4 June 2020

Kevin Nassif
Holdmark

Sent via email: kevin.nassif@holdmark.com.au

Dear Kevin

Re: Chester Square Planning Proposal - Review of SGS Economics Analysis

Holdmark own the Chester Square shopping centre located at 1 Leicester Street, Chester Hill (the Site). The Site comprises approximately 16,714sqm in area and is approximately 150m walking distance from the Chester Hill train station.

Chester Square is a partially enclosed/ open single level neighbourhood shopping centre. It is anchored by a Woolworths supermarket, two large format tenancies (The Reject Shop and Chester Square Fresh Fruit) and comprises 28 speciality tenancies. It provides a GLAR (gross lettable area retail) of approximately 8,260sqm. The centre provides at-grade and undercroft carparking facilities for around 354 vehicles.

In 2019 Holdmark submitted a planning proposal to City of Canterbury Bankstown Council (Council) to amend the Bankstown Local Environmental Plan (2010) as follows:

- 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.

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 a proposed development of the Chester Square shopping centre. The SGS analysis considers the following matters (quoted verbatim):

- 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.

Atlas Urban Economics (Atlas) is engaged by Holdmark to review the SGS analysis and conclusions drawn on the proposal.

We focus our review, analysis and conclusions on the matters pertaining to retail impact and market feasibility as raised in the SGS analysis. We provide comment on the implications of the SGS review on the strategic and economic merit of the proposal.

SGS ECONOMIC ANALYSIS

We focus our review on two matters considered in the SGS Economic Analysis. They are:

1. Retail Demand and Retail Impact

   Chapter 3 states the proposal includes more retail floorspace than future retail demand however concludes that the proposed retail expansion of the Chester Square shopping centre is unlikely to have significant impact on other nearby centres. The chapter however states that an expansion of hospitality uses in Chester Square could negatively harm the viability of hospitality premises along Waldron Road.

2. Development Feasibility

   Chapter 4 concludes that development under the existing planning controls (FSR 2.5:1) is feasible but under the proposed planning controls is not feasible. It concludes there is no need for a planning proposal as the current planning controls facilitate feasible redevelopment of the Chester Square shopping centre.

Retail Impact

SGS undertakes analysis of the proposal's trading impact on other B2 Local Centre zoned land and finds:

- The trading impact of the proposed development on existing centres in the retail hierarchy around Chester Hill would be moderate and well within acceptable boundaries. Trading impacts on existing centres would not jeopardise their role or function and thus do not warrant grounds for refusal.
- The commercial floorspace component of the proposed development is consistent with the role of Chester Hill and is likely to be demanded by the local population.
- Hospitality based occupiers dominate retail premises on Waldron Road. These occupiers would not be impacted by the additional supermarket floorspace component of the proposed development but are likely to experience greater competition from any additional hospitality floorspace. Though the proposal will accommodate new residents who will contribute to demand for hospitality-based floorspace, thereby offsetting any negative impacts that may occur.
- Expansion of the Chester Square Shopping Centre to create new retail and residential uses is consistent with planning policy objectives and guidance.
- A subsequent modification to the proposed development could see a greater quantum of retail floorspace delivered than that which is currently envisaged. This would lead to greater competitive impacts on existing centres and retailers.

We focus on two key issues in the economic analysis by SGS: the assessed trading impacts and floorspace mix.

Trading Impacts

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.

Competition between businesses brings a range of benefits to consumers. It provides greater consumer choice and promotes price competition. It encourages new businesses to be established, it forces existing business to adapt by improving their offer, it fosters innovation, facilitates new investment, drives adaptation and operation efficiency. It is for these reasons that the planning system seeks to ensure that market competition is preserved by regulating only the scale and location of new retail development. Maintaining a competitive retail landscape must be protected for the good of consumers.

In relation to the proposed development, SGS opines that the role and function of Chester Hill would be significantly stronger post-development and that impacts on other existing centres in the retail hierarchy are low and within the acceptable range.

Beyond that assessment, impacts on individual retailers within Chester Hill are not a material planning consideration being a private matter of business competition.

It would be anti-competitive and contrary to the public interest to restrict the amount of permissible food and drinks uses in the proposed development in order to protect incumbent retailers on Waldron Road from potential trading impacts. Doing so would deprive residents of the opportunity to visit new food and beverage premises that are not currently present in the Chester Hill centre. It could reduce investment into the centre and prevent modernisation of its hospitality offer. SGS recognises that the new public square which forms part of the proposed development will have a high level of amenity which would lend itself to hospitality uses. The public would lose out if such uses are prohibited in order to protect existing businesses which may be misaligned to consumer demand.

Existing businesses on Waldron Road could evolve their offer in response to additional competition. They could capitalise on the number of shoppers that the Chester Hill centre would attract as a result of the development. They would additionally be presented with the opportunity to reconfigure and reposition their offer following rear laneway activation as part of the development. As SGS notes, Chester Hill is already trading strongly and will experience further trading performance growth over the next few years before the Chester Square redevelopment would be realised due rising retail expenditure in the trade area. As such, incumbent businesses should be well cushioned from any adverse trading impacts which could eventuate when the scheme is completed.

In the unlikely event that incumbent businesses were forced to close, it would provide the chance for new businesses better aligned to customer demand to be established along Waldron Road. This scenario demonstrates why allowing competition is beneficial for consumers - it maximises the range of goods and services that they can access and allows the retail mix to evolve in order to best suit their changing needs.

Imposing floorspace restrictions on the proposed development due to the potential impacts on a small number of existing businesses in the centre would be anti-competition, inconsistent with the public good and contrary to planning principles.

Floorspace Mix

The ultimate floorspace mix of the proposed development is not yet known. SGS speculate on what the eventual retail mix could be based on the conceptual design in the planning proposal. The eventual mix will be shaped at a later stage and may well contain a lower quantum of food and beverage space than anticipated by SGS. Under this scenario, the potential trading impacts on existing businesses in Waldron Road could be lower than estimated.

SGS acknowledges that food and beverage businesses located in a redeveloped Chester Square Shopping Centre and Waldron Road would have different focus and serve different market segments. Food and beverage premises in Chester Square are likely to be chain brands occupying larger floorplates. Food and beverage premises on Waldron Road are smaller and more diverse. This market segment differentiation limits the scope for competitive trading impacts, especially if the ultimate floorspace mix at Chester Square is focused more heavily on larger food and beverage units.

In the absence of a definitive floorspace mix, the primary concern at this stage is the principle and scale of the land uses proposed. The SGS analysis has endorsed the principle and scale of the retail floorspace proposed. Beyond that, it is premature to propose capping retail floorspace when the definitive floorspace mix is unknown.

Implications for the Proposal

SGS identified that the proposal is consistent with planning policy objectives and would not lead to any unacceptable trading impacts on existing retail centres in the surrounding area. It recognises that Chester Hill is trading strongly and that it can expect to capture a greater quantum of retail expenditure over the next few years regardless of whether the proposed development proceeds.

Beyond considering the acceptability of trading impacts on existing centres in the hierarchy, government advisory documents and planning case law have established that it is not the role of the planning system to restrict competition on individual businesses within a centre. Competition between businesses is a commercial matter and ensuring a competitive market is beneficial to the public. On this basis and given the analysis contained within the SGS review, there are no economic grounds to refuse the proposal.

Development Feasibility

SGS undertakes development feasibility modelling and finds:

- Redevelopment of the Site under existing planning controls (FSR 2.5:1) is feasible.
- Redevelopment of the Site under proposed amended planning controls (FSR 4.53:1) is not feasible.
- Chester Square Shopping Centre could be redeveloped under existing planning controls and there is no need for a rezoning as proposed by the planning proposal.

SGS concludes there is no economic need for the proposal, as additional commercial and retail floorspace and some apartments could be feasibly developed under the current planning controls.

Principles of Development Feasibility Modelling

Development feasibility modelling (as with any modelling exercise) is dependent on the credibility and robustness of adopted assumptions. Ultimately, the modelling results should be reality-tested against market evidence. The testing of the results against market evidence will also test the robustness and reliability of the assumptions adopted in the first instance as inputs.

We focus our comments on two key issues in the development feasibility modelling by SGS: the modelling assumptions and the residual land values derived.

Modelling Assumptions

Development feasibility modelling of an investment asset the scale of Chester Square Shopping Centre is not a simple exercise, particularly when financial information (existing rents, income profile and existing-use value) is not known.

Not all the assumptions adopted in the development feasibility modelling are expressly identified in the SGS review. We comment on the reasonableness of assumptions adopted and identify crucial assumptions that are missing.

- **Existing-use value**

  SGS estimate the Chester Square shopping centre value at $41.1 million by applying 6.3% as "an average yield for neighbourhood centres". Application of an "average yield" is not congruent with the relative desirability of Chester Square as a neighbourhood investment asset.

  We have sighted a valuation carried out by JLL (dated June 2019 for financial reporting) that ascribes a market value of $55 million. All things being equal, a higher existing-use value would require a higher FSR for feasible redevelopment.

- **Average new apartment sales values**

  SGS state the adopted new apartment sale values as: $400,000 (1 bedroom), $500,000 (2 bedroom) and $600,000 (3 bedroom), all quoted excluding GST. These values are cited to be based on consultation with real estate agents and profiling of new apartments in Bankstown, Sefton and Yagoona. The review does not however detail the new apartment sales relied upon.

  We make the following comment:

  - Residential sale values are always quoted *inclusive of GST*. Residential sale values should be applied *inclusive* of GST and depending on the tax regime (going concern or general tax rule), GST deducted along with sales cost.
  - Unit mixes (1 bedroom, 2 bedroom and 3 bedroom units and townhouses) are assumed in both the Base Case and Proposal, however there does not appear to be an ascribed sale value to the townhouses. At a sale value of $700,000 per townhouse (there are 20 townhouses assumed in SGS' Proposal scenario), this would mean omission of $14 million in sales revenue.
  - An average GFA per residential unit appears to be equivalent to 91sqm. Average internal floor areas by unit type are not provided so we are unable to analyse the equivalent sales value in per square metre of internal floor area.
  - The adopted average sale values ($400,000, $500,000 and $600,000) are low, if compared to the sale of **new** residential units. Our research of actual transactions suggests the SGS adopted sale values are around 10% lower than market.

  This indicates the adopted residential sales revenue in the feasibility modelling is understated.

- **Base retail rent**

  SGS state the adopted retail rents are $950/sqm based on average neighbourhood centre prices from a Colliers report.

  Average retail rents of $950/sqm are only reasonable to apply to retail specialty tenants. Anchor tenants (e.g. supermarkets) and large format tenants (e.g. large discount chemist or fresh food grocer) would pay much lower rents.

  If average retail rents were to be adopted, an average gross rent in the order of $500/sqm would be more appropriate. This allows for anchor tenants and larger format tenancies who pay lower rents than specialty tenants.

  It is also unclear if the adopted $950/sqm represents gross or net rents. This is relevant as SGS apply capitalisation rates to the base rents and only net rents (not gross) should be capitalised.

- **Base commercial rent**

  SGS state the adopted base commercial rents are $337.70/sqm based on "recent sales in the area". The adoption of a figure as precise as 70 cents is odd for an exercise such as this. This perhaps suggests $337.70 is an average number obtained from several data points of commercial office suites in Chester Hill.

  A preferable method would be to review leasing evidence of commercial office suites in the area and assess an appropriate rent that could be charged for new commercial suites in a redeveloped Chester Square. This assessed rent would be in round numbers (e.g. $350/sqm rather than say $350.30/sqm), reflective of its nature (that is, an assessment) and would not infer the level of specificity of 70 cents.

  The adopted rate of $337.70/sqm appears to be low for new commercial suites that would be contemporary in nature and more desirable than existing commercial suites in the Chester Hill centre. Our research of actual transactions suggests a rate of $350/sqm to $400/sqm (gross) is more appropriate to adopt.

- **Capitalisation rates for retail and commercial**

  SGS adopt capitalisation rates of 6.3% for shopping centre and 5.8% for commercial. This appears counter-intuitive as all things being equal, retail yields are tighter (lower) than commercial yields.

- **Construction costs**

  Detailed construction cost rates are not provided but they are noted to be sourced from Rawlinson's Construction Handbook 2019. Table 26 in the SGS review lists the total development costs assumed under the Base Case and the Proposal, which we replicate in Table 1 below.

  For ease of analysis, we have inserted the respective development potential (total GFA) of the scenarios to enable comparison of the construction cost assumptions and residual land values derived.

Table 1: Feasibility Testing Results (SGS)

	Current Planning Controls (Total 42,297sqm GFA)		**Proposed Planning Controls (Total 75,779sqm GFA)**	
		($/sqm GFA)		($/sqm GFA)
Total development costs*	$261,215,524	$6,190/sqm	$484,882,914	$6,400/sqm
Net sales revenue	$318,662,981	$7,552/sqm	$480,598,230	$6,342/sqm
Residual land value^ (net sales revenue - total development costs)	$57,447,457	$1,361/sqm	($4,284,685)	($56/sqm)
Existing-use value	$41,100,000		$41,100,000	
Feasible? (based on 1.25 feasibility ratio)	Yes		No	

Source: SGS, edited by Atlas

*Average development costs of $6,190/sqm and $6,400/sqm result. Multiplying this by the average GFA per residential unit, a development cost of $563,300 and $582,400 per unit results (Base Case and Proposal respectively). This indicates the cost assumptions are out of step with the revenue assumptions. The Chester Hill market is not a premium market; residential product is therefore expected to be positioned at no more than $400,000 per unit given the sale prices that can be achieved.

It is therefore evident that the construction cost assumptions are too high. A review by Altus Group (quantity surveyors) affirms this view, that the assumed construction costs are too high. Altus Group's review is attached at Appendix A.

Altus Group are of the view that total construction costs should fall within a range of $3,900/sqm to $4,300/sqm GFA. The assumed costs in SGS review are some 49% to 64% higher. Even after allowing for reasonable variance, the SGS adopted cost assumptions of $6,190/sqm to $6,400/sqm GFA are 14% to 26% higher than the upper range of reasonable costs.

If the construction cost assumptions were reasonably developed, the proposed development would be feasible to undertake.

^The residual land values that result from the feasibility modelling indicate a larger development scheme (proposed planning controls) is worth less than a smaller development scheme (current planning controls). On the results (negative $4.3 million for the proposed planning controls), it would imply the landowner would need to pay a prospective purchaser $4.3 million to assume the development opportunity.

The derived negative residual land values do not stand to reason. There are many development sites that have sold in comparable locations that are of comparable scale to the proposal. We are not aware of instances where a purchaser is paid (rather than pays) an amount for the development opportunity. This is examined in greater detail next.

Residual Land Values Derived

We reiterate the importance of reality-checking feasibility modelling results against market evidence. Residual land values that are derived from a series of revenue and cost assumptions are only reliable if they are robust in their development.

SGS define "residual land value (RLV)" to be "the maximum amount that a rational developer could pay for a site for redevelopment while still making a profit". Stated differently, RLV is a proxy for site value of a development opportunity.

When conceptual development schemes (such as these) are modelled without the benefit of technical input (e.g. quantity surveying cost plans) and are instead reliant on generic inputs such as Rawlinsons Construction Handbook, it is critical that the residual land values are cross-checked with the prices paid for development sites.

The residual land values that result from SGS' feasibility modelling (Table 1) range from -$56/sqm to $1,361/sqm GFA.

Table 2 summarises the range of prices paid for large development opportunities (>20,000sqm GFA) in middle ring suburbs. These sales date between 2017 and 2019 and indicate site values that range from $850/sqm GFA to $1,250/sqm GFA.

Table 2: Analysis of Development Site Sales

Street Address	Suburb	Site Area (sqm)	Zone (FSR)	Permissible GFA (sqm)	Sale Price (Date)	Sales Analysis ($/sqm GFA)
42-44 Dunmore St	Wentworthville	8,952	B2 Local Centre (FSR 6:1)	53,712	$60,000,000 (11/2019)	$1,117
215-229 Pitt St	Merrylands	2,298	B4 Mixed Use (FSR 8.5:1)	19,536	$24,400,000 (7/2018)	$1,249
133 Bigge St	Liverpool	3,491	B4 Mixed Use (FSR 10:1)	34,905	$30,000,000 (6/2018)	$859
6-12 Railway St	Lidcombe	6,037	B4 Mixed Use (FSR 5:1)	30,185	$32,000,000 (Oct 2017)	$1,060

Source: Atlas

The price paid for the site at 215-229 Pitt Street in Merrylands was equivalent to $1,249/sqm GFA. Its density controls permit heights in excess of 22 storeys. The cost to build residential towers in Merrylands would be comparable to the cost to build towers in Chester Hill, with apartment sale values not too dissimilar.

The analysis of development site sales in Table 2 shows the residual land values derived in the feasibility modelling -$56/sqm and $1,361/sqm GFA are out of step with market activity.

Critically, the negative residual land value result (implying that a prospective purchaser would have to be paid $4.3 million to take the development opportunity) in the proposed planning controls scenario does not accord with market reality.

This reaffirms the importance of cross-checking modelling results against market evidence to ensure they are grounded in commercial reality.

Implications for the Proposal

We would expect the value of the Chester Square shopping centre as a development opportunity to fall within the lower end of the range. All things being equal, a larger site is worth less on a rate per square metre than a smaller site.

Therefore, based on the analysis of development site sales, in the Base Case we consider reasonable a site value of $1,100/sqm GFA while under the Proposal we consider a lower site value of $950/sqm GFA to be applicable.

The application of these rates results in site values in each scenario. These site values can then be compared with the Existing-use value to derive a feasibility ratio (similar to SGS' approach).

The Chester Square shopping centre is currently valued at $55m (adopted as the Existing-use Value) by JLL.

Table 3 outlines the assessment of development feasibility by applying market-derived site value rates. Feasibility modelling could be undertaken but at this conceptual stage and in the absence of cost data, the modelling assumptions are necessarily speculative, subjecting the results to a degree of variability.

Table 3: Application of Development Site Values to Feasibility Assessment

Scenario	GFA (sqm)	Adopted Site Value ($/sqm GFA)	Site Value	Existing-use Value	Feasibility Ratio	Feasible?
	(a)	(b)	(c) = (a) x (b)	(d)	(c) ÷ (d)	
Base Case (current planning controls)	42,297	$1,100	$46,526,700	$55,000,000	0.85	No
Proposal (proposed planning controls)	75,779	$950	$71,990,050	$55,000,000	1.3	Yes

Source: Atlas

The analysis shows that redevelopment under current planning controls is not feasible adopting SGS' feasibility ratio approach (ratio <1.25). Even at SGS' modelled residual land value of $57.5 million (which we consider too high), the feasibility ratio falls below 1.25. This demonstrates that a rezoning is necessary to facilitate feasible redevelopment of the Site.

CONCLUSION

Retail Impact

The proposal is consistent with planning policy objectives and would not lead to any unacceptable trading impacts on existing retail centres in the surrounding area. It recognises that Chester Hill is trading strongly and that it can expect to capture a greater quantum of retail expenditure over the next few years regardless of whether the proposed development proceeds.

Beyond considering the acceptability of trading impacts on other centres in the hierarchy, we highlight it is not the role of the planning system to restrict competition on individual businesses within a centre. Competition between businesses is a commercial matter and ensuring a competitive market is beneficial to the public.

In any event, the food and beverage retailers that would be attracted to locate within a redeveloped Chester Square shopping centre would be different to those who locate along Waldron Road, who tend to offer an ethnic-based hospitality offer. The provision of a diverse range of hospitality options should be viewed as a positive community benefit.

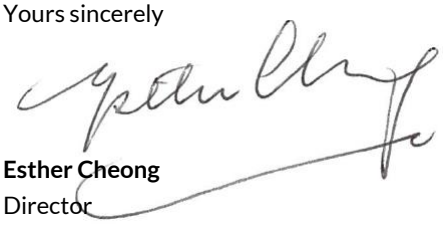
Development Feasibility

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.

Yours sincerely



Esther Cheong
Director
T: 02 80163864
E: esther.cheong@atlasurbaneconomics.com

Appendix A: Review of Development Feasibility and Cost Assumptions

Ref: AGCM/200528/SN

1st June 2020

Holdmark Property Group
Suite 2/2-4 Giffnock Avenue
MACQUARIE PARK, NSW 2133

Attention: Kevin Nassif

Dear Kevin,

Re: Chester Square Planning Proposal
Review of SGS Development Feasibility and Quantity Surveyor's Cost Overview

As requested, we have reviewed the provided Chester Hill Economic Analysis Draft V2 dated March 2020 prepared for Canterbury-Bankstown Council by SGS Economics & Planning. As discussed, our focus is on the construction and development costs represented in Section 4 of the report – Development Feasibility, based on our expertise as a construction cost consultant and development financial feasibility specialist.

THE SGS CHESTER HILL ECONOMIC ANALYSIS

The SGS report indicates the following feasibility results and conclusions:

	Current Planning Controls (Total 42,297sqm GFA)		**Proposed Planning Controls (Total 75,779sqm GFA)**	
		($/sqm GFA)		($/sqm GFA)
Total development costs*	$261,215,524	$6,190/sqm	$484,882,914	$6,400/sqm
Net sales revenue	$318,662,981	$7,552/sqm	$480,598,230	$6,342/sqm
Residual land value	$57,447,457	$1,361/sqm	-$4,284,685	($56/sqm)
(net sales revenue - total development costs)				
Existing-use value	$41,100,000		$41,100,000	
Feasible? (based on 1.25 feasibility ratio)	Yes		No	

Source: SGS, edited by Atlas Urban Economics. Extracted from Atlas Urban's Report dated 11 May 2020

* Altus assumes that SGS' total development costs above are exclusive of GST, as its revenue forecasts are noted as based on average apartment sales values ex GST.

The SGS report has not included any details on the calculation of the total development costs. The report has only listed out certain modelling assumptions. We have tabulated below their assumptions and provide our respective comments where appropriate.

ALTUS GROUP trading as ALTUS GROUP COST MANAGEMENT PTY LTD in Australia
ABN 96 093 302 455
Level 12, 1 Market Street, Sydney NSW 2000 AUSTRALIA
T: +61 2 9283 7311 | E: sydney@altusgroup.com | altusgroup.com

Item	Altus Comment
Construction & demolition costs based on Rawlinson's Construction Handbook 2019	We note that the Rawlinson's Handbook 2019 indicates a cost range for Multi Storey Multi Unit Medium Standard Finish constructions in Sydney area at $2,365 to $2,545/m2 and $159,500 to $172,000 per apartment excluding parking and balconies. SGS has not provided information on the calculated gross construction areas of the subject development, or how they have used the Rawlinson's handbook. However, they have noted that their assumed construction cost per apartment is around $366,000 per unit. This seems to suggest that they have deviated substantially from the information provided by the Rawlinson's handbook.
Construction contingency – 5% of base construction costs	Noted.
Professional fees – 9.2% of base construction costs and contingency	With a project of this size, we are of the opinion that the % for fees is likely to be lower than 9.2%
Development contributions – Bankstown DCP s7.11 contribution plan	No comments. We assume SGS have adopted the appropriate contribution rates.
DA Fees – EP&A regulations (marginal fee only – does not account for other fees and charges)	No figures provided. We cannot provide further comments.
Finance costs – 6% of construction costs, land costs and fees & charges	No figures provided for the finance costs included in SGS model. Finance costs depend on the interest rates as well as the duration of debt funding and a construction cashflow profile. SGS has not indicated any assumptions on the development timeframe and/or construction durations. It is unclear if SGS based the 6% on mean or average from historical data or recent information from financial institutions. We note that interest rates are currently at a very low point.
Developer profit & risk - 20% of all other development costs	No comments. Commercial consideration by the developer on merits of individual developments
Sales commission, marketing and legal fees - 4% of sales revenues	We believe this is at the upper range, but this is an area for verification by a marketing and sales expert.
Existing use values - $41.1m	We assume this is to be reviewed by a practising valuer or land economist.
Development revenues	We assume this is to be reviewed by a practising valuer or land economist.

ALTUS GROUP trading as ALTUS GROUP COST MANAGEMENT PTY LTD in Australia
ABN 96 093 302 455
Level 12, 1 Market Street, Sydney NSW 2000 AUSTRALIA
T: +61 2 9283 7311 | E: sydney@altusgroup.com | altusgroup.com

Apparently based on the above assumptions, among others, SGS has drawn the below conclusions (paragraph 4.2 on page 37 refers):

"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."*

[**Bold highlights** added by Altus]

We find the above conclusions contrary to general understanding of the development industry. If it were to be true that the construction/development costs were higher than sales revenue in the apartment developments in the Chester Hill region, there would be no apartment developers doing developments or redevelopments in the region or the vicinity. I assume this can be readily verified by reviewing the recent development activities in the region.

THE PLANNING PROPOSAL

Based on our review of the Planning Proposal, we summarise the key development metrics as follows:

- Site Area: 16,714m2
- Proposed FSR: 4.53:1
- **Proposed GFA: 75,779m2**
    1. Non-residential Total: 16,763m2 (Upper Ground Retail: 6,737m2; Lower Ground Retail/Supermarket: 10,026m2)
    2. Residential: 59,016m2
- **Residential Units: 648 units** (including 5% affordable housing)
- **Basement Carparking:** commercial approx. 690 cars, residential approx. 875 cars, **total: 1,565 cars**

  Note: SGS has noted the number of car parks under the proposed planning controls as 1,158 cars, contrary to the Concept Design information outlined in the Planning Proposal prepared by Sutherland & Associates dated July 2019 (paragraph 4.3.2, page 24 refers).
- Voluntary Planning Agreement:
    1. 160m2 community centre (cold shell)
    2. A financial contribution towards upgrade of Nugent Park North & Nugent Park South
    3. 1.5m widening of Frost Lane
    4. 2,800m2 plaza with 24/7 public access
    5. Upgrade to traffic network including intersection signalisation at Waldron Road and Priam Street.

ALTUS GROUP trading as ALTUS GROUP COST MANAGEMENT PTY LTD in Australia
ABN 96 093 302 455
Level 12, 1 Market Street, Sydney NSW 2000 AUSTRALIA
T: +61 2 9283 7311 | E: sydney@altusgroup.com | altusgroup.com

As there are no details provided by SGS on the assessed or assumed construction costs, it is unclear to us how SGS' modelled construction costs relate to the above development metrics.

Based on the above development metrics, at high level, it is our opinion that the order of **overall construction cost** is likely to be:

Lower order: 75,779m2 planning GFA x $3,900/m2 = $295,538,000 Excl. GST
Higher order: 75,779m2 planning GFA x $4,300/m2 = $325,850,000 Excl. GST

Assuming the above total construction costs, the ratio of SGS modelled Total Development Costs for the proposed planning controls to the above Total Construction Costs (Altus' opinion on order of costs) approx. equate to:

Lower order: $484,882,914 / $295,538,000 = 1.64 (+64%)
Higher order: $484,882,914 / $325,850,000 = 1.49 (+49%)

Based on our experience, it is our opinion that this ratio is outside a reasonable range, and we expect that the normal order would be in the order of 1.3 (+30%).

In other words, we believe that Total Development Costs would be within the order of:

Lower order: $295,538,000 x 1.3 = $384,199,400 Excl. GST
Higher order: $325,850,000 x 1.3 = $423,605,000 Excl. GST

RECOMMENDATION

Altus is of the opinion that the SGS modelled total development costs are probably too high, and do not represent the likely costs obtainable based on a proper market assessment of the costs. We recommend that SGS be asked to provide details of their calculations for review or to further prepare a more detailed analysis of the total development costs.

We also recommend that the revenues projections be checked for accuracy by a practicing valuer or land economist.

Should you require any clarification or require further information, please do not hesitate to contact us.

Yours sincerely
ALTUS GROUP COST MANAGEMENT PTY. LTD.

Stephen Ngai
Director

ALTUS GROUP trading as ALTUS GROUP COST MANAGEMENT PTY LTD in Australia
ABN 96 093 302 455
Level 12, 1 Market Street, Sydney NSW 2000 AUSTRALIA
T: +61 2 9283 7311 | E: sydney@altusgroup.com | altusgroup.com