SGS Economics & Planning

CHESTER HILL ECONOMIC ANALYSIS

FINAL
JULY 2020

Prepared for
Canterbury-Bankstown Council

Independent insight.

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1. INTRODUCTION

1.1 Background

SGS Economics and Planning has been commissioned by Canterbury-Bankstown Council (Council) to provide economic analysis of the Chester Hill Centre and to review the economic rationale for a proposed redevelopment of the Chester Square Shopping Centre. As redevelopment would require an amendment to the Bankstown Local Environmental Plan 2015, a planning proposal has been submitted to Council by Holdmark, the owners of the Chester Square shopping centre. An economic impact assessment prepared by AEC was submitted with the Planning Proposal.

The scope of this work as set out in the request for quotation is to:

- Assess the proposed retail and commercial floorspace and residential unit yields of the planning proposal and undertake a supply and demand analysis for same.
- Assess the current controls of the land within the B2 Local Centre zoned lands north of the railway line at Chester Hill and undertake a supply and demand analysis for same.
- Prepare a report incorporating the above assessment. The assessment is to consider such matters as (but not limited to):
    - Whether the planning proposal is feasible in terms of market demand for the quantum of floor space and unit yields proposed and ability to meet typical financial requirements such as presales etc.
    - The capitalised land value of the subject site in its current form; the residual land value if the site if it were developed under the existing controls; and the residual land value if the site were developed as proposed by the planning proposal.
    - The economic impact of the planning proposal on other land zoned B2 Local Centre within the Chester Hill village centre and other centres within the main trade area.
    - Whether the use of height and floor space controls can be used (where appropriate) to encourage site amalgamation within the B2 Local Centre zoned area, specifically for the properties fronting Waldron Road.

1.2 The proposed development

The proposed development comprises comprehensive redevelopment of the subject site with the following components:

- A rebuilt shopping centre expanded from the current gross lettable area of 8,268 sqm to 1,000sqm of commercial floorspace and 15,763 sqm of retail floorspace, and
- Approximately 648 apartments on top of the shopping centre in buildings ranging from 6 to 19 storeys.

The Chester Square site currently has a maximum building height of 20m and an allowable floor space ratio of 2.5:1. To facilitate the proposed development:

- The height of building control is proposed to be increased to provide a range of heights between 11m and 65m across the site,
- The permissible floor space ratio would be amended to 4.53:1, and
- Introduce a clause to the LEP allowing the consent authority to impose a requirement for 5% of the residential floor area to be dedicated to Council as affordable bousing.

The B2 Local Centre zone currently applies to the subject site and this is not proposed to be changed.

The proponent has also submitted an offer of public benefit letter offering the following to Council:

- Dedication of a 160sqm cold shell constructed community centre,
- A financial contribution towards the upgrade of Nugent Park North and Nugent Park South
- A 1.5m widening of Frost Lane and embellishment of the lane,
- The creation of a publicly accessible plaza square of around 2,800 sqm to be privately owned with public access secured on the land title, and
- Upgrades to the local traffic network.

Alternative proposal

Council commissioned Place Design Group to undertake an urban design peer review of the proposed development. Place Design Group recommended an alternative proposal with a lower development density. SGS was requested to comment on the economics of a draft of this alternative proposal.

The alternative proposal differed from the submitted proposal in the following ways:

- A reduced FSR (3.5:1 instead of 4.53:1), although still a higher FSR than the current provisions which allow 2.5:1,
- Reduced building height (maximum 12 storeys instead of 19 storeys),
- A reduction in the residential GFA from 59,016 sqm to 41,783 sqm,

Place Design Group also recommended public domain revitalisation measures to improve the retail appeal of Waldron Road and improve the integration between Waldron Road and the shopping centre. These include increasing the ease of walking across Waldron Road at Charles Place and widening Charles Place by acquiring the current post office and incorporating it into Charles Place.

1.3 Structure of this document

This document reviews AEC's findings regarding likely residential, commercial and retail floorspace demand and the implications of this for the strategic justification of the planning proposal. SGS has not reviewed the socio-economic profile or economic impact assessment chapters of the AEC report, although these are considered to be less vital to the strategic merit of the proposal.

This document includes the following chapters:

- **Chapter 2: Residential supply and demand analysis**, which comments on the likely residential future demand in Chester Hill and surrounds and whether the proposed development is required to meet this demand,
- **Chapter 3: Commercial and retail supply and demand**, which provides a high level analysis of the likely impacts of the proposed development on Chester Hill and other nearby centres in both the retail and commercial markets,
- **Chapter 4: Development feasibility**, which analyses the feasibility of shop top housing development along Waldron Road and on the subject site, and
- **Chapter 5: Conclusion**, which synthesises the other chapters to comment on the overall economic justification for the planning proposal.

Following the preparation of this (draft) report in March 2020 Atlas Urban Economics (Atlas) was engaged by Holdmark to review the SGS analysis and conclusions. The Atlas Review letter is dated 4 June 2020. Council further commissioned SGS to respond to the Atlas review of SGS's analysis. This July 2020 **SGS response to the Atlas review is included as Attachment 1** in this revised and Final Report.

2. RESIDENTIAL SUPPLY AND DEMAND

2.1 AEC's findings

AEC's findings related to housing supply and demand are summarised below. While responses to AEC's findings are provided in this section, the remainder of this chapter provides SGS's independent analysis of housing supply, demand and capacity. This allows the comparison of AEC's and SGS's separate findings.

Population forecasts

AEC find that:

- The Canterbury-Bankstown LGA is projected to increase by just over 142,000 residents over the 2016-2036. The population is expected to grow at an average annual rate of 1.7%. This expected rate of growth is faster than that observed over 2006-2011 and 2011-2016.
- Based on projected population and household growth, the Canterbury-Bankstown LGA is expected to need an additional 55,250 dwellings over the 2016-2036 period (DPIE, 2017). To meet this implied dwelling requirement, the LGA will require the completion of an annual average of 2,763 dwellings at a rate of 1.8%.
- Small area forecasts show that Chester Hill is not currently expected to have significant population growth over the 20 years to 2036, with an additional 1,162 residents and 432 dwellings forecast over this period and an average annual growth rate of 0.4%. This rate of population growth is slower than that projected by DPIE for the broader Canterbury-Bankstown LGA.

SGS Response

SGS also uses population projections as the basis for assessing likely housing demand. AEC refer to both the Forecast.id and DPIE forecasts for the Canterbury Bankstown LGA and for the suburb of Chester Hill. These are both plausible forecasts and there are merits in the use of each – DPIE uses a consistent methodology across Greater Sydney allowing Councils to ensure that their local planning is aligned with planning by the NSW Government, while Forecast.id incorporates more local information likely to produce a more accurate picture of what might occur at a small scale.

Section 2.3 uses SGS's housing demand model along with Transport for NSW's *TZP v1.51* forecast, which is built off the DPIE forecast, to provide a detailed analysis of how population projections translate into likely dwelling demand by dwelling type.

Development constraints and pipeline

AEC find that:

- Very little new residential development is proposed in Chester Hill, with the exception of a 100-unit mixed-use project at 137 Campbell Road immediately south of the subject site. There are some proposed developments nearby.
- Growing market appetite for multi-dwelling living and a desire to live closer to retail and transport amenity has resulted in strong market response to new developments in neighbouring centres proximate to Chester Hill (e.g. Yagoona). As a local centre that

currently benefits from heavy rail access and good bus connections, Chester Hill is well-positioned to accommodate additional housing demand.
- Fine grain lot patterns and existing use values present challenges for mixed-use redevelopment within the B2 Local Centre zone of Chester Hill. This risks the ability of the Chester Hill centre to meet its objectives as outlined in the North West Local Area Plan. The Proposal has the ability to make a meaningful contribution to these objectives.

SGS Response

The presence of development proposals and active developments near Chester Hill does indicate that there are likely to be development opportunities in Chester Hill if appropriate sites are available. SGS concurs that the Chester Square site is likely to be easier to develop than properties along Waldron Road. However, this should be considered in light of development feasibility testing which is included in Chapter 4 and the housing capacity modelling in Section 2.5.

Fine grain subdivision patterns such as are present on Waldron Road are likely to constrain mixed use development potential, particularly in areas like Chester Hill where land values are relatively low compared to some other parts of Greater Sydney. Chapter 4 contains development feasibility analysis and commentary on how Council planning could encourage site amalgamation and development, although the scope of Council action may be limited. There are also development opportunities in the surrounding residential areas, including on sites predominately owned by the Land and Housing Corporation opposite shops on Waldron Road.

Strategic justification

AEC find that:

- The Greater Sydney Region Plan and South District Plan emphasise the importance of ensuring housing supply and choice, and housing affordability which is facilitated close to jobs, services and public transport.
- Provision of a greater mix of housing typologies as envisaged in the Proposal will assist in providing a range of more affordable housing for both owner occupiers and renters.
- Chester Hill's slow forecast rate of growth does not align with many of the recommendations in the South District Plan, particularly around focusing residential growth in centres with strong transport connectivity and local amenity.
- The Proposal will strengthen the role of Chester Hill as an important local centre with new residents driving demand for retail and business services.
- The overall rate of population growth over the 2006-2016 period in the Canterbury-Bankstown LGA averaged 2% per annum, compared to 1.6% per annum dwelling growth. This difference suggests a dwellings deficit consistent with Canterbury-Bankstown's number of persons per household increasing from 2.9 to 3.1 persons over the 2006-2016 period. As a result, the provision of 648 new dwellings on the Site constitutes a strong positive economic impact.

SGS Response

The Greater Sydney Region Plan and South District Plan do encourage additional dwelling diversity and housing development to occur in well located areas. SGS's housing demand model results in Section 2.3 allow comparison of current development trends with likely housing requirements by development type, providing a more quantitative understanding of the alignment between the proposed development and housing diversity needs.

SGS concurs with AEC that high-density housing development would strengthen the role of Chester Hill as an important local centre as well as increasing activity in the centre at multiple times of day.

Household sizes increased between 2006-2016 in almost all parts of Greater Sydney, which is likely to represent in large part a response to decreasing housing affordability. Ensuring that

sufficient housing capacity is available to facilitate development in response to housing demand is an important part of planning for housing affordability. However, affordability is also affected by a range of other demand-based factors, many of which are influenced by policies of the NSW Government and Australian Government. Ideally Council planning should ensure that appropriate housing supply (including a buffer of additional capacity) is possible across the Canterbury-Bankstown LGA through strategic planning rather than through ad-hoc responses to development proposals. Nonetheless, the proposed development does present opportunities to increase local housing diversity and supply in line with Council's earlier strategic plans, as discussed in Section 2.6.

2.2 Housing types

In this chapter, dwellings are categorised into four types which are defined by the Australian Bureau of Statistics (ABS) and used in the Census and other statistics. These categories are:

- Separate house means a dwelling which is not attached to any other dwelling. In planning instruments these are called dwelling houses.
- Attached dwellings are attached on one or more walls, such as semi-detached, terraced and villa-style housing. In planning instruments these are called dual occupancies, semi-detached dwellings, attached dwellings and multi-dwelling housing.
- Flats or apartments can be two or more storeys, with dwellings sharing vertical as well as horizontal walls. In planning instruments these are called shop-top housing and residential flat buildings.
- Other dwellings includes caravans and cabins, improvised dwellings, houseboats and flats attached to shops.

This categorisation refers only to *private dwellings*, which are those in which only a single household lives. *Non-private dwellings* are those in which more than a single household lives or in which people do not live in traditional households. These dwellings include boarding houses, student accommodation and aged care facilities.

2.3 Housing demand forecast

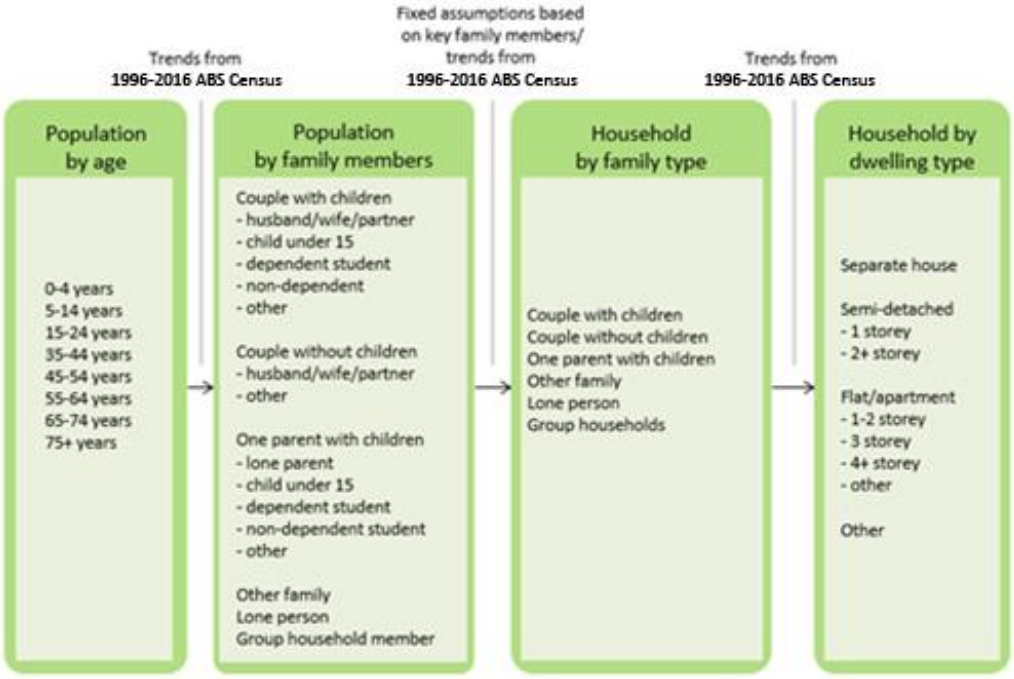
Approach

The analysis in this section uses a range of ABS datasets, including population growth, age, family and household type, along with population forecasts by age produced by Transport for NSW. These demographic inputs combine to inform who is likely to occupy housing now and into the future, and what the resulting housing demand is likely to be.

SGS has applied its in-house *Housing Demand Model* to convert population forecasts into a forecast of the likely number of households by household type, and then into likely dwelling demand by dwelling type. An illustration of the model is shown in Figure 1, showing the outputs as being housing demand for the following dwelling types: 'separate house', 'semi-detached' (otherwise referred to as attached dwellings) and 'flat/apartment'.

Demand for different dwelling type shifts throughout an individual's lifespan, due to a variety of factors including income levels, the structure of the household they live in, their preferences and the availability of different types of dwellings. The model uses the historically observed trend between household type and dwelling type to predict how revealed housing preferences will change in the future. This is a 'business as usual' forecast in which housing preferences in the future shift in line with recent trends. However, it may not give an accurate estimate of future housing demand if there are major shifts in population/demographic trends or supply/capacity constraints or if there is latent demand for a particular type of dwelling which is unaddressed in the historical data.

FIGURE 1: SGS HOUSING DEMAND MODEL METHOD



Source: SGS Economics and Planning, 2019

Spatial extent of modelling

To determine likely dwelling demand in an around Chester Hill, two different catchment areas were modelled. The catchments are built from SA2s (geographic boundaries used by the ABS) as this allows the interrogation of past demographic and dwelling trends necessary for housing demand modelling. Both catchments are shown in Figure 2, along with the migration data from the ABS census which was used to derive the broader housing submarket.

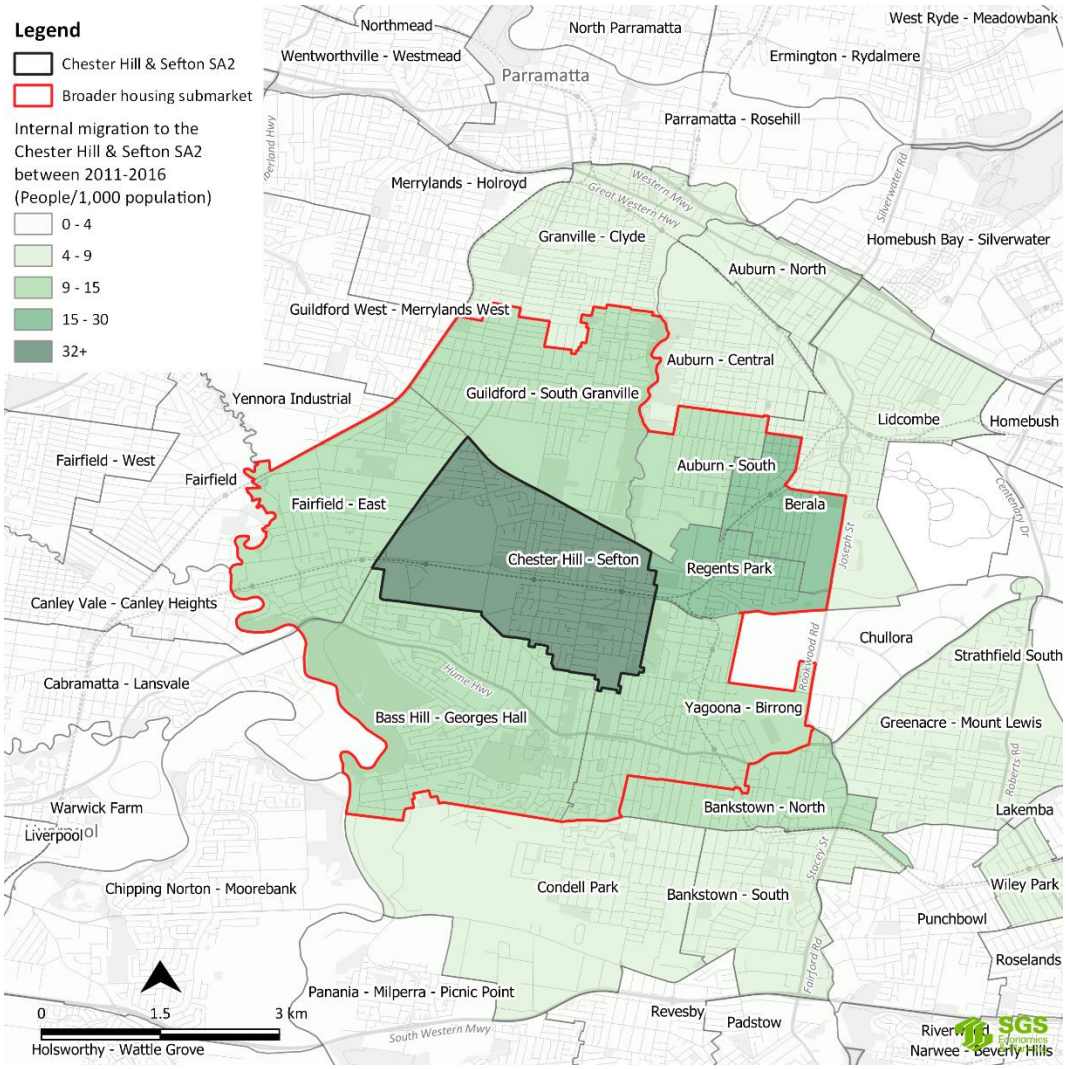
The first modelled catchment is the Chester Hill – Sefton SA2, which covers most of the suburb of Chester Hill, the adjacent suburb of Sefton and part of the Villawood industrial area. This is an approximation of the local property market in which the subject site is situated.

The second modelled catchment is formed from the following SA2s (as defined in the ABS's ASGS 2016 geographic boundaries and reported in the 2016 census):

- Chester Hill – Sefton
- Guildford – South Granville
- Auburn – South
- Berala
- Regents Park
- Yagoona – Birrong
- Bass Hill – Georges Hall
- Fairfield – East

As shown in Figure 2, these are the SA2s from which the most people moved to the Chester Hill – Sefton SA2 between 2011 and 2016. All things being equal, this represents the area within which people are most likely to move to or from Chester Hill in the future. This approximation of the broader housing submarket for Chester Hill is the area within which dwellings are likely to be considered as substitutable with each other when people move to a new house. A gap between housing demand and supply within one part of the submarket could be met by development in another part of the submarket.

FIGURE 2: HOUSING DEMAND CATCHMENTS AND MIGRATION DATA FROM THE ABS CENSUS



Source: SGS Economics and Planning, 2019, ABS Census 2016

Figure 2 shows that people are also relatively likely to move from the northern part of the Bankstown Centre (the Bankstown – North SA2) to the Chester Hill – Sefton SA2. However, the Bankstown – North SA2 has not been included in the broader housing submarket as it has a different housing character than Chester Hill, and so people are less likely to consider housing in the Bankstown Centre as substitutable with housing in Chester Hill. Bankstown is a major centre in which almost all dwellings are apartments while Chester Hill and other included areas have lower density and contain smaller centres. The large amount of apartment development occurring in Bankstown could also distort the local demographic trends measured in and around Chester Hill, which are inputs to the Housing Demand model.

Population growth and demographic change

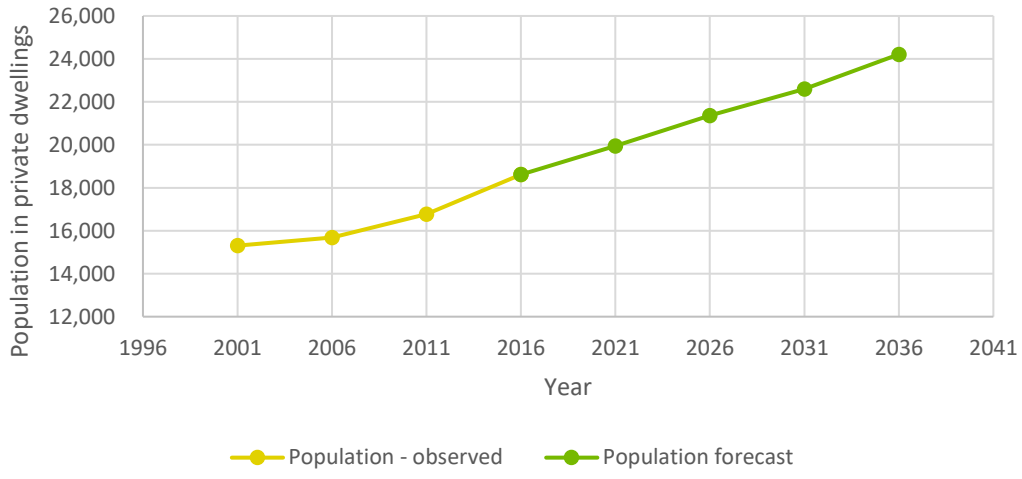
Population forecasts by age

Figure 3 and Figure 4 below show the population forecasts for the two housing demand catchment areas. These projections were compiled from the TZP v1.51 projections produced by Transport for NSW and used for strategic planning across the NSW Government.

These projections forecast that between 2016-2036 an additional 5,600 (a 30% increase) people will live in the Chester Hill – Sefton SA2, and an additional 30,761 in the broader submarket (a 25% increase). In the Chester Hill – Sefton SA2 an average annual population

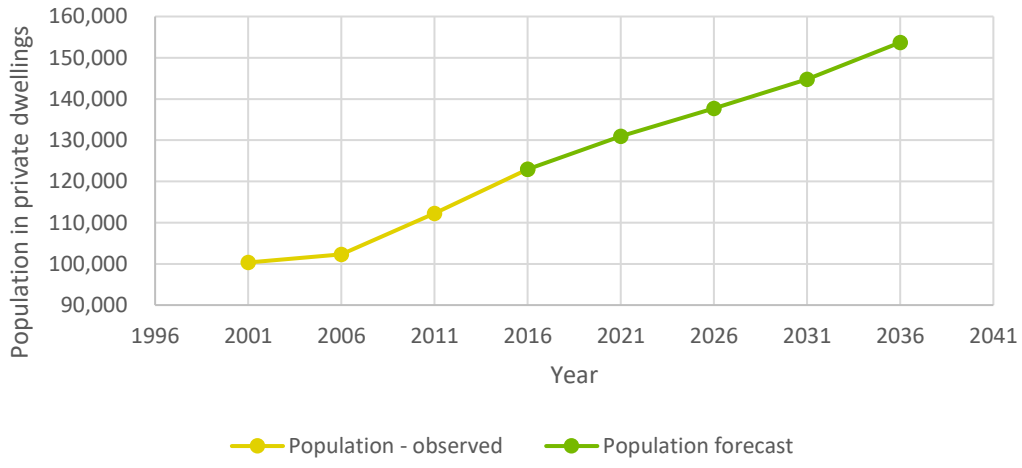
growth rate of 1.3% is forecast, while 1.1% is forecast in the broader submarket. These growth rates are lower than those quoted by AEC which are sourced from the Forecast.id projections. For comparison, average annual population growth rates were 1.7% and 1.9% between 2006 and 2016 in the Chester Hill – Sefton SA2 and broader submarket respectively. As such, significant growth is forecast in these two areas in the future, but growth rates are expected to be slightly lower than those observed between 2006 and 2016.

FIGURE 3: FORECAST POPULATION GROWTH IN THE CHESTER HILL – SEFTON SA2



Source: ABS, 2017; TfNSW 2019 *TZP v1.51 Projections*

FIGURE 4: FORECAST POPULATION GROWTH IN THE BROADER SUBMARKET



Source: ABS, 2017; TfNSW 2019 *TZP v1.51 Projections*

Population age structure

The population age structure in each housing demand catchment area has been forecast based upon a combination of:

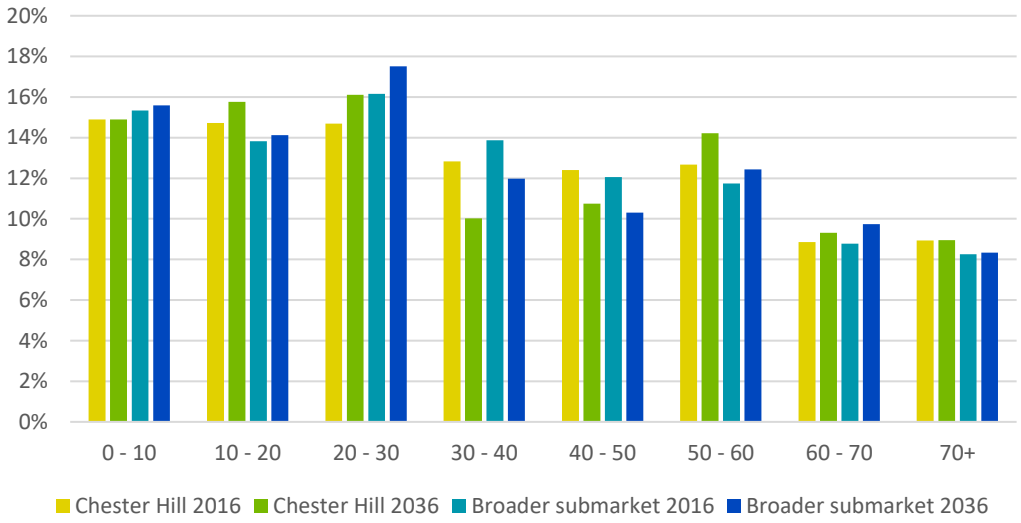
- A continuation of recent trends in the local population age structure, and
- The TfNSW projections, which mirror demographic patterns for the surrounding area.

The current and projected age profiles for residents in private dwellings are shown in Figure 5 below. Based on these predictions, the proportion of people aged 30-50 is anticipated to decrease while the proportion of people aged under 30 and over 50 is expected to increase. An aging population is generally associated with an increased need for smaller and moderately sized dwellings, as is an increased proportion of people aged 20-30. However, an

increase in the number of people under 20 is consistent with an increased number of families who are likely to require moderate and larger dwellings.

A change in the kinds of dwellings being constructed could lead to a change in the kinds of people moving to and from an area and so in the population age structure. However, current population projections have formed the basis for housing demand modelling in this section.

FIGURE 5: FORECAST CHANGE IN POPULATION AGE STRUCTURE



Source: TPA, 2019

Dwelling demand forecast

Table 1 and Table 2 show the forecast changes in implied dwelling demand by dwelling type until 2036. There is a total expected demand of 1,274 dwellings in the Chester Hill – Sefton SA2 and 6,909 dwellings in the broader submarket. In both cases the household size is expected to increase slightly (in line with recent trends), and so the average annual rate of growth of dwelling demand is lower than the expected population growth rate.

TABLE 1: DWELLING DEMAND FORECAST FOR THE BROADER SUBMARKET

Dwelling type	2016	2036	2016 - 2036 Change	2016 – 2036 average annual growth rate
Separate house	26,972	25,202	-1,770	-0.3%
Attached dwelling	5,587	10,140	4,553	3.0%
Flat, unit, apartment or other dwelling	6,365	10,491	4,126	2.5%
Total private dwellings	**38,924**	**45,833**	**6,909**	**0.8%**

Source: SGS Economics and Planning, 2019

TABLE 2: DWELLING DEMAND FORECAST FOR THE CHESTER HILL – SEFTON SA2

Dwelling type	2016	2036	2016 - 2036 Change	2016 – 2036 average annual growth rate
Separate house	4,404	4,568	164	0.2%
Attached dwelling	888	1,600	712	3.0%
Flat, unit, apartment or other dwelling	697	1,095	398	2.3%
Total private dwellings	**5,989**	**7,263**	**1,274**	**1.0%**

Source: SGS Economics and Planning, 2019

There is a large amount of demand expected for both attached dwellings and apartments. This is a result of the expectation that recent revealed housing preference trends will continue, with all household types becoming less likely to live in a separate house and more likely to live in an attached dwelling or in an apartment.

Demand for separate houses is expected to be static or decrease slightly. As additional separate houses are much less likely to be built in an established area, additional separate house demand could be fulfilled with mostly attached dwellings or separate dual occupancies.

As a sensitivity on this analysis, the following two tables show housing demand figures if household sizes remain constant at their 2016 levels. This would not be in line with recent trends, which have seen increasing household sizes. However, planning for no further increase in household sizes would seek to facilitate additional housing supply to increase affordability. In this case, 3,304 additional dwellings would be needed in the broader submarket and 578 in the Chester Hill – Sefton SA2.

TABLE 3: DWELLING DEMAND FORECAST FOR THE BROADER SUBMARKET – SCENARIO IF HOUSEHOLD SIZES DO NOT INCREASE

Dwelling type	2016	2036	2016 - 2036 Change	2016 – 2036 average annual growth rate
Separate house	26,972	27,070	98	0.0%
Attached dwelling	5,587	10,890	5,303	3.4%
Flat, unit, apartment or other dwelling	6,365	11,177	4,812	2.9%
Total private dwellings	**38,924**	**49,137**	**10,213**	**1.2%**

Source: SGS Economics and Planning, 2019

TABLE 4: DWELLING DEMAND FORECAST FOR THE CHESTER HILL – SEFTON SA2 – SCENARIO IF HOUSEHOLD SIZES DO NOT INCREASE

Dwelling type	2016	2036	2016 - 2036 Change	2016 – 2036 average annual growth rate
Separate house	4,404	4,927	523	0.6%
Attached dwelling	888	1,730	842	3.4%
Flat, unit, apartment or other dwelling	697	1,184	487	2.7%
Total private dwellings	**5,989**	**7,841**	**1,852**	**1.4%**

Source: SGS Economics and Planning, 2019

Market depth

SGS consulted with local real estate agents to assess the performance of the local property market and the market depth for higher density dwellings in the area. Agents reported that there has been little high density development in Chester Hill and there is limited current stock, and so it is difficult to estimate what the market depth for additional apartments would be. However, some recent new developments in adjacent suburbs were discussed, which have sold well. This suggests that there would be similar demand in Chester Hill if development was feasible and possible on available sites, particularly considering the increased amenity of the Chester Hill centre when compared with other nearby centres.

The conclusions from consultation with local estate agents suggest that there is likely to be some demand for additional apartments in Chester Hill. This is in line with AEC's findings. SGS's housing demand model also suggests that there will be demand in the future for additional apartments and provides some indication of the size of this demand.

2.4 Recent dwelling development

Recent dwelling development rates in the Chester Hill – Sefton SA2 and the broader submarket can be obtained from the ABS census and are shown in Table 5 and Table 6 below. The number of dwellings of every type increased between 2006-2016, although the number of additional separate houses built was modest. In the Chester Hill – Sefton SA2, the number of apartments grew the most markedly (by 63.2%), while attached dwelling development outpaced apartment development in both absolute and percentage terms in the broader submarket.

TABLE 5: RECENT DWELLING DEVELOPMENT IN THE CHESTER HILL – SEFTON SA2

Dwelling type	2006	2016	Change 2006-2016	Average change per year
Separate house	4,366	4,404	38 (+0.9%)	3.8
Attached dwelling	753	888	135 (+17.9%)	13.5
Flat, unit, apartment or other dwelling	427	697	270 (+63.2%)	27.0
Total private dwellings	**5,546**	**5,989**	**443 (+8.0%)**	**44.3**

Source: ABS Census 2011, 2016

TABLE 6: RECENT DWELLING DEVELOPMENT IN THE BROADER SUBMARKET

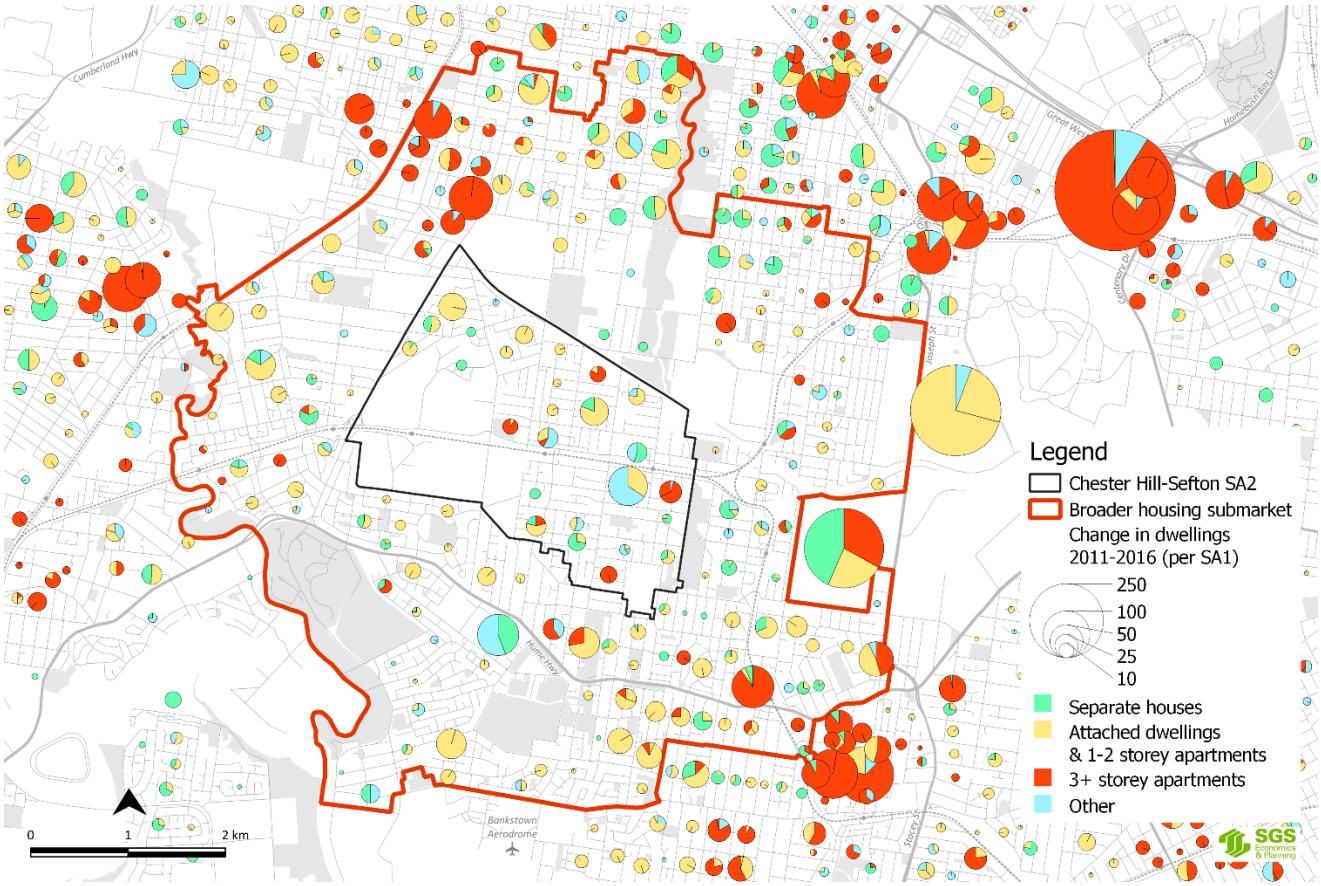
Dwelling type	2006	2016	Change 2006-2016	Average change per year
Separate house	26,844	26,972	128 (+4.8%)	12.8
Attached dwelling	3,537	5,587	2,050 (+58.0%)	205.0
Flat, unit, apartment or other dwelling	4,529	6,365	1,836 (+40.5%)	183.6
Total private dwellings	**34,910**	**38,924**	**4,014 (+11.5%)**	**401.4**

Source: ABS Census 2011, 2016

The location of recent dwelling development is shown in Figure 6 below. Attached dwellings and 1-2 storey apartments are grouped together due to data quality issues with these dwelling categorisations at a small area level between different censuses.

Most three or more storey apartment development within the broader submarket has occurred around Guildford and Yagoona, with smaller amounts scattered through the submarket area, including within the Chester Hill – Sefton SA2. Attached dwellings have been built across the broader submarket, with particularly large concentrations at Yagoona, South Granville and Fairfield East. Some attached dwellings were also built within the Chester Hill – Sefton SA2. There were large comprehensive redevelopments outside of the defined submarket at Potts Hill and Lidcombe, and large numbers of three or more storey apartments outside of the submarket at the nearby centres of Bankstown, Lidcombe, Auburn and Fairfield.

FIGURE 6: LOCATION OF RECENT DWELLING DEVELOPMENT IN AND AROUND THE BROADER SUBMARKET



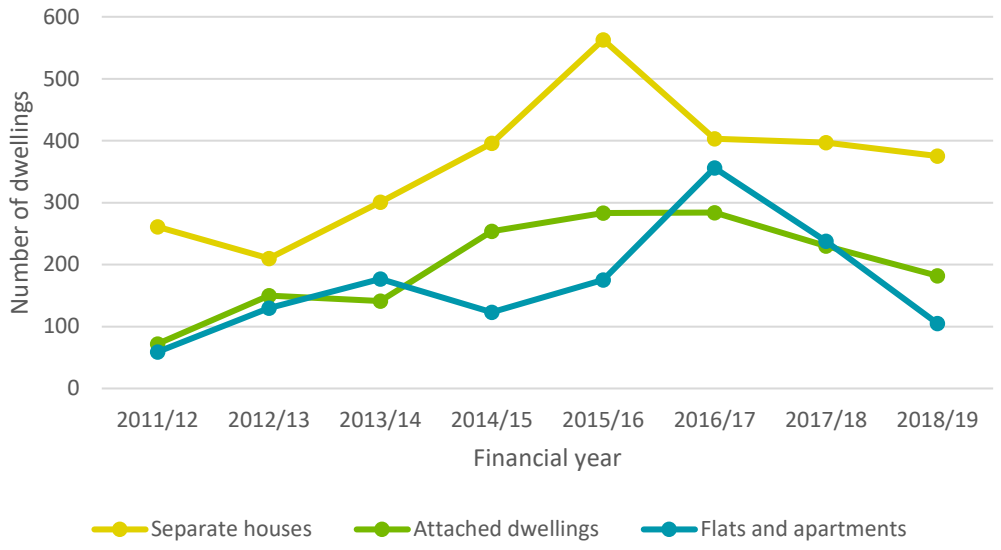
Source: SGS 2020 based on ABS Census 2011, 2016

Dwelling approvals

The number of dwellings which receive building approval within the broader submarket in recent years are shown Figure 7. While not all dwellings which are approved are likely to be completed, this provides an indication of how the health of the local development market is changing over time.

The most approvals since 2011/12 have been for separate house, although almost all of these are likely to be replacements of existing houses which will not increase the overall dwelling stock. Attached dwelling and apartment approvals peaked in the 2016/17 financial year and have declined since then in line with the performance of the housing market across Sydney. However, approvals have not yet dropped below levels seen in 2011/12. The recent slowdown in approvals is likely to cause a slowdown in dwelling construction in the short term, but future market cycles may mean that the number of dwellings approved increases to former levels.

FIGURE 7: DWELLING APPROVALS IN THE BROADER SUBMARKET



Source: ABS 2019, *8731.0 – Building Approvals, Australia*

Comparison of dwelling demand and recent development rates

Comparing recent dwelling development rates and projected demand provides an indication of whether the market is likely to meet demand in a status quo scenario in which dwellings continue to be built at similar rates as has occurred recently. This comparison is shown for the Chester Hill – Sefton SA2 and the broader submarket in the table below.

TABLE 7: COMPARISON OF RECENT DWELLING DEVELOPMENT RATES AND PROJECTED DEMAND

Dwelling Type	Average increase in dwellings per year 2006-2016	Average additional dwellings needed per year 2016-2036	Average additional dwellings needed per year 2016-2036 (Scenario if household size does not increase)
Chester Hill – Sefton SA2			
Separate houses	4	8	26
Attached dwellings	14	36	42
Flats, apartments and other dwellings	30	20	24
Total	*47*	*64*	*93*
Broader submarket			
Separate houses	13	-89	5
Attached dwellings	205	228	265
Flats, apartments and other dwellings	187	206	241
Total	*405*	*345*	*511*

Source: SGS 2020

In the Chester Hill – Sefton SA2, recent dwelling development rates are slightly lower than those which would be needed to meet implied demand under the baseline scenario. This gap has occurred for separate houses and attached dwellings, the recent construction rate of which is lower than forecast future demand. Apartments have been built at a greater rate recently than future forecast demand. Facilitating additional apartment development would not correct for the overall shortfall between the recent dwelling development rate and

forecast future demand, as the highest forecast demand is for attached dwellings rather than for apartments.

In the broader submarket, recent dwelling development rates overall have outpaced the rate required to meet forecast future demand. The recent rate of attached dwelling and apartment development has been slightly lower than future forecast demand, but the number of separate houses has not decreased, offsetting this shortfall.

If recent dwelling development rates continue, enough dwellings are likely to be built in the broader submarket under a status quo development scenario to meet the baseline demand implied by population projections. As dwellings in the broader submarket are considered to be substitutable with dwellings in the Chester Hill – Sefton SA2 for purchasers, any shortfall in the Chester Hill – Sefton SA2 could be made up in the broader submarket.

An increased development rate would be needed to meet demand in both the Chester Hill – Sefton SA2 and broader submarket under the scenario in which the household size does not increase.

2.5 Dwelling capacity

SGS has assessed the housing capacity in the Chester Hill Centre without the proposed redevelopment of the subject site. This allows an assessment of how the proposed increase in residential yield compares to the capacity under the current planning controls.

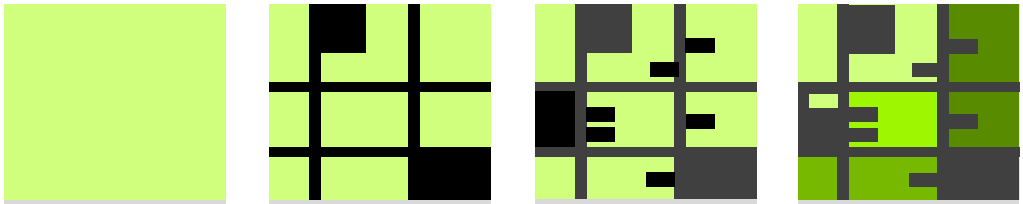
Housing capacity is an estimate of the quantum of housing that could be accommodated in an area. It is based on existing planning controls and recent housing supply trends. It is a theoretical assessment of the maximum number of dwellings that could be developed based on a high-level analysis. As such, it is intended to be indicative rather than absolute and 100% realisation of capacity is unlikely to occur.

Only a small portion of available lots are likely to be developed in any one year and some lots are likely to be withheld from development. For these reasons, greater capacity than (expected) demand is required to ensure that future development is not constrained. There may also be site-specific attributes and perhaps some detailed development controls which may affect the development potential of some sites, but which are not included in a high level analysis.

Dwelling capacity method

Figure 8 charts the four-step process for determining dwelling capacity. The logical flow is to firstly identify current and future residential land before filtering out all the lots which are unlikely to be developed/redeveloped, and then calculating the potential development yield of each lot. Each step is discussed in more detail below.

FIGURE 8: HOUSING CAPACITY APPROACH OVERVIEW



Total Land

This represents the quantum of land where residential development is permitted.

Net Land Area

Some land cannot ever be developed for residential purposes. For example roads and footpaths.

The analysis has been completed using lot level data, which already excludes these types of uses and associated land area.

Available Land

Various lot/land attributes are used to further exclude sites which would not be able to yield additional housing beyond what is already there.

This includes attributes such as lot size, age of stock, and heritage status.

Potential Yield

Density and yield assumptions are applied to lots defined as available.

This is then compared to the current number of dwellings on each lot to determine the net capacity.

Source: SGS Economics and Planning

Step 1: Net land area identification

Net land refers to total land where residential development is permitted, minus the land that cannot be developed for residential purposes, such as roads and footpaths. The capacity calculation is conducted on a lot by lot basis, with only sites zoned B2 Local Centre and R4 High Density Residential in the Chester Hill-Sefton SA2 considered. The public domain is automatically excluded.

Step 2: Available land assessment

Available land represents any land that is likely to be able to accommodate additional housing. It is derived from the net land, from which lots unlikely to be developed are excluded. Designation of a lot as available land does not mean that development is necessarily feasible or that property owners are ready or willing to develop these sites. Typically, only a small portion of available lots are likely to be developed in any one year.

The following categories of sites were excluded from the net land to identify the available land:

- Sites which are strata subdivided, as the distributed ownership structure of strata subdivision is likely to constrain the ability of a developer to acquire the site, and
- Sites which hold multi-unit residential developments (where there are 3 or more residential addresses), as these sites are likely to have high overall acquisition prices due to the high cost of acquiring each residential dwelling.

Step 3: Potential yield assessment

Potential yields were calculated for the available land based upon the floor space ratio of each site and the following assumptions:

- Each site will be developed to the maximum FSR permissible.
- A notional commercial or retail FSR of 0.3:1 will be delivered in shop top housing developments, apart from on the Chester Square site where the existing amount of

commercial and retail floorspace will be retained. A commercial or retail FSR of 0.3:1 represents delivery of ground floor retail space.

- There is an average of 100 sqm of residential floorspace per dwelling. This is calculated from the average amount of floorspace per dwelling in apartment developments approved since 2011 in the suburbs of Berala, Carramar, Chester Hill, Fairfield East, Regents Park, Sefton, Villawood and Yagoona as reported in BASIX data released by the NSW Department of Planning, Industry and Environment, reduced by a floorspace efficiency amount to account for a proportion of each dwelling being common space, corridors and so on.

Capacity was calculated under two scenarios:

- A non-amalgamation scenario, in which less amalgamation occurs of properties along Waldron Road and elsewhere in FSR Area 7, and so properties with frontages smaller than 18m and are only able to develop up to a floor space ratio of 2:1, and
- An amalgamation scenario, in which more amalgamation occurs of properties along Waldron Road and elsewhere in FSR Area 7, and so all development sites have a frontage of greater than 18m and are able to develop up to the maximum FSR under Clause 4.4 of the *Bankstown LEP 2015*.

Step 4: Net capacity

Net housing capacity is calculated by subtracting the number of existing dwellings on each site from the potential yield. The current number of dwellings estimated for every lot was assessed based on residential address data sourced from PSMA Australia.

Capacity results

Capacity results are shown below, broken down by zone, development scenario and suburb. There is substantial capacity for apartment development under both the high and low amalgamation scenarios, with a difference of 226 dwellings between the scenarios. Capacity is much higher than the forecast future demand of 712 additional apartments, providing scope for development to exceed the status-quo demand estimation discussed above. In this context, the creation of additional dwelling capacity on the subject site is not necessary to ensure there is enough apartment development capacity. While capacity realisation is subject to feasibility constraints, these may change over time in line with changes in the broader development market.

TABLE 8: HOUSING CAPACITY FOR APARTMENTS IN THE CHESTER HILL – SEFTON SA2

Land zone and development type	Scenario	Suburb	Number of available properties	Net yield
B2 – Shop top housing	High amalgamation	Chester Hill (apart from Chester Square)	75	874
		Sefton	42	323
		Subtotal	*117*	*1,197*
	Low amalgamation	Chester Hill (apart from Chester Square)	75	676
		Sefton	42	295
		Subtotal	*117*	*972*
	N/A	Chester square site	1	317
R4 – Residential flat buildings	N/A	Chester Hill	194	957
	N/A	Sefton	33	200
Total	**High amalgamation**		**345**	**2,671**
	Low amalgamation		**345**	**2,445**

Source: SGS 2020

2.6 Discussion

SGS's housing demand modelling shows that recent dwelling development rates in the broader submarket area are high enough to meet overall housing demand as indicated by population projections, although not if household sizes stop increasing. As the submarket is defined as the area within which buyers are likely to consider different dwellings to be substitutable, this means that a status-quo continuation of current development rates is likely to meet housing demand. Capacity analysis has indicated that there is sufficient housing capacity in the Chester Hill – Sefton SA2 to meet much of the likely apartment demand until 2036 across the entire broader submarket, even if this capacity may face development constraints in the short-medium term.

If development is facilitated, additional development above what is indicated by projections could occur. In this way, additional development as proposed on the subject site could make a greater contribution to dwelling supply than indicated by population projections or may be consistent with broader strategic planning objectives. Nonetheless, if the proposed development were to occur it would constitute approximately 16% of expected apartment demand between 2016 and 2036 in the broader subarea, or approximately 63% of expected demand over any five year period. It would constitute 166% of the total implied apartment demand for the Chester Hill – Sefton SA2 between 2016 and 2036. As there are few apartments in this area currently, a development of this scale would likely take some time to sell completely.

Strategic planning policies seek to maximise dwelling choice and diversity. SGS's housing demand modelling shows that trends in demographics and housing preferences create a likely demand for attached (or compact detached) dwellings as well as apartments. Both of these are being constructed in the broader study area, although apartment development has outpaced attached dwelling development in the Chester Hill – Sefton SA2. The proposed development would increase the number of apartments but not attached or separate dwellings.

Canterbury-Bankstown Council's draft Local Strategic Planning Statement (LSPS) aims to increase housing capacity, exceed population projections with dwelling supply increases and

place 80% of new housing within walking distance of mass transit. The proposed development is consistent with these aims, as is the alternative proposal. However, the LSPS anticipates that the most additional housing capacity will be created along the Sydney to Bankstown Corridor, which will support the centre role of the Bankstown CBD and of Campsie as a strategic centre. If this occurs, additional housing capacity in Chester Hill may not be needed to meet the LSPS's target of 50,000 dwellings by 2036.

The North West Local Area Plan (LAP) was Council's previous strategic plan for Chester Hill and the surrounding area. Its aims included to facilitate additional housing in Chester Hill, reinforcing its local centre role. The current planning provisions were put in place by a planning proposal developed as part of the LAP and in response to detailed background studies. The proposed redevelopment of the subject site is consistent with the overall aims of the LAP, although its scale is not. The alternative proposal also has greater density than was envisioned in the LAP, although its density is lower than the submitted proposal.

KEY FINDINGS

- Recent development rates are high enough to meet dwelling demand implied for apartments, although a small increase in the rate is needed if household sizes are expected to remain constant (in contrast to recent trends)
- There is sufficient capacity in the Chester Hill – Sefton SA2 to meet expected dwelling demand for apartments. While some of this capacity may not be feasible currently, it may become more feasible in the future.
- The scale of the proposed development is very large when compared to modelled demand, and the development could take some time to sell or be fully occupied.
- Facilitating dwelling development is consistent with the LAP and other strategic plans, but the proposed development is out of scale with strategic plans. There may be multiple other opportunities to facilitate apartment or medium density development nearby, including on the LAHC sites on Waldron Road.

3. RETAIL AND COMMERCIAL DEMAND

This Chapter discusses retail and commercial floorspace demand in the Chester Hill Centre and how the proposed development could impact on the viability and success of the remainder of the centre and other nearby centres. Commercial and retail floorspace demand are discussed separately. A land use audit completed by SGS informs the analysis.

3.1 Land use audit

A desktop audit was conducted of buildings in the Chester Hill Centre. The results provide context regarding the current mix and amount of retail and commercial floorspace in the Chester Hill centre, which is an indicator or the function and performance of the centre. The results of this audit were used when assessing both retail and commercial floorspace demand.

Uses were assessed using Google street view imagery while floorspace estimates were created using satellite images, building outlines from the PSMA Geoscape dataset and the Chester Square shopping centre directory. The buildings audited in the Chester Hill Centre, categorised by their largest retail space use, are shown in Figure 9. The distribution of retail floorspace across these buildings, including estimates of the breakdown within each building, is shown in Figure 10.

Total floorspace results for the Chester Hill Centre are shown in Table 9 (note that commercial service floorspace in this instance and the following discussion refers to non-retail floorspace including services like banks and hairdressers). SGS estimated there to be a total of 26,814 sqm of retail and commercial service floorspace in the Chester Hill Centre.

The overall vacancy rate of the centre was estimated to be approximately 3.4%. This is a low vacancy rate which indicates that the centre is performing well.

TABLE 9: RETAIL AND COMMERCIAL FLOORSPACE IN THE CHESTER HILL CENTRE

	Retail floorspace	Commercial service floorspace	Vacant floorspace	Total floorspace
Chester Square	7,396	415	313	8,260
Waldron Road and Chester Hill Road	9,692	8,374	489	18,554
Total	17,088	8,825	901	26,814

Source: SGS 2020

FIGURE 9: AUDITED BUILDINGS IN THE CHESTER HILL CENTRE

Source: SGS 2020

Most of the floorspace along Waldron Road between Bent Street and Arcadia Road and some of the floorspace west of Bent Street is occupied by non-retail uses. By contrast, there are few non-retail uses in Chester Square, indicating that Waldron Road and Chester Square serve different functions within the Chester Hill centre.

FIGURE 10: RETAIL FLOORSPACE DISTRIBUTION IN THE CHESTER HILL CENTRE

Source: SGS 2020

3.2 Commercial floorspace demand

AEC's Findings

In their economic impact assessment, AEC have the following findings regarding commercial floorspace demand:

- Anecdotal evidence from local commercial agents suggests demand for commercial space in the centre has historically been soft as a result of a lack of quality commercial accommodation.
- Very little commercial office space on upper levels of two storey buildings along Waldron Road has come to market in recent years, forcing commercial occupiers to compete with retailers for ground floor spaces.
- The Chester Hill local centre is currently playing a medical-orientated role, with a variety of medical services. There is likely to be strong demand for uses of this type.
- Very few vacancies are observed across the centre with local commercial agents estimating a vacancy rate of 5%. This is a function of both the tightly held market and the high number of owner occupier businesses in the centre.

- A modest amount of new retail development is observed in the pipeline, which is solely located at the ground level of proposed mixed-use developments. No new commercial development has been identified in the pipeline.

With regards to the alignment of the proposed development with this context, AEC report that:

- The Proposal seeks to provide additional commercial floorspace on the Site to accommodate medical and business services uses which are unable to be accommodated in the centre given a lack of adequate supply.
- The Proposal would not replicate traditional commercial office space such as is provided in the Bankstown City Centre. Commercial floorspace on the Site is rather intended to complement the expanded shopping centre and service the surrounding resident population.

SGS Response

SGS consulted local commercial real estate agents regarding the operation of the Chester Hill retail and commercial property market. Agents generally confirmed AEC's findings regarding the state of the Chester Hill commercial property market, including that:

- There are few vacancies in Chester Hill, with stock rarely sold or available for lease.
- The performance of the property market generally varies over time, but most premises are occupied by small businesses with a local population-serving catchment.
- It is difficult to say how much additional demand for retail and commercial space there is as little development has occurred. If new developments occurred, this would likely increase floorspace demand.

Commercial floorspace can be split into a number of categories which are usually located in different kinds of buildings and serve different functions:

- Shop-front commercial services, like hairdressers, bank branches, doctors practices and real estate agents which directly interface with the public and often located in premises resembling a retail shop.
- Other population-facing commercial services and offices, like tutoring colleges, financial planners and population-serving legal offices. These may not need to be located in shop-fronts (although often are).
- Commercial offices which deal less directly with the surrounding population, and which are more flexible in their locational requirements.

SGS's land use audit confirms that there are several commercial service uses on the first floor of retail buildings along Waldron Road. Commercial uses also occupy the ground floors of many of the buildings along Waldron Road. The diversity of these businesses is illustrated in Table 10, which lists the number and floorspace of commercial service businesses by type. There are particularly high numbers of medical services, real estate agencies, banks and population serving offices (such as accounts or financial planners). This illustrates the role of the Chester Hill Centre in providing a wide range of services for the local population, as noted by AEC.

Chester Hill has a lack of commercial office floorspace not associated with population services, although this is generally located in higher order centres like Bankstown or Liverpool. Any additional commercial floorspace would be likely to be demanded by local commercial services similar to those already located in Chester Hill, rather than by larger commercial businesses which would require a higher-prestige office.

An addition of 1,000sqm of commercial floorspace is proposed as part of the redevelopment of the Chester Square Site. This would only be an 11% increase in the amount of commercial service floorspace currently located in the Centre, or a slightly higher proportion of the floorspace which is currently used as an office or similar. Given the amount of commercial service floorspace in Chester Hill and the breadth of businesses currently occupying it, it is

likely that the additional floorspace could be absorbed by the market without significant impacts. Similarly, to what was reported by AEC, real estate agents consulted by SGS noted that the lack of new stock is a constraint on the commercial property market.

TABLE 10: COMMERCIAL SERVICE PREMISES IN THE CHESTER HILL CENTRE OUTSIDE OF CHESTER SQUARE

Business type	Number of premises	Total floorspace
Bank	3	1,399
Beauty salon, hairdresser or massage parlour	9	916
Real estate agency	6	787
Population serving office	8	1,009
Tutoring or music education	3	557
Medical service, allied health service or dentist	13	2,042
Vet	1	131
Funeral service	1	116
Laundromat	2	264
Telecommunications	1	140
Childcare	2	203
Post office	1	342
Travel Agency	1	141
Other	3	329
Total	**54**	**8,374**

Source: SGS 2020

3.3 Retail floorspace demand

AEC's Findings

In their economic impact assessment, AEC state (p 2) that they have not reviewed the potential retail impacts of the proposal, but that this could be investigated if required.

AEC have the following findings regarding the retail property market and potential demand for additional retail floorspace:

- The Proposal envisages the redevelopment and expansion of existing retail uses on the Site which will significantly improve the profile and desirability of the Chester Hill local centre.
- A modest amount of new retail development is observed in the development pipeline within mixed use developments although little development has occurred recently, and
- There is also an overlap between commercial service and retail floorspace as many service businesses (real estate agencies, financial advisors and accountants, legal firms) occupy traditional ground floor retail space.

SGS Response

While it is plausible that the proposal will improve the profile and desirability of the Chester Hill centre and that there is some overlap in the retail and commercial service property markets, further analysis is required to comment on how retail premises outside of Chester Square could be impacted by the proposed redevelopment. As noted by AEC, this is beyond the scope of their report.

The potential retail impacts of the proposed development can be split into the following categories, which have been considered separate in the sections below:

- Retail impacts within the Chester Hill Centre, whereby the proposed expansion of the shopping centre could compete with retail uses along Waldron Road, and
- Retail impacts on other nearby centres, in which an expanded shopping centre could reduce their turnover.

One other way to consider an appropriate amount of additional retail provision in the proposed development is to quantify the likely retail expenditure of the additional residents who will live in the development. If the expansion in retail floorspace is greater than would be needed to capture this expenditure, the additional retail floorspace may come at the expense of other areas. This analysis is carried out along with retail impact analysis below.

Retail impacts outside of the Chester Hill Centre

SGS has used a retail gravity model to assess the potential impact of the additional floorspace proposed on the subject site on centres other than Chester Hill.

Retail gravity model method

Gravity modelling simulates where people will spend their money when given the choice of different retail destinations. It considers additional variables such as spending by retail commodity type (i.e. groceries, clothing), the distance people have to travel and the attractiveness of that centre. A large Westfield for instance, tends to have greater 'pull' or 'gravity' compared to a local retail high street.

The SGS Retail Model is built on previous research as well as the extensive experience SGS has gained conducting many retail studies. The SGS retail model takes the following approach:

$$\text{Propensity to shop at a centre} = \frac{\text{"Attractiveness" of centre} \times \text{Floorspace of shopping centre}}{\text{Travel time to the shopping centre}^2}$$

This formula recognises that an individual is more likely to go to more 'attractive' and larger centres and less likely to go to smaller, lower-quality centres that are further away. The turnover of each centre is modelled, and so the retail gravity model cannot assess likely impacts *within* centres like Chester Hill (for example on retailing on Waldron Road).

The 'attractiveness' of a shopping centre refers to a range of visual and functional attributes, including ease of access and car parking as well as the quality of the shopping experience. Unlike other gravity models, the SGS model does not explicitly estimate the effects of design layout or product mix. Instead, it uses the shopping centre's current turnover and the distribution of current demand as a basis to establish a 'current attractiveness value' for the centre. This current attractiveness value is then used to forecast how the shopping centre will perform in the future given changes in population expenditure.

Why use a gravity model?

Other retail demand approaches (such as survey-based assessments) are expensive and data intensive and only consider current population and behaviour. Simplified 'shift-share' approaches typically focus on one or a few centres and heavily rely on judgement-based catchments with exaggerated market share thresholds.

Gravity models, on the other hand, present the following benefits:

- All spending across the retail system is accounted for once and only once;

- Catchments are generated through data analysis rather than through the judgement of consultants; and
- A gravity model captures the continuous and dynamic nature of catchments, based on changing demand, supply, and transport infrastructure.

Limitations of the retail gravity model

Future turnover and floorspace demand forecasts from a retail gravity model are one possible view of the future retail market, assuming that the current retail system is in equilibrium and that the relative attractiveness of different centres stays the same. Changes in the relative attractiveness of centres, the distribution of future development or consumer preferences will generate a different future pattern of retail turnover. Increases in attractiveness of particular centres, for example through reduced traffic congestion, a broader retail mix or a more attractive environment, are not anticipated in the model and could shift the propensities of consumers to spend their money in different centres.

Retail floorspace supply method

One of the inputs needed for a retail gravity model is the amount of floorspace by retail commodity type in each centre. This has been estimated across Greater Sydney using a combination of the following:

- Reported journeys to work from the 2016 Census in retail industries and by retail occupations matched to relevant retail commodity types,
- Standard floorspace per job estimates, and
- The Property Council of Australia Shopping Centre database for retail floorspace within shopping centres.

These data sources provide an estimate of retail floorspace across Greater Sydney which is sufficient to provide a high-level estimate of the likely impacts of the proposed development, and so to assess whether the impact is likely to be significant or not. A more detailed floorspace audit to determine the amount of retail floorspace in centres around Chester Hill is beyond the scope of this study, but would be needed to complete a more accurate calculation of what the likely impact of the proposed development would be.

Retail expenditure

Increases in retail spending are predominately driven by population growth. An increase in the number of workers in an area does increase retail turnover, but this is usually less important than population projections as on average people spend the most money in retail premises near where they live rather than near where they work.

Retail expenditure data has been developed out of resident-based expenditure accounts across 24 commodity groups at an SA1 level (e.g. fresh food, groceries, pharmaceuticals, restaurants, etc). These expenditure accounts are sourced from MarketInfo's Market Data Systems (MDS). MDS are the industry benchmark in estimating small area expenditure that draws on the latest Household Expenditure Survey (HES), ABS Census and other datasets. Retail expenditure data is also adjusted to account for the growing role of online shopping.

Expenditure per capita forecasts are then combined with the Transport for NSW TZP v1.51 land use projections (which are also used as the basis for dwelling demand modelling in Section 2.3) to generate forecasts for how population expenditure will change between 2016 and 2036.

Forecasts for expenditure generated within the Chester Hill – Sefton SA2, as well as population and employment growth which drives expenditure growth, are shown below. Expenditure is expected to grow more quickly than population or employment as a result of inflation and an increase in spending power over time, but not all of this increase will transfer through to real terms increases in retail floorspace demand. Similar increases in population and employment are forecast in nearby areas, driving increases in expenditure.

TABLE 11: POPULATION, EMPLOYMENT AND EXPENDITURE FORECASTS FOR THE CHESTER-HILL SEFTON SA2

Year	2016	2036	Change 2016-2036	% Change 2016-2036
Population	19,196	24,843	5,648	29%
Employment	9,408	9,926	1,624	17%
Expenditure ($m)	200.8	302.4	101.6	51%

Source: SGS 2020, TfNSW 2019 *TZP v1.51 Projections*, MarketInfo

SGS's retail gravity model accounts for a proportion of total retail expenditure being online. However, if the market share of online retail increases above what is anticipated in the model, future turnover in centres may be lower than forecast.

Turnover impacts

The amount of retail trading taking place within centres (retail turnover) will necessarily be different to the level of retail expenditure generated by the local population (retail expenditure).

Likely retail turnover in centres has been modelled under two scenarios:

- The baseline in which no additional retail turnover is added to the retail system from 2016, and
- A project case in which Chester Square is redeveloped as proposed between 2021-2026, with the addition of approximately 7,500 sqm of retail floorspace.

Results in each case, along with the size of the impacts of the project case compared to the baseline, are shown in the table below. Retail turnover in a wide variety of other centres nearby would be likely to be reduced, with the largest impacts in percentage terms felt in Sefton, Regents Park and Carramar. The predicted increase in retail turnover in Chester Hill is significant, at around 75% in 2026. Despite the impacts of the proposed development, retail turnover is expected to increase in real terms in all centres from 2016 levels as a result of population growth (although figures in Table 12 are not inflation adjusted).

All modelled impacts are smaller than 2.5%. Retail impacts on the turnover of centres which are functioning reasonably well are typically considered to be significant if they are 10% or higher. As noted above, a full floorspace audit was not conducted and so the impacts shown in the table below are approximate only. However, the size of the impacts is small enough to conclude that significant impacts on the retail turnover of other centres which damage their viability are highly unlikely to occur as a result of the proposed development.

TABLE 12: APPROXIMATE TURNOVER IMPACTS OF THE PROPOSED DEVELOPMENT

Centre	2016 turnover	2026			2036		
		Baseline turnover	Project case turnover	Difference	Baseline turnover	Project case turnover	Difference
Chester Hill	111.4	138.3	242.2	+75.2%	174.6	304.1	+74.2%
Sefton	19.4	23.7	23.2	-2.1%	29.7	29.1	-2.2%
Regents Park	7.3	8.1	8.0	-1.4%	9.9	9.8	-1.4%
Carramar	4.1	4.8	4.7	-1.1%	5.9	5.8	-1.2%
Yagoona	18.5	23.0	22.9	-0.5%	29.3	29.2	-0.5%
Villawood	11.4	14.8	14.7	-0.5%	18.7	18.6	-0.5%
Bass Hill	175.4	222.0	221.1	-0.4%	283.3	282.2	-0.4%
Bankstown	867.9	1,070.7	1,066.6	-0.4%	1,369.9	1,364.8	-0.4%

Source: SGS 2020

The low vacancy level in Chester Hill suggests that it may be trading at above average levels for centres of similar size in its area, and that some of the proposed increase in floorspace could absorb this additional turnover.

Retail demand created by additional residents and workers

The Retail gravity model has been used to calculate the retail floorspace demand which would be created by the additional residents and workers associated with the proposed development. This process is outlined below.

Step 1: Per capita expenditure profile

Estimated per capita expenditure for additional residents and workers associated with the proposed development are shown below. This analysis uses 2026 as its base year. Expenditure is reduced to account for a proportion of total retail spending being online.

The yearly per capita retail expenditure for residents within the proposed development was estimated based on per-capita retail expenditure data for the Bankstown Centre, in which there has been a large amount of recent apartment development and apartments are the predominant dwelling type.

Additional workers in the proposed development are assumed to have the same per worker expenditure as current workers in the Chester Hill centre.

TABLE 13: RETAIL DEMAND ANALYSIS – YEARLY PER CAPITA EXPENDITURE

	Supermarket/ Other food	Hospitality	Department stores	Clothing, h'hold goods, and other retail	Total
Residents	$5,098	$1,761	$913	$2,795	$10,567
Workers	$420	$452	$70	$243	$1,186

Source: SGS Economics and Planning, 2019; MarketInfo, 2019

Step 2: Additional workers and residents

Once the per capita expenditure has been obtained, a high-level calculation has been conducted to estimate the number of residents and workers resulting from the development. The number of apartments by size is provided in the urban design analysis which accompanies the planning proposal, however the final number and size of apartments will vary based on the final project design.

The total number of residents for the development was obtained by multiplying the number of dwellings by the average household size for dwellings by number of bedrooms in the broader submarket considered in Chapter 2.3. This provides an estimated total of 1,415 residents.

TABLE 14: RETAIL DEMAND ANALYSIS – ANTICIPATED RESIDENTS

Unit Size	No. of Dwellings	Household Size	Resident population
1 Bedroom	260	1.41	368
2 Bedroom	389	2.42	942
3 Bedroom	32	3.30	106
Total	681		1415

Source: SGS Economics and Planning, 2019; ABS, 2016

The number of additional workers was estimated by dividing the proposed increase in commercial services and retail floor space by a typical floor space to job ratio. This provides an estimated total of 300 workers.

TABLE 15: RETAIL DEMAND ANALYSIS – ANTICIPATED WORKERS

Type	Increase in GFA	FS:Job	Additional on-site workers
Retail	7,500	30	250
Commercial services	1,000	20	50
Total	8,500		300

Source: SGS Economics and Planning, 2019; ABS, 2016

Step 4: Additional retail expenditure

The per capita expenditure has been applied by the estimated number of residents and workers to derive total expenditure added to the retail system, as shown below.

TABLE 16: RETAIL DEMAND ANALYSIS – TOTAL EXPENDITURE FROM RESIDENTS AND WORKERS

	Supermarket/ Other food	Hospitality	Department stores	Clothing, h'hold goods, and other retail	Total
Residents	$7,214,936	$2,492,256	$1,291,365	$3,955,816	$14,954,373
Workers	$126,137	$135,650	$21,040	$73,059	$355,886
Total	$7,341,072	$2,627,907	$1,312,406	$4,028,874	$15,310,259

Source: SGS Economics and Planning, 2019

Step 4: Additional retail turnover in Chester Hill

Additional retail expenditure by residents likely to be distributed across multiple centres other than Chester Hill – termed 'leakage' of expenditure – has been determined using outputs from the SGS retail gravity model. The gravity model estimates the future distribution of resident retail expenditure based on the current characteristics and offerings of retail centres.

Based on the gravity modelling outputs, the largest share of expenditure is expected to be retained within the Chester Hill Centre itself (54.1% of total expenditure), followed by Parramatta (3.4%), Bankstown (2.2%) and Bass Hill (2.1%). The remaining 38.2% is distributed across a range of other retail destinations in the broader area. This is shown below.

TABLE 17: RETAIL DEMAND ANALYSIS – PERCENTAGE OF EXPENDITURE CAPTURED

Centre	Supermarket/ Other food	Hospitality	Department stores	Clothing, h'hold goods, and other retail
Chester Hill	65%	80%	0%	25%
Parramatta	1%	1%	9%	10%
Bankstown	1%	1%	9%	4%
Bass Hill	2%	1%	14%	1%
Other Centres	31%	17%	68%	61%

Source: SGS Economics and Planning, 2019

Using this apportionment, the retail expenditure shown in Table 16 is allocated into each centre to give estimates of additional retail turnover. Retail turnover relates to the amount of consumer expenditure that a centre is receiving, as opposed to the expenditure of residents who live within a centre but who are likely to shop at a variety of locations. Additional turnover is shown below in Table 18.

Additional worker expenditure is not apportioned using the rates in Table 17 above, and is instead kept within Chester Hill (with the exception of Department Stores, which is allocated owing to Chester Hill's lack of floor space in this type).

TABLE 18: RETAIL DEMAND ANALYSIS – CONTRIBUTION TO TURNOVER

Centre	Supermarket/ Other food	Hospitality	Department stores	Clothing, h'hold goods, and other retail	Total
Chester Hill	$4,838,952	$2,121,176	$-	$1,176,538	$8,136,666
Parramatta	$59,312	$29,710	$118,661	$318,272	$525,955
Bankstown	$79,060	$34,787	$124,167	$134,899	$372,912
Bass Hill	$156,477	$12,721	$182,725	$32,939	$384,862
Other Centres	$2,207,272	$429,512	$886,853	$2,366,226	$5,889,863
Total	$7,341,072	$2,627,907	$1,312,406	$4,028,874	$15,310,259

Source: SGS Economics and Planning, 2019

Step 5: Retail floorspace demand

The total contribution to turnover is able to be converted to demand for floor space using retail turnover densities (RTDs). RTDs are the average amount of turnover per square metre of floor space. Expected RTDs vary from centre to centre, based on the centre size and type.

The forecast demand for floor space which would result from the development is shown below in Table 19. A total of 1,958sqm of retail floor space is expected to be supported by residents and workers within the project, of which, 912sqm could be captured in Chester Hill based on the expenditure distribution within the local retail system.

The 912sqm of additional likely retail would only be created after the completion date of the entire development. A longer development time-frame for the residential component of the development could result in the retail component being delivered while only some of this increase of 912sqm of retail floorspace demand has occurred.

TABLE 19: RETAIL DEMAND ANALYSIS – FLOOR SPACE DEMAND GENERATED BY ON-SITE RESIDENTS AND WORKERS (SQUARE METRES)

Centre	Supermarket/ Other food	Hospitality	Department stores	Clothing, h'hold goods, and other retail	Total
Chester Hill	493	156	-	263	**912**
Parramatta	5	2	20	24	**52**
Bankstown	7	2	20	14	**44**
Bass Hill	16	1	34	6	**57**
Other Centres	228	44	203	513	**989**
Total	737	202	237	782	**1,958**

Source: SGS Economics and Planning, 2019

Retail impacts within the Chester Hill Centre

As shown in Table 12, retail turnover in Chester Hill is expected to be increased significantly by the proposed development. Given this, two possible outcomes are likely:

- The proposed development increases the attractiveness of the Chester Hill Centre compared to other centres, and so attracts a much larger amount of retail turnover, benefiting retail premises both inside and outside of the shopping centre, or

- The shopping centre captures the additional retail turnover which is likely to result from redevelopment as well as some of the turnover which would otherwise be spent along Waldron Road and Chester Hill Road, harming the viability of retailing outside the shopping centre.

The likelihood of each of these outcomes will be influenced by the design of the proposal, its connectivity with the broader centre and the degree to which the proposed development competes with the retail offering outside of the shopping centre. The degree of potential competition can be ascertained through analysis of the overlap between the kinds of retailers currently located outside of Chester Square, and the kinds of premises proposed in the redeveloped shopping centre. The current distribution of retail floorspace inside and outside of Chester Square, as measured in the desktop audit presented in Section 0, is shown in Table 20.

The planning proposal for the subject site does not specify what the retail breakdown is proposed to be. The indicative development plans in Appendix C of the proposal suggest the following retail premises, although the final project design would not be finalised until the development application stage:

- Two supermarkets on the lower ground floor, with one larger than the other,
- A mini-major retailer,
- An increased amount of specialty or food and beverage retailing floorspace, and
- Several cafes and restaurants fronting the proposed public square.

TABLE 20: ESTIMATED RETAIL FLOORSPACE BY CATEGORY IN THE CHESTER HILL CENTRE

Retail commodity category		Supermarket	Other food	Hospitality	Clothing	Household goods	Other retail	Total
Outside of Chester Square	Floorspace (sqm)	-	1,742	3,371	1,050	850	2,679	9,692
	% of total floorspace	0%	18%	35%	11%	9%	28%	100%
Chester Square	Floorspace (sqm)	3,468	1,211	704	400	84	1,849	7,716
	% of total floorspace	45%	16%	9%	5%	1%	24%	100%
Total	Floorspace (sqm)	3,468	2,953	4,075	1,450	934	4,528	17,408

Source: SGS 2020

Much (approximately 63%) of the floorspace in Chester Square is currently taken up by Woolworths and the Reject Shop, with an additional large grocery store and range of smaller retailers making up the remainder.

There is a high concentration of hospitality retailers outside of Chester Square, comprising approximately 35% of retail floorspace and 34% of retail premises outside of Chester Square compared with 9% inside. This is the retail category in which the proposed development would be most likely to impact on the turnover of retailing on Waldron Road. The amount of hospitality floorspace in the shopping centre would be likely to increase substantially as part of the proposed redevelopment, particularly around the proposed public square.

While hospitality floorspace in shopping centres is often taken up by chain brands, it may be that the public square will have a high level of amenity and become a preferred dining destination, attracting spending and retailers away from Waldron Road. Although fast food premises inside the shopping centre would likely only be open during business hours, large increase in the number of fast food retailers in a redeveloped Chester Square could reduce turnover of fast food retailers on and near Waldron Road. The loss of several anchor restaurants on Waldron Road could significantly decrease foot traffic and activity after hours,

harming the overall perception and success of Waldron Road as a hospitality destination. The loss of several day-time or fast-food dining premises could also reduce activity.

As there is no supermarket outside of Chester Square (apart from Ivan's Butchery and Smallgoods which has been classified as an 'other food' retailer, and which has a different focus to most supermarkets), an expansion of supermarket floorspace in Chester Square would be unlikely to have a large impact on the performance of retailing along Waldron Road. As many of the food retailers on Waldron Road have an ethnic focus which would be unlikely to be reproduced in a shopping centre, some expansion of 'other food' retailing space would also be possible without competing significantly with retailing on Waldron Road.

Many clothing, household goods and other retail stores along Waldron Road are either the kinds of premises which would be unlikely to locate in a shopping centre as a result of the high rents required (for example op-shops) or have an independent and often ethnic focus. In this way, they serve a slightly different market segment than premises that may be located in a shopping centre and so some expansion of the retail provision in Chester Square in these categories may be possible without harming the viability of retailers on Waldron Road.

3.4 Discussion

The proposed redevelopment includes more retail floorspace than future retail demand is likely to create and so it is likely to have some impact on retail turnover in other centres. There could also be a mismatch between completion of the retail and residential components of the development. Nonetheless, high-level impact testing showed that this impact is not likely to be significant, even if the turnover of the Chester Hill Centre would increase substantially under the proposed development.

SGS's land use audit in Chester Hill shows that the commercial services and retail property markets are connected, with both commercial and retail premises located in the buildings along Waldron Road. The commercial floorspace in the proposed redevelopment would be consistent with Chester Hill's current role providing a wide variety of services to the local population. There is likely to be demand for this floorspace as population growth is forecast in the surrounding area and the vacancy rate of the Chester Hill Centre is currently low.

Retail premises along Waldron Road are mostly hospitality premises or relatively specialised retail premises, and so serve a different market segment than would likely be served by businesses located in an expanded Chester Square Shopping Centre. As such, some expansion of the centre is likely to be possible without impacting on the viability of retailing on Waldron Road. Supermarket floorspace is least likely to impact on turnover along Waldron Road, followed by other retail categories apart from hospitality.

There is a concentration of hospitality businesses and floorspace along Waldron Road, making this an important part of the centre's function and continued viability. Significant competition from the proposed redevelopment could harm the viability of hospitality premises, including both restaurants and take away food and drink premises, along Waldron Road.

The expansion of retail floorspace in Chester Hill is consistent with the North West Local Area Plan (LAP), the former Bankstown Council's plan for Chester Hill and the surrounding area. The LAP encouraged retail expansion as well as residential development in Chester Hill, which is intended to continue to function as the largest shopping precinct servicing the north-western suburbs of the Bankstown LGA. However, given potential competition between the shopping centre and Waldron Street, it would be appropriate to limit the amount of hospitality floorspace provided in the redeveloped shopping centre, and to ensure that the redevelopment does not lead to the delivery of significantly more floorspace than has been discussed in the current planning proposal documentation.

Potential mechanisms for limiting retail impacts

SGS have tested the likely impacts of a retail development of the scale and type proposed in the planning proposal documentation, which is the same as the amount of retail development proposed in the alternative proposal. However, it would be possible for the proponent to modify the proposed project designs after the land is rezoned and to increase the size of the retail and commercial portion of the redevelopment. This could increase the likely retail impacts on premises along Waldron Road and in nearby centres.

To mitigate the potential for these increased impacts, as well as of impacts on hospitality premises on Waldron Road discussed above, Council could modify planning instruments to prevent a much larger retail development occurring, in discussion with the proponent. Potential mechanisms for this include:

- Capping the total retail floorspace permissible on the site through an additional local provision in Part 6 of the Bankstown LEP 2015. This could be capped at the GFA proposed in the plans submitted so far, or around 10% larger to allow for revisions to the design.
- Capping the floorspace that can be delivered as food and drink on the site to limit impacts on Waldron Road. Based on SGS's estimate of 704sqm of food and drink premises floorspace in Chester Square currently, a small increase to around 1,000sqm in total (an increase of around 300sqm) would allow for some expansion to occur without significantly competing with Waldron Road. This amount should be subject to negotiation with the proponent.
- Site specific provisions could be included in the Bankstown DCP 2015 specifying an approximate cap on total retail floorspace (similar to the cap suggested for the LEP) and for food and drink premises. This could be complemented by objectives specifying the intended retail function of the centre, including that it should not provide a large hospitality precinct which would compete with Waldron Road.
- Ensuring the design fully integrates with the Waldron Road retailing to maximise benefits from foot traffic for the centre as a whole. This is part of Place Design Group's recommendations in the alternative proposal.

Any of these mechanisms, or a combination of them, may be appropriate. SGS recommends that a cap on overall retail floorspace in the LEP may be too prescriptive, and that a DCP amendment may be sufficient.

KEY FINDINGS

- There is likely to be demand for the proposed commercial floorspace if it is delivered as population-facing commercial services floorspace rather than larger-floorplate commercial offices. The proposed floorspace is unlikely to have a significant impact on existing commercial (predominately service-based) premises.
- The proposed retail expansion is unlikely to have significant impacts on other nearby centres.
- Apart from hospitality, the retail offering in Chester Square and Waldron Road are likely to have relatively different focuses, limiting the likely impact within the Chester Hill centre.
- Significant expansion of the hospitality presence in Chester Square, including around the proposed public square, could impact on the activity and perception of the hospitality premises which are relatively concentrated on Waldron Road.
- Some expansion of retail floorspace in Chester Hill is consistent with the existing strategic planning framework.
- Ensuring that the design of a redeveloped shopping centre is integrated with Waldron Road will be important to minimising impacts on Waldron Road, and is one of the recommendations of Place Design Group.

4. DEVELOPMENT FEASIBILITY

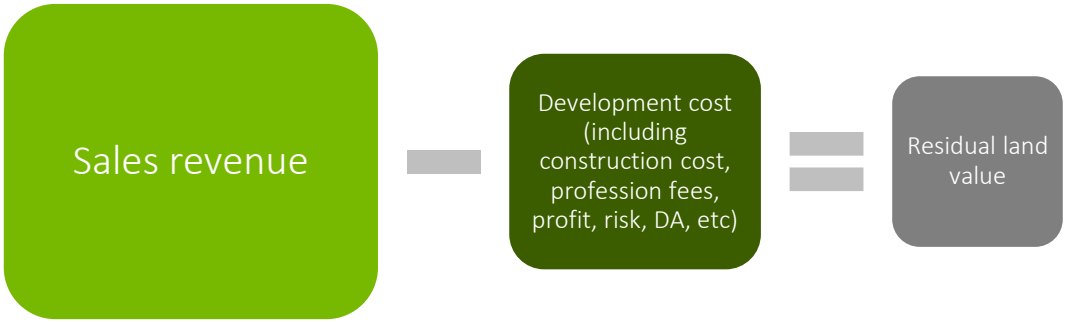
4.1 Feasibility methodology

The feasibility of development on the subject site as well on Waldron Rd has been tested with a residual land value (RLV) model. The RLV is the maximum amount that a rational developer could pay for a site for redevelopment while still making a profit.

The RLV is calculated by deducting all the costs of a development from the sales revenues in the current market. The development costs include construction costs and contingencies, external works and other site works, professional fees, a developer's profit margin, infrastructure levies or contributions and other council fees. This calculation is illustrated in Figure 11.

If the RLV is much greater than a site's current value including existing improvements such as dwellings, a developer could afford to pay more than the current market value for a site. In this case development is likely to be feasible. If the RLV is much less than a site's value, a developer would not be able to make a sufficient profit from a development to cover the cost of site acquisition, and development would be unfeasible.

FIGURE 11: RESIDUAL LAND VALUE CALCULATION



Source: SGS Economics and Planning, 2019

Feasibility under an RLV model is usually reported with a ratio of RLV to current land value. If this ratio is 1.25 or greater, a developer could afford to pay a 25% premium on the existing land value to acquire a site for development. This premium could entice a landowner to sell a site for development and would facilitate the amalgamation of sites for development. In this case, development is reported to be feasible.

A feasibility ratio of between 1 - 1.25 indicates that development may be feasible. In this range a developer would be able to make enough profit from a development to cover the cost of acquisition of the land if a landowner is willing to sell their land for a smaller price margin than 25%. However, as there is less room for a price premium in the event of an increase in land value, development may become unfeasible in the future. Developers may also be unable to acquire multiple sites for amalgamation. In this case, development is reported to be marginally feasible.

A feasibility ratio of less than 1 indicates that a developer would not make enough profit to make development viable.

Feasibility testing sites and scenarios

Two sites were tested:

- The subject site (the Chester Square Shopping Centre)
- 154-162 Waldron Road, to inform whether redevelopment is likely to be feasible along Waldron Road outside of the shopping centre.

Subject site

The attributes of the subject site are shown in the following table.

TABLE 21 ATTRIBUTES OF SUBJECT SITE FOR FEASIBILITY TESTING

Location	Chester Square Shopping Centre
Zoning	B2
Development type	Mixed use development
Current FSR control	2.5:1
Current height of building control (max)	20
Site area (sqm)	16,700
Current use	Enclosed shopping centre

Development feasibility was testing in three cases: under the current planning controls, with the proposed redevelopment occurring and with a revised development proposal developed by Council with density between that allowable under the current planning controls and that of the planning proposal. Resulting development parameters are shown in the following table.

TABLE 22: MODELLED DEVELPOMENT OUTCOMES ON THE SUBJECT SITE

Development scenario	Base case (current planning controls)	Proposed planning controls	Revised development concept
Retail GFA	16,763	16,763	16,763
Commercial GFA	1,000	1,000	0
Residential GFA	25,434	59,016	41,783
Floor space ratio	2.5	4.54	3.5
Number of dwellings	279	648	459
Apartment mix proportion (one/two/three bedroom apartments/townhouses)	56 / 196 / 28 / 0	228 / 368 / 32 / 20	161 / 261 / 23 / 14
Number of car parks	743	1,158	944

Development outcomes (GFAs, the number of dwellings and dwelling breakdown) under the proposed planning controls were drawn from the urban design report submitted with the planning proposal. The number of car parks was reduced to the requirement under the Bankstown DCP 2015 to ensure that the feasibility of this scenario is comparable to feasibility assessment of other development scenarios. The construction of basement car parking is highly expensive, and so delivery of a much higher number of car parking spaces is likely to decrease development feasibility.

Development outcomes under the revised concept were set to correspond to the figures provided in the urban design framework for the revised development concept, with the bedroom mix and floorspace per bedroom set to match that in the planning proposal.

Development outcomes under the base case were assigned to reflect the delivery of the same redevelopment of the shopping centre (retail and commercial space), with a reduced amount of residential development. A 20%/70%/10% split of one two and three bedroom apartments was used, and the floorspace efficiency was adjusted to match that of the proposed case so that the results are comparable. The number of carparks was set with the minimum requirements of the Bankstown DCP 2015.

154-162 Waldron Road

Site selection for the Waldron Rd site was based on development permissibility and whether there have been recent sales nearby to inform likely site acquisition cost. The following other criteria were used when selecting the Waldron Rd site:

- Frontage greater than 18 metres (to avoid the FSR penalty in Clause 4.4 of the Bankstown LEP 2015)
- Located between Bent St and Priam St (the most attractive part of Waldron Road according to local real estate agents)
- A site with the B2 Zone with a FSR of 3:1

A summary of the sites tested is shown below:

TABLE 23 ATTRIBUTES OF WALDRON ROAD FEASIBILITY TESTING SITE

Address	154-162 Waldron Rd
Zoning	B2
Development type	Shop top housing
Current FSR control	3:1
Current height of building control (max)	26
Site area (sqm)	939
Current use	2 storey retail shop

Source: SGS Economics and Planning, 2020

Likely development outcomes are shown in the table below and were assessed based on the delivery of a shop top housing development with the maximum FSR. Ground floor retail spaces are accommodated within notional retail FSR of 0.3:1, with the remainder of floorspace residential. A 20%/70%/10% split of one two and three bedroom apartments was assumed, while the number of carparks was set with the minimum requirements of the Bankstown DCP 2015.

TABLE 24: MODELLED DEVELPOMENT OUTCOMES ON WALDRON ROAD

Retail GFA	282
Commercial GFA	0
Residential GFA	2535
Floor space ratio	3
Number of dwellings	26
Apartment mix proportion (one/two/three bedroom apartments/townhouses)	5 / 18 / 3 / 0
Number of car parks	38

Feasibility assumptions

The table below shows the cost inputs and assumptions used in the feasibility modelling. Site acquisition costs have been estimated based on recent sales prices for each site. Expected development revenues have been estimated from reported recent sales prices for comparable dwellings in nearby areas and from consultations with real estate agents.

TABLE 25: FEASIBILITY MODELLING ASSUMPTIONS

Input	Source	Value
Development cost assumptions		
Construction and demolition costs	Rawlinson's Construction Handbook 2019	Varies
Construction contingency	Various sources using industry standards	5% of base construction costs
Professional fees	Various sources using industry standards	9.2% of base construction costs and contingency
Development contributions	Bankstown DCP s.7.11 contributions plan	1 bed: $8,363 2 bed: 14,336 3 bed: 20,000
DA Fees	EP&A regulations (marginal fee only – does not account for other fees and charges)	Varies
Finance costs	Various sources using industry standards	6% of construction costs, land costs and fees & charges
Developer profit and risk	Various sources using industry standards	20% of all other development costs
Sales commission, marketing and legal fees	Various sources using industry standards	4% of sales revenues
Existing use values	154-162 Waldron Road based on recent sales prices. While Chester Square recently sold for $68,500,000, this was on a record low yield for neighbourhood retail centres of 3.78%[1] which is likely to be a reflection of the site being acquired based on its development value rather than existing use value. Adjusting the yield to 6.3% (the average yield for neighbourhood shopping centres) gives SGS's estimate of the existing use value.	154-162 Waldron Rd: $3,575,000 Chester Square Shopping Centre: $41,100,000
Development revenue assumptions		
Average new apartment sales values	Consultation with real estate agents and profiling of sales of new apartments in Bankstown, Sefton and Yagoona	1 bed: $400,000 ex GST 2 bed: $500,000 ex GST 3 bed: $600,000 ex GST
Capitalisation rate for retail/commercial	Retail on Waldron Rd: consultation with real estate agents and recent sales in the area Chester Square Shopping Centre retail: Average neighbourhood retail centre prices from Colliers International Retail Second Half 2019	Retail 154-162 Waldron Rd: 9.68% Chester Square Shopping Centre: 6.30% Commercial Chester Square Shopping Centre: 5.80%

[1] Commercial Real Estate 2019, https://www.commercialrealestate.com.au/news/new-record-for-retail-nassif-family-snap-up-chester-square-for-68-5m-47540/

	Chester Square Shopping Centre commercial: Market assessment based on recent sales in the area	
Base Commercial Rent (sqm)	Retail on Waldron Rd: consultation with real estate agents and recent sales in the area Chester Square Shopping Centre retail: Average neighbourhood retail centre prices from Colliers International Retail Second Half 2019 Chester Square Shopping Centre commercial: market assessment based on recent sales in the area	Retail 154-162 Waldron Rd: $398.35 per sqm Chester Square Shopping Centre: $950.00 per sqm Commercial Chester Square Shopping Centre: $337.70 per sqm

4.2 Feasibility results

Subject site

Feasibility results for the subject site are shown in the table below. While a feasibility ratio of at least 1.25 would generally be required for a development to be considered feasible, development is likely to be feasible in this case given the size of the difference between the residential land value and existing use value.

TABLE 26: FEASIBILITY TESTING RESULTS FOR THE SUBJECT SITE

	Current planning controls	Proposed planning controls	Revised development concept
Total development costs	$261,215,524	$484,882,914	$366,581,663
Net sales revenue	$318,662,981	$480,598,230	$401,241,407
Residual land value (net sales revenue – total development costs)	$57,447,457	-$4,284,685	$34,659,744
Existing use value	$41,100,000	$41,100,000	$41,100,000
Feasibility ratio (residual land value / existing use value)	1.22 (Feasible)	-0.10 (Unfeasible)	0.79 (Unfeasible)

Development under the proposed planning controls is considered to be unfeasible under the cost and revenue assumptions used in this model. While increasing the allowable density on a site is often considered to increase the residual land value and so development feasibility, this is not the case on the subject site for the following reasons:

- Higher per square metre construction costs were used to model the cost of development under the proposed planning controls in those parts of the development likely to be within or under the towers, reflecting the increased cost of construction for higher buildings,
- Likely apartment sale prices in Chester Hill are not high enough to cover the likely costs of developing high rise apartments (including profit margin and construction contingency), and so an increase in allowable density decreases the residual land value. Development under the current planning controls is considered to be feasible despite this because of the additional revenue created by the retail redevelopment.

Under the revised development concept development is still unfeasible when assessed against the existing use value. However, it is much more feasible than under the planning proposal due to reduced construction costs associated with the slightly lower density.

Waldron Road

Feasibility results for redevelopment of existing shops along Waldron Road are shown in the table below. Redevelopment is likely to be unfeasible. Total development costs are higher than net sales revenue, showing that apartment sales prices are not high enough to cover development costs (including profit margin and construction contingency) for a typical apartment.

TABLE 27: FEASIBILITY TESTING RESULTS FOR WALDRON ROAD

Total development costs	$14,758,567
Net sales revenue	$12,832,493
Residual land value (net sales revenue – total development costs)	-$1,926,074
Existing use value	$3,575,000
Feasibility ratio (residual land value / existing use value)	-0.51 (Unfeasible)

Sensitivity tests

SGS uses industry standard cost and revenue assumptions in its feasibility assumptions which seek to model the costs and returns of a typical development. These assumptions are relatively conservative, and in some cases developer seeking a smaller profit margin or with lower development costs than modelled may be able to feasibly develop a site where development is deemed to be unfeasible. For example, anecdotal evidence suggests that many builder-developers in Western Sydney are able to build at a lower cost than commonly modelled (in the low $300,000s per apartment including parking, compared to SGS's estimates of around $328,000 for the Waldron Road site and $366,000 for the proposed case on the subject site). However, it is most appropriate to use industry standard assumptions to inform planning policy.

To show how development feasibility would change if the underlying assumptions change, SGS has conducted sensitivity test on the above feasibility results. This is intended to provide an understanding of how important certain assumptions are to the final development feasibility but should not be interpreted as showing accurately what the residual land value is likely to be.

Subject site

Feasibility on the subject site under the proposed planning controls would be substantially increased by a reduction in the construction cost or a reduction in the development profit margin, while it would be significantly reduced by a reduction in the rental yield. Development may become feasible if these sensitivities, or some combination of them, is applied.

TABLE 28: FEASIBILITY MODELLING SENSITIVITY TESTS FOR THE SUBJECT SITE

Sensitivity test	Baseline assumptions	Reduced retail yield (-20%)	Reduced construction cost (-15%)	Reduced profit margin (15% instead of 20%)
Feasibility ratio	-0.10 (unfeasible)	-0.75 (unfeasible)	1.18 (marginally feasible)	1.13 (marginally feasible)

The same sensitivity tests (although with a slightly lower reduction in the construction cost) have been applied to the revised development proposal. As with the submitted planning proposal, a reduction in retail yield significantly reduces feasibility. Feasibility is increased if

construction costs are reduced (in which the development is assessed as being feasible) or if the profit margin is reduced (in which case the development is marginally feasible). On this basis, development is more likely to be feasible under a combination of sensitivity tests under the revised proposal than the submitted proposal, particularly if the construction cost is reduced.

TABLE 29: FEASIBILITY MODELLING SENSITIVITY TESTS FOR THE SUBJECT SITE WITH THE REVISED PROPOSAL

Sensitivity test	Baseline assumptions	Reduced retail yield (-20%)	Reduced construction cost (-10%)	Reduced profit margin (15% instead of 20%)
Feasibility ratio	0.79 (unfeasible)	0.10 (unfeasible)	1.42 (feasible)	1.10 (marginally feasible)

Waldron Road

Feasibility on Waldron Road would be increased slightly by a reduction in construction cost (note that a smaller reduction has been modelled than on the subject site as estimated development cost per apartment is lower on Waldron Road under the baseline assumptions). Removing the basement car parking has a greater affect on development feasibility. However, development is unlikely to become feasible in these cases.

TABLE 30: FEASIBILITY MODELLING SENSITIVITY TESTS FOR THE SUBJECT SITE

Sensitivity test	Baseline assumptions	Reduced construction cost (-7.5%)	Reduced profit margin (15% instead of 20%)	No car parking
Feasibility ratio	-0.51 (unfeasible)	-0.28 (unfeasible)	-0.4 (unfeasible)	0.48 (unfeasible)

4.3 Discussion of results

Value capture following rezoning

Where rezoning a development site causes the residual land value to increase, a portion of that increase may be captured through levies, charges or works in kind without causing development to become unfeasible. This could occur, for example, through an affordable housing contribution or delivery of infrastructure through a planning agreement. The size of the increase in residual land value shows approximately how large a contribution could be required without impacting on feasibility.

SGS has assessed the proposed redevelopment of the Chester Square shopping centre to be unfeasible at the densities and heights proposed. A developer seeking a smaller profit margin or with lower development costs than modelled may be able to feasibly develop the subject site at the densities proposed. Nonetheless, the modelled residual land value under the proposed case is lower than under the current planning controls and so this modelling does not provide a basis for assessing value capture potential or the suitability of the size of the public benefit offer.

While SGS cannot comment on the relationship between the current public benefit offer and the uplift proposed, Council can still negotiate to mitigate impacts of the proposed development and to obtain related public benefits as part of any rezoning. This could include:

- Traffic and transport works beyond those that would normally be required through the development application process
- Public domain improvements on Waldron Road to mitigate potential losses of trading
- Improvements to public domain connectivity between Waldron Road and the shopping centre to provide a more seamless connection between the stores and services available in the two.

Encouraging redevelopment along Waldron Road

SGS's modelling showed redevelopment of existing commercial and retail premises on Waldron Road to be unfeasible, with likely development costs exceeding revenues. On this basis, the return from the construction of each apartment is not sufficient to cover the development cost (including profit margin) of apartments, and so an increase in allowable density or height would not make development more feasible. An increase in apartment prices would make development more feasible.

The current allowable FSR of 3:1 along Waldron Road is relatively high, and comparable to many other centres in which apartment development is occurring. As such the allowable FSR is unlikely to be the main impediment to development, even if a developer is able to construct apartments more cheaply than anticipated by SGS. There are already bonus FSR provisions in place encouraging site amalgamation (Clause 4.4 in the Bankstown LEP 2015), but these have not led to development occurring.

There are other likely impediments to redevelopment along Waldron Road. Many properties are likely to be owned by local business owner-operators who may be reluctant to sell their place of business. Land ownership is highly fragmented and so several sites would need to be acquired in order for a development to occur. The difficulty of this site amalgamation would be heighted by reluctance to sell among landowners.

It is difficult and often expensive to develop basement parking spaces on a small development site. However, if basement parking is not required mixed use development is possible on a smaller and narrower development site like those which could be formed along Waldron Road without significant site amalgamation occurring. As such, increased flexibility in car parking requirements along Waldron Road could facilitate redevelopment. Potential mechanisms for this include:

- Reducing or removing the minimum parking space requirements for residential, commercial and retail redevelopment. Increased parking restrictions on surrounding streets may be required to prevent amenity impacts on surrounding areas.
- Allowing for undercroft or surface level parking spaces to be provided fronting Frost Lane rather than requiring a basement to be built.
- Facilitating the provision of parking spaces in a centralised location separate from development sites on Waldron Road. The redevelopment of Chester Square provides a potential mechanism for this if permanent parking spaces in the redeveloped centre could be purchased by residents or developers of apartment buildings along Waldron Road. Parking supply for Waldron Road redevelopment could be included in a redeveloped Chester Square by negotiation with the developer.

KEY FINDINGS

- Modelling shows development to be feasible on the subject site under current planning controls, but unfeasible if the proposed amendment occurs partially as a result of the higher construction costs associated with higher buildings.
- The revised development proposal is still assessed as being unfeasible but is closer to being feasible than the submitted planning proposal, and may be feasible with small variations in modelling assumptions.
- Low likely sale prices for apartments mean that redevelopment of commercial or retail premises along Waldron Road is unlikely to be feasible under current market conditions.
- Increasing the FSR on Waldron Road is unlikely to make development more feasible. Reducing or removing the need to provide car parking basements could make development more feasible. There are several potential mechanisms for this, including reducing or waiving typical parking requirements or centralising car parking on the subject (Chester Square) site which could be sold to developers or residents of apartments on Waldron Road.

5. CONCLUSION

SGS has assessed the likely economic impacts and feasibility of the proposed redevelopment of the Chester Square Shopping Centre with apartments, as well as the likely demand for this development

Residential

Rezoning of the subject site is unlikely to be needed to facilitate adequate housing supply. There is already substantial dwelling capacity under current planning controls and a continuation of recent dwelling development rates in the broader submarket would be almost enough to meet modelled demand. SGS's feasibility analysis has shown that residential apartment development along Waldron Road is unfeasible currently, however some development is occurring in nearby centres like Yagoona and Villawood and feasibility may improve in the future. The revised proposal is also considered unfeasible but may be feasible with small variations in the modelling assumptions. There are also other redevelopment opportunities in Chester Hill where apartment development could be facilitated, including of the detached dwellings on the south side of Waldron Road.

Apartments in the proposed development would likely take some time to sell as more apartments are proposed on this site than forecast demand for the Chester Hill – Sefton SA2 until 2036, requiring substantial demand to be captured from the broader submarket in the short-medium term. This would also be true for the revised proposal, although the number of dwellings it contains is less and so the potential mismatch would be smaller.

Retail

Some increase in the retail provision on the subject site would be consistent with Chester Hill's role as the primary retail and services centre in the area.

The proposed retail development is unlikely to significantly impact on the retail turnover of other nearby centres. It is likely to mostly serve a different submarket than the premises along Waldron Road, although some impacts are likely particularly if a large amount of hospitality floorspace is delivered as part of the redevelopment. Restriction of the delivery of floorspace of this type could limit the impact. Design integration between the shopping centre and Waldron Road, such as that proposed by Place Design Group, will be important to minimise impacts.

Commercial

There is little commercial office space in Chester Hill currently and so there may be little depth for floorspace of this type. However, there are many non-retail premises providing services to the local population, and an additional 1,000sqm of floorspace of this type would be unlikely to impact on the operation of services along Waldron Road.

Strategic merit

SGS have assessed the economics of the proposal, which inform whether rezoning is *needed* from a retail, commercial and housing demand point of view. Whether a development of the proposed scale would improve the overall design and function of the Chester Hill centre is another important consideration, although it is outside the scope of this study.

Chester Square could be redeveloped to provide additional commercial and retail floorspace under the current planning controls, and modelling shows this to be feasible including some

apartment development. On this basis, there is not a *need* for rezoning to occur to facilitate redevelopment.

The apartments in the proposed development would increase local dwelling supply and diversity, however SGS's modelling suggests that the scale of the proposal is not necessary from a housing supply and demand balance point of view. On this basis the question of the consistency of the design and scale of the proposal, and the consistency of this with Council's vision for the area becomes more important. The development may also provide other public benefits through contributions and a planning agreement, although this should not be considered as a way to 'buy' an approval. While feasibility modelling did not identify an uplift in residual land value, and so SGS cannot comment on the suitability of the quantum of public benefits currently proposed, Council could negotiate to mitigate impacts of the proposed development and to obtain related public benefits including:

- Traffic and transport works beyond those that would normally be required through the development application process
- Public domain improvements on Waldron Road to mitigate potential losses of trading
- Improvements to public domain connectivity between Waldron Road and the shopping centre to provide a more seamless connection between the stores and services available in the two.

ATTACHMENT 1
RESPONSE TO ATLAS URBAN ECONOMICS REVIEW OF SGS CHESTER HILL PROPOSAL ECONOMIC ANALYSIS

Independent insight.

2 July 2020

Wesley Folitarik
City of Canterbury-Bankstown

Dear Wesley,

Response to Atlas Urban Economics review of SGS Chester Hill proposal economic analysis

Background

SGS Economics and Planning was commissioned by Canterbury-Bankstown Council (Council) to provide economic analysis of the Chester Hill Centre and to review the economic rationale for a proposed redevelopment of the Chester Square Shopping Centre. As redevelopment would require an amendment to the Bankstown Local Environmental Plan 2015, a planning proposal has been submitted to Council by Holdmark, the owners of the Chester Square shopping centre.

The planning proposal proposes to:

- Amend the Height of Buildings map to introduce a range of building heights from 11m to 65m;
- Amend the Floor Space Ratio map to introduce an FSR of 4.53:1
- Insert an additional clause 6.11 in relation to the provision of affordable housing that allows the consent authority to require 5% of residential floor area to be dedicated to Council as affordable housing to be managed by a registered community housing provider.

Specifically the proposal would redevelop the subject site with the following components:

- A rebuilt shopping centre expanded from the current gross lettable area of 8,268 sqm to 1,000sqm of commercial floorspace and 15,763 sqm of retail floorspace, and
- Approximately 648 apartments on top of the shopping centre in buildings ranging from 6 to 19 storeys.

The planning proposal was accompanied by an economic impact assessment (EIA) prepared by AEC Group (AEC).

SGS Economics and Planning (SGS) was engaged by Council to provide economic analysis of the Chester Hill Centre and to review the economic rationale for the proposed development of the Chester Square shopping centre.

The SGS analysis considered the following matters:

- Whether the planning proposal is feasible in terms of market demand for the quantum of floor space and unit yields proposed and ability to meet typical financial requirements such as presales etc.
- The capitalised land value of the subject site in its current form, the residual land value if the site if it were developed under the existing controls, and the residual land value if the site were developed as proposed by the planning proposal.
- The economic impact of the planning proposal on other land zoned B2 Local Centre within the Chester Hill village centre and other centres within the main trade area.
- Whether the use of height and floor space controls can be used (where appropriate) to encourage site amalgamation within the B2 Local Centre zoned area, specifically for the properties fronting Waldron Road.

Council commissioned Place Design Group to undertake an urban design peer review of the proposed development. Place Design Group recommended an alternative proposal with a lower development density.

The alternative proposal differed from the submitted proposal in the following ways:

- A reduced FSR (3.5:1 instead of 4.53:1), although still a higher FSR than the current provisions which allow 2.5:1,
- Reduced building height (maximum 12 storeys instead of 19 storeys),
- A reduction in the residential GFA from 59,016 sqm to 41,783 sqm.

SGS was requested to comment on the economics of a draft of this alternative proposal.

Atlas Urban Economics (Atlas) was engaged by Holdmark to review the SGS analysis and conclusions drawn on the proposal. Council has further commissioned SGS to respond to the Atlas review of SGS's analysis.

The Atlas review, analysis and conclusions focussed on the matters raised in the initial SGS review pertaining to **retail impact** and **market feasibility,** with comment on the implications of the SGS review on the strategic and economic merit of the proposal. SGS's responses to the Atlas findings on these matters, retail impact and market feasibility, follow.

Retail impacts

The key findings in the initial SGS review report were:

- The proposed retail expansion is unlikely to have significant impacts on other nearby centres.
- Apart from hospitality, the retail offering in Chester Square and Waldron Road are likely to have relatively different focuses, limiting the likely impact within the Chester Hill centre.
- Significant expansion of the hospitality presence in Chester Square, including around the proposed public square, could impact on the activity and perception of the hospitality premises which are relatively concentrated on Waldron Road.
- Some expansion of retail floorspace in Chester Hill is consistent with the existing strategic planning framework.
- Ensuring that the design of a redeveloped shopping centre is integrated with Waldron Road will be important to minimising impacts on Waldron Road, and is one of the recommendations of Place Design Group.

The Atlas review responds as follows:

Government advisory documents (the Competition Policy Review Final Report, 2015; the Retail Expert Advisory Committee Independent Recommendations Report, 2017) and planning case law (Kentucky Fried Chicken v Gantidis (1979) 140 CLR 675 and Fabcot Pty Ltd v Hawkesbury City Council (1997) 93 LGERA 373) have established that competition between individual businesses is not a planning consideration. Neither are viability impacts on existing businesses from new development.

Rather, the role of the planning system is to judge whether overall trading impacts resulting from new development would be severe enough to cause a centre to cease functioning in the manner envisaged in the retail hierarchy. Beyond that the narrow consideration of the overall impact on the role and function of centres, trading impacts on individual retailers is immaterial to the acceptability of new development. Such impacts are a private matter of commercial competition not a public matter.

and

On this basis and given the analysis contained within the SGS review, there are no economic grounds to refuse the proposal.

SGS Response

We note and agree with Atlas that advisory and some case law *has 'established that competition between individual businesses is not a planning consideration'.* We would also generally agree it follows that *'the role of the planning system is to judge whether overall trading impacts resulting from new development would be severe enough to cause a centre to cease functioning in the manner envisaged in the retail hierarchy.'*

But the planning system isn't constrained to only this role for a proposal such as the current one. The NSW Government 'Guide to preparing planning proposals' (2018)[2] says that economic considerations include 'impacts on existing retail centres which may result if the planning proposal proceeds'. This suggests that if an existing centre is impacted, even if the planning proposal is for a site adjacent to the centre, then this may be a relevant consideration.

'Impacts' are not otherwise defined in the mentioned Guide but in other planning guidance the concept of 'net community benefits' is suggested as a relevant concept to evaluate these impacts, for example, in the Right Place for Business and Services (2001), on the DPIE's website.[3] This document says,

*'…alternatives may be acceptable when a **net community benefit** can be clearly established. That is, proposals must ensure that there will be no detrimental effect on public investment in centres and that private investment certainty in centres is maintained.'*

Amongst the suggested criteria for determining net community benefit or cost are:

- *'the likely impact on the economic performance and viability of existing centres (including the confidence of future investment in centres and the likely effects of any oversupply in commercial or office space on centres…)*
- *the amount of use of public infrastructure and facilities in centres, and the direct and indirect cost of the proposal to the public sector'*

The issue raised in the SGS review in relation to hospitality floorspace aims to highlight that a large-scale decline in the performance of Waldron Road would negatively impact on the vibrancy and perception of this shopping strip, which hosts significant public domain investment and is co-located with social infrastructure. This is a net community disbenefit rather than a competitive issue between any individual premise on Waldron Road and the proposed shopping centre. We acknowledge the likelihood of a significant community cost in this case is minor. SGS also acknowledges in the initial review report that the internal retail floor space mix is likely to change and is more difficult to control once rezoning occurs.

Conclusion

SGS agree that the issue in relationship to hospitality floorspace does not represent grounds to refuse or deny the planning proposal. It rather remains material in that Council should seek a constructive, collaborative relationship with the proponent, with both parties working towards a final design and use mix that achieves a shared vision for the whole of the centre including the Waldron Road strip.

[2] https://www.planning.nsw.gov.au/-/media/Files/DPE/Guidelines/guide-to-preparing-planning-proposals-2019-02-05.pdf?la=en

[3] https://www.planning.nsw.gov.au/-/media/Files/DPE/Plans-and-policies/the-right-place-for-business-and-services-planning-policy-2001-08.pdf

Feasibility analysis and strategic merits

The key findings in the initial SGS review report were:

- Modelling shows development to be feasible on the subject site under current planning controls, but unfeasible if the proposed amendment occurs partially as a result of the higher construction costs associated with higher buildings.
- The revised development proposal is still assessed as being unfeasible but is closer to being feasible than the submitted planning proposal, and may be feasible with small variations in modelling assumptions.

SGS also included a sensitivity test with using lower construction cost assumptions, with a finding that:

> Feasibility on the subject site under the proposed planning controls would be substantially increased by a reduction in the construction cost or a reduction in the development profit margin, while it would be significantly reduced by a reduction in the rental yield. Development may become feasible if these sensitivities, or some combination of them, is applied.

The relevant conclusion in the SGS report related to the feasibility analysis and 'strategic merit was as follows:

> Chester Square could be redeveloped to provide additional commercial and retail floorspace under the current planning controls, and modelling shows this to be feasible including some apartment development. On this basis, there is not a ***need*** for rezoning to occur to facilitate redevelopment.
>
> The apartments in the proposed development would increase local dwelling supply and diversity, however SGS's modelling suggests that the scale of the proposal is not necessary from a housing supply and demand balance point of view.

The Atlas review interrogates SGS's assumptions in some detail, with the benefit of additional information made available by the development proponent in relation to valuations and construction costs, but makes the following key conclusion:

Development feasibility modelling can be a powerful tool to understand the impact of variables on the financial performance of development. The reliability of the results however is very sensitive to the robustness and integrity of the inputs and assumptions. The SGS assumed development costs are significantly higher than what is considered a reasonable range. Conversely, the assumed revenues are below rates observed in market evidence of sales activity. This is why it is critical that modelling results are cross-checked and reality-tested against commercial realities. It does not appear the SGS feasibility results were benchmarked against development site sales as a check.

There is no market evidence that shows a larger development is worth less than a smaller development. On a rate per square metre of GFA, the larger development may be worth less, but not in absolute terms. The development feasibility results are clearly out of kilter with market evidence and are not reliable.

The Site is not feasible for redevelopment under current planning controls, requiring a rezoning to enable higher densities to unlock the development opportunity.

SGS Response

Before addressing the substance of Atlas' conclusions, we respond in passing to the comments on the modelling assumptions.

Assumptions on a complex development

We agree with Atlas's point about the difficulty of assessing feasibility for a development as complex as the one proposed, without the benefit of site specific information. The application of multiple assumptions, as undertaken by SGS, reduces certainty regarding feasibility findings if a developer is able or willing to develop with lower costs or profit margins, for example. Given this, our conclusions were 'high level', using standard assumptions, and may differ somewhat from other more detailed feasibility results.

Existing use value

The SGS analysis was prepared without the benefit of a specific valuation for the site (by JLL of $55m which Atlas has 'sighted').

Only the profitability and likely returns of the shopping centre should be considered as part of the existing use value for the RLV feasibility analysis, not any increase in land value associated with development potential which might be allowed in planning controls. Without viewing JLL's valuation SGS cannot comment on its appropriateness for use in the RLV analysis. Nonetheless, as JLL are likely to have undertaken a more detailed analysis than SGS's use of high-level assumptions (which was necessary given the scope of SGS's appointment), JLL's valuation is likely to be more accurate.

It is noted that the higher existing use value determined by JLL would set an even more difficult benchmark for feasibility of the redevelopment.

Sales values

SGS stands by the assumed sales values for apartments used in our modelling, recognising that there are few sales in comparable developments in Chester Hill to use as benchmarks, and that average property prices indicated that Chester Hill is viewed less favourably by property purchasers than some other nearby centres or locations.

A 'downside' sensitivity test or assumption in relation to apartment sale values is prudent in any case, given market uncertainties in a relatively untested market such as this, particularly given the impact of Covid 19[4]

SGS note that

- GST – SGS agree that prices were intended to be quoted inclusive of GST, this was an error.
- Unit mix and townhouse values – Townhouses were included in SGS's feasibility model as three bedroom apartments given uncertainty regarding their design or comparability with townhouses nearby which are not part of high density housing developments.

[4] This recent article is particularly relevant in the current circumstances – Harley, Robert (18 June 2020) 'Why the apartment cycle is heading for a fast dip' *Australian Financial Review* https://www.afr.com/property/residential/why-the-apartment-cycle-is-heading-for-a-fast-dip-20200617-p553he

Base retail and commercial rent

Base commercial and retail rents for the proposed development are necessarily hypothetical given that there are few precedents for a new development of the scale proposed in Chester Hill or nearby and so the market for a development of this type is untested.

SGS accept that a more detailed analysis of likely tenants and floorspace would yield a more accurate estimate of base retail rent. It is worth noting that the figure of $950 per square metre used is an average across multiple classes of floorspace, and the *Urbis Shopping Centre Benchmarks* show that many categories of retailer pay may than $1,000 per sqm on average in single and double supermarket based shopping centres.

Notwithstanding these points, achievable rents will also depend on the trading performance of the retail submarket in question. Without additional information regarding the trading performance of Chester Hill (such as would be used in a more detailed evaluation, although this would likely be commercial in confidence), it is necessary to make high level assumptions when speculating as to likely retail rents.

Base commercial rents were determined based on an average of observed rents which were considered to be comparable rather than all rents in Chester Hill.

It is noted that a lower retail rent and higher commercial rent as suggested by Atlas would counteract each other in terms of development revenue and therefore on development feasibility. Indeed, given that a greater proportion of retail than commercial floorspace is proposed, Atlas's estimates of likely revenues may be lower overall than SGS's, lowering development feasibility.

Capitalisation rates for retail and commercial

SGS's assumed capitalisation rates were based on consultation with local real estate agents and research on recent property market transactions. Notwithstanding Atlas' observation regarding the retail yields generally being lower than commercial yields, it is acknowledged that capitalisation rates are speculative given that the floorspace type to be delivered is not well defined at this stage and are likely to differ from anything which is currently available in the local market.

Construction Costs

It appears that Atlas and Altus Group have misconstrued SGS's analysis. Reported development costs in the feasibility analysis include a contingency, professional fees, development charges and contributions, finance costs and an allowance for a developer's profit margin (20% in this case). As such, reported development costs should be expected to be higher than the cost of construction only against which they are being compared.

SGS's modelled construction costs using the Rawlinson's Handbook (excluding the additional components in the development cost noted above) were between $312,304 and $366,220 per apartment, including provision of basement car parking, with the higher cost for higher-rise development. These costs are somewhat higher than Altus Group's ranges, although within the 30% margin noted to be reasonable. Rawlinson's Handbook is an accepted source for high-level construction cost estimated.

Notwithstanding these points, SGS did not have the benefit of QS advice on construction costs. QS advice would produce construction cost estimates which are more accurate than those produced using high level assumptions and the Rawlinson's Handbook.

It should also be noted SGS undertook a sensitivity analysis, referenced above, that acknowledges the possibility of lower construction costs in this development market. This sensitivity analysis addressed the issue of potential overestimation of development costs, as well as the importance of modelling assumptions on feasibility results. Using these lower cost assumptions SGS identified that the proposed development was marginally feasible, and that if a reduced profit margin was accepted development would be feasible.

Comparable development sites

Atlas determine potential residual land values for the subject site through analysis of the sale prices for other development sites in Wentworthville, Merrylands, Liverpool and Lidcombe.

SGS does not consider the sites listed to be comparable to the subject site in Chester Hill Lidcombe has significantly higher land values and apartment sale prices than other centres in Central Western Sydney. Liverpool and Merrylands are also much larger centres which are experiencing significant redevelopment and arguably offer much higher amenity through access to services and retail. The site in Liverpool is directly opposite a large park and Westfield Liverpool. It is also worth noting that Chester Hill Train station only receives a train every 30 minutes, compared to higher frequencies at Lidcombe, Liverpool, Merrylands and Wentworthville.

Residual Land Values

A key conclusion of the Atlas review is that 'there is no market evidence that shows a larger development is worth less than a smaller development'. This represents a speculative view of a site's worth.

The development potential and therefore the value of a site is constrained by what can be sold compared to the cost of development. This is impacted by:

- The market depth and potential take-up rate, with a very large development likely to take a long time to sell, increasing development risk and financing costs (the SGS analysis shows that this particularly adds to the downside and feasibility risk for the proposed development in Chester Hill in what is a relatively untested apartment market, now even more affected by the Covid related downturn).
- Development industry capability, which for a development of this scale may be shallow, adding uncertainty and cost to any 'real' development proposition and restricting the number of developers who could undertake this development.
- Development costs per square metre increase as buildings get taller and more complicated. When development feasibility is marginal (returns on sale of apartments being not much higher than overall development costs), an increase in construction costs may make development unfeasible.

The residual land value (RLV) is not intended to communicate exactly what will be paid for a given site, as suggested by Atlas when they note that a negative residual land value "does not stand to reason". Rather a negative RLV indicates that development is unfeasible under the development assumptions used, and so a developer could not afford to purchase a site unless they had lower development costs, could access higher revenues, or were undertaking a different development. In practice, the real value of a site would still be positive in this case, as its existing use value is positive, a lower scale development may be feasible, and a developer may be willing to pay for a site speculatively on the understanding that development will become feasible in the future.

Conclusion

In conclusion we acknowledge that this is a complex development and relatively small changes to multiple assumptions can change the perspective on feasibility. SGS's sensitivity analysis addressed this issue, showing that lowering the construction costs could make the proposed development marginally feasible. If a developer is willing to lower their profit margin or can access reduced costs from those assumed by SGS, the proposed development may be feasible.

In our view and given the alternative perspectives on feasibility given different assumptions, feasibility should not be a grounds for refusal or denial of the planning proposal. We stand by our initial conclusion (with the relevant emphasis from the initial report included) that 'there is not a ***need*** for rezoning to occur to facilitate redevelopment' but neither would we suggest that a feasibility assessment, with all the potential variability in assumptions that are possible, be the basis for refusing the planning proposal.

In our view feasibility by itself should never be determinative in the zoning and development approval process. Rather assessment of proposals should be assessed on their strategic fit, individual planning merits, design appropriateness and net community benefit. Advocating for density uplift based on feasibility alone reduces planning to 'development facilitation' role and creates the risk of allowing development which is of a higher density than strategic planning and design merit would otherwise permit. Property markets shift over time, and a development which is considered unfeasible now may be considered feasible in the future and vice-versa.

With our 'planning' hats on we would argue that the design merits and planning impact of the proposal are more relevant considerations than development feasibility.

The contents of this letter have been reviewed by Jarrod Morgan, Director of Residential at m3 Property in Sydney, who has provided feasibility analysis peer review advice to SGS Economics and Planning on both the initial review of the planning proposal and this follow-up response to the Atlas review.

Patrick Fensham
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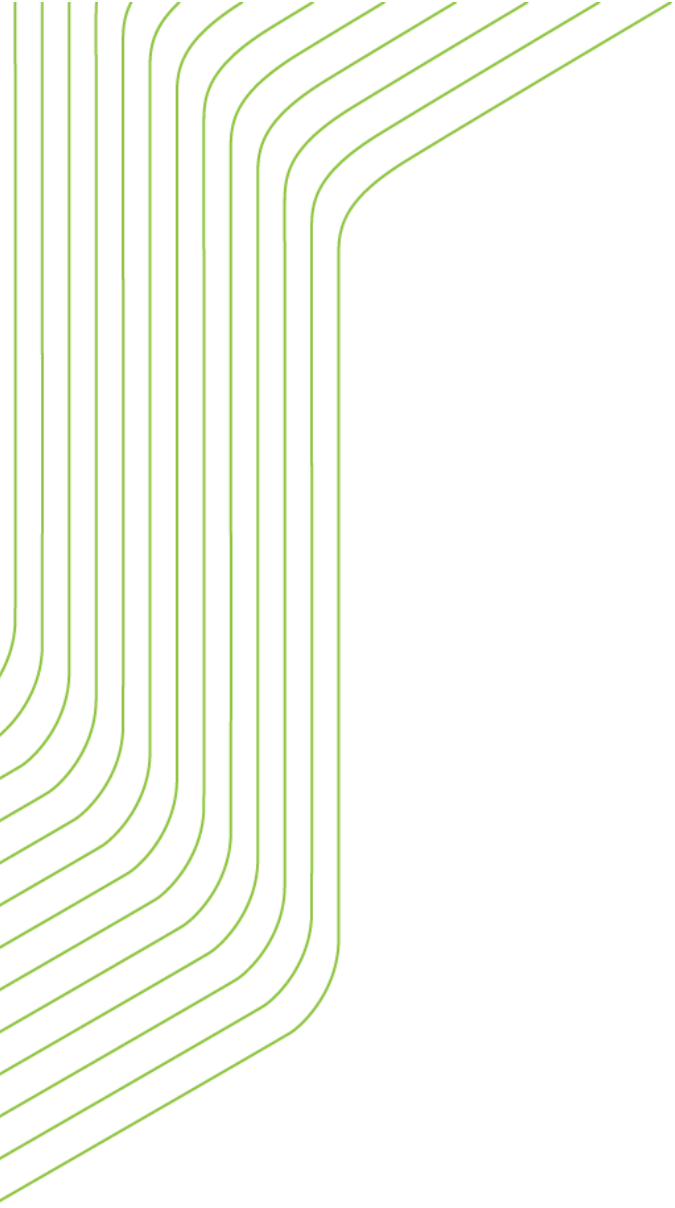

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