

9 April 2019

Dear Stella,

**Subject: Kensington to Kingsford Infrastructure Contributions Feasibility Assessment Update**

HillPDA was engaged by Randwick City Council (Council) to update the 2016 advice provided on the financial viability of the proposed draft development and infrastructure contributions in the Kensington and Kingsford (K2K) Town Centres (hereafter referred to as the Study Area).

Due to market movement, this update would inform Council on the current viability of the preferred draft planning controls of four identified test sites. In addition, different contributions for sensitivity testing (i.e. 3% Section 94a, Community Infrastructure Contribution (CIC) and 3% to 5% Affordable Housing Contribution) were applied.

This letter contains updated details of our market analysis for each of the sites including current land purchase prices, probable development costs and current developer charges, along with apartment sales values, to provide a robust financial model to test the impact of varying developer charges.

The testing has been based on hypothetical development modelling for each of the respective sites and we have endeavored to ensure costs and revenues are representative for the location and building size. The land value adopted is either its recent purchase price (as in the case of the Gateway site) or derived from comparable sales evidence and residual land value analysis as a check method.

It is noted that there has been a considerable increase in land value since our last review due speculation in the precinct's rezoning and general increase in site values across the board in the area. We have tested the hypothetical development sites with a range affordable housing contribution rates (namely 0%, 3% & 5% of GFA) along with CIC charge and the Section 7.12 levy at 3% of development cost.

## **1.1 Location of Test Sites**

To be consistent with the 2016 Study, it was agreed by Council to test the four-sites nominated in that Study. The sites are as follows:

- Site 1: The Gateway Site located at 31,33,35,37,39 and 41 Anzac Parade, Kensington (Site area 1,599sqm FSR4:1)
- Site 2: The Transit Site located at 111-125 Anzac Parade, and 112 Todman Avenue, Kensington (Site Area 2,928sqm FSR 5:1)
- Site 3: The infill Site located at 372-388 Anzac Parade, Kingsford (Site Area 1,159sqm FSR 4:1)
- Site 4: The Opportunity Site located at 391-395,397-397A Anzac Parade and 17 Bunnerong Road, Kingsford. (Site area 1,960sqm FSR5:1).

Table 1: Location of test sites



## 1.2 Market Sales Evidence

Since 2016, Our research in Kensington and Kingsford revealed that there has been limited transactions and new residential developments are being constructed along the K2K Corridor. Discussions with local agents revealed that landowners are currently land banking their sites, awaiting the proposed change in planning controls along the Study Area.

To understand the existing market in Kensington and Kingsford, we have undertaken an analysis of the following:

- Existing Apartments
- Off- the – plan sales
- Development site sales

Our findings and analysis is as follows:

### 1.2.1 Existing Apartments Sales

Our search revealed existing apartments have achieved dollar per square metre rates between \$8,450/sqm to \$11,300/sqm, dependant on size, location and quality of the build.

**Table 2: Existing Apartment Sales Evidence**

Address	Sold price/ Date/ bedrooms	Internal Area	\$/sqm
12/21-23 Alison Road, Kensington	\$771,000 16 <sup>th</sup> Feb 2019	74	\$10,420
85/86-62 Anzac parade Kensington	\$750,000 7 <sup>th</sup> March 2019	66	\$11,363
4/15 Barker Street, Kensington	\$667,500 16 <sup>th</sup> March 2019	79	\$8,450
505/3 Black Lion Place Kensington	\$1,050,000 5 <sup>th</sup> March 2019	94	\$11,702
61/243-253 Anzac Parade Kingsford	\$950,000 30 <sup>th</sup> March 2019	111	\$8,558
36/301- 303 Anzac Parade, Kingsford	\$870,000 16 <sup>th</sup> Jan 2019	83	\$10,480
110/438-448 Anzac Parade Kingsford	\$688,000 31 <sup>st</sup> March 2019	68	\$10,117
117/438-448 Anzac Parade Kingsford	\$920,000 30 <sup>th</sup> May 2019	90	\$10,222
204/438-448 Anzac Parade Kingsford	\$633,500 31 <sup>st</sup> March 2019	62	\$10,218

Source: RPdata 2019 and HillPDA research 2019

A search of the area revealed one recent residential development (circa 2016/2017) located at 84-108 Anzac Parade, Kensington. The development comprises a mixed use development with 2,241sqm ground floor retail and 121 apartments, 45 x studio & 1 bedroom, 55 x 2 bedroom and 21 x 3 bedroom. The selling agent indicated that a:

- 3 bedroom, 2 bath and 1 car space apartment at 95sqm (internal area) is currently on the market for \$1,500,000. This equates to \$15,800/sqm.
- two storey 2 bedroom apartment sold in February 2019 for \$1,325,000 (106sqm), equating to \$12,500/sqm.



### 1.3 Off- the Plan Sales Evidence

As stated above, there is limited sale evidence of new apartments in the Study Area. To inform our sale revenue in our financial modelling, we have had broadened the search for new residential apartments to surrounding areas such as Randwick and Rosebery. The following developments were analysed and informed our research on the unit dollar per square metre rate. Our findings are as follows:

#### 1.3.1 Newmarket, Randwick

Stage 1 of the development comprises a mixed used development with a mix of retail, commercial and residential uses. There is a total of 723 apartments planned, including 251 x 1 bedroom, 437 x 2 bedroom, 21 x 3 bedroom and 14 x terraces. The development plans is expected to commence in Oct 2019 and due for completion in June 2022.

The agent indicated the following asking prices:

**Table 3: Newmarket, Randwick**

Bed Mix	Sale Price	Internal Area	\$/sqm
1 bedroom no car space	\$880,000	52	\$16,923
2 bedroom + 1 car space	\$1,465,000	65	\$16,277
2 bedroom range	\$1,395,000 \$1,700,000	86-105	\$16,190- \$16,2209
3 bedroom +1-2 car space	\$1,945,000	120	\$16,208
3 bedroom +1-2 car space	\$2,200,000- \$2,400,000	135	\$16,296- \$17,777



Source: Colliers, Cordell Connect and HillPDA




### 1.3.2 194 Carrington Road, Randwick

This development comprises of a four storey residential building comprising 12 x 2 and 2 x 2 bedroom + Study apartments. The agent indicated it is a boutique residential building within close proximity to Coogee beach and with high quality finishes. The apartments internal sizes range from 75sqm to 81sqm and have achieved a dollar per square metre rates from \$19,000/sqm to \$20,000/sqm. The selling agent disclose the following two bedroom sold in November 2018.

**Table 4: 194 Carrington Road, Randwick**

Bed Mix	Sold Price/ Sold Date	Internal Area	\$/sqm
2 bedroom +1 car space	\$1,650,000 4/11/2018	81	\$20,370




Source: Selling agent and HillPDA 2019

### 1.3.3 The Galley, 55 Rothschild Avenue, Rosebery

This residential development is in its third stage of development. The master planned development site will comprise of a range of land uses such as residential, childcare and retail tenancies. The third stage aims to deliver 270 apartments and 15 four bedroom terraces by December 2019. The asking price for the apartments are as follows:

**Table 5: The Galley Development**

Bed Mix	Asking Prices	Internal Area	\$/sqm
1 bedroom	\$680,000- \$740,000	56-70	\$10,571- \$12,143
2 bedroom	\$945,000- \$1,145,000	79-90	\$11,962- \$12,722
3 bedroom	1,245,000- \$1,940,000	94-122	\$13,245- \$15,902



Source: Selling agent and HillPDA 2019

### 1.3.4 2019 Market Observations

- The off- the plan sales evidence demonstrates the following indicative dollar per square metre rates of saleable area (range): \$10,500/sqm-\$20,000/sqm dependant on the location and apartment level.
- Having regard to the four sites characteristics relative to the evidence above and current market conditions, we have adopted the following parameters: **\$15,500/sqm to \$20,000/sqm, dependent on the location, views, aspect and size of apartments.**

## 1.4 Development Site Sales

Similar to the residential apartment sales evidence; development sites sales are also limited within the Study Area. Our search revealed two recent development sites in the Study Area. These are as follows:

**Table 6: 153-157 Anzac Parade, Kensington**

Address	Sold Price Date	Site Area (sqm)	Total GFA	\$GFA	\$/unit	Zoning	Comments
153-157 Anzac Parade, Kensington sold in 2017	\$11,400,000 27 <sup>th</sup> April 2017 6.4:1	750	4,809	\$2,400	367,741.94	B2 Local Centre	
31,33,35,37,39 and 41 Anzac Parade, Kensington	\$20,534,750 20 <sup>th</sup> April 4:1	1,604	6,416	\$3,200	\$320,855	B2 Local Centre	This site was sold subject to an FSR 4:1 and height 31m

Source: Rpdata and HillPDA 2019

From the evidence above, development sites within the Study Area range from \$2,400/sqm to \$3,200/sqm dependant on the size of the development and location. We note that 31-41 Anzac Parade is the Gateway site. For the purpose of our land purchase price assessment we have compared each of the sites against the achieved Gateway site \$/GFA rate of \$3,200/sqm.

### 1.4.1 Other Development site sales

Our research revealed other development site sales outside the identified Study Area are typically smaller sites that are zoned for primarily lower density residential. Discussions with agents our analysis of the sales indicated that the \$/GFA rate various significantly dependent on the sites location, size, permissible zoning and if the site is sold with or without development approval. We have not relied upon these rates as they not comparable in zoning, location or number of units per project.

## 1.5 Hypothetical Development Feasibility Assessment Methodology

Development feasibility assessments were undertaken, using the Estate Master DF software, on each of the nominated sites. HillPDA have compared each site's current land purchase price ("as is" value) to the residual land value (RLV). For development to be viable and financially attractive, the RLV must be higher than the market "as-is" value. For the development scenario testing in 2016, Coneybeare Morrison identified a range of floor space ratios (FSRs) for the nominated sites. Council selected the preferred FSR that should be tested. For the purpose of this updated Study we have assumed the similar FSRs outlined below:

**Table 7: Preferred FSRs**

Site	Total FSR	Residential FSR	Non- Residential FSR
Site 1: Gateway	4:1	3.7:1	0.3:1
Site 2: Transit	5:1	4:1	1:1
Site 3: Infill	4:1	3.7:1	0.3:1
Site 4: Opportunity	5:1	4:1	1:1

Source: City of Randwick Council 2016

### 1.5.1 Community Infrastructure Contribution Assessment

For the purpose of the Community Infrastructure Contribution (CIC) assessment the \$475/sqm was used( as originally tested by HillPDA.

### 1.5.2 2016 & 2019 Land Purchase Price Assessment Update

In 2016, HillPDA were instructed to assess the “as is value” of the existing properties and test their redevelopment values based on the floor space ratio provided by Council. The land purchase price, \$/GFA and methodology of our assessment is as follows:

**Table 8: 2016 Adopted Market Value**

Site	Address	Adopted Value/Area/FSR	\$/GFA	Basis of Site Values
Site 1: Gateway	31,33,35,37,39 and 41 Anzac Parade, Kensington	\$10,993,166 1,604sqm FSR:4:1	\$1,713	HillPDA undertook a market valuation based on the Site “As Is” value for a semi-detached dwellings. The Direct Comparison Approach is the most appropriate in the circumstances. This is a method which considers sales of similar properties and an estimate of market value made by a comparison process, usually by comparing the land to similar sales based on a sale rate(\$/sqm ).When a test site has two or more landowners, we adopted a 20% premium on the current value. This provides a more realistic potential pricing for the sites that would need to be amalgamated for redevelopment.
Site 2: Transit	111-125 Anzac Parade, and 112 Todman Avenue, Kensington	\$35,750,000 2,959sqm FSR:5:1	\$2,416	In 2016, the property sold to a developer for \$37m. HillPDA adopted this value as the “as is” value for a mixed use development. The value was adopted in the financial modelling to test if the redevelopment of the site would be financially attractive to a reasonable develop.
Site 3: Infill	372-388 Anzac Parade, Kingsford	\$10,326,000 1,159sqm FSR:4:1	\$2,229	The existing property comprised of a mixed building with ground floor retail and residential above. To value the retail, we applied the capitalisation method. We undertook the direct comparison analysis for the residential apartments.
Site 4: Opportunity	391-395,397-397A Anzac Parade and 17 Bunnerong Road, Kingsford	\$16,973,000 1,924sqm FSR:5:1	\$1,764	In 2015 to 2016, the three sites sold to a developer for \$16.9m. HillPDA adopted this value as the “as is” value for a range of commercial uses.  The sale value was adopted in the financial modelling to test if the redevelopment of the site would be financially attractive to a reasonable develop.

In 2019, HillPDA were commissioned to update the financial modelling to determine the financial viability. With the market movement over the past three years, HillPDA were to reassess the land purchase prices for each of the sites. To determine the values, we have analysed recent development site sales and assessed the location and site attributes. We then adjusted a suitable \$/GFA rate for that site. The land purchase price, \$/GFA and methodology of our assessment is as follows:

**Table 9: 2019 Adopted Market Value**

Site	Address	Adopted Value/Area /FSR	\$/GFA	Basis of Values
Site 1: Gateway	31,33,35,37,39 and 41 Anzac Parade, Kensington	\$20,534,750 1,604sqm FSR:4:1	\$3,200	In 2018, the site sold for \$20.5m. The increase in value from 2016 to 2018 is significant. The reason is that in 2016 the site was valued on its existing residential dwelling 'as is' value. The value achieved in 2018 was based its redevelopment value at an FSR of 4:1. For our analysis we have adopted the sale price and its \$/GFA rate.
Site 2: Transit	111-125 Anzac Parade, and 112 Todman Avenue, Kensington	\$47,344,000 2,959sqm FSR:5:1	\$3,200	We undertook a direct comparison approach of the limited sale evidence. The most comparable site was the sale of Site 1. HillPDA analysis of the sites attributes indicated a comparable \$/GFA rate to that of Site 1. A dollar per square rate of \$3,200 was adopted.
Site 3: Infill	372-388 Anzac Parade, Kingsford	\$12,506,400 1,159sqm FSR:4:1	\$2,700	We undertook a direct comparison approach of the limited sale evidence. Our analysis of the site revealed an inferior location to Site 1 and 2. We have adopted a slightly lower GFA rate of \$2,700/sqm to assess the purchase price.
Site 4: Opportunity	391-395,397-397A Anzac Parade and 17 Bunnerong Road, Kingsford	\$22,126,000 1,924sqm FSR:5:1	\$2,300	We undertook a direct comparison approach of the limited sale evidence. The is inferior to Site 1, 2 and 3. Therefore, we adopted a slightly lower GFA rate of \$2,300/sqm.

Source: HillPDA research 2019, RPdata and Realestate.com



The derived pricing was adopted in our financial modelling to test if the redevelopment of the site would be financially attractive to a reasonable developer:

**Table 10: Adopted Land Purchase Price**

Site	Address	Land Purchase Price
Site 1: Gateway	31,33,35,37,39 and 41 Anzac Parade, Kensington	\$20,534,750
Site 2: Transit	111-125 Anzac Parade, and 112 Todman Avenue, Kensington	\$47,344,000
Site 3: Infill	372-388 Anzac Parade, Kingsford	\$12,506,400
Site 4: Opportunity	391-395,397-397A Anzac Parade and 17 Bunnerong Road, Kingsford	\$22,126,000

Source: HillPDA 2019

We note the table above are land purchase prices at the date of April 2019. After the date of this letter( April 2019) variables such as market movement may cause a change in land values that may impact the tipping point.

## 1.6 Target Benchmarks

Our financial modelling adopted the following target benchmarks:

- Project IRR of 17% and
- Development Margin of 20%.

Projects with benchmarks close to the target rates (within 1 - 2%) are defined as marginal while rates greater than 2% less than the target are defined as not viable. Exceptions to the rule may be applied including developments already committed to development commencement or in cases where development may be held long term.

## 1.7 Proposed Development Options and Financial Results

The following options tested and the results derived per site are as follows:

### 1.7.1 The Gateway Site

The development options for the Gateway site are as follows:

- **Option 1: Mixed Use Development at a Base Case FSR 4.1:** This option proposes a mixed-use development comprising of ground floor retail with a mix of one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 3% Section 94a levy and CIC at \$475/sqm on the additional residential floor space only. No affordable housing has been tested in this option.
- **Option 2: Mixed Use Development at a Base Case FSR 4.1:** This option proposes a mixed-use development comprising of ground floor retail with a mix of one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 3% Section 94a levy, a 3% affordable housing levy and CIC of \$475/sqm on the additional residential floor space only.
- **Option 3: Mixed Use Development at a Base Case FSR 4.1:** This option proposes a mixed-use development comprising of ground floor retail with a mix of one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 5% affordable housing levy, a 3% Section 94a levy and a CIC of \$475/sqm on the additional residential floor space only.

Table 11 provides a summary of the results of the modelling:

**Table 11: Gateway Site Results**

Site Details	Option 1	Option 2	Option 3
Site Area (sqm)	1,604	1,604	1,604
No. of Residential Units	64	64	64
Gross Floor Area (sqm)	6,416	6,416	6,416
Residential Floor Space Ratio	3.7:1	3.7:1	3.7:1
Commercial Floor Space Ratio	0.3:1	0.3:1	0.3:1
Land Purchase Value	\$20,534,750	\$20,534,750	\$20,534,750
Community Infrastructure Contribution	\$ 533,425	\$533,425	\$ 533,425
Affordable Housing %	0%	3%	5%
Residual Land Value	\$21,646,353	\$19,582,737	\$18,935,795
Project IRR	18%	16%	15%
Development Margin	33%	28%	26%
Viability	<b>Viable</b>	<b>Close to viable</b>	<b>Marginally Viable</b>

Source: HillPDA 2019

### What does it all mean?

A 3% and 5% affordable housing levy does bring the project IRR below the target benchmark of 17% but we consider 3% to be close enough to the target rate to be acceptable as a contribution rate that can be absorbed by the market. We note in all case the development margin exceeds target the benchmark of 20%.

#### 1.7.2 Transit Site

The development options for Transit Site are as follows:

- **Option 1: Mixed Use Development at an FSR 5:1:** This option proposes a mixed-use development comprising of ground floor retail with a mix of one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 3% Section 94a levy and CIC of \$475/sqm on the additional residential floor space only. No affordable housing was tested in this option.
- **Option 2: Mixed Use Development at a Base Case FSR 5:1:** This option proposes a mixed-use development comprising of ground floor retail with a mix of one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 3% Section 94a levy, a 3% affordable housing levy and a CIC of \$475/sqm on the additional residential floor space only.
- **Option 3: Mixed Use Development at a Base Case FSR 5:1:** This option proposes a mixed-use development comprising of ground floor retail with a mix of one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 3% Section 94a levy, a 5% affordable housing and a CIC at \$475/sqm on the additional residential floor space only.

Table 12 provides a summary of the results of the modelling.

**Table 12: Transit Site Results**

Site Details	Option 1	Option 2	Option 3
Site Area (sqm)	2,959	2,959	2,959
No. of Residential Units	130	130	130
Gross Floor Area (sqm)	14,795	14,795	14,795
Residential Floor Space Ratio	4:1	4:1	4:1
Commercial Floor Space Ratio	1:1	1:1	1:1
Land Purchase Value	\$47,344,000	\$47,344,000	\$47,344,000
Community Infrastructure Contribution	\$1,405,525	\$1,405,525	\$1,405,525
Affordable Housing %	0%	3%	5%
Residual Land Value	\$50,073,420	\$47,112,681	\$43,088,968
Project IRR	18%	17%	16%
Development Margin	33%	32%	28%
Viability	Viable	Viable	Marginally Viable

Source: HillPDA 2019

### What does it all mean?

A 3% affordable housing levy return target benchmark of 17% and thus should be considered an acceptable charge to the project. The 5% affordable housing levy (option 3) decreases the Project IRR below the target but it is close enough for further consideration. We note in all case the development margin exceeds target the benchmark of 20%.

#### 1.7.3 Infill Site

The development options for the Infill Site are as follows:

- **Option 1a: Mixed Use Development at an FSR 4:1:** This option proposes a mixed-use development comprising of ground floor retail, first floor commercial office space with a mix one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 3% Section 94a levy and a CIC of \$475/sqm the on additional residential floor space only. No affordable housing was tested in this option.
- **Option 2: Mixed Use Development an FSR 4:1:** This option proposes a mixed-use development comprising of ground floor retail, first floor commercial office space with a mix one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 3% Section 94a levy, a 3% affordable housing levy and a CIC of \$475/sqm on the additional residential floor space only.
- **Option 3: Mixed Use Development at an FSR 4:1:** This option proposes a mixed-use development comprising of ground floor retail, first floor commercial office space with a mix one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 3% Section 94a levy, a 5% affordable housing levy and a CIC of \$475/sqm on the additional residential floor space only.

Table 13 provides a summary of the results of the modelling.

**Table 13: Infill Site**

	Option 1	Option 2	Option 3
Site Area (sqm)	1,158	1,158	1,158
No. of Residential Units	46	46	46
Gross Floor Area (sqm)	4,632	4,632	4,632
Residential Floor Space Ratio	3.7:1	3.7:1	3.7:1
Commercial Floor Space Ratio	0.3:1	0.3:1	0.3:1
Land Purchase Value	\$12,506,400	\$12,506,400	\$12,506,400
Community Infrastructure Contribution	\$385,035	\$385,035	\$385,035
Affordable Housing %	0%	3%	5%
Residual Land Value	\$13,242,186	\$12,594,088	\$11,870,842
Project IRR	18%	17%	16%
Development Margin	32%	29%	26%
Viability	Viable	Viable	Marginally viable

Source: HillPDA 2019

### What does it all mean?

A 3% affordable housing levy return target benchmark of 17% and thus should be considered an acceptable charge to the project. The 5% affordable housing levy (option 3) decreases the Project IRR below the target but it is close enough for further consideration. We note in all case the development margin exceeds target the benchmark of 20%.

#### 1.7.4 Opportunity Site

The development options for the Opportunity Site are as follows:

- **Option 1a: Mixed Use Development at an FSR 5:1:** This option proposes a mixed-use development comprising of ground floor retail, first floor commercial office space with a mix of one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and apartments. We have assumed a 3% Section 94a levy and a CIC of \$475/sqm on the additional residential floor space only. No affordable housing was tested in this option.
- **Option 2: Mixed Use Development at an FSR 5:1:** This option proposes a mixed-use development comprising of ground floor retail, first floor commercial office space with a mix of one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 3% Section 94a levy, a 3% affordable housing and a CIC of \$475/sqm on the additional residential floor space only.
- **Option 3: Mixed Use Development at an FSR 5:1:** This option proposes a mixed-use development comprising of ground floor retail, first floor commercial office space with a mix of one, two and three bedrooms located on the upper floors. Basement car parking was provided for both the retail units and the apartments in the development. We have assumed a 5% Section 94a levy, and 5% affordable housing and a CIC at \$475/sqm on the additional residential floor space only.

Table 14 provides a summary of the results of the modelling.

**Table 14: Opportunity Site**

	Option 1	Option 2	Option 3
Site Area (sqm)	1,924	1,924	1,924
No. of Residential Units	80	80	80
Gross Floor Area (sqm)	9,620	9,620	9,620
Residential Floor Space Ratio	4:1	4:1	4:1
Commercial Floor Space Ratio	1:1	1:1	1:1
Land Purchase Value	\$22,126,000	\$22,126,000	\$22,126,000
Community Infrastructure Contribution	\$913,900	\$913,900	\$913,900
Affordable Housing %	0%	3%	5%
Residual Land Value	\$23,276,341	\$22,476,555	\$20,722,878
Project IRR	18%	17%	16%
Development Margin	26%	26%	21%
Viability	Viable	Viable	Marginally Viable

Source: HillPDA 2019

### What does it all mean?

A 3% affordable housing levy return target benchmark of 17% and thus should be considered an acceptable charge to the project. The 5% affordable housing levy (option 3) decreases the Project IRR below the target but it is close enough for further consideration. We note in all case the development margin exceeds target the benchmark of 20%.



## 1.8 Key findings and recommendations

The modelling results revealed a 3% affordable housing contribution was generally viable however 5% affordable housing contribution was only marginally viable in all cases. This modelling would suggest a 3% affordable housing could be absorbed by developers, but a 5% contribution might be too much to initially absorb in current market conditions.

For Council to provide a cautious planning framework that ensures that catalyst sites along the corridor are developed over the next few years, we would recommend that Council consider the following:

1. That the proposed 3% affordable housing rate and CIC rate increases should be communicated early to give certainty to the industry and to give fair warning prior to the lodgement of development applications.
2. Any increases should not be applied to DA's currently lodged with Council. This applies to all DA's up until the time of public exhibition of the planning proposal.
3. The CIC rate increased annually in accordance with the consumer price index (CPI) or Construction cost index (CCI).
4. It is suggested that the affordable housing target could be incrementally increased to 5% over time as the market improves and development take up is established. This would allow a prudent developer to factor into the purchase price of the development site and its costs to deliver a viable development. This would ensure that development would still occur in the K2K corridor. We would suggest Council include a date in the guidelines once the framework has been approved.

Please do not hesitate to contact us on 02 9252 8777 if you have any questions regarding the above study.

Yours sincerely,

Signed by



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