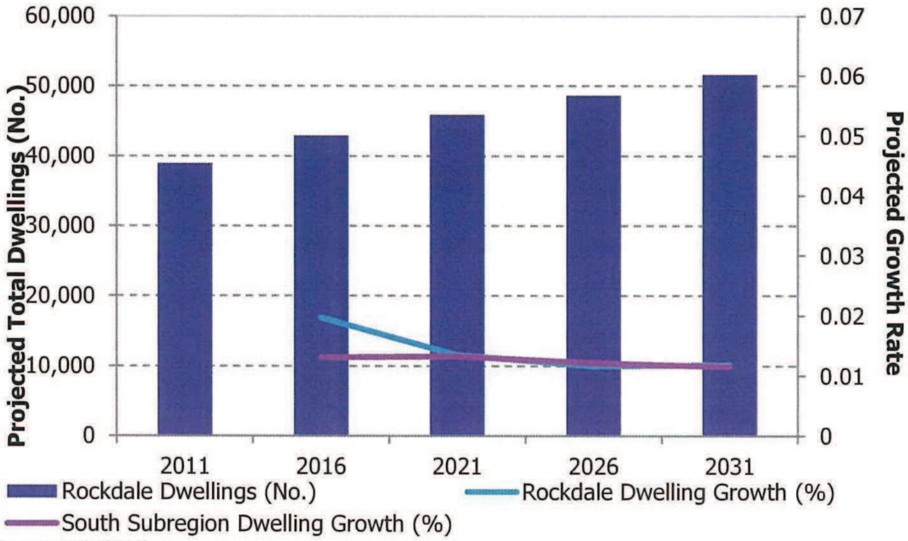
Figure 1.1: Projected Population Growth, Rockdale LGA, 2011 - 2031



Source: BTS (2014)

- **Demand for residential floorspace**
  By 2031, it is expected the total number of dwellings in Rockdale will grow to 51,587, an average annual increase of 1.4% in the 20 years to 2031. This rate is higher than that of the South Subregion (1.3%).

Figure 1.2: Projected Dwelling Growth, Rockdale LGA, 2011 – 2031

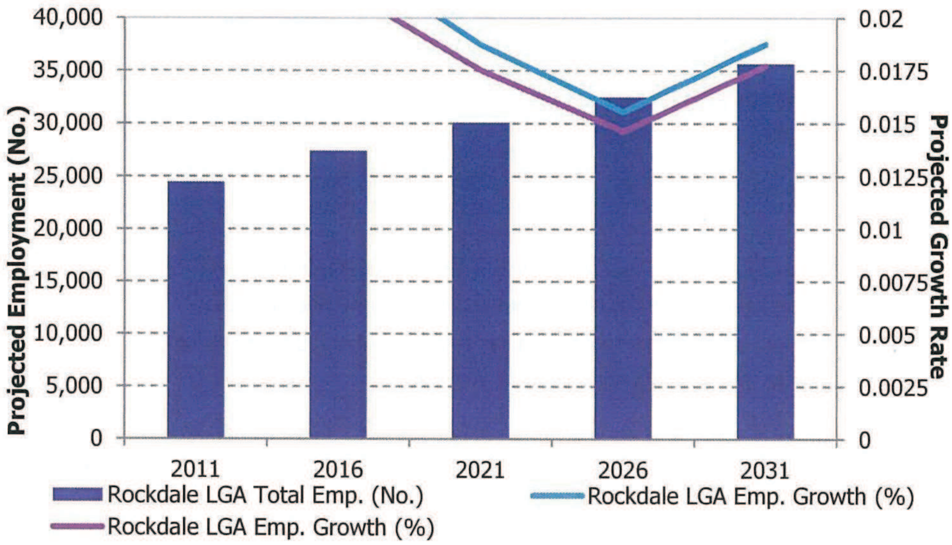


Source: BTS (2014)

- **New workers**

  By 2031, it is expected that Rockdale LGA's worker population will grow to 35,662, an average annual increase of 1.9% in the 20 years to 2031. This rate is similar to that predicted for the South Subregion.

Figure 1.3: Projected Employment Growth, Rockdale LGA, 2011 – 2031



Source: BTS (2014)

Need for the Proposal

This analysis demonstrates that in order to accommodate future growth in the Rockdale LGA additional floorspace will be needed for both residential and employment uses. The Planning Proposal aims to cater to some of this demand by seeking a rezoning to allow for residential units as well as the possibility of a hotel/motel which would provide employment.

Challenges of Accommodating Growth on Infill/Brownfield Sites

Brownfield/infill land located within towns and cities is often in an excellent location to redevelop in order to leverage existing infrastructure. There are ample brownfield sites in Sydney, however, often they lie undeveloped to their full potential.

The reasons for this lack of development are complex. A key point may be that the construction sector is overly reliant on profit driven, large-scale house builders looking to maximise value from each new home sold and to capitalise on cost efficiencies to boost profitability. The inevitable result is that the land which is the cheapest to purchase and the most efficient to develop will be targeted.

Commercial viability is a key obstacle that prevents brownfield/infill development. To carry out construction, developers require profit levels of between 15% and 25% while they also need to factor into appraisals a realistic price that will incentivise landowners to part with their land.

Due to the high expense of the development process and multiple landowners with often unrealistic perceptions about how much a developer can pay to secure their land, brownfield sites are often perceived as unviable. Complex land ownership structures on brownfield sites hinder development.

Brownfield land can often have significant physical issues that increase site preparation costs. While contamination is often cited as a key issue, developers can also face abnormal costs such as the relocation of underground services/utility infrastructure, demolition of existing buildings and the irregular shape of multiple plots of land required for site assembly. These abnormal costs can severely impact upon the viability of development schemes.

Enabling Redevelopment and Renewal

Fundamentally, in order for developers to consider re-developing a Site the new use needs to be valuable enough to displace the existing uses. In order to determine whether there is incentive for a developer to carry out development on Site 2 and Site 3, we have assessed the value of Site 2 and Site 3 in the following context:

- Value in its existing use (i.e. Site 2, two residential detached dwellings and one vacant lot and Site 3, twelve residential detached dwellings and one commercial building); and
- Value as a potential development site (should the land be rezoned to B4 Mixed Use). This considers Site 2 and Site 3 from the perspective of the land owner.

Under the current planning controls, Site 2 and Site 3 are zoned R2 Low Density Residential. It is understood that under the current planning controls attached dwellings and semi-detached dwellings are permitted.

"Value" is in the context of 'Market Value' which is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing, wherein the parties had each acted knowledgably, prudently and without compulsion".

The objective of this analysis is to investigate:

- Sales activity of comparable detached dwellings in Bexley.
- Market activity of development sites in Bexley and surrounds, particularly prices paid for development sites.

This analysis outlines desktop research and analysis of the Subject Site based on our observations, property data bases (RP Data, Cordell Connect) and aerial photography. We have not carried out physical inspection of the location of Site 2 and Site 3 nor their improvements. Development yield estimates are based on the information provided to use by TPG. Accordingly, the analysis and advice contained herein are indicative and provisional only.

Value in Existing Use

Site 2 appears to contain two single storey residential dwellings (506qm and 417sqm) and a vacant residential lot (759sqm). This site is owned by the applicant.

Site 3 appears to contain twelve single storey residential dwellings (ranging from 280sqm to 635sqm) and one two storey commercial building (651sqm).

This assessment is based on an external appreciation and on sales evidence of similar properties.

Table 1: Sales Evidence of single storey detached dwellings, Bexley

Address	Site Area (sqm)	Sale Price	Sale Date	Description
4 Abercorn Street	575	$1,040,000	5/03/2016	Single storey detached dwelling (with three bedrooms)
33 Abercorn Street	379	$980,000	8/10/2015	Single storey detached dwelling (with two bedrooms)
103 Stoney Creek Road	390	$968,000	14/03/2016	Single storey detached dwelling (with three bedrooms)
132 Stoney Creek Road	556	$1,070,000	20/05/2016	Single storey detached dwelling (with three bedrooms)

Source: RPdata

Table 2: Sales Evidence of two storey commercial buildings, Bexley

Address	Site Area (sqm)	Sale Price	Sale Date	Description
410 Forest Road Bexley	923	$4,800,000	27/06/2016	2 storey commercial property
411 Forest Road Bexley	278	$650,000	12/02/2015	2 storey commercial property

Source: RPdata, AEC

From the information available Site 2 could potentially realise $2.9m. This takes into account a value of $1,000,000 for each residential dwelling and $900,000 for the vacant lot. This represents 'value to the landowner'.

From the information available Site 3 could potentially realise $13.95m. This takes into account a value of $1,000,000 for each residential dwelling and $3,000/sqm/site area for commercial. This represents 'value to the landowner'.

Value as a Potential Development Site

Residential Site Sales

There are limited development site sales in Bexley, however, there are numerous development sites located in the nearby suburbs of Arncliffe, Kogarah and Earlwood.

In June 2016 a development site at 17-37 Wollongong Road, Arncliffe sold for $26.5m. The site measures 5,800sqm, is zoned R4 High Density Residential and has a designated FSR of 2:1. The site was marketed as a development site with DA approval for 164 apartments. The purchase price of $26.5m equates to $161,585 per unit/site or $1,141/sqm/FSR.

By way of comparison 152-206 Rocky Point Road, Kogarah sold for $75m (January 2016). The site measures 33,500sqm and is zoned a combination of IN2 Light Industrial (1:1) and R2 Low Density Residential (0.5:1). The site was marketed as a development site with the potential to accommodate 253 dwellings and 20,093sqm of commercial floorspace. The site is now in the early stages of the rezoning process. The purchase price of $75m equates to $138,889 per equivalent unit/site or $1,257/sqm/FSR.

Hotel Site Sales

There are limited development site sales in Bexley, however, there are sales of numerous development sites in Mascot.

In June 2014 a development site sold at 10 Sarah Street, Mascot for $2.2m. The site measures 545sqm. Subsequently, a development application was submitted to construct an 8 storey hotel containing 42 rooms. The purchase price of $2.2m equates to $52,380 per room/site.

In May 2015 a development site sold at 2-8 Sarah Street Mascot for $6.75m. The site measures 1,516sqm. The site was marketed as a development site with a DA approved for an 8 storey hotel comprising 169 rooms. The purchase price of $6.75m equates to $39,940 per room/site.

The above development sites are better located that Site 2, however, they are good proxy for what developers would be willing to pay for hotel development site.

Need for the Proposal

The below analysis demonstrates that Site 2 as development site (if rezoned to B4 Mixed Use) would be worth between $2.1m-$4.05m. The analysis further suggests that a residential-only development (at site value of $4.86m) would be greater than the existing-use value (i.e. $2.9m).

The value of the site as a development site for hotel use alone (at site value of $2.1m) would not be greater than the existing uses and as such redevelopment would be unlikely to occur. As such, if the site is rezoned to B4 Mixed Use and accommodates residential units, the rezoned site will be valuable enough to displace the existing uses. A rezoned site (which allows for residential uses) is more likely to result in redevelopment and renewal because the value proposition is greater than that presented by the existing use.

Table 4 demonstrates that Site 3 as a development site (if rezoned to B4 Mixed Use) would be worth between $3.9m to $11.4m. This analysis further suggests that a residential-only development (at site value of $11.4m) is the highest value proposition, however, it is not valuable enough to displace the existing use of $13.95m. As such, higher FSR and height controls could be considered in order to obtain a higher yield.

Table 5 demonstrates that Site 2 and Site 3 combined as a development site (if rezoned to B4 Mixed Use) would be worth between $6.8m and $16m. This analysis further suggests that option 2 (at site value of $16.3m) is the highest value proposition, however, it is not valuable enough to displace the existing use of $16.85. As such, higher FSR and height controls could be considered in order to obtain a higher yield.

Table 3: Value as Potential Development Site (Site 2)

Site 2		
Proposed Development	Rate	Potential Site Value
Option 1: 42 hotel rooms	$50,000 per room	$2,100,000
Option 2: 27 residential units	$180,000 per unit	$4,860,000

Source: RPdata

Table 4: Value as Potential Development Site (Site 3)

Site 3		
Proposed Development	Rate	Potential Site Value
Option 1: 127 hotel rooms	$40,000 per room	$5,080,000
Option 2 and Option 3: 78 hotel rooms and 31 residential units	$50,000 per room $180,000 per unit	$3,900,000
Option 4: 36 hotel rooms and 31 residential units	$50,000 per room $180,000 per unit	$9,480,000
Option 5: 67 residential units	$170,000 per unit	$11,390,000

Source: RPdata

Table 5: Value as Potential Development Site (Site 2 and Site 3 Combined)

Site 2 and Site 3 Combined		
Proposed Development	Rate	Potential Site Value
Option 1: 169 hotel rooms	$40,000 per room	$6,760,000
Option 2: 78 hotel rooms, 73 residential units	$50,000 per room $170,000 per unit	$16,310,000
Option 3: 78 hotel rooms, 58 residential units	$50,000 per room $180,000 per unit	$14,340,000
Option 4: 94 residential units	$170,000 per unit	$15,980,000
Option 5: 42 hotel rooms, 67 residential units	$50,000 per room $170,000 per unit	$13,490,000

Source: RPdata, AEC

Economic Benefits of Rezoning the Site

Efficient and Effective Use of Infill Land

By enabling a more economically efficient use of the Site to be achieved and by delivering much needed higher density residential development in close proximity to important transport nodes, the Planning Proposal would maximise the development potential of this infill site. In doing so it would assist to achieve planning policy aims by concentrating new development on locations most capable of accommodating it. It may assist to alleviate pressure for new housing development in locations less suitable for such uses, such as outer lying suburbs or greenfield sites not well connected to public transport infrastructure, services, jobs and retail uses. Rezoning Site 2 and Site 3 would ensure efficient and effective use of land.

Contribution towards Easing Housing Affordability

The Sydney metropolitan area is in the midst of a housing affordability crisis. The Plan recognises that house prices in Sydney are high comparative to other Australian capitals and that government can assist to place downwards pressure on price rises through facilitating greater volumes of supply. In particular, additional units are noted as ensuring more people can access residential product which matches their lifestyle and budget.

Rockdale is slightly more affordable compared to the wider Sydney metropolitan area. The latest Housing Sales and Rent Report (FACS, 2015) indicates that the median price of a unit in Rockdale LGA in December quarter 2015 was $573,000 compared to a Greater Sydney median of $621,000 and a Sydney Middle Ring (within which Rockdale LGA is situated) of $611,000.

Over the last five years since December quarter 2010, based on the latest FACS data the median price of a unit in Rockdale LGA has increased by $143,000 or 33%. By contrast the average price increases in the Sydney metropolitan area was 37% over the same period and in the Sydney Middle Ring it was 43%. Even though housing prices in Rockdale LGA are increasing at a slower rate in comparison to the Sydney metropolitan area and Middle Ring, initiatives to increase the volume of supply in Rockdale LGA will nevertheless help moderate the already high median house prices.

Increasing the volume of housing supply is a government imperative because it assists to ensure affordability by tempering the pace of house price growth. The provision of dwellings on the Site would help to achieve this and constitutes a strong positive economic impact.

Providing Homes Close to Jobs and Infrastructure

Providing homes close to jobs, public transport, civic functions, retail and entertainment options is a community benefit. Doing so lowers the needs for residents to travel to access employment and the other services they require and promotes public transport use. As a result negative externalities of travel in terms of lost time commuting, monetary expenses of travel, pollution, congestion, traffic, noise and so on are minimise. For this reason A Plan for Growing Sydney aims to provide homes closer to jobs (Direction 2.2/Action 2.2.2) and focus new housing in centres which have public transport that runs frequently and can carry large numbers of passengers.

Rockdale LGA is an ideal place to concentrate new housing development. Amendments to the planning controls of the Site and subsequent development as of apartments in this location in addition to new employment opportunities on site constitutes a strong positive economic impact.

Retail Expenditure

The latest ABS Household Expenditure Survey (HES) showed the average Australian household spent $1,236 per week on goods and services. If Site 2 was to accommodate 27 residential units, this would equate to approximately $1.7 million on an annual basis. Theoretically, if Site 3 was to be redeveloped to incorporate 94 residential units, combined with Site 2 this would equate to 121 units and mean that approximately $7.8m being injected into the local economy. This would assist in ensuring the local retail and commercial offer in the Bexley Town Centre and Rockdale LGA was supported.

Need for the Proposal

The Site is currently improved with two residential detached dwellings and one vacant lot. In order for the redevelopment to be a commercial proposition, increased residential densities are required.

Despite the challenges of redeveloping in brownfield/infill locations, the Proposal is of sufficient scale to facilitate a renewal of an existing asset and enable optimisation of a large key site which is a scarce and valuable asset in a growing centre such as Bexley.

The strength of the current economic cycle enables this redevelopment to be achieved. Timing and leverage of market conditions is accordingly critical for this urban regeneration opportunity not to be missed.