

LANE COVE FSR REVIEW

Prepared for
Lane Cove Council

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SYDNEY MELBOURNE CANBERRA

independent
property consulting

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1. EXECUTIVE SUMMARY

Study Brief

Hill PDA has been commissioned by Lane Cove Council (hereafter referred to as the Council) to review the Floor Space Ratios (FSR's) proposed by Council for key residential and commercial precincts within the LGA.

The FSRs are proposed in accordance with Council's draft Local Environment Plan (LEP) and seek to facilitate the viable redevelopment of identified sites within the Lane Cove Local Government Area (LGA).

The viable redevelopment of these areas is required in order to meet the dwelling and employment targets established by the Department of Planning (DoP).

In order to assess whether the proposed FSRs are viable, or otherwise, Hill PDA has undertaken a market review of residential and commercial property in the LGA. Based on this review, high level feasibility assessments were then undertaken to better understand whether the proposed development controls were reasonable from an economic perspective.



To undertake the feasibility modelling, a bespoke model was prepared by Hill PDA. The model is a simplified version of Hill PDA's Estate Master software which is the leading feasibility software in the development industry. Owing to the speculative nature of the study, the model adopted a variety of market and development assumptions including construction periods, acquisition values, development constraints, staging, sale rates, site amalgamations and the property cycle. These assumptions have been outlined in full in the main body of this report.

Key Findings

Based on Hill PDA's analysis it was found that all of the proposed medium density residential zones tested required a higher FSR in order to attract and encourage their viable redevelopment under the current market conditions.

It was found that four of the eleven proposed commercial zones could be redeveloped at the proposed FSR. One Precinct had a component that would be viable at the proposed FSR whilst the remaining six required a higher FSR than proposed by Council to attract and encourage their viable redevelopment.

A summary of results by Precinct is provided in the table below.

Table 1 - Feasibility Results and Recommendations by Precinct Tested

Precinct	Address	2007 LEP Map Ref.	Proposed Zone	Proposed FSR	Proposed Max Height	Proposed Feasible?	Recommendation
1	East Side of Burns Bay Road	13	R4 High Density Residential	1.7:1	21m	No	2.2:1
2	302 – 314 Burns Bay Road	12	R4 High Density Residential	1.7:1	21m	No	2.1:1
3	2 – 4 Burley Street and 11 – 13 Longueville Road	38	R4 High Density Residential	1.7:1	18m	No	4.0:1
4a	388 – 400 Pacific Highway, 2 Longueville Road	39	R4 High Density Residential	1.7:1	18m	No	4.0:1
4b	388 – 400 Pacific Highway, 2 Longueville Road	39	B3 Commercial Core	1.7:1	18m	No	4.0:1
5a	378 – 382 Pacific Highway and 1 Gatacre Avenue	39	R4 High Density Residential	1.2:1	12m	No	4.0:1
5b	378 – 382 Pacific Highway and 1 Gatacre Avenue	39	B3 Commercial Core	1.2:1	12m	No	4.0:1
6	1 – 21 Finlayson Street and 2-22 Birdwood Avenue	35	R4 High Density Residential	1.5:1	18m	No	2.1:1
7	2 – 42 Kara Street and 6-18 Burley Street	37	R4 High Density or R3 Medium Density Residential	1.2:1	12m	No	2.1:1
8	Sites Along Mowbray Road	3	R4 High Density Residential	1.2:1	12m	No	1.5:1
9a	486 – 502 Pacific Highway - Friedlander Place Only	N/A	B3 Commercial Core	12.0:1	65m	Yes	12.0:1
9b	486 – 502 Pacific Highway – Entire Precinct	N/A	B3 Commercial Core	12.0:1	65m	Yes	12.0:1
10a	536 – 542 Pacific Highway Only Option	N/A	B3 Commercial Core	10.0:1	50m	No	12.0:1
10b	536 – 542 Pacific Highway & Telstra Site Option	N/A	B3 Commercial Core	10.0:1	50m	Yes	10.0:1
11	546 – 564 Pacific Highway to 72 Christie Street	N/A	B3 Commercial Core	4.5:1	25m	Yes	4.5:1
12	Oxley Street from 436 Pacific Highway to Nicholson Street	N/A	B3 Commercial Core	2.0:1	18m	No	3.3:1
13	2 – 64 Pacific Highway, 1a – 25 Marshall Avenue	63	B3 Commercial Core to B4 Mixed Use	3.0:1	25m – 15m – 9.5m	Yes	3.0:1 – 4.0:1
14	1 – 1A Berry Road	62	B3 Commercial Core	2.0:1	15m	No	4.0:1
15	3 – 5 Berry Road	62	B3 Commercial Core	1.2:1	12m	No	2.3:1

16	West from Berry Road between 66 - 154 Pacific Highway	N/A	B3 Commercial Core	3.0:1	25m	No	4.5:1
17	Lane Cove West Business Park	N/A	IN2 Light Industrial	1.0:1	21m	Yes	1.0:1
18	15-47 Longueville Road	N/A	R4 High Density Residential	0.8:1	12m	No	4.0:1
19a	Fig Tree Street, Centennial Avenue & Burns Bay Road	6	R3 Med Density Residential	0.7:1	9.5m	No	N/A
19b	Fig Tree Street, Centennial Avenue & Burns Bay Road	6	R4 High Density Residential	0.7:1	9.5m	No	2.7:1
20a	Kyong Street, Parkland Avenue & Landers Road	N/A	R3 Med Density Residential	1.2:1	12m	No	N/A
20b	Kyong Street, Parkland Avenue & Landers Road	N/A	R4 High Density Residential	1.2:1	12m	No	2.7:1
21	3 - 15 Wood Street	8	R4 High Density Residential	1.5:1	12m	No	2.2:1
22	Cope Street & Murrarah Place	N/A	R2 Low Density Residential	0.5:1	9.5m	No	2.2:1

Source: Hill PDA

2. INTRODUCTION

Study Brief

Hill PDA has been commissioned by Lane Cove Council (the Council) to review the proposed Floor Space Ratios (FSR) for key Precincts within the Lane Cove Local Government Area (LGA). The FSRs are proposed in accordance with Council's draft Local Environment Plan (LEP) and seek to facilitate the viable redevelopment of identified sites within the Lane Cove Local Government Area (LGA). The viable redevelopment of these areas is required in order to meet the dwelling and employment targets established by the Department of Planning (DoP).

In order to assess whether the proposed FSRs are viable, or otherwise, Hill PDA has been asked to undertake a market review of residential and commercial property in the LGA. Based on this review, high level feasibility assessments have been undertaken to better understand whether the proposed development controls are reasonable from a development perspective.

Council has also sought Hill PDAs advice concerning general property matters including:

1. The potential effect to existing property values as a result of areas being zoned from low density detached residential dwellings to medium density development;
2. The potential impact of higher density development to rates; and
3. The need for greater FSRs in order to counter the growth in property values as a result of rezoning.

Study Methodology

In order to undertake the study, Hill PDA has applied the following methodology:

1. A meeting with Council representatives to discuss key objectives and sites to be reviewed;
2. Site visits of each Precinct;
3. Market research of comparable recent sales;
4. Research of reasonable construction costs including land acquisition and development;
5. Feasibility modelling of the development of each site;
6. Testing of an appropriate FSR for viable development; and
7. The preparation of a report documenting key findings.

To test the effectiveness of the proposed FSRs a bespoke feasibility model was prepared by Hill PDA. The model is a simplified version of Hill PDA's Estate Master software which is the leading feasibility software in the Australian development industry. Owing to the speculative nature of the task, the model adopted a variety of market and development assumptions. These assumptions are outlined in detail in the following section of the report.

Subject Sites

As part of the study 22 key Precincts for assessment have been identified and agreed with Council. The Precincts include a range of proposed R3 and R4 Residential Zones and B3 Commercial Core Zones. One Precinct is a mixed Zone B3 Commercial Core and B4 Mixed Use Zone and one Precinct is proposed for IN2 Light Industrial.

The Subject Sites are located in various locations across the LGA including the St Leonards Specialised Centre, sections of the Pacific Highway, Longueville Road, Mowbray Road, Burns Bay Road and on the periphery of the Lane Cove Town Centre.

Details of each site, their locations, proposed zones, FSRs and building heights have been detailed in Section 4 of this report.

3. ASSUMPTIONS

Outlined below are the key assumptions used to inform the preparation of the feasibility models for the residential and commercial precincts.

Residential Precinct Assumption

Area Assumptions

The table below outlines the areas of each Residential Precinct tested. In some cases (i.e. Precincts 1, 2, 4 and 5) it is considered unlikely that the Precincts would be developed in their entirety at the same point in time. It was therefore considered more realistic to break the Precincts into defined development areas and test their viability separately. For the purposes of the study, site and development areas have been estimated based on information using RP Data and Red Square.

In the cases of Precincts 6, 7 and 8 average lot sizes were found and combined to create larger lots. These larger lots were considered to be reflective of the site amalgamations a developer would seek to achieve before redeveloping to medium density.

Table 2 - Area Assumptions for Residential Precincts

Precinct No.	Breakdown of Lots	Lot Area (sqm)	Total Precinct Area (sqm)
Precinct 1	4 lots	Lot 1: 13,229 Lot 2: 7,685 Lot 3: 6,699 Lot 4: 519	28,132
Precinct 2	1 lot	Lot 1: 2,850	2,850
Precinct 3	2 Lots	Lot 1: 2,992 Lot 2: 1,220	4,211
Precinct 4	2 Lots	Lot 1: 5,173 Lot 2: 2,241	7,415
Precinct 5	4 Lots	Lot 1: 996 Lot 2: 903 Lot 3: 1,882 Lot 4: 1,177	4,959
Precinct 6	(4*1 avg lot area) = 1 base area	Base Area = avg lot area 643sqm(*4) = 2,572	20,440
Precinct 7	Average Lot Area	Avg Lot Area: 742 (*4) = 2,967	17,870
Precinct 8	(3*1 avg lot area) = 1 base area	Base Area = avg lot area 737(*3) = 2,211	29,090

Precinct 18	1 Lot	15 Longueville Road	1749
	2 Lots	11-13 Longueville Road	1433
Precinct 19	1 Lot	177 & 179 Burns Bay Road	1454
Precinct 20	1 Lot	10 Parkland Avenue, 1, 3, 5, 7, & 7A Landers Road	3216
Precinct 21	1 Lot	11 – 15 Wood Street	2199
Precinct 22	1 Lot	40 – 42 Penrose Street & 1 Murrallah Place	1716

Revenue Assumptions

- Sales have been scheduled upon completion of construction.
- All sales are to be completed within a six-month period.
- An allowance has been made of 3% sales revenue for selling expenses
- Revenue rates are based on current market values, with some consideration for an amalgamation premium, however this has not been escalated to cater for future residential market cycles.
- All revenue excludes GST.
- All revenue excludes any escalation.
- Residential end sale rates are based upon current market values and market research indicating current selling rates of \$5000 to \$6000 per square metre. Values will vary, depending on site characteristics i.e. highway frontage as opposed to water views.

Development Costs

- Costing has been sourced from Rawlinsons Construction Handbook (2008).
- All costs have been implemented over a 12-month development schedule.
- Professional fees are set at approximately 5% of costs.
- Site Preparation and demolition costs have been included at \$100,000.
- An allowance for landscaping has been factored in at \$100,000.
- High density construction costs have been assessed at \$2,900/sqm of net building area for the residential unit component, reflecting a relatively high level of quality with elevators.
- Low density construction costs have been assessed at \$2,000/sqm of net building area for the residential unit component, reflecting a relatively high level of quality walk up development.

- An indicative number of basement car parking spaces per development site have been included at \$25,000 per space based on 1 car space for every 85 square metres of office area.
- All costs exclude GST.
- All costs exclude any escalation.
- All costs include a 5% contingency.
- Minor statutory fees have been included.
- A consolidated site land value of \$1200 and \$1500 per square metre has been included for acquisition purposes.
- Target profit margin rate of return of 20%.
- For the purposes of Section 94 contributions, an assumption has been made of 2.5 people per 100sqm apartment, at a cost of \$7500 per person.
- Hill PDA has not sought confirmation of the existence of any contamination or heritage issues to the subject Precincts.
- Hill PDA has assumed all usual city services including electricity, telecommunications, water, sewerage are connected to the subject Precincts.

Commercial Assumptions

Revenue Assumptions

- A six month pre-construction period and twelve month construction period.
- Sales have been scheduled upon completion of construction.
- All sales are to be completed within a six-month period.
- Assumed start date of January 2009.
- An allowance of 3% sales revenue for selling expenses.
- Commercial end sale rates are based on current market values and upon market research indicating current selling rates are \$4,000 to \$5,000 per square metre. Sale rates have not been escalated over the development period.
- All revenue excludes GST.
- All revenue excludes any escalation.

Development Costs

- Costing has been sourced from Rawlinsons Construction Handbook (2008).

- Site Preparation and demolition costs have been included at rates between \$25 and \$100 per square metre of existing FSR for sites dependant on their characteristics.
- Construction costs are between \$1500/sqm and \$2,710/sqm dependant on the likely scale of the building (low density industrial to high specification and density commercial buildings with elevators).
- An indicative number of basement car parking spaces per commercial development site have been included at \$25,000 per space based on 1 car space for every 85 square metres of office area.
- An indicative number of ground level at grade car parking spaces per industrial development site have been included at \$75/sqm for every 85 square metres of floor area.
- All costs exclude GST.
- All costs exclude any escalation.
- All costs include a 5% contingency.
- Professional fees are set at approximately 5% of costs.
- All construction costs exclude statutory fees.
- A consolidated site land value of \$3,000 and \$1,500 per square metre has been included for acquisition purposes.
- Target profit margin rate of return of 20%
- Full debt funded with 8% interest expense.
- Hill PDA has not sought confirmation of the existence of any contamination or heritage issues to the subject Precincts.
- Hill PDA has assumed all usual city services including electricity, telecommunications, water, and sewerage are connected to the subject Precincts.

Property Cycle Assumptions

The analysis is static and ignores property cycle effects. Property markets fluctuate periodically in complex ways and the interaction of cyclic fluctuation will have short term impacts on viability. Forecasting property cycle movements into the future is highly speculative and beyond the scope of this study. In addition, the last two decades have seen some major fundamental changes that have evidenced as major cyclic effects. Within this dynamic environment some observations regarding the current market situation should be noted as follows:

- Residential land values grew strongly during the decade to 2004 and are still considered by many analysts to be overvalued. AMP's Chief Economist, Shane Oliver published an analysis of house prices in February 2008 arguing that house prices are currently perhaps as much as 29%

overvalued compared to long term trends. While this position may be extreme, the widespread concern over affordability would support his general point.

- The same period saw a fundamental change in preference from free standing dwellings to multi-family units. Part of the increase in cottage prices over the period is attributable to this change, and the momentum of earlier price growth in higher density dwellings has carried cottage prices forward.
- The markets for residential development land tend to be set partly by expectations of future price growth based on past market events. This means that development land may be currently priced due to the general tendency to continue market trends which in the past have pushed land values unsustainably high and the psychological tendency to resist the fact that prices that may have been achievable in the recent past represent the sober investment value of property currently.
- The relative pricing between land and higher density residential space may still be out of general equilibrium due to the relatively recent change in preference from free standing cottages to multi-family dwelling units that has characterised Sydney over the last two decades.
- Recent trends in residential rents may be suggesting that residential yields may be firming in a way that will support unexpected future price growth.
- The commercial property cycle is considered to be near its peak, suggesting that developed commercial space is generally priced more attractively relative to the underlying land value.

Overall, the fact that at the present time development may or may not be viable within a given set of FSR and pricing parameters does not mean that it will not be viable at various times into the future. Residential development tended to slow in 2004-2005 due to the excessive increases in land values immediately prior and the steadying of demand for developed multi-family dwelling space. This was an artefact of the property markets, not the zoning allowances. Any conclusions drawn from the current analysis should be read with comparable attention to the possible directions of the property market into the future.

4. SITE ANALYSIS AND MODELLING RESULTS

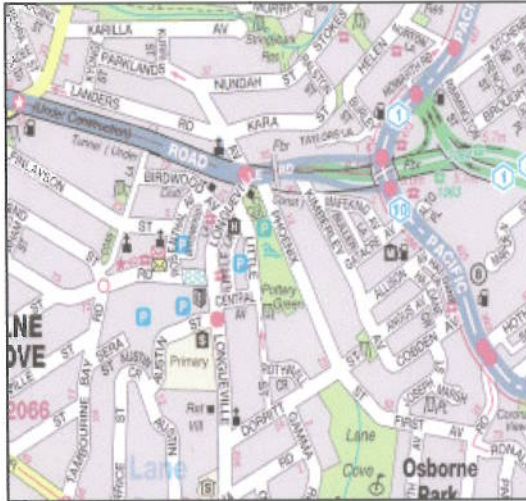
Hill FDA has approached the feasibility modelling by using a static residual cash flow analysis of a hypothetical development. The development was based upon the Draft LEP's FSRs for selected sites.

The residual cash flow analysis attributes an end value or gross realisation to a development and then deducts all of the associated costs with the hypothetical development to arrive at a *residual land value*. If the residual land value is greater than or equal to the acquisition costs of a particular site then the hypothetical development is viable based upon all of the modelled assumptions.

The residual model provides a reasonable approximation of residual land values based on the assumptions discussed in the preceding section of the report and on a single staged hypothetical development. It is important to note that residual values can be sensitive to end sale rates and costs of construction. As a result our values assessed may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this study is relied upon after the expiration of three (3) months from the date of the study, or such an earlier date if any factors are identified that may have an effect on the valuation.

The following section of the report provides analysis of each of the Precinct's agreed with Council. It provides a brief description of their existing development and relevant development controls. The proposed zones and FSRs are then tested and a summary sheet of the economic model is provided. Based on the outcomes, recommendations have been provided with respect to the appropriate FSRs for each Precinct in economic terms.

Precinct 3: 2 - 4 Burley Street and 11-13 Longueville Road



Precinct Location and Description:

Precinct 3 incorporates 2 - 4 Burley Street and 11 - 13 Longueville Road. 2 - 4 Burley Street is presently occupied by a three storey red brick medium density unit block comprising 19 apartments. It is bound to the west by residential units and to the east by 11- 13 Longueville Road. The latter is a vacant site located at the Junction of Longueville Road and the Pacific Highway. It is presently used by the Roads and Traffic Authority (RTA) as a depot in conjunction with major road and tunnel works and for storage.

Surrounding the precinct to the north and west are medium density residential apartments. To the South and east are major highways (Longueville Road, the Pacific Highway, Gore Hill Freeway).

Site Area: 4,588sqm

Existing Zoning: Residential 2(c)

Existing Use: 19 Residential Dwellings and RTA Depot

Proposed DLEP 2007 Zone: High Density R4

Proposed DLEP 2007 FSR: 1. 7:1



Draft Lane Cove LEP Zoning Map 2007

Key Considerations and Assumptions:

Hill PDA has assessed the viability of the Precinct, using our feasibility software program "DF Calculator" with the following Precinct specific assumptions;

- The Precinct was broken down into two lots being:

 Lot 1: 2 – 4 Burley Street

 Lot 2: 11 – 13 Longueville Road
- Construction costs of \$2,900 per square metre as per Rawlinsons; and
- Residential end sales of \$5,500 per square metre.

Key Findings:

Lot 1 is not viable at an FSR of 1.7:1. It is viable at an FSR of 3.2:1

Lot 2 is not viable at an FSR of 1.7:1. It is viable at an FSR of 4:1

Recommendations:

The proposed FSR is increased to 4:1 to encourage the viable development of both sites together.

Precinct 4: 388 – 400 Pacific Highway to 2 Longueville Road



Precinct Location and Description:

Precinct 4 is located at the junction of Longueville Road and the Pacific Highway extending south to Gatacre Avenue. The site is presently occupied by two storey commercial buildings, some of which are vacant and in a poor state of maintenance. Those that are tenanted include a boating warehouse with an adjacent car park, a household factory outlet store with a car forecourt and a computer store.

To the rear of the Precinct the land steps away and is occupied by medium to low density residential dwellings. Opposite the Precinct, on the eastern side of the Pacific Highway, there are 3 storey contemporary commercial buildings tenanted by 'Computer Association'.

Site Area: 6,362sqm

Existing Zoning: Business General 3(b)

Existing Use: Commercial

Proposed DLEP 2007 Zone: High Density R4

Proposed DLEP 2007 FSR: 1.7:1



Draft Lane Cove LEP Zoning Map 2007

Residential Development Option - Key Considerations and Assumptions:

Hill PDA has assessed the viability of the Precinct for residential development, using our feasibility software program "DF Calculator" with the following Precinct specific assumptions;

- The site would be developed in two parts being:

Lot 1: 388 – 400 Pacific Highway AND Lot 2: 2 Longueville Road
- Construction costs of \$2,900 per square metre as per Rawlinsons; and
- Residential end sales of \$5,500 per square metre.

Residential Development Option - Key Findings:

Lot 1 is not viable at an FSR of 3.5:1. It is viable at an FSR of 4:1

Lot 2 is not viable at an FSR of 3:1. It is viable at an FSR of 3.5:1

Commercial Development Option - Key Considerations and Assumptions:

Hill PDA has assessed the viability of the Precinct for commercial development, using our feasibility software program "DF Calculator" with the following Precinct Commercial specific assumptions;

- The site would be developed in two parts being:

Lot 1: 388 – 400 Pacific Highway AND Lot 2: 2 Longueville Road
- Commercial Construction costs of \$2,000 per square metre as per Rawlinsons; and
- Commercial end sales of \$4,500 per square metre.
- Acquisition costs estimated at \$3000 per square metre. Acquisition costs estimated at \$3000 per square metre. Acquisition of the site occurred prior to the rezoning exercise therefore assuming an increase in viability.
- Section 94 Council contributions are excluded from the feasibility.

Commercial Development Option - Key Findings:

Lot 1 is not viable at an FSR of 3.5:1. It is viable at an FSR of 4:1

Lot 2 is not viable at an FSR of 3:1. It is viable at an FSR of 4:1

Recommendations:

The proposed FSR is increased to 4:1 to encourage the viable redevelopment of the sites for residential purposes.

The proposed FSR is increased to 4:1 to encourage the viable redevelopment of the sites for commercial purposes.

Precinct 5: 378 - 382 Pacific Highway & 1 Gatacre Avenue



Precinct Description:

Precinct 5 includes numbers 378 - 382 the Pacific Highway and 1 Gatacre Avenue (that relates to the 1 - 3 Allison Road). The lots fronting the highway are large lots occupied by a Shell Service Station and Strathfield Car Radios. To the rear in Allison Road (1-3 Allison Road) is a two storey building occupied by Comfort Inn that extends through to Gatacre Avenue.

Surrounding the site to the west are detached single to two storey residential dwellings. To the east (on the opposite side of the Pacific Highway) are automotive sales businesses.

Site Area and Existing Zone: Zone 3(b) Business General (4,003sqm) and Zone 2(a1) Residential (5,582sqm)

Existing Use: service station, commercial, motel and residential dwelling

Proposed DLEP 2007 Zone: High Density R4

Proposed DLEP FSR: 1.2:1



Draft Lane Cove LEP Zoning Map 2007

Residential Development Option - Key Considerations and Assumptions:

Hill PDA has assessed the viability of the Precinct for residential development, using our feasibility software program "DF Calculator" with the following Precinct specific assumptions;

- Construction costs of \$2,900 per square metre as per Rawlinsons; and
- Residential end sales of \$5,500 per square metre.

Residential Development Option - Key Findings:

Lot 1 is not viable at an FSR of 1.2:1. It is viable at 3.8:1

Lot 2 is not viable at an FSR of 1.2:1. It is viable at 4.0:1

Lot 3 is not viable at an FSR of 1.2:1. It is viable at 3.8:1

Lot 4 is not viable at an FSR of 1.2:1. It is viable at an FSR of 3.8:1

Commercial Development Option – Key Considerations and Assumptions:

Hill PDA has assessed the viability of the Precinct for commercial development, using our feasibility software program "DF Calculator" with the following Precinct Commercial specific assumptions;

- The site would be developed in four parts.
- Commercial Construction costs of \$2,000 per square metre as per Rawlinsons; and
- Commercial end sales of \$4,500 per square metre.
- Acquisition costs estimated at \$3000 per square metre. Acquisition of the site occurred prior to the rezoning exercise therefore assuming an increase in viability.
- Section 94 Council contributions are excluded from the feasibility.

Commercial Development Option - Key Findings:

Lot 1 is not viable at an FSR of 1.2:1. It is viable at 4.0:1

Lot 2 is not viable at an FSR of 1.2:1. It is viable at 4.0:1

Lot 3 is not viable at an FSR of 1.2:1. It is viable at 4.0:1

Lot 4 is not viable at an FSR of 1.2:1. It is viable at an FSR of 4.0:1

Recommendations:

The proposed FSR is increased to 4.0:1 to encourage the viable redevelopment of the sites for residential purposes.

The proposed FSR is increased to 4.0:1 to encourage the viable redevelopment of the sites for commercial purposes.