Waterloo South Affordable Housing Financial Feasibility Assessment

February 2022

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1.0 Executive Summary

1.1 Background

The Waterloo Estate has been identified as one of the locations under the NSW Government's $22 billion Communities Plus program to deliver new social and affordable housing alongside private housing. Waterloo South is part of the wider Waterloo Estate that also includes Waterloo Central and Waterloo North.

The Minister for Planning and Public Spaces appointed the Secretary of the Department of Planning, Industry and Environment (DPIE) as the Planning Proposal Authority (PPA) for Waterloo South. The PPA's delegate submitted the Planning Proposal for Waterloo South, from the City of Sydney, to DPIE for a Gateway Determination.

The PPA, from DPIE, engaged Savills to assist with responding to conditions in the Gateway Determination. This included assisting with two items identified in the Gateway Determination on the Planning Proposal[1].

- A financial feasibility assessment, of the impact of a 9% affordable housing levy on the private lands, in accordance with Department Guidelines for Affordable Housing schemes under SEPP No.70.
- The condition to require 5% to 10% of net additional residential units on Land and Housing Corporation (LAHC) land to be developed by a Community Housing Provider (CHP) and/or Aboriginal Community Housing Provider (ACHP)

The PPA, also worked with Hassell and other consultants, to make changes to the scheme for Waterloo South prepared by the City of Sydney. As such, Savills approach was to prepare a financial feasibility assessment on the revised scheme for Waterloo South. The financial feasibility was used as the basis to make conclusions on the amount of Affordable Housing on LAHC land in Waterloo South, within the range of 5% to 10% of net additional residential units included in the Gateway Determination.

The views, findings and conclusions in this report are by Savills and not the City of Sydney, the Independent Advisory Group or the Land and Housing Corporation. There are some sections where direct quotes or references are included from the report on Waterloo South by the Independent Advisory Group or the Gateway Determination for Waterloo South.

1.2 Yields in feasibility modelling

In preparing the financial feasibility modelling Savills used the Gross Floor Area and Net Saleable Area figures provided by Hassell to the PPA for Waterloo South. Savills ran several financial feasibility assessments in Estate Master to make conclusions on the amount of Affordable Housing on LAHC land in Waterloo South, within the range of 5% to 10% of net additional residential units included in the Gateway Determination.
Table 1 shows a summary of the Gross Floor Area (GFA) and Net Saleable Area (NSA) used in the final feasibility modelling. This shows around 10% of net additional residential dwellings would be Affordable Housing. This is around 7.5% of total dwellings and 7% of Gross Floor Area.

Table 1: Development yields for LAHC Land

[1] Gateway Determination, Planning proposal (Department Ref: PP_2021_3265): Redevelopment of Waterloo Estate (South) to facilitate the renewal of the social housing site under the NSW Government's Communities Plus scheme.

	Gross Floor Area (GFA)	Net saleable area (NSA)	Unit numbers (approx.)
Social Housing Units	57,226	47,211	847
Affordable Housing by a Community Housing Provider	16,255	13,530	243
Market Housing	162,786	135,913	2,092
Total Dwellings	236,267	196,654	3,183
Net dwellings	3,183 total dwellings less 749 existing dwellings = 2,434 net dwellings		

Source: GFA and NSA from Hassell, Urban Design Review for Waterloo. Dwelling numbers and allocations to dwelling types (social, affordable, market) determined by Savills. The dwelling numbers are **approximate** as the mix of dwellings and size of each dwelling will determine the number of dwellings. See Section 5.1 for further details on the mix of apartments by apartment size.

	Gross Floor Area	Net lettable area (NLA)	Unit numbers (approx.)
Commercial	18,540 m^2	16,686 m2	Not relevant

Source: GFA and NSA from Hassell, Urban Design Review for Waterloo.

1.3 Revenues and costs

Savills used recent sales evidence to establish the expected price that can be achieved for new units in Waterloo, with standard allowances to account for differences in the size of each apartment and type of apartment (low rise, mid-rise, higher rise). Savills also used sales rates informed by our experience in selling apartment projects and sites and evidence from preparing valuations and market research.

Savills used a construction cost plan developed by MBM (Quantity Surveyors) which was prepared by measuring the plan developed by Hassell for the Planning Proposal Authority. For the private sites in Waterloo South, Savills adopted the same apartment and commercial / retail construction costs per square metre and made allowances for site servicing.

As discussed in the report on Waterloo South by the Independent Advisory Group for Waterloo South it is important to consider the financial feasibility of Waterloo South both from the perspective of a developer and LAHC (Government). As such Savills did run an analysis which included estimated costs incurred to date and forecast future costs for Government. This is in-line with the Communities Plus model developed by LAHC where redevelopment needs to be at no net cost to Government.

1.4 Findings

Savills view is it is not financially feasible, currently, to redevelop at least two of the private sites in Waterloo South with or without Affordable Housing, due to the fact that they are relatively new and have high market values. However, this is an assessment at a point in time and the feasibility of redevelopment including with an Affordable Housing contribution will improve over time. Waterloo South is within an area where the City of Sydney Affordable Housing Program applies which means the proposed 9% and 12% Affordable Housing contributions would apply when privately owned sites are redeveloped.

The financial feasibility by Savills found it is possible to require 10% of net additional dwellings on LAHC owned land at Waterloo South as Affordable Housing and for this to occur at no cost to Government. This is around 7.5% of total dwellings and 7% of Gross Floor Area.

Savills tested a range of options for how the Affordable Housing could be provided including (a) the Affordable Housing being built by the developer of LAHC land and sold at a discount to a Community Housing Provider or (b) by LAHC allocating some land to a CHP. The results of the financial feasibility show both can occur at no cost to Government.

2.0 Introduction

2.1 Background

The Waterloo Estate has been identified as one of the locations under the NSW Government's $22 billion Communities Plus program to deliver new social and affordable housing alongside private housing. Waterloo South is part of the wider Waterloo Estate that also includes Waterloo Central and Waterloo North (Figure 1). Waterloo South comprises the first stage of renewal and is anticipated to be developed over a 10-year+ period. The strategic planning for the renewal of the Waterloo Estate has extended over a number of years.

The Minister for Planning and Public Spaces appointed the Secretary of the Department of Planning, Industry and Environment (DPIE) as the Planning Proposal Authority (PPA) for Waterloo South. The PPA's delegate submitted the Planning Proposal for Waterloo South, from the City of Sydney, to DPIE for a Gateway Determination.

The PPA, from DPIE, engaged Savills to assist with responding to conditions in the Gateway Determination. This included assisting with two items identified in the Gateway Determination on the Planning Proposal[2].

- A financial feasibility assessment of the impact of a 9% affordable housing levy on the private lands in accordance with Department guidelines for affordable housing schemes under SEPP No.70.
- The condition to require 5% to 10% of net additional residential units on Land and Housing Corporation (LAHC) land to be developed by a Community Housing Provider (CHP) and/or Aboriginal Community Housing Provider (ACHP)

The PPA, also worked with Hassell and other consultants, to make changes to the scheme for Waterloo South prepared by the City of Sydney. As such, Savills approach was to prepare a financial feasibility assessment of the revised scheme for Waterloo South. The financial feasibility was used as the basis to make conclusions on the amount of Affordable Housing on LAHC land in Waterloo South, within the range of 5% to 10% of net additional residential units included in the Gateway Determination.

The views, findings and conclusions in this report are by Savills and not the City of Sydney, the Independent Advisory Group or the Land and Housing Corporation. There are some sections where direct quotes are included from the report on Waterloo South by the Independent Advisory Group.

The Waterloo Estate extends over 18.98 hectares, comprising 13.4 hectares of developable land owned by the NSW Land and Housing Corporation (LAHC).

Waterloo South extends over 10.8 hectares and is bounded by Raglan Street in the north, Cope Street in the west, McEvoy Street in the south, and Waterloo Park, Kellick Street, Gibson Street, Wellington Street and George Street to the east. The site is within the City of Sydney Local Government Area (LGA) approximately 1.5 kilometres south of Central Station and 600 metres north of Green Square Town Centre.

DPIE reports Waterloo South currently contains:

- 749 social housing units owned by NSW Land and Housing Corporation
- 120 private units and houses and
- Some commercial properties

[2] Gateway Determination, Planning proposal (Department Ref: PP_2021_3265): Redevelopment of Waterloo Estate (South) to facilitate the renewal of the social housing site under the NSW Government's Communities Plus scheme.

Figure 1: Waterloo Estate Location Map

Source: DPIE, 2021

2.2 Key features of the Planning Proposal submitted for Waterloo South

The planning proposal seeks to amend the Sydney Local Environment Plan (LEP) 2012 as per the changes below.

Table 2: Proposed changes to land use zones in Waterloo South

Subject land	Current zone	Proposed zone
LAHC lots	South Sydney LEP 1998 2(b) – Residential (Medium Density)	B2 Local Centre (approx. 24,630 m2) B4 Mixed Use (approx. 56,401 m2)
	Sydney LEP 2012 SP2 – Infrastructure (at McEvoy Street)	No change (approx. 1,090 m2)
Private lots	Sydney LEP 2012 R1 – General Residential	B4 Mixed Use

Source: DPIE, 2021

Table 3: Proposed changes to floorspace ratios in Waterloo South

Subject land	Current FSR	Proposed Floor Space Ratio	Equivalent Gross Floor Area
LAHC lots (81,031 m2)	1.5:1 in South Sydney Development Control Plan	1.5:1 + 1.26:1 (if satisfy criteria below) + 10% if achieve design excellence (total FSR 3.036:1)	121,546 m2 + 102,099 m2+ 22,365 m2 = Total 246,010 m2
Private lots	1.75:1	Variable 1.75:1 to 2.66:1 + 0.25:1 if it satisfies criteria below + 10% if achieve design excellence (up to max 3.2:1)[3]	23,000 m2

Source: DPIE, 2021

The criteria to be satisfied to achieve the extra 1.26:1 Floor Space Ratio (FSR) on LAHC land includes:

- 30% of residential floor area is used for social housing
- 20% of residential floor area is used for affordable housing
- No less than 13,000 m^2 is used for a non -residential purpose
- No less than 5,000 m^2 is used for community facilities, health facilities or centre-based childcare
- BASIX commitments for water and energy are exceed by not less than 10 points for energy and 5 points for water
- Adequate open space in provided in the precinct and
- Arrangements for the provision of publicly accessible open space to the satisfaction of the City of Sydney.

The criteria to be satisfied on non LAHC land (private lots) includes:

- The additional FSR of 0.25 for development that exceeds BASIX commitments for water and energy by not less than 10 points for energy and 5 points for water

The Planning Proposal also requires for non-LAHC land:

- a contribution to the provision of affordable housing
- to ensure that a building demonstrating design excellence is only eligible for additional FSR; and
- that the objectives and provisions of the Waterloo Estate (South) Design Guide are taken into consideration in the assessment of development applications

The Planning Proposal is supported by more detailed planning controls in the draft Waterloo Estate (South) Design Guide that was prepared by the City of Sydney to be publicly exhibited in conjunction with this planning proposal. The Design Guide is proposed to be a matter for consideration in the assessment of any future development applications at Waterloo South by virtue of a proposed site-specific provision in the Sydney Local Environmental Plan 2012.

[3] The Planning Proposal increases the Floor Space Ratio of the following privately owned land from1.75:1 to:

- 2.34:1 at 233 Cope Street
- 2.61:1 at 221-223 Cope Street
- 2.69:1 at 116 Wellington Street and
- 2.67:1 at 110 Wellington Street

The Planning Proposal maintains the Floor Space Ratio of the following privately owned land at 1.75:1

- 111 Cooper Street
- 225-227 Cope Street; and
- 291 George Street, Waterloo

Table 4 presents a summary of the Gross Floor Area (GFA) and number of units under the Planning Proposal for Waterloo South.

Table 4: Summary of Gross Floor Area by use under the City of Sydney Planning Proposal for Waterloo South

LAHC Land	Proposed Requirement	Gross Floor Area (GFA)	Percentage of GFA	Council reported number of units
Total GFA private sites		23,000 m²		127
Total GFA LAHC sites		246,010 m²	100%	
Non-residential	Minimum of 13,000 m²	13,000 m²	7.4%	NA
Community / health	Minimum of 5,000 m²	5,000 m²		NA
Social housing	30% of residential GFA	68,403 m²	27.8%	920
Affordable housing	20% of residential GA	45,602 m²	18.5%	613
Market housing		114,005 m²	46.3%	1,534

Source: DPIE, 2021

Table 5 shows the primary planning controls proposed for the privately owned sites in Waterloo Estate.

Table 5: Proposed planning controls privately owned sites in Waterloo South

Address	Lot Size (a)	Current Zone (b)	Current FSR	Current permissible GFA	Units	PP Base FSR (c)	PP Incentive FSR (d)	PP Design Excellence FSR (e)	PP Max FSR (f)	PP Base GFA	PP Total GFA
233 Cope Street	2,731	R1 General Residential	1.75	4,779	41	2.34	0.25	10%	2.849	6,391	7,781
221-223 Cope Street	831.7	R1 General Residential	1.75	1,455	4	2.61	0.25	10%	3.146	2,171	2,617
116 Wellington Street	942.1	R1 General Residential	1.75	1,649	2	2.69	0.25	10%	3.20	2,534	3,015
110 Wellington Street	2,410	R1 General Residential	1.75	4,218	58	2.67	0.25	10%	3.20	6,435	7,712
111 Cooper Street	202.3	R1 General Residential	1.75	354	1	1.75	0.25	10%	2.20	354	445
225-227 Cope Street	657.6	R1 General Residential	1.75	1,151	2	1.75	0.25	10%	2.20	1,151	1,447
291 George Street	581.4	R1 General Residential	1.75	1,017	20	1.75	0.25	10%	2.20	1,017	1,279

Source: (a) NSW Valuer General (b) City of Sydney Planning Proposal (c) Figures from the City of Sydney Planning Proposal Page 4 and Page 36. There are some inconsistencies with the FSR listed for some properties between Page 53 and the Proposed LEP FSR Maps (d) Page 39 of the Planning Proposal states an additional 0.25:1 FSR is available for each building where any part of the building that comprises residential floor area exceeds the BASIX commitments for water and energy by not less than 10 points for energy and 5 points for water (e) Up to 10 per cent additional FSR may be achieved subject to a competitive design process. A site-specific provision will limit the 10 per cent design excellence bonus to FSR and not to additional height (f) 3.2:1 is the maximum FSR on privately owned sites.

3.0 Financial feasibility of Affordable Housing requirements for private sites

The City of Sydney Planning Proposal seeks to insert a new Affordable Housing clause for land that benefits from rezoning. This is not proposed to apply to the LAHC land. This is to apply to four private properties at Cope Street and Wellington Street that would benefit from the Waterloo South Planning Proposal. Under the proposed Affordable Housing Program, the total contribution rate for the private properties would be:

- 9% of new floor area, being floor area created as a result of the planning proposal
- 3% of the existing residential floor area; and
- 1% of existing non-residential floor area

The section below provides context and the financial feasibility assessment of the impact of the affordable housing levy on the private lands in accordance with DPIE guidelines for affordable housing schemes under SEPP No.70.

3.1 Guidelines for Developing an Affordable Housing Contribution Scheme

The DPIE Guidelines for Developing an Affordable Housing Contribution Scheme (the Guidelines) are guidelines for Councils to help them prepare affordable housing contribution schemes and thereby fulfil the requirements of Section 7.32(3)b of the Environmental Planning and Assessment Act, 1979 (the Act). Affordable Housing contribution schemes are council-led documents which set out how, where, and at what rate development contributions can be collected by councils for Affordable Housing.

The Guidelines note the Affordable Housing contribution schemes apply to developments that are facilitated by up zoning. For the purpose of the guideline, an up zoning is a change of zone to enable residential development or a change of planning controls (such as floor space ratio) which enables greater residential density in site. DPIE notes this ensures contributions are drawn from the increase in land value generated by the rezoning and are consistent with the affordable housing targets established in the Greater Sydney Commission's District Plans.

The Guideline notes the preferred method for determining a viable affordable housing contribution rate is using the residual land value method (RLV). The RLV is calculated by estimating the anticipated revenue from a development, then deducting all the development costs and allowance for a reasonable developer profit. The RLV is the remaining (residual) amount from this calculation and identifies how much can be paid for a site to enable its development.

3.2 City of Sydney Affordable Housing Scheme

Savills understands DPIE has approved a Planning Proposal relating to Affordable Housing submitted by the City of Sydney (PP_07_SYDNE_006_00) subject to conditions. This permits an Affordable Housing levy of 3% for existing residential Gross Floor Area plus 9% of the additional floor area to be used for affordable housing.

The City of Sydney provided DPIE with a feasibility report to support the Affordable Housing Planning Proposal. Savills reviewed the feasibility report as part of our work for this report. We note that Waterloo is in the South Precinct, and while Redfern is in the West Precinct (in the study for the City of Sydney) there are similarities between prices for off-the-plan and new units in Redfern and Waterloo, subject to factors such as the location, quality, views, and aspect of the aspect. As such we looked at the feasibility results for Redfern produced for the City of Sydney.

Savills notes that generic feasibility testing for the City of Sydney was based on notional development yields that were developed for the purposes of the feasibility testing. This means they have not been urban design or engineering tested. The report, by its nature, is based on generic revenue and cost assumptions and does not consider nuances of a site typically considered in detailed feasibility analysis. Further, it is based on a desktop appraisal of 'as is' or existing property values without the benefit of site inspections or property financial information (i.e., rental income and investment returns).

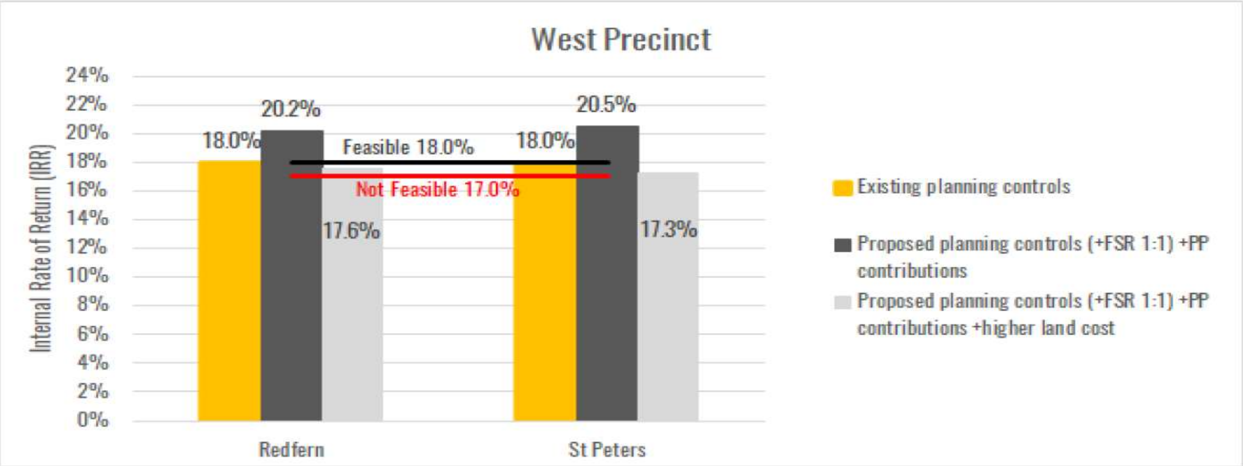
The report assumes that the floor space ratio on the hypothetical sites increase by 1:1 (i.e., 2.5:1 to 3.5:1), which appears to be reasonable. However, as the report quotes a broad range of sales revenues ($13,000 m2 to $18,000 m2 per net saleable area for new apartments in Redfern) and costs ($3,000 m2 - $4,000 m2 per square metre for apartment construction costs) it not possible to comment on the appropriateness of the rates adopted.

The report states that if the Internal Rate of Return is less than 17% and if the Development Margin is less than 18% the development is not feasible. These are lower returns than are typically accepted by the types of developers who we expect would purchase these private sites in Waterloo, without a DA or pre-sales achieved. Moorhead (2019)[4] presents the results of a survey of 249 property developers in Australia across a range of asset classes. The survey found the median target internal rate of return, at feasibility stage, for property developers was 20%, with a range of 10% to 30%. Savills notes target hurdle rates are dependent on the perceived risk associated with a project including planning, market, financial and construction risk. Our view is a 17% internal rate of return would be too low for smaller developers of these private sites.

As shown in from the report for the City of Sydney (extract below), if a developer pays a higher land cost to secure a development site, as is often the case when a planning proposal or proposed rezoning is published[5], the Internal Rate of Return would be 17.6%. In Savills view this would not be treated as a feasible development. Furthermore, it does not appear that the report for the City of Sydney has allowed for a developer to pay for a Regional Infrastructure Contribution, which would be an additional cost.

4 https://research.bond.edu.au/en/studentTheses/feasibility-analysis-in-the-pre-commitment-stages-of-the-property

5 https://www.valuergeneral.nsw.gov.au/__data/assets/pdf_file/0004/228712/2021_04_06_Valuer_Generals_Review_of_the_impact_of_rezoning_potentiality_on_land_values.pdf



Source: Atlas

Savills view is the feasibility to support the Affordable Housing Program for the City of Sydney is consistent with the Guidelines for Developing an Affordable Housing Contribution Scheme. While Savills disagrees with some of the findings of the feasibility, these are differences of opinion, and the review primarily highlights the need to analyse the individual sites in Waterloo South.

3.3 Private sites Savills financial feasibility modelling

Savills used Estate Master to test the feasibility of redeveloping the private sites in Waterloo South, including the proposed Affordable Housing contribution.

In Savills view the development of these sites is financially feasible if the residual land value (i.e., maximum amount a developer can pay for a site) is sufficient to displace the existing use and the Affordable Housing levy captures only some of the increase in land values from up zoning

As per the Land Use Map (Page 20 of the Waterloo Estate South Design Guide) Savills has adopted that two floors in 221-223 Cope will be non-residential and four floors in 116 Wellington Street will be non-residential. Savills also ran a model to see the results if these sites were redeveloped as 100% residential.

The financial feasibility modelling finds that it is not currently feasible to redevelop 233 Cope Street or 110 Wellington Street at either an 18% internal rate of return (as adopted by the City of Sydney) or a 20% internal rate of return. Savills believes that 20% would be more conventional rate of return adopted by a likely purchaser of these properties. The existing use value of these properties (i.e., the amount required to purchase all the units in the complex) would exceed the residual land value (i.e., maximum amount a developer can pay for the site allowing for all costs including profit and revenues). As the redevelopment of these sites is not feasible the addition of an affordable housing levy just makes the existing feasibility worse.

The financial feasibility modelling also shows it is close to financially feasible to redevelop 116 Wellington Street with 4 storeys of retail and 4 storeys of residential. As a 100% residential development Savills expects it is likely to be feasible to redevelop, but with half the building as retail / commercial it is marginally feasible, without a lease pre-commitment or identified tenant. The feasibility shows it is financially feasible to redevelop 221 – 223 Cope Street, including an Affordable Housing contribution.

Address	Type	Existing Use Value	Residential Land Value with AH contributions (18% IRR)	Residual Land Value with AH contributions (20% IRR)
233-239 Cope Street & 113-131 Cooper Street	Apartments	$41,370,000	Lower than the Existing Use Value (Not Feasible)	Lower than the Existing Use Value (Not Feasible)
221-223 Cope Street	Warehouse	$6,298,880	Higher than the Existing Use Value (Feasible)	Higher than the Existing Use Value (Feasible)
116 Wellington Street	Warehouse	$7,783,630	Close to the Existing Use Value (Feasible / Marginal)	Close to the Existing Use Value (Marginal)
110 Wellington Street	Apartments	$39,815,000	Lower than the Existing Use Value (Not Feasible)	Lower than the Existing Use Value (Not Feasible)

Source: Savills. Please note Savills was not able to measure or inspect the inside of any properties and only completed kerbside inspections.

Savills notes the City of Sydney has produced a range of studies highlighting the need for Affordable Housing in the LGA. Further, DPIE has approved the City of Sydney Affordable Housing Planning Proposal which means the program will apply to Waterloo South.

Savills view is it is not financially feasible, currently, to redevelop at least two of the private sites with or without Affordable Housing due to the fact that they are relatively new and have high market values. However, this is an assessment at a point in time and the feasibility of redevelopment including with an Affordable Housing contribution will improve over time.

4.0 Gateway determination and IAG review

4.1 Review of financial feasibility for the LAHC land by the Independent Advisory Group

The Minister for Planning and Public Spaces appointed an Independent Advisory Group to provide independent advice to inform the Gateway assessment and to recommend if the Planning Proposal for Waterloo should proceed to public exhibition. The objectives of the expert review by the IAG were to:

- Critically analyse Council's Planning Proposal to be submitted for Gateway determination and LAHC's planning proposal.
- Assess the merits of key aspects of both Planning Proposals, in particular considering the financial viability of the two schemes and the balance of public benefits.
- Provide advice and recommendations to inform the Department's assessment and Gateway determination which will allow an acceptable Planning Proposal to be publicly exhibited.
- Recommend potential Gateway conditions to address changes (if any) to the Planning Proposal lodged by Council with Department.

In the review of the financial feasibility of Council's Planning Proposal with 20% Affordable Housing the IAG concluded that "*this is not feasible by a considerable margin. The main reason for this is that the addition of 612 affordable units displaces the same number of market units. Since the proceeds of sale of the market units fund the social housing units the reduction of market units undermines the feasibility of the Proposal.*" (Page 60)

The IAG's key observations from its financial feasibility analysis include that:

- Any reduction in the overall density (number of apartments) had a negative impact on financial feasibility. This is caused by a number of fixed, or close to fixed, development costs (such as, the cost of precinct wide infrastructure, roads, services, and public open spaces), which do not vary with the numbers of apartments developed. The IAG concludes that *"having tested multiple options, the density should remain as proposed in the Planning Proposal. The IAG considers, however, that at this density, design quality, building quality and urban amenity are of significant importance at development assessment stage and at the construction stage."* (Page 48)
- The built form of the Planning Proposal affects both cost and revenue. The Council Planning Proposal is, generally speaking, a much lower rise-built form than plans submitted by LAHC. This results in more of the floor space being developed at lower levels in the development and less at high rise levels. This causes a reduction in construction costs, due to the avoidance of some costs associated with building higher rise building. It also results in lower overall revenues because apartments at higher levels sell at higher rates than lower-level apartments. Generally speaking, the loss of revenues is a more significant impact than the savings in construction costs. The IAG reports it *"supports the perimeter block model as submitted by the Council for this redevelopment. However, the IAG has proposed changes to the height of some of the street walls in order to improve solar access to the apartments and courtyards and to the amenity of the streets. In order to maintain a financially feasible outcome, these units are relocated to other parts of the site"* (Page 50).
- Any increase in affordable housing has a heavy negative impact on overall feasibility. This is because affordable units displace market units (given social housing unit numbers are held constant), the revenues from which cover the cost of social housing units and the majority of affordable unit costs. The IAG report states *"the IAG consider that a minimum of 10% affordable housing should be targeted for this site. The most financially feasible way this can be achieved is to set aside land of approximately 3500 m2 to be developed by the CHP sector. This could achieve about 7.75% affordable housing units. An addition of a minimum of 2% - 2.5% should be targeted as part of the tender process through the private sector development partner"* (Page 56).
- Changes to floor plate configuration affect building efficiency and in turn the feasibility of the development. The perimeter block configuration adopted by the Council planning proposal produces a slightly less efficient ratio between the net sellable area and gross floor area. Around 80% rather than 85% which LAHC have used as the basis for their proposal.

The planning metrics adopted by the IAG to achieve development at no cost to Government are shown in Table 6

Table 6: Waterloo IAG metrics adopted to meet its No Cost to Government Assessment

	Unit numbers x size	Net saleable area	Equivalent GFA per LEP
Social Housing Units	847 units x 62 m^2 each	52,514 m^2	61,781 m^2
Affordable Housing by a Community Housing Provider	237 units x 62 m^2 each (not to be constructed by LAHC)	14,694 m^2	17,287 m^2
Market Housing	1,976 units x 70 m^2 each	138,320 m^2	162,730 m^2

Source: Waterloo South Independent Advisory Group

4.2 Gateway Determination

The Gateway Determination by DPIE of the Waterloo South Planning Proposal requires the proposal to be updated to:

(a) undertake and respond to a range of technical reports
(b) make a range of updates and modifications to the Planning Proposal Prior to exhibition

In preparing this report Savills has focused on assisting the PPA to respond to two conditions in the Gateway Determination which required:

- A financial feasibility assessment of the impact of the 9% affordable housing levy on the private lands in accordance with Department guidelines for affordable housing schemes under SEPP No.70.
- On LAHC land *"require 5% to 10% of net additional residential units be developed by a Community Housing Provider (CHP) and/or Aboriginal Community Housing Provider (ACHP)"*

4.3 Proposed PPA scheme for Waterloo South

Figure 1 and Appendix 1 shows the proposed scheme for Waterloo South. Readers are encouraged to refer to the Urban Design Report by Hassell for further details and explanations.

Source: Hassell, 2021.

5.0 Financial feasibility and Affordable Housing on LAHC owned land

The Gateway Determination for Waterloo South states (Page 45) that *"it is the responsibility of the Planning Proposal Authority seeking to impose an affordable housing contribution to demonstrate that it is financially viable. The IAG found that the quantum of social housing (30%) and affordable housing (20%) proposed by Council is not financially feasible by a considerable margin. Financial feasibility of a project is a requirement of the Regional Plan. The viability test applied by the IAG is not the 'uplift in land value as a result of rezoning' but is rather a 'no cost to government' to maximise public benefits from the renewal. …. The Gateway conditions recommend that between 5% and 10% of net additional units be developed as affordable housing by a Community Housing Provider subject to the additional efficiency testing, … and the Gateway conditions require that a minimum gross floor area for this land use be prescribed within the site specific provisions"*

The Gateway Report states (page 53) *"require 5% to 10% of net additional residential units be developed by a Community Housing Provider (CHP) and/or Aboriginal Community Housing Provider (ACHP) (exact percentage subject to the results of the efficiency analysis)".* As such, Savills ran two feasibility models:

- The first assumes a developer delivers the project, including social and market housing and all associated infrastructure and project costs and achieves a commercial return. The Affordable Housing is developed by a CHP or ACHP.
- The second assumes a developer delivers the project, including social, affordable and market housing and all associated infrastructure and project costs and achieves a commercial return. Savills modelled the Affordable Housing being sold to a developer at various discounts to market prices.

The key components of the financial feasibility modelling for LAHC owed land, by Savills, are outlined below:

- The feasibility study was prepared on the basis of the scheme for Waterloo South developed by the PPA.
- It provides 847 dwellings as Social Housing Units (SHU)
- The revenues and costs in the model are not escalated (i.e., CPI or price escalation is not applied) and no financial or tax structuring is applied. This is consistent with the approach adopted by the City of Sydney and LAHC and was supported by the IAG.
- The financial modelling by Savills, tested different amounts of market and affordable housing – based on the requirement from DPIE for between 5% and 10% of net additional dwellings on LAHC land to be developed by a CHP or ACHP.
    - Savills tested both the Affordable Housing being sold to a CHP at a range of discounts to the value of market housing and LAHC transferring land to a CHP to develop the Affordable Housing.

5.1 Development yields for LAHC owned land in Waterloo South

Table 7 shows a summary of the Gross Floor Area (GFA) and Net Saleable Area (NSA) used in the final feasibility modelling. This shows around 10% of net additional residential dwellings would be Affordable Housing. This is around 7.5% of total dwellings and 7% of Net Saleable Area. This includes allocating land, which could potentially accommodate around 243 Affordable Housing units, to a CHP. This is close to 10% of net new dwellings. It is important to note the number of total units will be determined by the mix of dwellings (studio, 1, 2 and 3 bedroom) and size of dwellings adopted.

Table 7: Development yields for Waterloo South LAHC lands used in feasibility modelling

	Gross Floor Area (GFA)	Net saleable area (NSA)	Unit numbers (approx.)
Social Housing Units	57,226	47,211	847
Affordable Housing by a Community Housing Provider	16,255	13,530	243
Market Housing	162,786	135,913	2,092
Total Dwellings	236,267	196,654	3,183
Net dwellings	3,183 total dwellings less 749 existing dwellings = 2,434 net dwellings		

Source: GFA and NSA from Hassell, Urban Design Study for Waterloo. Dwelling numbers and allocations to dwelling types (social, affordable, market) calculated by Savills. The dwelling numbers are approximate as the mix of dwellings and size of each dwelling will determine this. See Table 9 for assumptions used in this report.

	Gross Floor Area	Net lettable area (NLA)	Unit numbers (approx.)
Commercial	18,540 m^2	16,686 m^2	Not relevant

Source: GFA and NSA from Hassell, Urban Design Study for Waterloo

Table 8 shows the residential building efficiencies that were applied in the feasibility modelling.

Table 8: Building efficiencies adopted in the financial feasibility modelling

		Low and Mid Rise	High Rise
Residential	Gross Envelope Area : Gross Floor Area	75.0%	75.0%
Residential	Gross Floor Area : Net Saleable Area	82.5%	85.0%
Commercial	Gross Envelope Area : Gross Floor Area	80.0%	NA
Commercial	Gross Floor Area : Net Saleable Area	90.0%	NA

Source: Hassell, Urban Design Study for Waterloo. For the purpose of calculating costs and revenues Savills and MBM classified low rise as 1-9 levels, mid-rise as 10 – 21 levels and high rise as 22+

Table 9 shows the dwelling mix that was adopted in the feasibility modelling. This was informed by data provided by LAHC and Savills research. Savills notes a developer will determine the dwelling mix and size of dwellings to adopt considering market conditions and requirements in planning documents.

Table 9: Mix of dwellings and dwelling sizes adopted in the financial feasibility modelling

	Studio	1 Bedroom (1)	2 Bedroom	3 & 4 Bedroom	Average NSA
Market Housing (% of dwellings)	5%	33%	54%	8%	-
Market Housing (avg. NSA)	40 m^2	55 m^2	74 m^2	94.5 m^2	67.67 m^2
Social and affordable housing (% of dwellings)	20%	20%	50%	10%	-
Social and affordable housing (% of dwellings)	35 m^2	50 m^2	70 m^2	91.5 m^2	61.15 m^2

(1) Source: Savills. We note the City of Sydney DCP 2012 states the percentage of 1 Bedroom dwellings may be increased above 30% provided the amount of Studio and 1 Bedroom units does not exceed 40%.

Table 10 shows the parking rates that were adopted in the feasibility modelling. Savills notes the actual amount of parking required will be determined by the mix of dwellings. The City of Sydney has advised that visitor parking is not applicable, while removing this would reduce costs it does not make a material difference in the feasibility results.

Table 10: Parking rates adopted in the financial feasibility modelling

Social & Affordable Housing	Mix	NSA sqm	External sqm	Parking Rates	No. Car spaces
Studio	20.00%	35	8	0.2	44
1 bedroom	20.00%	50	10	0.2	44
2 bedroom	50.00%	70	12	0.2	109
3 & 4 bedroom	10.00%	92	16	0.2	22

Resident Spaces	100.00%	-	-	-	218
Visitor Spaces	100%	-	-	0.05	55
Total Spaces	-	61.15	11.16	0.25	273
Market Housing	**Mix**	**NSA sqm**	**External sqm**	**Parking Rates**	**No. Car spaces**
Studio	5.00%	40	8	0.1	10
1 bedroom	33.00%	55	10	0.3	207
2 bedroom	54.00%	74	13	0.7	791
3 & 4 bedroom	8.00%	94.5	17	1	167
Resident Spaces	100.00%	-	-		1,176
Visitor Spaces	100%	-	-	0.05	59
Car Share spaces	100%	-	-	0.02	24
Total Spaces	-	67.67	12.09	0.63	1,258
Commercial	**Sqm GFA**	**Sqm NLA**	**Spaces psm NLA**	**Parking rate**	**No. Car spaces**
Commercial / Community	18,540	16,686	0.018	0.020	333

Source: Savills.

5.2 Development staging for LAHC land in Waterloo South

Savills expects the Waterloo South site to be developed over 9 to 12 stages depending on the strength of demand for apartments in Waterloo.

In developing a hypothetical staging plan for the feasibility Savills aimed to have a relatively similar number of dwellings in each stage and develop adjacent parcels in a stage if possible. The duration of each stage was determined by a combination of sales timeframes (time required to achieve pre-sales and all sales) and construction timeframes.

5.3 Development costs for LAHC land in Waterloo South

Savills worked with MBM (Quantity Surveyors) who prepared a cost plan for Waterloo South. Some of the major construction / development cost items are included in

Table 11. Further, Savills made an allowance for the past costs for Government and projected future costs to develop Waterloo South including tenant relocation costs, project management costs and community engagement costs.

Table 11: Major construction costs adopted for feasibility modelling

Major construction costs (excluding GST) $2021	
MAJOR ESTATE WORKS (including contingency)	
OTHER MAJOR CONSTRUCTION COSTS ($m2):	
Basement Parking	$1,700 m^2
Retail and community ($/m^2 FECA)[6]	$2,400 - $2,900
Market, affordable and social housing - construction costs ($m2 FECA)	$3,000 - $3,600
Balconies, plant area, rooftop and vertical landscaping	$750 – $1200 m^2
Other sustainability (percentage of construction costs)	1%
Design & Professional Fees	7%
Project Management Fees	2%
Development Management Fees	1.5%
Construction Contingency (%)	5%

Source: MBM and Savills.

Savills notes the IAG also commented on the scheme costs developed by Napier Blakely for the City of Sydney and MBM for LAHC, concluding the *"Council assessment of construction costs is assessed by the IAG as substantially lower than expected…. Advice, from an independent quantity surveyor identified significant differences in some construction cost rates in the Council model compared to likely market rates for the quality and scope of the development proposed in the Council plan."*

Similarly, to the feasibility for the City of Sydney, Savills assumed the developer needs to pay Section 7.11 contributions on the market housing and the cost of required parks and community facilities is offset against Section 7.11 contributions payable in Waterloo South.

Savills assumed there was no Transport Infrastructure Contribution or Regional Infrastructure Contribution payable on Waterloo South.

5.4 Development revenues for LAHC land in Waterloo South

Savills collected or analysed apartment and retail sales evidence for a range of properties near Waterloo (including properties listed in and adopted what our Valuation Team assessed as being market rates. These rates are slightly higher than adopted in the feasibility for the City of Sydney however our sales rates are lower than the City of Sydney and LAHC. Savills agree the sales rates could be higher if the apartment market is strong, however we have adopted more modest sales rates – which is conservative.

Table 12: Examples of properties reviewed to determine sales prices adopted in the feasibility modelling

Address	Address
"Mastery by Crown", 44-48 O'Dea Avenue, Waterloo	"TNT Apartments" (Stage 2) – 1 Lawson Square, Redfern
"Waterfall", 18-20 O'Dea Avenue, Waterloo	Alex Collective", 163-173 McEvoy Street, Alexandria
"The Noble", 11B Lachlan Street, Waterloo	"Amara Living", 620-632 Botany Road, Alexandria
Uno – 105-115 Portman Street, Zetland	The Laneways", 33-37 Mentmore Avenue, Rosebery
Portman Place", 77-93 Portman Place, Zetland	Eminence", 811 Elizabeth Street, Zetland

Source: Savills

Savills adopted that the commercial space would sell for on average $8,000 m^2, noting there may be variations between ground floor and first floor space and different types of commercial space ($10,000 m^2 retail and $6,000 m^2 commercial).

[6] FECA is Fully Enclosed Covered Area

Savills also adopted that each stage of the project needs to achieve a pre-sales benchmark before apartment construction can commence and that units are generally sold within 6 months of completion, depending on the number of units in the stage.

5.5 Net position for a developer and Government (no net cost to Government)

As noted earlier the Gateway Report (page 53) states "it *is the responsibility of the Planning Proposal Authority seeking to impose an affordable housing contribution to demonstrate that it is financially viable.* The Gateway Report states (page 53) *"require 5% to 10% of net additional residential units be developed by a Community Housing Provider (CHP) and/or Aboriginal Community Housing Provider (ACHP) (exact percentage subject to the results of the efficiency analysis)".* As such, Savills ran two feasibility models:

- The first assumes a developer delivers the project, including social and market housing and all associated infrastructure and project costs and achieves a commercial return. The Affordable Housing is developed by a CHP or ACHP.
- The second assumes a developer delivers the project, including social, affordable and market housing and all associated infrastructure and project costs and achieves a commercial return. Savills modelled the Affordable Housing being sold to a developer at various discounts to market prices.

Savills calculated whether it is feasible for a developer to deliver the development of Waterloo South on LAHC land at no cost to government.

The financial feasibility by Savills found it is possible to require 10% of net additional dwellings on LAHC owned land at Waterloo South as Affordable Housing and for this to occur at no cost to Government. This is around 7.5% of total dwellings and 7% of Gross Floor Area.

Savills tested a range of options for how the Affordable Housing could be provided including (a) the Affordable Housing being built by the developer of LAHC land and sold at a discount to a Community Housing Provider or (b) by LAHC allocating some land to a CHP. The results of the financial feasibility show both can occur at no cost to Government.

Disclaimer

Appendix 1: Development Yields Waterloo South – LAHC Land

Precinct	Block No.	Building No.	Site Area	FSR	Owner-ship	Total No. of Floors	Non-Residential				Residential							
							No. Floors	AREA			No. Floors	AREA (Perimeter Block)			No. Floors	AREA (Tower)		
								GEA	GFA	NLA		GEA	GFA	NLA		GEA	GFA	NLA
1	1A					0			0	0				0				0
2	2A		1780	3.05	Private	8	4	4008	3206	2886	4	3680	2760	2277	0	0	0	0
	2B		1225	1.32	LAHC	4	4	2222	1778	1600	0	0	0	0	0	0	0	0
	2C		2522	2.50	Private	8	0	0	0	0	8	9238	6929	5716	0	0	0	0
	2D	2D-1	1691	3.26	LAHC	8	0	0	0	0	8	3809	2857	2357	0	0	0	0
		2D-2			LAHC						4	1188	891	735	0	0	0	0
		2D-3			LAHC						8	3094	2321	1914	0	0	0	0
	2E		662		Private													
	2F		178		Private													
3	3A	3A-1	2955	5.37	LAHC	13	1	2827	2262	2035	12	7911	5933	4895	0	0	0	0
		3A-2			LAHC						7	4268	3201	2641	0	0	0	0
		3A-3			LAHC						10	8078	6059	4998	0	0	0	0
	3B	3B-1	2945	4.83	LAHC	13	1	2821	2257	2031	10	6446	4835	3988	0	0	0	0
		3B-2			LAHC						12	4905	3679	3035	0	0	0	0
		3B-3			LAHC						4	893	670	553	0	0	0	0
		3B-4			LAHC						7	5611	4208	3472	0	0	0	0
4	4A	4A-1	2123	2.87	Private	8	0	0	0	0	8	8928	6696	5524	0	0	0	0
	4B	4B-1	1315	2.83	LAHC	11	1	826	661	595	10	4582	3437	2835	0	0	0	0
	4C	4C-1	4927	3.78	LAHC	13	1	3863	3090	2781	10	7685	5764	4755	0	0	0	0
		4C-2			LAHC						12	4948	3711	3062	0	0	0	0
		4C-3			LAHC						4	1189	892	736	0	0	0	0
		4C-4			LAHC						8	9364	7023	5794	0	0	0	0
		10B-2			LAHC		0	0	0	0	4	1196	897	740	0	0	0	0
		10B-3			LAHC		0	0	0	0	9	6611	4958	4091	0	0	0	0

Precinct	Block No.	Building No.	Site Area	FSR	Owner-ship	Total No. of Floors	Non-Residential				Residential							
							No. Floors	AREA			No. Floors	AREA (Perimeter Block)			No. Floors	AREA (Tower)		
								GEA	GFA	NLA		GEA	GFA	NLA		GEA	GFA	NLA
5	5A	5A-1	3470	4.25	LAHC	13	0	0	0	0	13	6234	4676	3857	0	0	0	0
		5A-2			LAHC						9	4908	3681	3037	0	0	0	0
		5A-3			LAHC						4	1223	917	757	0	0	0	0
		5A-4			LAHC						9	9281	6961	5743	0	0	0	0
6	6A	6A-1	3322	4.15	LAHC	13	0	0	0	0	13	10303	7727	6375	0	0	0	0
		6A-2			LAHC						4	1172	879	725	0	0	0	0
		6A-3			LAHC						9	8747	6560	5412	0	0	0	0
7	7A	7A-1	3266	5.73	LAHC	27	0	0	0	0	0	0	0	0	27	22646	16985	14437
		7A-2									9	4804	3603	2972	0	0	0	0
	7B	7B-1	3400	3.10	LAHC	11	0	0	0	0	8	9331	6998	5774	0	0	0	0
		7B-2			LAHC						11	6133	4600	3795	0	0	0	0
8	8A	8A-1	4450	6.77	LAHC	33	0	0	0	0	8	1536	1152	950	0	0		
		8A-2			LAHC		1	852	682	613	0	0	0	0	32	24297	18223	15489
		8A-3			LAHC		1	1301	1041	937	6	7808	5856	4831	0	0	0	0
		8A-4			LAHC		1	277	222	199	12	3228	2421	1997	0	0	0	0
		8A-5			LAHC		1	442	354	318	10	4261	3196	2636	0	0	0	0
	8B	8B-1	1928	3.39	LAHC	8	0	0	0	0	8	5305	3979	3282	0	0	0	0
		8B-2			LAHC						4	792	594	490	0	0	0	0
		8B-3			LAHC						8	3494	2621	2162	0	0	0	0
	8C	8C-1	1789	4.31	LAHC	13	0	0	0	0	8	3495	2621	2163	0	0	0	0
		8C-2			LAHC		0	0	0	0	4	990	743	613	0	0	0	0
		8C-3			LAHC		1	390	312	281	12	3898	2924	2412	0	0	0	0
		8C-4			LAHC		1	248	198	179	10	2250	1688	1392	0	0	0	0
	8D	8D-1	996	0.86	LAHC	2	2	1184	947	852	0	0	0	0	0	0	0	0
		10B-2			LAHC		0	0	0	0	4	1196	897	740	0	0	0	0
		10B-3			LAHC		0	0	0	0	9	6611	4958	4091	0	0	0	0

Precinct	Block No.	Building No.	Site Area	FSR	Owner-ship	Total No. of Floors	Non-Residential				Residential							
							No. Floors	AREA			No. Floors	AREA (Perimeter Block)			No. Floors	AREA (Tower)		
								GEA	GFA	NLA		GEA	GFA	NLA		GEA	GFA	NLA
9	9A	9A-1	3623	6.23	LAHC	32	1	1720	1376	1238	8	5318	3989	3291	0	0	0	0
		9A-2			LAHC						6	1630	1223	1009	0	0	0	0
		9A-3			LAHC						0	0	0	0	32	24343	18257	15519
	9B	9B-1	3653	3.81	LAHC	13	1	2789	2231	2008	8	7024	5268	4346	0	0	0	0
		9B-2			LAHC						4	1190	893	736	0	0	0	0
		9B-3			LAHC						12	4345	3259	2688	0	0	0	0
		9B-4			LAHC						10	4897	3673	3030	0	0	0	0
10	10A	10A-1	3557	5.85	LAHC	30	1	892	714	642	0	0	0	0	29	21215	15911	13525
		10A-2			LAHC		1	272	218	196	5	1358	1019	840	0	0	0	0
		10A-3			LAHC		1	249	199	179	9	6457	4843	3995	0	0	0	0
	10B	10B-1	2947	3.97	LAHC	13	0	0	0	0	13	9331	6998	5774	0	0	0	0
		10B-2			LAHC		0	0	0	0	4	1196	897	740	0	0	0	0
		10B-3			LAHC		0	0	0	0	9	6611	4958	4091	0	0	0	0