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# 3-5 HELP STREET, CHATSWOOD

## MARKET APPRAISAL AND FEASIBILITY ANALYSIS

H&J VAKILI  
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# EXECUTIVE SUMMARY

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## BACKGROUND AND OVERVIEW

AEC Group has been engaged by H&J Vakili to undertake a Market Appraisal and Feasibility Analysis (the 'Study') to support a Planning Proposal for a mixed-use development on 3-5 Help Street, Chatswood (referred to as the 'Subject Property' and the 'Site' interchangeably).

The Site is approximately 2,290sqm in size and is currently improved with two freestanding strata-titled residential unit complexes - 3 Help Street improved with a three (3) storey brick unit block comprising 18 apartments while 5 Help Street is improved with a two (2) storey brick unit block comprising 35 apartments.

An indicative development scheme has been developed by Kann Finch Architects to redevelop the Site into a 31 storey mixed use development, proposing 190 units and 2,296sqm of commercial floorspace across six levels.

The proposed development is premised on the provision of additional density and maximum building height with an FSR of 8.82:1 and a maximum building height circa 100m. This represents an increase from the existing density and height controls at FSR 4:1 and 20m-25m, respectively.

## PURPOSE OF THE STUDY

The Study seeks to address several key objectives with regard to the proposed development of the Site, specifically:

- Determine the nature of demand from commercial occupiers within Chatswood and ascertain the type of commercial floorspace that would be sustainable on the Site.
- Understand if development of the Site under existing planning controls is feasible given the high cost of consolidating the two residential strata buildings.
- Should development under existing planning controls not be feasible, assess the quantum of additional density required for development on the Site to be commercially viable.

The Study also analyses the Proposal (and corresponding density) against the minimum density that would be required to progress a feasible development on the Site.

## KEY FINDINGS

Findings from the property market analysis enable an understanding of the type and quantum of demand that would be received for a mixed-use development on the Site, in addition to the likely price points that could be achieved.

- **Buyer Profile**  
Enquiries with selling and marketing agents operating within Chatswood a strong mix of owner occupiers and investors remain active into 2017 with a large proportion of the market being Australian-Chinese residents and Chinese internationals in addition to a strong downsizer contingent.
- **Take-Up Rates**  
Swift take-up rates are continuing to be observed within Chatswood and are amongst the strongest within metropolitan Sydney. Even developments on the periphery of the CBD are keenly sought as observed with the recent sales at 666 Pacific Highway.
- **Potential Price Points**  
Most recent off-the-plan activity observed indicates units are predominantly achieving between \$16,000/sqm and \$18,000/sqm of internal floor area and even up to \$20,000/sqm of floor area in some recent projects.
- **Demand for Commercial Floorspace in a Mixed-Use Setting**  
Commercial office vacancy levels have fallen over the 6 months to July 2017 with strong net absorption rates observed. Extensive discussions with local commercial letting agents indicates that demand for small commercial suites (<300sqm) is particularly strong, as evidenced by recent sales evidence.

## FEASIBILITY ANALYSIS

### Existing Planning Controls

To test the viability of a mixed-use development on the Site, findings from the market analysis were applied in a feasibility analysis to understand if development under the existing planning controls is feasible and, if not, to ascertain the required amount of FSR needed to make development on the Site a commercial proposition. The relationship between residential and non-residential floorspace and their impact on viability was also examined in this process.

Feasibility testing of the Site was undertaken in the following three scenarios:

- **Scenario 1** - feasibility of developing the Site under existing planning controls (based on FSR 4:1 with minimum non-residential FSR 2:1).
- **Scenario 2** - if Scenario 1 is not feasible, iteratively test the quantum of additional residential FSR required for feasible development (subject to minimum non-residential FSR 2:1).
- **Scenario 3** - if the minimum non-residential requirement was lowered to FSR 1:1, iteratively test the additional residential FSR required for feasible development.

The feasibility modelling demonstrates that development on the Site under the existing planning controls is not feasible. Furthermore, there is an inverse relationship between the FSR required for feasible development and the minimum non-residential FSR required. The results of Scenario 2 indicate the minimum non-residential requirement of FSR 2:1 requires a total FSR of 7.4:1 for feasible development. If, however the non-residential component required is reduced to FSR 1:1, a total FSR of 6.5:1 is required for feasible development.

### The Proposal

The Proposal responds to market need and requirements by seeking to provide a range of smaller sized office suites across multiple levels in conjunction with ground floor retail and upper residential levels. Market analysis demonstrates strong demand for smaller, non-traditional office accommodation as demand from serviced-orientated commercial occupiers grows in tandem with the Chatswood CBD's expanding population. Accordingly, the Proposal is a direct market response to the growth in demand from non-traditional commercial occupiers.

Feasibility testing indicates development under existing planning controls is not viable given the cost of consolidating the residential strata complexes. The minimum non-residential FSR provision also has direct implications on the density required in order for development to become commercially viable.

The Proposal seeks of FSR 8.4:1 which is slightly greater than the threshold required (assessed at FSR 6.5:1).

An informal enquiry to Council indicates that for proposals that exceed permissible densities under the LEP, subject to site environmental capacity Council will require a contribution to public benefit calculated at 45% of the (land) value uplift. A valuation of the Site (under the existing planning controls and per the proposed development) will be required to calculate the land value uplift prior to applying a rate of 45% to calculate the contribution payable.

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# 1. INTRODUCTION

## 1.1 BACKGROUND

AEC Group has been engaged by H&J Vakili to undertake a Market Appraisal and Feasibility Analysis to support a Planning Proposal for a mixed-use development on 3-5 Help Street, Chatswood (referred to collectively as 'the Subject Property' and 'the Site' interchangeably).

The Site is approximately 2,290sqm in size and is currently improved with two freestanding strata-titled residential unit complexes:

- 3 Help Street improved with a three (3) storey brick unit block comprising 18 apartments.
- 5 Help Street improved with a two (2) storey brick unit block comprising 35 apartments.

An indicative development scheme has been developed by Kann Finch Architects to redevelop the Site into a 31 storey mixed use development, proposing 190 units and 2,296sqm of commercial floorspace on Levels 1-6. The following indicative yield is proposed:

**Table 1.1: Proposed Units and Mix**

Level	Studios	1 bedroom	1 bedroom + study	2 bedroom	3 bedroom	Total
Upper Ground	-	-	1	3	-	4
1	-	4	1	1	-	6
2	1	10	2	2	-	15
3	1	10	2	2	-	15
4	1	10	2	2	-	15
5	1	10	2	2	-	15
6	1	10	2	2	-	15
7	-	-	-	-	3	3
8-24	-	-	-	85	-	85
25-30	-	-	-	12	3	15
31	-	-	-	-	2	2
<b>Total</b>	<b>5</b>	<b>54</b>	<b>12</b>	<b>111</b>	<b>8</b>	<b>190</b>
<b>Proportion</b>	<b>2.6%</b>	<b>34.8%</b>		<b>58.4%</b>	<b>4.2%</b>	<b>100.0%</b>

Source: Kann Finch Architects

The proposed development scheme as identified above in Table 1.1 is premised on the permissibility of additional density and building height to an FSR of 8.42:1 and a maximum building height circa 100m. This is greater than the existing density and height controls under the Willoughby Local Environmental Plan (2012). The development scheme also envisages a smaller component of non-residential floorspace than that required under existing planning controls.

## 1.2 PURPOSE OF THE STUDY

The objectives of the Study are several-fold:

- To understand the nature of demand from commercial occupiers, and consequently the type of commercial floorspace that would be sustainable on the Site.
- To understand if development under the existing planning controls is a feasible proposition for the Site, particularly considering the cost to consolidate the Site for development.
- If development under existing planning framework is not a commercially feasible proposition, assess the quantum of additional density required for development to be feasible on the Site.

Additionally, the Study compares that which is proposed for development (and corresponding density) against the minimum density required for development to be commercially feasible.

## 1.3 METHODOLOGY AND APPROACH

In order to fulfil the requirements of this brief, AEC completed the following tasks:

- Property Market Research:
  - A review of the residential property market in Chatswood, including major residential developments (ongoing and proposed) to understand the nature of housing demand and supply.
  - Investigation into the nature and extent of the take-up of units in existing and proposed developments to understand the nature of market demand, purchaser profiles, their requirements and current price points.
  - Analysis of recent development site sales to understand the level of market demand and appetite for development opportunities within Chatswood.
  - Investigate the success or otherwise of ground floor retail/commercial suites provided in comparable mixed use developments. Observe the pre-conditions required for successful and sustainable provision of non-residential uses.
  - Review commercial space in the immediate vicinity of the Site, particularly market take-up and desirability.
- Feasibility Analysis:
  - Feasibility modelling incorporating the results from the property market research is undertaken to test the existing planning controls and those envisaged in the proposed development scheme.

The findings of the Study are ultimately to investigate if and how the proposed development scheme responds to market expectations and commercial realities of development.

## 1.4 ASSUMPTIONS AND LIMITATIONS

In the absence of detailed technical studies (cost planning, traffic, geotechnical, etc), development costs assumed are 'generic' and based upon industry benchmarks. Various other feasibility modelling assumptions are detailed in the body of the report.

Should any of our adopted assumptions subsequently be found to be inaccurate, we reserve the right to review and amend the findings.

## 2. THE PROPOSAL

### 2.1 LOCATION CONTEXT

The Site is located on Help Street within the Central Business District (CBD) of Chatswood, approximately 10km north of the Sydney CBD. Chatswood is a major retail and commercial centre of Northern Sydney and is a key employment hub. Chatswood is also a densely populated residential precinct and has a rich multicultural diversity.

The Site is bounded by McIntosh Street to the north, Cambridge Lane to the west, Help Street in the south and a mixed use development site to the east nearing completion (12 storey mixed use flat building). Accordingly, the Site has three street frontages with a 48m southern frontage along Help Street, a 72m frontage to Cambridge Lane and a 26m northern frontage to McIntosh Street.

The Site is well-positioned within the Chatswood CBD; the Chatswood train station and bus interchange, Chatswood Chase Shopping Centre, Westfield Shopping Centre and Victoria Avenue retail strip located south of the Site within a 350m radius. The Pacific Highway is located approximately 550m west of the Site, providing access to the North Shore, Central Coast, Hunter Region and Newcastle. The Gore Hill Freeway and M2 Hills Motorway are accessible approximately 2km south of the Subject Property providing access to the Sydney CBD and Sydney's north western suburbs.

**Figure 2.1: Location Map**



Source: Nearmaps

The immediate surrounding area is dominated by high-rise commercial and mixed-use buildings ranging from 12 to 30 storeys. The Help Street and Orchard Road intersection is identified as high flow traffic area given it provides bus access to the Chatswood bus interchange and Pacific Highway to the north.

A recently completed mixed-use development site comprising 1 Help Street, 26-36 Anderson Street and 2A McIntosh Street ('The Chatswood') borders the eastern boundary of the Site. The mixed-use development comprises a U-shaped building ranging from 7 to 12 storeys and incorporates 1,339sqm of ground floor commercial floorspace and 156 apartments. The building was occupied in June 2017.

## 2.2 EXISTING BUILDINGS

The Site is comprised of two, low-rise residential unit blocks ranging from 2 to 3 storeys. Both buildings are strata titled with the majority of apartments in both buildings understood to be currently tenanted.

3 Help Street comprises a three storey “walk-up” textured red brick unit complex (construction circa 1960s) comprising a total of 18 apartments. The building is rectangular and narrow as a result of the shape of the allotment with building dimensions of 8m by 51m (approximate).

**Figure 2.2: Location Map and Photograph, 3 Help Street**



Source: Google Maps, Sixmaps

5 Help Street comprises a modern two storey (constructed circa 1996) unit complex across two freestanding low-rise brick buildings, comprising a total of 35 apartments. Owing to the irregular shape of the block, both buildings are positioned away from the narrow northernmost end of the lot which is used as an at-grade visitor carpark.

**Figure 2.3: Location Map and Photograph, 5 Help Street**



Source: Realestate.com.au, Sixmaps

## 2.3 PLANNING CONTEXT

### 2.3.1 A Plan for Growing Sydney (2014)

A Plan for Growing Sydney (NSW DPE, 2014) (the Plan) sets the strategic direction for Sydney towards 2031. The overarching vision is that by 2031, Sydney will be “a strong global city, a great place to live”. The Plan is built around four key goals:

- A competitive economy with world-class services and transport.
- A city of housing choice with homes that meet our needs and lifestyles.
- A great place to live with communities that are strong, health and well connected.
- A sustainable and resilient city that protects the natural environment and has a balanced approach to the use of land and resources.

#### **Goal 1: A Competitive Economy with World-class Services and Transport**

Of particular relevance to this Report is *Goal 1: A competitive economy with world-class services and transport*.

One of the associated directions – *Direction 1.6: Expand the Global Economic Corridor* states that by 2030, there will be demand for around 190,000 new stand-alone office jobs: around 75 per cent of these will likely seek to locate in Sydney’s 10 major office markets. Many of these jobs will be outside Sydney CBD and North Sydney, in the eight suburban office markets of Chatswood, Macquarie Park, Norwest, Parramatta, Rhodes, St Leonards, Sydney Olympic Park and South Sydney, situated along the Global Economic Corridor.

Another of the associated directions – *Direction 1.7: Grow Strategic Centres* by providing more jobs closer to home states that removing “pinch points” in access to strategic centres and transport gateways improves access to jobs and services.

The public transport network connecting these centres provides many people with direct access to a range of job locations, as well as access to education facilities, health centres and hospitals, and sporting, cultural and entertainment facilities. Delivering more housing through targeted urban renewal around centres on the transport network will provide more homes closer to jobs and boost the productivity of the city.

### 2.3.2 Draft North District Plan (2016)

Chatswood is located in the North District (formerly the North subregion) and is identified as Strategic Centre in accordance with the Plan. One of the key priorities for Chatswood Strategic Centre in the Plan is to “work with Council to provide capacity for additional mixed-use development in Chatswood including offices, retail, services and housing”.

### 2.3.3 Willoughby Local Environment Plan (2012)

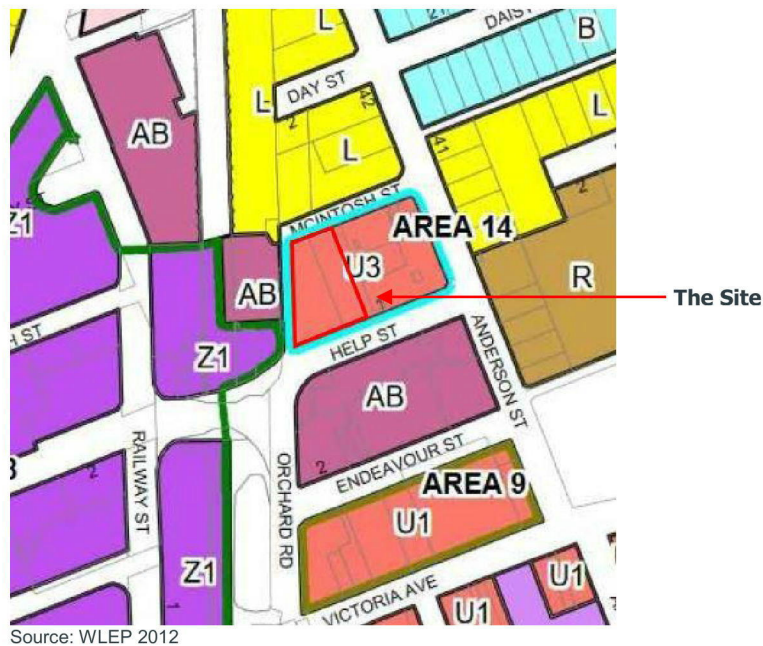
The Willoughby Local Environment Plan 2012 (WLEP 2012) is the principal planning instrument which guides land use and development in the Willoughby local government area (LGA).

Under the WLEP 2012, the Site is designated B4 Mixed Use subject to FSR 2.7:1 with maximum building heights of 25m (northern portion of Site) and 20m (southern portion of Site).

The Site is located within a precinct identified as Area 14 with additional floorspace up to FSR 4:1 provided if site consolidation can yield a minimum site area of 2,200sqm. Given the Site exceeds the minimum lot size threshold, the bonus FSR 4:1 is considered applicable. The bonus FSR 4:1 is further premised on any shop top housing developed on the Site being restricted to a maximum FSR 2:1.

Furthermore, cl. 6.8 of the WLEP 2012 prescribes that any residential development on the Site must incorporate a minimum of 4% of total GFA as affordable housing in accordance with the Willoughby Affordable Housing policy. This can be delivered as affordable housing units or as a monetary contribution.

Figure 2.4: FSR Map



Source: WLEP 2012

#### 2.3.4 Willoughby Development Control Plan (2006)

The Willoughby Development Control Plan 2006 (referred to as the DCP) sets out development controls to guide the siting, design and assessment of new development within identified local centres across the LGA. The DCP establishes a framework for development in the Willoughby LGA and demonstrates the preferred ways in which objectives are to be achieved for improving site and building design.

The objectives and controls outlined in Part E of the DCP apply to the development of retail, business and mixed-use buildings in the B4 Mixed Use zone. Specific controls of relevance to the Site and this Report include:

- Provision of ground floor retail and/or commercial space to maintain the commercial character and retain activity at street level.
- No more than 30% of the street frontage is to be used for vehicular and pedestrian access to lower and upper levels. A minimum of 60% gross floor space at street level is to be used for retail or business premises.
- Views from neighbouring dwellings are not unduly compromised.
- Prominent corner sites (such as the Site) can incorporate a partly additional storey or parapet extension to serve as gateway identifier.
- Private open space requirements (sqm) per shop-top housing dwelling.

Under the DCP, the Site is identified as within the Chatswood City Centre Precinct. The strategic objectives on potential future land uses within the Chatswood City Centre are documented in the *Chatswood City Centre Vision and Strategic Plan 2008*. Whilst a review of the *Strategic Plan 2008* is beyond the scope of this report, the identification of sites for high-density residential development on the fringes of the Chatswood City Centre, such as the Site, is a key land use objective espoused within the *Strategic Plan 2008*.

## 2.4 PROPOSED DEVELOPMENT

The Site is located within an area zoned B4 Mixed Use and is permitted to FSR 4:1, subject to requirements per the provisions of the WLEP 2012.

The proposed development seeks to redevelop the two existing low-rise strata unit complexes in a consolidated mixed-use development comprising 390sqm of ground floor retail floorspace, 1,906sqm of commercial floorspace and 183 residential apartments.

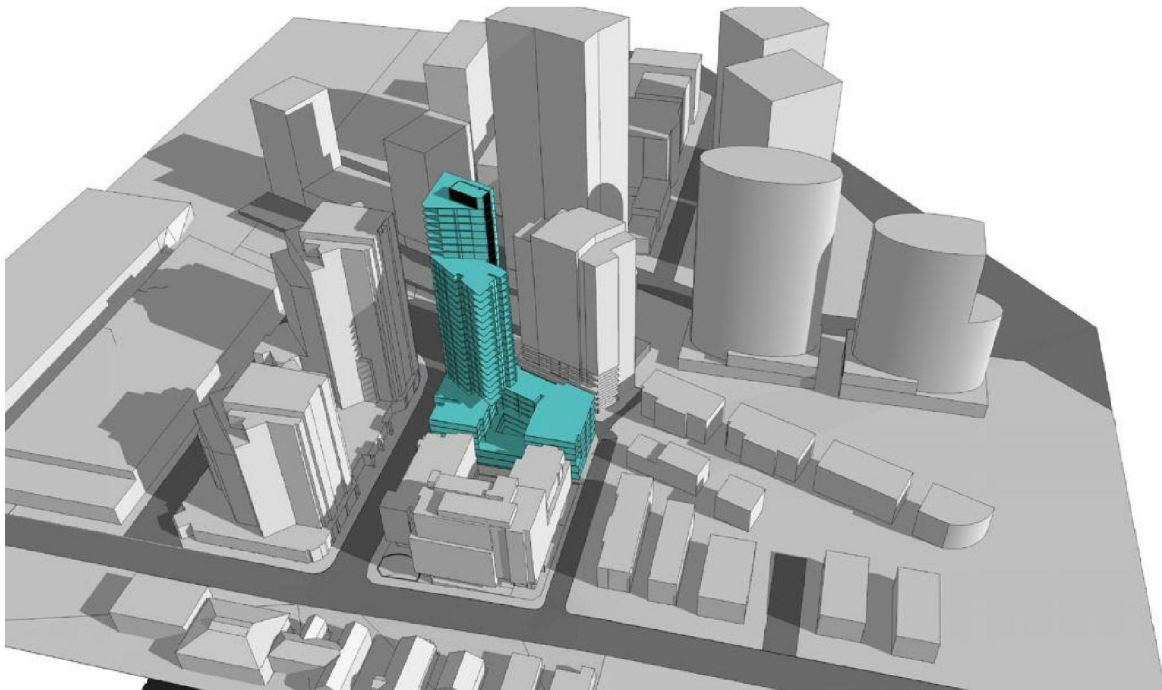
The proposed development envisages a podium and contiguous six storey building across the Site with a 26 storey and 31 storey residential towers located above on the south-eastern corner.

The proposed development requires the following amendments to the WLEP 2012:

- Density controls to be increased from FSR 4:1 to FSR 8.42:1, comprised commercial FSR 1:1 and a residential FSR of 7.42:1.
- Concession in the requirement for non-residential floorspace to allow for proposed commercial FSR 1:1.
- Maximum building heights to be lifted from 20m-25m to circa 100m.

The proposed development aligns with the objectives of the B4 Mixed Use zoning and with the vision for greater mixed-use densification along the area of Help Street.

**Figure 2.5: Massing Diagram of Proposed Development**



Source: Kann Finch Architects

## 3. MARKET APPRAISAL

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### 3.1 GENERAL MARKET CONDITIONS

The strength of the Chatswood residential market is widely commented upon. The suburb has emerged as a focal point of high-density development driven by exceptional sale and take-up rates of off-the-plan product in recent years. Market activity is dominated by high density mixed use and residential development compared to any other land use. This trend is not unique to Chatswood but is observed across many inner ring suburbs of Sydney.

Chatswood benefits from strong access owing to public transportation links and proximity to several major arterial roads. Existing road and rail connections to the Sydney CBD are strong and will be further strengthened following the completion of Sydney Metro Northwest.

It is an undisputed fact that dwelling completions over the last decade fell well below the number needed to meet underlying demand. This resulted in rapidly rising house and rental prices as competition grew between purchasers and renters.

Developers (local and overseas alike) responded to the call for more housing by assembling sites in myriad locations. Locations in and around transport nodes are obvious candidates targeted for site assembly. Additionally, commercial buildings in appropriately zoned locations (i.e. B4 Mixed Use) in a variety of CBDs and established centres with excellent transport connections are increasingly being acquired for mixed use residential development (e.g. St Leonards, Burwood, Parramatta, etc.).

The mixed use and residential zones in Chatswood are no exception. Benefitting from strong transport links, various sites have been acquired and progressed for mixed use residential development in recent times. Recent acquisitions of prime commercial office buildings within the Chatswood CBD are understood to be long-term residential plays given the lack of available development sites.

Chatswood serves as a major employment hub within Sydney with a commercial CBD amongst the largest in the North Shore office market. Additionally, the suburb serves as a major retail destination for the larger North Shore region given the location of two major regional shopping centres within the city centre, i.e. Chatswood Chase and Westfield Chatswood.

Furthermore, excellent exposure and accessibility afforded by a 'Pacific Highway location' sees many businesses seeking to capitalise on well exposed sites along Pacific Highway. Large format retail/bulky goods centres typically flourish in extremely high profile, main road locations, receiving excellent exposure to passing traffic and are easily accessible from both a local and regional perspective.

### 3.2 TRENDS AND DRIVERS

The Chatswood residential market continues marching from strength to strength despite the slowdown in some metropolitan apartment markets observed since Q1 2017. Demand for high-density product is acutely observed within Chatswood with local selling agents commenting there remains little sign of a tapering over the short to medium term.

A combination of compounding factors has brought on the success of the Chatswood apartment market. Strong public transport and road access are critical components which will be further strengthened through the delivery of Sydney Metro Northwest. Chatswood is a major retail hub within metropolitan Sydney and serves as a significant attractor to both residents and the wider North Shore. The local Chinese-Australian population has grown significantly since the 1980s with the suburb taking on a distinctly Asian character through local restaurants, grocers, retailers and community centres.

Recognising the above factors, Chatswood has been well-placed to benefit from the recent Sydney property boom. Understanding the wider drivers of demand also at play across metropolitan Sydney are also important, as detailed below:

### **Benefits of High-rise Living**

Over the past decade, the transition to high-rise living has been acutely observed across many parts of Sydney. A variety of factors have contributed to this trend; rising house prices creating affordability issues, lifestyle preferences for low maintenance property with high amenity and a shrinking average family size have all resulted in the rising popularity of high-density product. These influences transcend both renters and owner occupiers alike, and as such have driven interest from both the owner occupier and investor markets.

The emergence of residential towers across the Chatswood skyline will further increase over the coming 5-10 years as more projects come online. This has resulted in many marginal commercial assets to be acquired by overseas and local investors for long-term residential play. Change in house price growth may cause developers to delay or strategically time delivery of new product (considering commercial lease expiries) but is unlikely to reverse the strong residential development trend in Chatswood.

### **Overseas Purchaser Activity**

Foreign investment in the Australian property market has been the focus of intensified political debate in recent times. While the impact of foreign investment on residential prices is to a degree overplayed, foreign buyers do form a pivotal component of select residential off-the-plan sub-markets within Sydney. Chatswood is arguably the most important and popular of these limited markets amongst Chinese internationals.

The Chatswood residential market has proven particularly popular amongst Chinese internationals over the past 24 months. Reputable secondary schools and public transport are cited by local selling agents as the immediate drivers in this demand, whilst proximity to the Sydney CBD, modern retail precincts (e.g. Chatswood Westfields) and prestigious North Shore location have provided a solid base for overseas Chinese demand.

Whilst further State government charges and taxes on foreign buyers coupled with stricter lending requirements and tightening of capital outflows from mainland China will undoubtedly result in a fall in demand from this cohort, new buyers in Chatswood are overwhelmingly Australian citizens and residents as opposed to foreign investors. As overseas migration to Sydney from China and other Asian countries continues to increase, the appeal of Chatswood will undoubtedly persist.

## **3.3 RESIDENTIAL LAND USES**

The Chatswood market has continued to show its dominance over neighbouring markets over the past 12 months with new projects still achieving exceptional take-up and sales rates. The recent example of 666 Pacific Highway exemplifies this trend with the 75 apartment development completely selling over a 2 week period from June 2017 with record sales rates achieved.

Enquires with local selling and marketing agents suggest demand for both existing and off-the-plan stock is evenly split between owner occupiers and investors. The investor market is evenly based between domestic and overseas purchasers with Chinese nationals still particularly active in the investor market. Furthermore, downsizers are increasingly active in the larger apartment sector (3 and 4 bedrooms) after relocating from nearby North Shore suburbs.

Owner occupier purchasers are overwhelmingly young professional couples and/or newly established families owing to the respective price points of the Chatswood market; first home buyers (FHBs) have found it difficult to compete for similar reasons.

Select markets within metropolitan Sydney with well-established high-density submarkets exhibit both strong supply and demand of studio and one bedroom apartment product. Chatswood is one of these few select markets; proximity to major transport infrastructure and major regional retail centres provides the essential requirements in which the accommodation size versus lifestyle and amenity compromise is favourably geared towards such product. Furthermore, the existing and growing Chinese-Australian community observed within Chatswood is typically less resistant to small apartment sizes which has further supported market conditions.

### Off-the-Plan Sales Activity

Numerous development projects within Chatswood are currently marketing off-the-plan with numerous projects settling over the course of 2016. Several projects are currently or have completed marketing in 2017 with three select developments analysed below in Table 3.1:

**Table 3.1: Sales Analysis, Chatswood**

Address	Internal Area (sqm)	Sale Price		
		Low	High	Analysis (\$/sqm)
Chatswood Place (Final Stage) 260 Victoria Ave	44	\$730,000	\$770,000	\$16,500-\$17,500
	50-67	\$850,000	\$1,000,000	\$15,000-\$16,000
	70-96	\$1,350,000	\$1,875,000	\$19,000-\$19,500
	97-144	\$1,950,000	\$3,800,000	\$20,000-\$26,000
	118-173	\$2,975,000	\$4,500,000	\$25,000-\$26,000
The Meridian, 666 Pacific Hwy	50-60	\$900,000	\$1,200,000	\$18,000-\$20,000
	70-80	\$1,260,000	\$1,600,000	\$18,000-\$20,000
	90	\$1,710,000	\$1,800,000	\$19,000-\$20,000
Vista, 871-877 Pacific Hwy	50-57	\$810,000	\$875,000	\$15,500-\$16,200
	77-80	\$1,165,000	\$1,420,000	\$15,500-\$16,000
	103-125	\$1,880,000	\$2,000,000	\$16,000-\$18,000

Source: AEC/Cordell Connect

Anecdotal evidence from local selling and marketing agents provides further context and background information on the buying activity observed at the three developments analysed above in Table 3.1:

- **Chatswood Place, 260 Victoria Avenue**

The final stage of Chatswood Place is understood to have been released in early 2017 with similar take-up and sales rates to those observed in 2016 (circa 10-15 sales per month). A relatively even mix of owner occupiers and investors are active, many being local Chinese-Australian young professional couples and families. Chinese nationals remain active within the investor cohort, albeit less active compared to 2015-16.

- **The Meridian, 666 Pacific Highway**

The 666 Pacific Highway mixed use development was released to market in June 2017 and exemplifies the growing strength of Chatswood as a premier metropolitan residential market. The 75 apartments were sold as one stage and sold out in little over 2 weeks, averaging a take-up rate of over 35 apartments per week. Exceptional sales prices were achieved considering the relatively small unit sizes offered, ranging from \$18,000/sqm to \$20,000/sqm of floor area.

Similar to Chatswood Place, local sales agents indicate a relatively even mix of owner occupiers and investors were active, with significant interest observed from the Chinese-Australian market.

- **Vista, 871-877 Pacific Highway**

A 7 storey mixed use development comprising 42 apartments located on the northern periphery of the Chatswood CBD which was released to the market in February 2017. The development is understood to be approximately 80% sold, indicating a take-up rate of approximately 10 sales per month. Owner occupiers have dominated the buyer cohort to date, predominantly young professional couples and families in addition to some downsizers. Few investors have been observed to date.

### Unit Mix

Review of the development pipeline indicates developers strongly favour leveraging the unit mix towards smaller unit product (studios and one bedroom units), often incorporating up to 60% of the total unit mix as such product. Two bedroom apartments remain a strong component of residential developments, particularly in smaller developments (<100 apartments). Three bedroom apartments only comprise a small component of unit mix in most projects observed in the pipeline, typically sub 10% however do feature strongly in some prominent developments.

Table 3.2 details the unit mixes of major residential and mixed-use developments being progressed in Chatswood.

**Table 3.2: Unit Mix, Chatswood**

Address	Total Units	Unit Mix							
		Studio		1BR		2BR		3BR	
		No.	%	No.	%	No.	%	No.	%
45 Victor St	300	90	30%	90	30%	72	24%	48	16%
65 Albert Ave	285	5	2%	166	58%	48	17%	12	4%
36-44 Hercules St 256-260 Victoria Ave & 17 Albert Ave	233	21	9%	103	44%	75	32%	34	15%
28-36 Anderson St 2A McIntosh St & 1 Help St	156	0	0%	105	67%	46	29%	5	3%
654-666 Pacific Hwy 1 Freeman Rd & 2A Oliver Rd	75	0	0%	27	36%	44	59%	4	5%
38 Albert St	71	0	0%	18	25%	37	52%	16	23%

Source: Cordell Connect

**Development Pipeline**

The residential pipeline has the potential to deliver just over 1,000 new dwellings within Chatswood over the coming 3-6 years (assuming all proposals eventuate into delivery). Virtually all of these new dwellings are high-density apartments with very little medium-density development observed. New low-density housing is non-existent in the current pipeline.

Table 3.3 comprises the current residential and mixed-use developments at various stages of planning and delivery in the Chatswood market.

**Table 3.3: Development Pipeline, Chatswood**

Address	Type	Status	Completion Date (est.)	Units
45 Victor St	Mixed Use	Rezoning Application	2021	300
65 Albert Av	Mixed Use	Rezoning Application	2023	285
36-44 Hercules St, 256-260 Victoria Av & 17 Albert Av	Mixed Use	Construction	2020	233
654-666 Pacific Hwy, 1 Freeman Rd & 2A Oliver Rd	Mixed Use	Development Approval	2017	75
38 Albert Av	Mixed Use	Construction	2017	71
871-877 Pacific Hwy	Mixed Use	Development Approval	2019	42
153-157 Victoria Av	Mixed Use	Construction	2017	18
2-6 Koorunga Rd	Residential	Development Approval	2018	17
745 Pacific Hwy	Residential	Development Approval	2018	15
231 Victoria Av	Residential	Development Approval	2018	7
64 Stanley St	Residential	DA Refused- pending	2018	5
12 Whitton Rd	Residential	Development Approval	2018	4

Source: Cordell Connect

**Development Site Sales**

The flurry of development site sale activity that was witnessed in Chatswood over the 2012-2015 has largely tapered off as high existing use values and limited redevelopment opportunities limit developers' ability to acquire and progress development sites.

Sites along Pacific Highway remain highly appealing, a trend observed not only within Chatswood but across much of the North Shore from St Leonards to Gordon. A number of local and Chinese prospective developers are actively seeking development opportunities within Chatswood according to local agents given the continued strength of the local off-the-plan apartment market. Given the dearth of development opportunities, developers are observed to be acquiring a range of properties (commercial office buildings, detached dwellings, unit blocks) across a multitude of zonings. A number of developments currently observed in the pipeline are being progressed by landowners as opposed to developer-purchasers which further explains the lack of recent development site sales activity.

Table 3.4 analyses development sites sales which have transacted over the 2014-2017 period to understand current market trends and developers' capacity to pay for development opportunities.

**Table 3.4: Development Site Sales, Chatswood**

Address	Site Area (sqm)	Zoning	Sale Price (Sale Date)	Analysis	Description
270 Victoria Ave	1,093	B3	\$22,300,000 (January 2017)	<ul style="list-style-type: none"> <li>\$8,150/sqm GFA</li> <li>\$20,400/sqm site area</li> </ul>	Five storey commercial building with long term lease to a large medical operator (Chatswood Medical Centre). As per Schedule 1, shop top housing is permitted on the site should any development include a component of affordable housing as guided by the Willoughby Affordable Housing Principles. Site is understood to have sold to a local developer with a long term hold strategy with a mixed-use development being considered.
282-284 Victoria Ave	2,128	B3	\$46,250,000 (Oct 2016)	<ul style="list-style-type: none"> <li>\$8,700/sqm GFA</li> <li>\$21,700/sqm site area</li> </ul>	Two freestanding commercial buildings (2 storeys and 5 storeys) sold in one line understood to have been purchased by an overseas developer for a mixed-used development. As per cl 4.1B and Schedule 1 of the WLEP, shop top housing is allowed if the ground level and first level of the development are used for the purpose of retail premises or business premises. The site would require further consolidation of the neighbouring property to meet the minimum lot size requirement of 2,500sqm.
745 Pacific Hwy	576	R4	\$5,600,000 (August 2016)	<ul style="list-style-type: none"> <li>\$5,900/sqm GFA</li> <li>\$350,000/unit</li> <li>\$9,700/sqm site area</li> </ul>	Two storey residential unit block comprising four apartments acquired by a local developer for construction of a five storey residential flat building including 16 apartments. The site was sold by the previous owner-developer following DA approval which was granted in February 2014.
654-666 Pacific Hwy, 1 Freeman Rd & 2A Oliver Rd	2,855	B5	\$28,000,000 (August 2015)	<ul style="list-style-type: none"> <li>\$3,600/sqm GFA</li> <li>\$375,000/unit</li> <li>\$9,800/sqm site area</li> </ul>	Low rise commercial building used as a discount clothing outlet sold to a local developer for construction of a 7-10 storey mixed use development across two buildings comprising ground floor retail space and 75 apartments. Following the acquisition the developer submitted a Planning Proposal to increase of maximum permitted building height from 18m to 36m and increase the FSR from 2:1 to 3:1 which was subsequently approved by the Sydney North Planning Panel in December 2016.
871-877 Pacific Hwy	1,432	B5	\$17,181,000 (Dec 2014)	<ul style="list-style-type: none"> <li>\$6,300/sqm GFA</li> <li>\$409,000/unit</li> <li>\$12,000/sqm site area</li> </ul>	Two separate, two storey brick commercial buildings comprising a total 10 strata suites acquired by an Asian developer for construction of a 6-7 storey mixed use development across two buildings comprising 42 apartments and ground floor retail space.
231 Victoria Ave	572	R3	\$2,300,000 (June 2014)	<ul style="list-style-type: none"> <li>\$5,000/sqm GFA</li> <li>\$330,000/unit</li> <li>\$4,000/sqm site area</li> </ul>	Single storey detached dwelling acquired by local developer for construction of a 4 storey residential flat building comprising a total of 7 apartments. A DA was submitted following the acquisition in January 2015 and subsequently approved by Willoughby City Council in June 2016.

Source: AEC/Cordell Connect

The development site acquisition activity observed over the 2014-2017 period indicates developers are observed to be paying in the order of \$5,000/sqm of GFA up to \$6,300/sqm of GFA. On prices paid per unit/site, developers are observed to be generally paying between \$330,000 to \$380,000 per unit/site, with this ranging up to \$410,000 per unit/site in the case of 871-877 Pacific Highway.

It is understood that 815 Pacific Highway comprising a 15 storey commercial office building was offered to the market via an EOI campaign in late 2016; there is no record of a transaction occurring to date. The site is zoned B3 Commercial Core with a Planning Proposal to allow for shop top housing (accommodating 201 residential units) that Willoughby Council refused in 2015. The site was originally purchased in 2014 for \$29m, equating to \$17,500/sqm of site area.

A number of distinct observations can be drawn from the site sales analysed in Table 3.4:

- Limited recent sales activity**  
 Little recent development site sale activity is currently observed in the Chatswood market; the vast majority of development site sales occurring in prior 2014 and as a result of landowners progressing developments on their sites themselves. Despite the strengthening Chatswood apartment market and stiff competition for development sites between local and foreign developers, the availability of development sites is expected to be constrained over the coming 12-18 months.
- Development versus existing planning controls**  
 Developers are observed to consistently seeking amendments to existing planning controls within Chatswood, particularly for inclusion of residential shop-top housing in B3 Commercial zones and additional density and/height in B5 Business Development zones. Where developers have succeeded in achieving variations to planning controls after purchasing sites, significant value upside is achieved, e.g. 666 Pacific Highway.
- Focus on Pacific Highway**  
 Residential and mixed-use development continues to focus on sites along the Pacific Highway with developers targeting a range of existing building typologies. For example, a two storey brick unit block at 745 Pacific Highway and low-rise brick commercial building at 666 Pacific Highway.

### **Summary of Key Findings**

Findings from the property market analysis enable an understanding of the type and quantum of demand that would be received for a mixed-use development on the Site, in addition to the likely price points that could be achieved.

- Buyer Profile**  
 Enquiries with selling and marketing agents operating within Chatswood suggest a strong presence of both owner occupier and investor purchasers of off-the-plan stock over the past 12 months. The majority of owner occupier buyers are affluent middle aged established couples and/or families who are relocating from the surrounding areas. A large proportion of the investor market are Chinese nationals given Chatswood's strong appeal factors such as strong public transport and road connections, proximity to Sydney CBD, co-location with major retail centres and a strong existing Australian-Chinese resident community.  
  
 Many Australian-Chinese are also understood to be buying off-the-plan with financial backing of their extended families with the reputable surrounding public school catchments a major drawcard. Downsizers relocating from the upper and lower North Shore areas are understood to have become more active throughout 2016 to Q2 2017.
- Take-Up Rates**  
 Swift take-up rates are continuing to be observed within Chatswood despite the slowdown being experienced in many other metropolitan markets. Demand for high quality apartments, particularly within the Chatswood CBD, remains amongst the strongest within metropolitan Sydney. Even developments on the periphery of the CBD are keenly sought as observed with the recent sales at 666 Pacific Highway where the entire 75 apartment development sold out in 2 weeks following release in June 2017.
- Potential Price Points**  
 The off-the-plan apartment market in Chatswood has continued to gain momentum throughout 2017. Most recent off-the-plan activity observed within the market indicates units are predominantly achieving between \$16,000/sqm and \$18,000/sqm of internal floor area and even up to \$20,000/sqm of floor area in the case of 666 Pacific Highway.

## 3.4 RETAIL AND COMMERCIAL LAND USES

### 3.4.1 Chatswood Retail Market

Chatswood represents one of the largest retail destinations in Sydney and is one of the only precincts in Australia to include two regional shopping centres, namely Westfield Chatswood and Chatswood Chase. Over 200,000sqm of retail floor space is provided within the suburb and the majority of major tenants in the Australian market are provided at Chatswood, with the exception of Big W and a full-line Woolworths supermarket. No comparable precinct, with the exception of Sydney CBD which sits above Chatswood in the retail hierarchy, has a provision of retail floorspace greater than Chatswood.

Whilst Westfield Chatswood and Chatswood Chase provide the bulk of total retail floorspace, there are also a number of smaller arcade style shopping centres located throughout the CBD and fringes. Victoria Avenue serves as the primary spine of retail activity within the suburb with a large number of specialty retailers located thereon with the two major shopping centres (Westfield Chatswood and Chatswood Chase) both having major entrances from the street.

A number of different price points are served in Chatswood with a predominance for serving higher end non-food shopping requirements in the major shopping centres whilst more value focused retail offers are provided in small shopping centres with entrances of Victoria Avenue.

The health of any retail market is largely population driven. Following the recent completion of several major residential and mixed-use developments within the Chatswood CBD, coupled with those still under construction and in early planning, will continue to drive demand for service-based retail.

#### Retail Sales Activity

Retail property values are fundamentally linked to the exposure and passer-by traffic attributed to their location as well as their aesthetic presentation. Anecdotal evidence from local letting agents indicates there remains strong interest for retail opportunities within the CBD as well as in mixed-use developments on the fringe.

For example, a small retail shop (105sqm) at the mixed-use development at 871-877 Pacific Highway sold off-the-plan following a 2 month marketing campaign with strong interest observed throughout despite being relatively poorly located with minimum pedestrian exposure.

Table 3.5 identifies a number of retail shops located at the base of mixed-use developments within the Chatswood CBD and fringe which have transacted over the past 12-15 months.

**Table 3.5: Retail Sales Activity, Chatswood**

Address	Area	Sale Price (Sale Date)	\$/sqm floor area	Description
2/9 Railway St	290sqm	\$1,730,000 (April 2017)	\$6,000/sqm	Modern ground floor restaurant located including dining space, toilets and commercial kitchen. Located at the base of Mirvac's 'Epica' mixed-use development completed in 2008.
Shop 1/871-877 Pacific Hwy	105sqm	\$945,000 (March 2017)	\$9,000/sqm	Small retail suite located at the base of a 7 storey mixed-use development currently under construction which will comprise 42 apartments. Sold off-the-plan to a local F&B operator following a 2-month marketing campaign.
1/6 McIntosh St	62sqm	\$600,000 (June 2016)	\$9,700/sqm	Small café shop located at the base of secondary grade, four storey commercial office building. Despite the age of the building and relatively poor condition of the suite, the space is ideally located within the Chatswood CBD benefiting from strong exposure and high pedestrian footfall.
1/640-650 Pacific Hwy	168sqm	\$770,000 (May 2016)	\$4,600/sqm	Large ground floor commercial space occupied by real estate agency located at the base of a five storey mixed-use building; located on the fringe of the Chatswood CBD. Space suffers from relatively poor exposure and nominal pedestrian traffic.

Source: Corelogic RP Data

### 3.4.2 Chatswood Commercial Market

The commercial market in Chatswood is multi-faceted, underpinned by trends and drivers that influence demand for commercial floorspace by type and by location. Residential development activity continues to outpace commercial development within the Chatswood CBD, with modest supply planned over the coming 24 months.

Commercial office vacancy rates increased over the six months to January 2017, rising from 6.6% to 7.7% (Knight Frank, 2017). This was largely due to the relocation of several large tenants which has accordingly driven down overall absorption levels given the large floorplates now on the market. More recent data released by the Property Council of Australia (2017) indicates that this trend has largely reversed in over the course of 2017 however, with vacancy levels within Chatswood falling over the six months to July 2017 from 7.7% to 6.9%.

Accordingly, current vacancy levels remain well below the 10 year average of 11.4% and landlords are continuing to seek higher rents as spill-over demand from neighbouring markets is observed along with anticipation of the Sydney Metro Northwest.

The appetite for prime commercial assets within Chatswood remains strong with several major institutional acquisitions over the 2016 calendar year illustrating this trend. The most prominent example was the sale of the Zenith building at 821-843 Pacific Highway in May 2016, secured by Centuria and Blackrock for \$279m at a yield of 7.5%. The secondary grade market similarly remains strong with several transactions observed with the sale of an 8 storey commercial building 15 Help Street to an off-shore investor in June 2016 for \$43.8m demonstrative in this regard.

Whilst it is important to understand the market conditions at play within the broader Chatswood commercial office market, it is equally important to recognise the distinction between the two major forms of commercial property within the Chatswood CBD, both attracting different types of commercial occupiers:

- Traditional commercial office space within *purpose-built office buildings*, generally located within the 'commercial core' west of the rail line.
- Commercial space in a mixed-use setting, e.g. within a mixed use residential building or retail/commercial building (generally lower rise in nature).

Traditional commercial office space is typically sought by businesses seeking long-term accommodation within a corporate setting. Tenant interest in such space within Chatswood is diverse; a range of users are active including medical-related occupiers, IT companies, engineering firms, accountants, finance companies and start-up businesses. Purpose-built office buildings typically feature large floorplates (up to 2,000sqm) to accommodate large businesses and corporates.

Corporate image and co-location with like businesses is a major determinant in demand for traditional office space. Proximity to residential and/or other mixed uses is often a major drawback on the appeal of traditional office buildings as it can erode the prestige and corporate identity such businesses are seeking.

The proposed development on the Site does not envisage the provision of office space as provided in the CBD core west of the train line; it is by definition a mixed-use development and will accordingly attract a different set of occupiers compared to those observed in traditional office buildings. Accordingly, for the purposes of this Report and in the context of the Site, the demand for and performance of commercial floorspace in mixed-use settings within the Chatswood CBD is instead considered in further detail to assess the proposed development in the context of local market conditions.

#### **Commercial co-located with Retail/Mixed Uses**

There are a range of commercial occupiers who do not require a 'corporate' location or building with a corporate identity. Tenants such as child care centres, small professional practices (accountant, lawyer) and medical practices typically seek out space that is accessible to their target markets. Co-location within a retail cluster or centre is commonly sought after.

As the local population of Chatswood CBD grows, so too will the demand for commercial space to accommodate businesses that respond to local population growth. These businesses would also suit space in a mixed use

residential building. With the completion of several major mixed-use and residential developments within Chatswood CBD over the coming years, demand for service-based commercial floorspace from businesses servicing the local population will undoubtedly grow commensurate.

The demand for small commercial suites is witnessed from leasing and sales activity in ERA at 7 Railway Street. Completed and sold a couple of years ago, demand is understood to remain strong from owner occupier businesses where opportunities within the building arise. 1-5 Railway Street (Chatswood Central) is understood to be leasing fairly well, achieving gross rents of \$450/sqm-\$500/sqm. A range of businesses are accommodated here (e.g. IT companies, real estate, accountants, new/start-up businesses) and are generally in suites of 100sqm or less.

Along with a high concentration of traditional office buildings, research suggests there is a presence of serviced and shared/co-working office space in Chatswood, predominantly serviced office space and co-working office space. Along with North Sydney, Chatswood is a tech hub within the North Shore region and attracts strong demand from start-up companies.

Leasing agents active in the local area indicate there is greater market depth for tenancy sizes of <300sqm compared to larger offices (>300sqm), with Chatswood providing such accommodation as opposed to nearby markets such as North Sydney where such suites are more a rarity.

The recently completed mixed-use development 'The Chatswood' adjacent the Site comprises just under 1,400sqm of commercial and retail floorspace. Completed in June 2017, it is understood the developer is holding the commercial and retail suites for lease as opposed to selling. Informal discussions with local letting agents note that several service-based retailers (Korean food grocer, laundry mat) have secured tenancies with large volumes of offers refused by the developer as they are seeking certain types of occupiers and users.

Anecdotal evidence from local letting agents indicates that there is sufficient demand within the market to absorb such space, particularly given it is both modern and well-located. This has direct connotations for the likely take-up of commercial space which could be observed at the Site, which sits directly to the west of Chatswood at an arguably better location given its corner position.

### **Commercial (Mixed Use) Sales Activity**

Several sales of commercial suites within mixed-use or non-traditional office buildings have been observed in recent times. Anecdotal evidence from local commercial agents indicates demand for smaller office suites remains buoyant; strong interest for small suites (50sqm-250sqm) within secondary grade commercial building or mixed-use buildings has been observed over the past 6-12 months.

Two useful examples which exemplify demand for commercial space within mixed-use settings can be observed at 7 Railway Street and 71-73 Archer Street. The age and condition of both buildings vary substantially, with sale prices for spaces commercial suites therein expectedly different. The strong demand for smaller commercial suites observed by local agents in recent times is however evident in recent sales evidence at both buildings, and provide a useful gauge for the likely sales rates which could be potentially achieved on the Site.

- **7 Railway Street, Chatswood**

A 43 storey mixed-use development 'ERA' comprising two levels of commercial floorspace comprises a range of commercial suites ranging from 50-100sqm for smaller sized suites and from 150sqm-175sqm for larger suites. Informal discussions with local commercial agents indicates that despite the age of the building (>7 years), strong demand from small professional occupiers is still observed. Recent sales indicate smaller suites expectedly achieve higher sales rates at circa \$8,000/sqm to \$9,000/sqm of floor area with the larger suites achieving rates between \$6,000/sqm to \$7,500/sqm of floor area.

The associated development adjacent Era known as 'Epica' located at 9 Railway Street is a 31 storey mixed development comprising a single level of commercial suites with upper residential levels. A recent resale of a 247sqm commercial suite in April 2017 sold for \$1.73m, equating to just over \$7,000/sqm of floor area.

- **71-73 Archer Street, Chatswood**

An aged 5 storey brick commercial building comprising ground floor retail space with four levels of commercial office space with suites ranging from 60sqm to 250sqm. Anecdotal evidence from a local commercial agent

indicates a 122sqm suite recently sold in July 2017 after a brief EOI campaign (10 days). Strong interest was observed from over 15 different parties with the sale price understood to be circa \$725,000 to \$750,000 (\$6,000/sqm to \$6,200/sqm of floor area). Strong interest was observed from both investors and owner occupiers, many being local medical users.

A 200sqm ground floor commercial suite at the base of the 'Vista' mixed-use development (871 Pacific Highway) is currently marketing for sale for \$1,800,000, equating to \$9,000/sqm of floor area. Informal discussions with the selling agent indicate the property has been on the market for approximately 3 months with strong interest exhibited from several parties observed.

### 3.5 IMPLICATIONS FOR THE PROPOSAL

The proposed development on the Site seeks to address both underlying demand for residential and commercial floorspace.

#### **Residential Uses**

Buoyant market conditions and sustained price growth underlies a robust residential property market in Chatswood. Strong supply has been met with commensurate demand amid an increasing appeal of high-density apartment living in an amenity-rich environment to young professionals, established families and downsizers alike. Chatswood has emerged as one of the focal points of apartment development with metropolitan Sydney with current demand suggesting this is likely to continue and strengthen over the short to medium term.

In light of robust market conditions and keen market activity, the proposed residential offer on the Site will contribute to the transformation/revitalisation of the northern fringe of the Chatswood CBD and complement surrounding land uses. The Site represents the remaining section of Help Street ripe for redevelopment and the proposed development will conceivably complete Council's vision for the precinct.

#### **Commercial Uses**

Overall vacancy levels have tightened the six months to July 2017 with anecdotal evidence indicating strong appetite from service-based commercial occupiers who, similar to retail occupiers, tend to respond to local population growth. Extensive discussions with local commercial letting agents indicates that demand for small commercial suites (<300sqm) remains particularly strong, as evidenced by recent sales evidence.

Commercial office space located within mixed-use developments in the Chatswood CBD have been well-regarded by smaller professional users such as consultants, real estate agents, accountants and the like who do not require a corporate location and benefit from co-locating with residential and retail uses. This is exemplified by the enduring demand for space within the 'Era' development at 7 Railway Street; local agents note that this is amongst the most sought after locations for such users within Chatswood with recent sales evidence highlighting that despite its age it still commands strong sale prices.

Notwithstanding demand from small scale commercial occupiers, non-purpose built office buildings in non-corporate locations and that offer smaller commercial suites can struggle to secure pre-commitments from large anchor tenants if mandated by financiers. Many mixed use developments therefore rely on residential pre-sales (off-the-plan) to meet financier requirements.

The proposed development on the Site to accommodate small scale commercial occupiers and residential would be well-met given current market conditions. Furthermore, the proposed development would conceivably complete the redevelopment of Area 14 as identified in the WLEP 2012 and complete its transition towards a high-density mixed use precinct.

The next chapter assesses the viability of a development on the Site under the current planning framework.

## 4. FEASIBILITY ANALYSIS

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### 4.1 INTRODUCTION

This chapter carries out feasibility modelling to examine the viability of development on the Site under the existing planning controls. Development feasibility is directly linked to the cost of assembling the two existing residential strata blocks from the 53 individual strata holders.

Should development of the Site be assessed as unviable under existing planning controls, iterative modelling is undertaken to ascertain the quantum of density required to progress a feasible development on the Site, referred to as the FSR threshold.

Feasibility modelling is also undertaken to assess the commercial viability of the Proposal, compared against the earlier assessed FSR threshold.

### 4.2 METHODOLOGY

The feasibility modelling in this chapter utilises available market evidence (in Chapter 3) to develop revenue assumptions for application in a Residual Land Value Analysis. Generic cost assumptions are developed from past industry experience and available cost publications.

The Residual Land Value (RLV) approach is a method of valuation that involves assessment of the value of the end product of the development, allowing for development costs and making a further deduction for the profit and risk that a developer would require to take on the project. The Residual Land Value is the remainder that is available to pay for the land.

The accuracy of assumptions in the RLV Analysis is critical for reliability. In the case of the Site where detailed cost plans are not available, even though as valuers and property economists we can apply industry knowledge and past experience in developing up a series of assumptions, direct comparison of the assessed residual land value (RLV) against the sales of development sites is critical to ensure the RLV is in line with market activity.

A key driver for development feasibility on the Site is the total cost to consolidate the Site from multiple strata holders. It is understood the proponent has been progressively securing the sale of individual residential units over the 2015-2017 period, to a total land cost in the region of \$44 million<sup>1</sup>.

Given the Site has been progressively acquired since March 2015, feasibility modelling includes a capitalised interest component to reflect the potential interest charges incurred since the commencement of site acquisition. For the purposes of modelling, an interest rate of 5% has been applied over a period of 24 months. This results in a total land cost of \$51.2 million.

### 4.3 FEASIBILITY MODELLING

The RLV analysis is undertaken using industry standard Estate Master development feasibility software. Feasibility modelling is undertaken to examine three scenarios:

1. Scenario 1 - feasibility of developing the Site under existing planning controls (based on FSR 4:1 with minimum non-residential FSR 2:1).
2. Scenario 2 - if Scenario 1 is not feasible, iteratively test the quantum of additional residential FSR required for feasible development (subject to minimum non-residential FSR 2:1).
3. Scenario 3 - if the minimum non-residential requirement was lowered to FSR 1:1, iteratively test the additional residential FSR required for feasible development.

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<sup>1</sup> The purchase of several units is understood to be under negotiation

Similar to the hypothetical assumption in Scenario 3, the Proposed Development Scheme envisages a non-residential component of FSR 1:1. Feasibility modelling examines how the proposed scheme compares to the FSR threshold assessed in Scenario 3.

Feasibility modelling outcomes for the three scenarios are shown in Table 4.1.

**Table 4.1: Feasibility Modelling Outcomes**

	Scenario 1	Scenario 2	Scenario 3
Modelling Objective	Test if current planning controls facilitate feasible development	If Scenario 1 not feasible, test additional FSR required for feasible development (subject to non-residential FSR 2:1)	If Scenario 1 not feasible, reduce non-residential FSR to 1:1 and test additional FSR required for feasible development
<b>Description</b>			
Site Area	2,290sqm	2,290sqm	2,290sqm
Total FSR	4:1	7.4:1	6.5:1
Non-residential	2:1	2:1	1:1
Residential	2:1	5.4:1	5.5:1
Total GFA*	9,160sqm	16,880sqm	14,840sqm
Non-residential	4,580sqm	4,580sqm	2,290sqm
Residential	4,580sqm	12,300sqm	12,550sqm
Assumed Land Cost	\$51,200,000	\$51,200,000	\$51,200,000
Feasible?	No	Additional FSR 3.4:1 required	Additional FSR 2.5:1 required
<b>Key Modelling Metrics/Performance Indicators</b>			
Total Acquisition Cost <sup>1</sup>	\$51,255,495	\$51,255,495	\$51,255,495
Project Internal Rate of Return <sup>2</sup>	(9.57%)	28.30%	28.81%
Residual Land Value (NPV) <sup>3</sup>	\$22,058,350	\$51,485,574	\$51,734,918

\*All scenarios assume 4% of total GFA is constructed and contributed as affordable housing.

Notes: 1 – Total acquisition costs including land cost, capitalised interest and stamp duty, 2 – Project Internal Rate of Return: discount rate where the NPV equals zero, 3 – Residual Land Value (based on NPV): purchase price for the land to achieve a zero NPV

Source: AEC

The following observations emerge from the above feasibility modelling outcomes:

- Current planning controls (minimum non-residential FSR 2:1 to a total FSR 4:1) are not feasible given the cost to consolidate two strata unit blocks for development.
- Maintaining the requirement for non-residential of FSR 2:1, a total FSR in the order of 7.4:1 is required for feasible development.
- If the requirement for non-residential FSR was reduced to 1:1, a total FSR in the order of 6.5:1 is required for feasible development.
- The FSR threshold required for feasible development is inversely related to the minimum non-residential FSR required.

### **The Proposed Scheme**

The proposed scheme at FSR 8.4:1 is greater than the FSR threshold (6.5:1) required for feasible development.

An informal enquiry to Council indicates that for proposals that exceed permissible densities under the LEP, subject to site environmental capacity Council will require a contribution to public benefit calculated at 45% of the (land) value uplift. A valuation of the Site (under the existing planning controls and per the proposed development) will be required to calculate the land value uplift prior to applying a rate of 45% to calculate the contribution payable.

In the case of the Site, as development under the existing planning controls is not feasible, the cost of land (including capitalised interest) is the relevant value for calculating the contribution payable.

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## APPENDIX A: FEASIBILITY MODELLING ASSUMPTIONS

The Residual Land Value method involves assessing the value of the end product of the hypothetical development, and then deducting all of the development costs including site acquisition costs, site demolition and / or clearance, consultant fees for design and project management, developer levies and taxes, construction costs, and making a further deduction for GST, land holding costs, marketing and financing costs.

The residual amount is the amount that a developer can afford to pay for the Site in exchange for the opportunity to develop the Site to its assumed potential.

In undertaking the feasibility modelling, four Scenarios have been assessed (including the Proposed Development Scenario):

- Scenario 1 (FSR 4:1, min. non-residential FSR 2:1, 52 units including 5 affordable housing units)
- Scenario 2 (FSR 7.4:1, min. non-residential FSR 2:1, 131 units including 9 affordable housing units)
- Scenario 3: (FSR 6.5:1, non-residential FSR 1:1, 135 units including 8 affordable housing units)
- Proposal Scenario: (FSR 8.4:1, non-residential FSR 1:1, 193 units including 10 affordable housing units)

### Development Mix and Staging

For the purposes of assessing a Residual Land Value, an indicative development scheme developed by Kann Finch Architects has been applied to each Scenario:

- Unit mix – Studio: 1 bed unit: 2 bed unit: 3 bed unit (2.5%: 37.8%: 55.6%: 4.1%).
- Internal area – Studio (45sqm): 1 bed unit (60sqm): 2 bed unit (82sqm): 3 bed unit (105sqm).
- Parking spaces – Studio (1 space): 1 bed unit (1 space): 2 bed unit (1 space): 3 bed unit (1.25 spaces): visitor parking (1 space per 4 dwellings): commercial office (1 space per 110sqm commercial GFA).

Following settlement of the purchase, vacant possession is assumed to be forthcoming. A lead-in period of 6 months is assumed, thereafter 6 months for DA lodgment and consent.

Following development consent, construction works are assumed to commence in Month 15 (after allowing for 50% of pre-sales to occur).

### Gross Revenue

Market analysis undertaken in Chapter 3 demonstrates the resounding demand for new residential product within Chatswood, evidenced by rapid take-up rates and remarkably strong sale prices.

**Table A.1: Gross Sale Values**

Type	Average Sale Price	
Studios	\$720,000	\$16,000/sqm-\$17,000/sqm
1 bedroom units	\$960,000	\$16,000/sqm-\$17,000/sqm
2 bedroom units	\$1,428,000	\$16,000/sqm-\$17,000/sqm
3 bedroom units	\$1,848,000	\$16,000/sqm-\$17,500/sqm
Retail		\$7,000/sqm
Commercial		\$5,000/sqm

Source: AEC

At least 50% off-the-plan sales are assumed to be completed prior to construction commencement with the remaining units progressively sold at a take-up rate in the order of 10-15 per month.

Other sales revenue assumptions:

- GST is included in residential sales.
- Residential and retail sale prices are assumed to escalate at 3% per annum through the development period; commercial sale prices are assumed to escalate at 2% per annum.
- Sales commission of 2% of gross residential sales.
- 10% of gross purchase price received as deposit and invested at 3% in trust account (50% to be retained by developer).
- Marketing and legal costs at 1% and 0.25% of gross sales respectively.
- No revenue is attributed the GFA (4% of total GFA) designated for affordable housing.

### **Development Costs**

In the absence of a detailed development scheme and cost plan, estimates of development costs are based on commercial cost publications and past industry experience.

Main construction costs assumed are:

- Residential:
  - Building construction at \$2,750/sqm.
  - Balconies at \$800/sqm.
- Retail/commercial at \$2,200/sqm.
- Basement parking at \$45,000 per space.
- Demolition at \$100/sqm of site area.
- Site works and excavation at 1% of construction costs.
- Services infrastructure at 1% of construction costs.
- Landscaping at \$200/sqm of 50% of site area.
- Professional fees of 10% of construction cost comprised of:
  - Masterplanning and design at 1.5%.
  - Development application at 0.5%.
  - Construction documentation at 3.5%.
  - Fees during construction at 4.5%.
- Development management fee of 1%.

A further 5% construction contingency allowance (to cover risks) was included.

- Statutory fees:
  - Section 94A contributions as per the Chatswood Central Business Section 94A Contributions Plan 2011: 3% of the estimated cost of the development
  - DA and CC fees as per scheduled rates.
  - Strata titling at \$800 per lot.
  - An affordable housing contribution is assumed to be made in-kind and included in the cost of construction.
- Land holding costs including land tax, Council and water rates based on assumed unimproved land values.
- Developer's equity is assumed at land acquisition cost (including capitalised interest at 5% per annum for 24 months). Equity is progressively injected when required.

- The balance of project cost is assumed to be debt funded with interest capitalised monthly (nominal 7.0% per annum).
- Finance establishment costs at 0.35% of project debt.

#### **Hurdle Rates and Performance Criteria**

Target hurdle rates are dependent on the perceived risk associated with a project (planning, market, financial and construction risk). The more risk associated with a project, the higher the hurdle rate. Key hurdle rates assumed for the feasibility modelling are 20% discount rate (effective) and 20% development margin.

A number of performance indicators are relied upon when ascertaining the feasibility or otherwise of a development.

- Development margin is the profit divided by total development costs (including selling costs).
- Residual Land Value – this has been determined by establishing the maximum land value a developer is willing to pay based on a 20% internal rate of return (IRR) taking into account all other costs and project revenue.
- Development Profit – this represents the total revenue less total cost including interest paid and received.
- Discount Rate – this refers to the project internal rate of return (IRR) at which the net present values of an investment becomes zero.

If the resulting profit from this feasibility analysis is sufficient to meet the target hurdles (target development margin and discount rate), the project is considered financially viable for development.

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