Nurses Quarters / ‘Caldwell House’

Economic Viability Assessment

PREPARED FOR ORANGE CITY COUNCIL

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FINAL

macroplan

Important Notice

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Table of contents

Section 1: **Introduction**

Macroplan was commissioned by Orange City Council (Council) to provide an independent expert property economics advice for the purpose of providing conclusions to the economic viability of redeveloping the former Nurses Quarters / 'Caldwell House' at 129-133 Sale Street, Orange (i.e. subject site) to effect an appropriate re-use of the former Nurses Quarters / 'Caldwell House' properties (Figure 1).

This report undertakes a high-level feasibility assessment of two prospective redevelopment scenarios pertaining to the subject site. The two redevelopment scenarios are reflected as follows:

- **Scenario 1:** Remediation and full demolition of the subject site as proposed by the Crown and redevelopment as detached housing options permissible with consent in the R1 General Residential zone (Orange Local Environmental Plan 2011) applying to the land.

- **Scenario 2:** Remediation and partial retention of the subject site and potential adaptive reuse options utilising the conservation incentive provisions of the Orange Local Environmental Plan 2011. This scenario is based on the recommended options for remediation of the site developed by Bradfield Barker[1].

Figure 1. Subject Site: 129-133 Sale Street, Orange

Source: Nearmap, macroplan

[1] Option B: Demolition of Nursers Quarters, Retain Caldwell House Front Façade (Bradfield Barker Cost Estimate)

The residual hypothetical development approach has been utilised to test the impact of the recommended site remediation options on the feasibility of redeveloping the subject site. Under this approach we have used the Estate Master Financial Feasibility Model, which notionally redevelops the land as a local scale property development with a residential subdivision (scenario 1) or a mixed-use development (scenario 2), utilising the estimated gross realisation and then deducts the costs of redeveloping the site, including land holding costs and assuming a predetermined profit and risk margin (with Development Approval) which then provides project returns.

Typical cash flow models assess the site value in relation to the development margins or internal rates of return considered to be relevant for a development of this type. Suitable development returns are established by the analysis of similar type developments.

For a development of this nature, the most appropriate measure of viability is considered to be the internal rate of return (IRR). A 20% internal rate of return (IRR) is the generally accepted target hurdle rate for development, although lower hurdle rates may be acceptable by some developers, depending on their finance and risk profile. For this assessment, macroplan has adopted a target IRR hurdle rate of 15% of this assessment.

Market Expected Profitability (IRR):

- Rural land with no anticipated residential rezoning potential **-** 22.5% or higher
- Rural land with anticipated residential rezoning potential **-** 20%
- Existing low density residential land **-** 15%

The residual land value (RLV) can be conceived as the amount a developer could afford to pay for the land and still achieve a 15% IRR hurdle rate.

Section 2: **Scenarios**

This assessment compares the returns between different development scenarios. The details of each scenario are presented below.

2.1 Remediation & Full Demolition (Scenario 1)

Scenario 1 is envisioned as a residential subdivision to be completed for the purpose of delivering 10 detached dwellings within the subject site.

According to the Orange Local Strategic Planning Statement 2020, the Orange LGA is expected to grow to over 50,000 residents by 2036 (+10,800 / +28%) from 2016 with most of this growth concentrated to the suburb of Orange. In note of this, macroplan envisages that there is sufficient capacity for projected population growth and household requirements (housing demand) to be absorbed through an increase of supply in dwelling stock.

Macroplan notes that there are no minimum lot size or maximum building height attached to the subject site. In consideration of relevant setback requirements and other planning controls pertaining to the current DCP and LEP, as well as observation of recent residential property sales, Macroplan adopted a minimum lot size of 470 sqm (i.e. land area) and a building area of 250 sqm (i.e. GFA) per each dwelling.

Table 1. Remediation & Full Demolition (Scenario 1)

	Land Area (sq.m)	GFA (sq.m)
10 x Detached houses	4,700	2,500
Setback/buffers	500	-
Total	5,200	2,500

About 8 to 10% of total land area allocated to building setbacks/buffers.
Source: macroplan

2.2 Remediation & Partial Retention (Scenario 2)

This scenario is based on one of the recommended site remediation scenarios from Bradfield Barker i.e. 'Demolition of Nursers Quarters, Retain Caldwell House Front Façade', which consists of the full demolition of the Nurses Quarters for delivery of non-residential floorspace for shops and businesses (i.e. Neighbourhood shops); and partial retention & adaptive re-use of the façade of the 'Caldwell House' building for the purpose of a multi-dwelling i.e. a walk-up (low-rise) unit block. These land uses are permissible with content in the R1 General Residential Zone applying to the land.

Table 2. Remediation & Partial Retention (Scenario 2)

	Land Area (sq.m)	GFA (sq.m)
Nurses Quarter	2,400	960
Caldwell House	2,800	3,000
Total	5,200	3,960

About 8 to 10% of total land area allocated to building setbacks/buffers.
Source: macroplan

Figure 2. Site boundaries, Nurses Quarters & Caldwell House

Source: Nearmap, macroplan

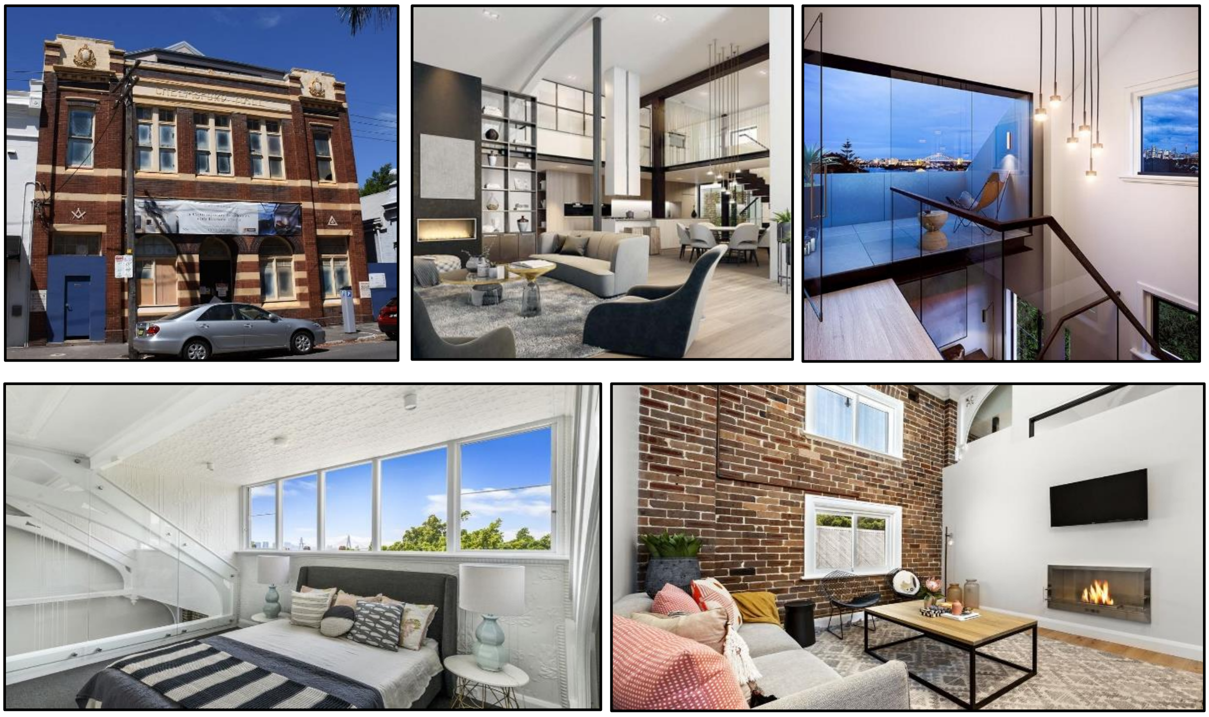
Macroplan also considered the alternative scenario to 'fully' retain Caldwell house (i.e. full asbestos remediation of Caldwell House). Although Macroplan notes that there are no structural impediments that preclude the potential retainment of Caldwell House, however, its 'adaptive reuse' will have a number of potential challenges and risks for example, wall removal (for amalgamation of the existing rooms & units) might require the co-removal of the supported floor or roof above it which would be expensive and time-consuming. We are not experts in these issues and as such we could not make no presentation as to the accuracy and suitability of the application of the indicative construction cost estimates (from Rawlinsons and other public publications).

2.2.1 Attached Dwellings/Unit Complex

Despite attached dwellings and units only accounting for 13.2% of total dwelling stock in Orange (ABS Census, 2016), this is largely based on traditional/historical preferences for low-density housing, lack of growth, and limited product delivered. As significant population growth is forecast within Orange over the short to long term future, macroplan envisages that there will be increased demand for smaller dwellings as they display a range of benefits such as: affordability, reduced maintenance requirements and utility costs, design elements, and amenity. Potential markets that could absorb this floorspace include downsizers, empty nesters, elderly couples, young professionals, small/young families, capital city leavers from Sydney and Melbourne and individuals that have been relocated for employment purposes.

Over recent years the adaptive reuse and repurposing of underutilised, outdated and often deteriorated assets has emerged as a contemporary and eco-friendly method of redevelopment. Caldwell House holds significant architectural, historical, and cultural heritage value, and from the prospective of urban regeneration, macroplan recommends that it should be considered for revitalisation not only to preserve its originality but to improve the quality of sustainable building conditions and operations. In consideration of these factors, and through the delivery of high-quality building materials and efficient design principles. Macroplan has seen more of these successful ‘adaptive reuse’ developments in Sydney. An example of this can be extrapolated from The Chelmsford on Montague (Balmain NSW).

Figure 3. Case Study: 6 Montague Street Balmain, NSW 2041 (The Chelmsford on Montague)



Section 3: **Key Assumptions**

3.1 Revenue Assumptions

Revenues are based on the high-level market assessments undertaken by macroplan, after consultation with property agents and developers. These were apportioned to a square metre rate for each land use type from the development plan.

Our investigation draws on a wide range of information sources, including: CoreLogic RP Data, Cordell Connect (for construction, infrastructure and building project information), NSW Globe (NSW Spatial Services), Nearmap, macroplan GIS database, and relevant experience throughout NSW and Australia, with particular reference to demographic and socio-economic profiles, area trends, and recent market performance.

Sales price and take-up rates used in our analysis have been estimated based on our market engagement with several developers and operators, in addition to valuers and property agents. The recent house sales observation is outlined with further details in Appendix.

Based on our assessment of recent residential sales activity within Orange, it is our view that the local market has principally been comprised of existing dwelling stock which could be considered as traditional, outdated and comparatively inferior to the subject sites envisioned product. However, it should be noted that this is largely consistent with available product, highlighting that there is a considerable market gap for new residential developments.

Further examination of residential properties currently on the market exhibits an up-to-date snapshot of what is currently being sold, further highlighting that there is increased purchasing sentiment for properties that have been recently developed or display a high-quality built form. This can be seen in the Appendix where these property types are currently listed between $615,000 to $1,375,000. It is based on this notion, in conjunction with other observations, that macroplan envisages a premium rate of 15-20% above market for new product delivered on-site.

Table 3. Revenue Assumptions

Sales	$	Unit	Source	Other details
Residential				
Detached Houses	$950,000	per dwelling	Macroplan	lot size of 470 sqm & building area of 250 sqm per dwl
Attached Dwellings	$550,000	per dwelling	Macroplan	2-bedroom dwelling & building area of 100 sqm per dwl
Retail and Commercial				
Food & Beverage (medium)	$5,333	per sq.m NLA	Macroplan	$400/sq.m net rent; assumed yield of 7.5%
Other retail & non-retail	$5,000	per sq.m NLA	Macroplan	$350/sq.m net rent; assumed yield of 7%
Commercial	$4,285	per sq.m NLA	Macroplan	$300/sq.m net rent; assumed yield of 7%

Source: macroplan

3.1.1 Other Key Assumptions

- Revenues have been escalated at:
  - Detached Houses: 3% p.a. over the life of the development.
  - Attached Dwellings: 2% p.a. over the life of the development.

3.2 Cost Assumptions

The development cost was apportioned to a square metre rate for each land use type from the development plan. They were apportioned because most of these costs required occur simultaneously with the development.

3.2.1 Scenario 1

The development costs pertaining to Scenario 1 are reflected as follows:

- Complete demolition and asbestos remediation to both Nurses Quarters and Caldwell House - $3,946,441.50[2].
- Residential Construction Cost (i.e. detached houses): $1,500 per sq.m GFA (source: Rawlinsons)
  - Individual House, Tiled roof, medium standard (framed/brick veneer), without any fitout.
- Utility connections: $10,000 per lot (source: macroplan).
- Masterplanning/design/Development Management: 4.1% of total construction cost (source: macroplan).
- Land Holding Costs: calculated based on July 2019 Valuation ($508,000) (source: NSW Land Tax).
- DA/CC: calculated based on 2020/2021 Fees and Charges (source: Orange City Council).
- Development Contribution: calculated based on Orange Development Contributions Plan 2017 (source: Orange City Council).
- No Cost has been escalated in the assessment, given the short time frame (<1 year).
- Construction / Project Contingency: Construction contingency were added to the total construction cost[3]. A construction contingency of 5% was included.
- Selling Costs & Legal Fees: 1.25% of total gross sales (source: macroplan).
- Funding is assumed at 100% debt (source: macroplan).
- Interest rates are assumed at a fixed rate of 6.00% per annum (source: macroplan).

3.2.2 Scenario 2

The development costs pertaining to Scenario 2 are reflected as follows:

- Retention and remediation of the facade of 'Caldwell House', full demolition of the former Nurses Quarter - $4,924,272.00[4].
- Residential Construction Cost (i.e. attached dwelling): $2,350 per sq.m GFA (source: Rawlinsons).
  - Low density apartment, two-bedroom units, no lift, excluding carpark.
  - Balconies ($850 per sq.m GFA), assumed 15 sq.m for each balcony.
  - Basement Carpark: $60,000 per park (and assumed 1.2 carparks required per dwelling)
- Non-residential development Cost: $900 per sq.m GFA (source: Rawlinsons).
  - Neighbourhood shops, single storey, standard shell including shop-fronts, electrical service, cold water supply to fixture, no fittings.

[2] Based on the cost estimates from G.J Seib Pty Ltd report issued 19 March 2019 Council
[3] Excluding the demolition cost. Macroplan notes that higher cost contingency is already applied (i.e. 20%).
[4] Based on the cost estimates from G.J Seib Pty Ltd report issued 19 March 2019 Council

- Masterplanning/design/Development Management: 4.1% of total construction cost (source: macroplan).
- Land Holding Costs: calculated based on July 2019 Valuation ($508,000) (source: NSW Land Tax).
- DA/CC: calculated based on 2020/2021 Fees and Charges (source: Orange City Council).
- No Cost has been escalated in the assessment, given the short time frame (<1 year).
- Development Contribution: calculated based on Orange Development Contributions Plan 2017 (source: Orange City Council).
- Construction / Project Contingency: Construction contingency were added to the total construction cost[5]. A construction contingency of 10% was included, higher than Scenario 1, considered appropriate given the scale (i.e. multi-dwelling) and type of project (more difficult to maintain/protect the façade etc.).
- Selling Costs & Legal Fees: 1.25% of total gross sales (source: macroplan).
- Funding is assumed at 100% debt (source: macroplan).
- Interest rates are assumed at a fixed rate of 6.00% per annum (source: macroplan).

[5] Excluding the demolition cost. Macroplan notes that higher cost contingency is already applied (i.e. 20%).

Section 4: **Results**

The below table (Table 4) compares the key development indicators for all options tested. Here, macroplan adopted a target IRR of 15%.

Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows (both positive and negative) from a project or investment equal zero. A typically acceptable IRR might vary between 10% and 30%. For this case, the lower end of the range would be acceptable considering the scope and scale of the project.

Macroplan's assessment reveals that Scenario 2 (Partial demolition & attached dwelling development) would not be attractive to a developer. The IRR of 6.62% is well below 15%. Higher site remediation costs and construction costs have driven this outcome.

Scenario 1 (Complete demolition & detached houses development) provides a higher IRR than Scenario 2, but still below 15%. It has lower development yield compared to Scenario 2. However, it has lower remediation and construction costs, as well as better realisation rates (i.e. sale prices which reflects increasing demand for detached houses in Orange), increases the project IRR to a more viable rate (i.e. 12.77%).

Table 4. Feasibility Outcomes

	Scenario 1	Scenario 2
Developer Margin	5.39%	0.56%
Internal rate of return (IRR)	12.77%	6.62%
Indicative Residual Land Value	(-$24 per sq.m)	(-$194 per sq.m)

Source: macroplan

Macroplan also conducted sensitivity analysis of our feasibility assessment in the above table. Our reconnaissance considers the following notion – what would be the IRR and the residual land value of the subject site if the higher property sale prices are anticipated.

Table 5. IRR Sensitivity Assessment – higher sale prices

	Scenario 1	Scenario 2
Property sale price +5%	19.01%	12.00%
Property sale price +10%	24.96%	17.10%

Source: macroplan

Table 6. RLV Sensitivity Assessment – higher sale prices

	Scenario 1	Scenario 2
Property sale price +5%	$43 per sq.m	(-$71 per sq.m)
Property sale price +10%	$111 per sq.m	$51 per sq.m

Source: macroplan

Appendix – Recent House listings for Sale

Picture	Address	Land Size (sqm)	Building Size (sqm)	Bed	Bath	Car	Listed Price
	24 Windred Street	811	-	4	2	2	$698,000
	167 Sale Street	2,017	120	3	1	2	$1,000,000
	319 Anson Street	613	-	3	1	2	$615,000
	45 March Street	677	-	4	2	2	$1,375,000
	3/82 Kite Street	255	125	3	2	2	$700,000
	25 Sampson Street	945	-	3	1	2	$680,000
	37 National Avenue	596	227	4	2	2	$1,100,000
	6A Cemar Avenue	431	-	4	2	1	$720,000
	143 Anson Street	664	153	4	2	2	$657,000
	52 Moulder Street	540	-	2	2	1	$700,000

Source: realestate.com.au, macroplan

MELBOURNE	SYDNEY	BRISBANE	GOLD COAST	PERTH
Level 16	Level 10	Level 1	Level 2	Level 1
330 Collins Street	580 George Street	310 Edward Street	89-91 Surf Parade	89 St Georges Terrace
Melbourne VIC 3000	Sydney NSW 2000	Brisbane QLD 4000	Broadbeach QLD 4218	Perth WA 6000
(03) 9600 0500	(02) 9221 5211	(07) 3221 8166	(07) 3221 8166	(08) 9225 7200

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