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Ray Nolan
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3 February 2025

Dear Ray,

Subject: 93 Bridge Road, Westmead – financial model review

HillPDA was commissioned by 93 Bridge Rd Ltd (the Client) to independently review the assumptions and viability findings of three financial models prepared for a proposed mixed-use development located at 93 Bridge Road, Westmead, in Parramatta local government area.

Our key findings are:

1. Assumptions, market costs and revenues applied in the models are consistent with our understanding of current market trends and industry standard benchmarks.
2. Scenario 1 (4.6 FSR) is the most viable development opportunity. It also provides the highest number of affordable units.
3. The reduction in FSR from 4.5 to 3.6 compromises the viability of providing 75 affordable housing units and gifting an additional 6 units a voluntary planning agreement. The lower FSR would result in fewer affordable housing units being provided.
4. At the 3.6 FSR, it would be viable to provide 12 affordable dwellings managed by a CHP for 15 years (equivalent to 5% of the FSR uplift in the planning proposal from 1.7 to 3.6). This achieves a worse financial result than Scenario 1 but is considered viable by the client.
5. This affordable housing could be locked in via an LEP clause or a Planning Agreement with the Consent Authority
6. Although not part of the planning proposal we understand that if the planning proposal is accepted, the Client intends to lodge an SSDA as soon as practicable and deliver 15% affordable housing as part of the SSDA uplift.

Yours sincerely,

Signed by

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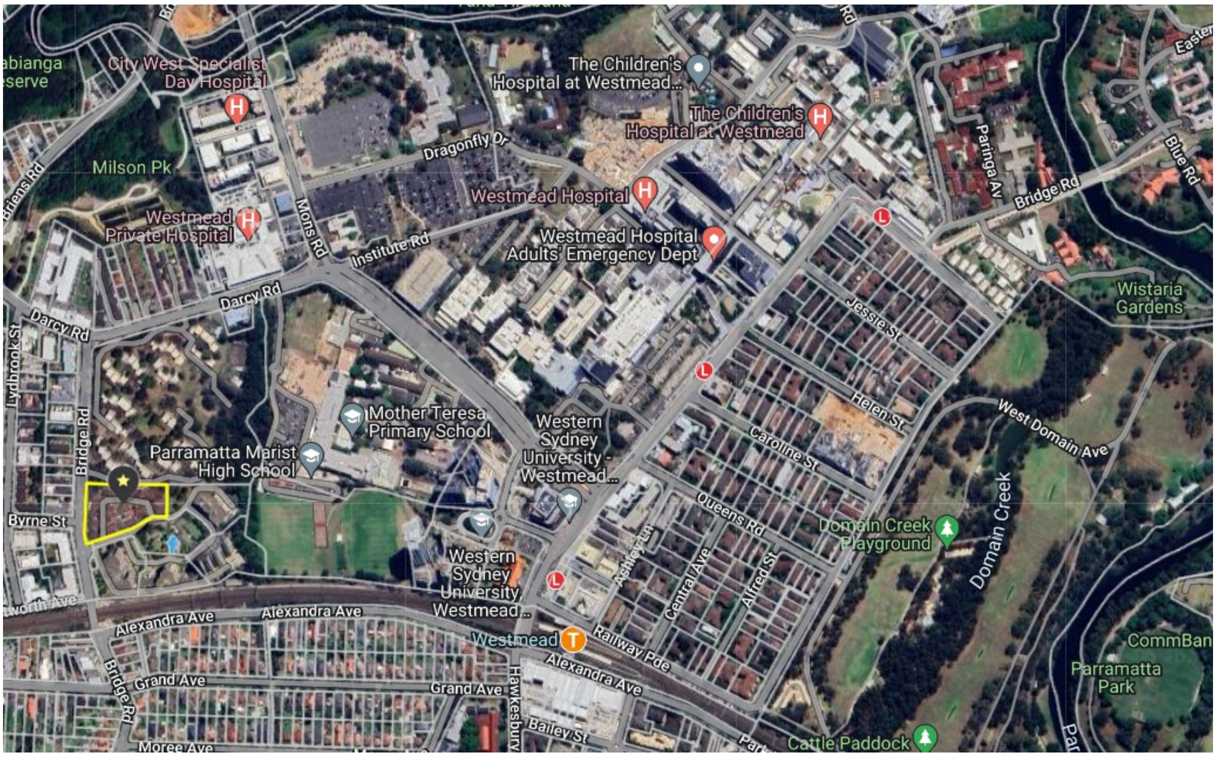
Introduction

HillPDA was commissioned by 93 Bridge Rd Ltd (the Client) to independently review the assumptions and viability findings of three financial models prepared for a proposed mixed-use development located at 93 Bridge Road, Westmead, in Parramatta local government area. The stie is mapped below, it is located close to Parramatta Marist High School, Westmead Station, WSU Westmead Campus and Westmead Hospital Campus.

Figure 1 Site map



Source: RP Data

Existing improvements on the site consist of 31 single storey townhouses. It is currently zoned R4 High-Density Residential with a 1.7:1 FSR and 20-metre building height.

The proponent has lodged a planning proposal seeking to change the FSR and height controls to facilitate increased residential densities, with a proportion being affordable housing. DPHI has asked the proponent to complete feasibility modelling to test the viability of affordable housing at a reduced FSR scenario.

The Client's development manager prepared three models and asked HillPDA to review the models to confirm that the assumptions are reasonable, and the financial results can be justified given the assumptions.

Development scenarios

Three development scenarios with differing residential yields and affordable housing outcomes have been tested for their viability under current market conditions. The key proposed changes and outcomes of each development scenario are:

- **Scenario 1 |** Proposes an FSR of 4.6:1 and 15% of residential units allocated as affordable housing. This would result in 536 total residential units, of which 75 are affordable housing for 15 years and six dedicated to Parramatta Council through a VPA. This was the scenario lodged by the proponent in December 2023.
- **Scenario 2 |**Proposes an FSR of 3.6:1 and 15% of residential units allocated as affordable housing. This would result in 430 total residential units, of which 68 are affordable housing for 15 years and six dedicated to Parramatta Council through a VPA.

- **Scenario 3 |** Proposes an FSR of 3.6:1 and 5% of the uplift in gross floor area being allocated as affordable housing. This would result in 429 total residential units, of which 12 are affordable housing for 15 years. No units would be dedicated through a VPA.

A summary of the key development outcomes for each scenario is provided in the table below.

Table 1: Development scenario yield summary

Development scenario	1	2	3
Site area (sqm)	8,663	8,663	8,663
Proposed FSR	4.5	3.6	3.6
Affordable housing %	15%	15%	5%*
Gross floor area	38,984	31,187	31,187
Residential units (total)	536	430	429
Affordable housing units	75	68	12
Dedicated Affordable housing units	6	6	0
Retail (sqm)	200	200	200

*Affordable housing calculated on GFA uplift from base FSR of 1.7:1

Feasibility assessment key assumptions review

HillPDA has reviewed the key assumptions applied within the financial models. Some key assumptions reviewed include:

- **Land purchase price** – HillPDA was provided a purchase price and acquisition cost of around $53.44 million. This includes the purchase price of $42.8 million, stamp duty and other costs incurred to date. HillPDA has not seen the option agreement that establishes the purchase price.
- **Residential construction rate per unit** – $5,500 sqm/GFA construction cost aligns with the lower-end of the rates in the Rawlinsons and RLB QS Benchmarks. There is some risk that construction costs escalate to exceed this rate.
- **End sales rates** – Based on previous work undertaken in the Parramatta location and a desktop review of asking prices for off-the-plan apartments, the sale rates applied are considered reasonable for the Westmead locality. We note that the affordable housing unit revenue has been based off an assumption that they are purchased by Community Housing Providers and used for affordable housing for 15 years. The client has informed us that they have had preliminary discussions with Community Housing Providers, but no agreements have been made.
- **Interest rate** – an interest rate of 9% has been applied. This represents a conservative interest rate position given it is unlikely the development will achieve pre-sales benchmarks consistent with prime bank lenders.

From our understanding of the development industry, local market dynamics, industry stand-bench marks and a desk top review – we consider the assumptions applied are reasonable and consistent with the current market. In our opinion there is more downside risk than upside risk with the assumptions made. This would more likely diminish the feasibility than it would improve the feasibility results.

Table 2: Feasibility assessment key assumptions

Development scenario	Scenario 1	Scenario 2	Scenario 3
Land purchase and acquisition cost	$53,440,490	$53,440,490	$53,440,490
Residential construction rate per sqm GFA	$5,500	$5,515	$5,502
Residential construction rate per unit	$400,000	$400,000	$400,000
Retail construction rate per sqm GFA	$3,000	$3,000	$3,000
Net Costs	$286,733,954	$241,306,202	$240,637,479
Net Revenues	$349,598,135	$279,437,076	$288,557,781
Commissions	3.5%	3.5%	3.5%
Marketing per unit	$2,000	$2,000	$2,000
Interest Rate	9.0%	9.0%	9.0%

Residential target pricing	NSA	Parking	sqm Rate	Unit Price incl GST
1 bed 0 Car Affordable (CHP Managed)	50 m2	0	$10,800	$540,000
1 Bed 0 Car	50 m2	0	$11,700	$585,000
1 Bed 1 Car	50 m2	1	$13,000	$650,000
2 bed 1 bath 0 Car Affordable (CHP Managed)	70 m2	0	$10,714	$750,000
2 Bed 2 Bath 0 Car	75 m2	0	$11,800	$885,000
2 Bed 2 Bath 1 Car	75 m2	1	$12,667	$950,000
3 Bed 2 Bath 1 Car	90 m2	1	$13,056	$1,175,000

Feasibility results review and outcome

HillPDA tested the logic of the models by reviewing the model structure as well as replicating the models in EstateMaster. This is the industry standard development feasibility software. We generally concur with the results in the client models which are as follows:

Table 3 Feasibility results

Development scenario	Scenario 1	Scenario 2	Scenario 3
Margin on cost (pre-interest)	21.92%	15.8%	19.91%
Margin on cost (post-interest)	9.67%	2.99%	7.15%
IRR	10.3%	7.30%	9.07%

The Department of Planning Housing and Infrastructure usually adopts a 20% margin on cost (post-interest) as its hurdle rate in affordable housing viability testing. This 20% target margin was most recently used to inform the TOD Rezoning Accelerated Precincts.

However, every developer has different hurdle rates depending on the financing structure that they adopt. The financial results from the feasibility model show that even under Scenario 1 the viability of the development is highly sensitive.

Scenario 1 represents the development outcome proposed by the client. Therefore, those financial results are likely the base case of what the client considers to be viable. Scenario 2 results in a diminished margin and IRR from the Scenario 1 case. Scenario 3 achieves results close to Scenario 1 and the client has stated this is an acceptable alternative. However, we understand the client would seek an SSDA to increase the FSR and height with additional affordable housing if the planning proposal is approved. .

Conclusion

The modelling HillPDA reviewed is logical and based on reasonable assumptions.

Scenario 1 is the most viable development opportunity. It also provides the highest number of affordable units.

When the FSR is reduced, the proponent cannot afford to offer the same portion of affordable housing. Scenario 3 is the upper limit of what the proponent could afford to offer for affordable housing at 3.6:1 FSR. Scenario 3 achieves feasibility results acceptable to the client, at a reduced affordable housing contribution. However, we understand the client may seek a State Significant Development Application.

In all scenarios the viability of the development is highly sensitive to construction costs and achieving revenue from the affordable housing units. Based on the Department's usual practice a lower rate of affordable housing provision could be justified at both the 4.5:1 and 3.6:1 FSR.

Important Notice