

Castle 7 Pty Ltd

C/- Foresight Management  
Level 6, 89 York Street,  
Sydney NSW 2000

27 August 2019

Dear Greg,

**Subject: Tipping point analysis - Castle Hill North**

We have been engaged by Castle 7 Pty Ltd under instruction from Foresight Management to undertake FSR tipping point analysis for the Castle Hill North Planning Precinct. The purpose of this financial analysis is to independently test whether the currently proposed FSR controls provide enough financial incentive to encourage redevelopment to the proposed higher density residential development. If not viable, the FSR is increased for the hypothetical development to a point that the developer can justify a land purchase price that matches the price expectation of the landowner(s). Where there are several parcels of land to be acquired for one development site there is likely to be required a price premium to the market value to ensure all owners are incentivised to sell.

For the purpose of this exercise we have used the consolidation of 1–6 Vivien Place, 1, 3, 5 and 7 Gay Street and 12 Gilham Street, Castle Hill as the “hypothetical site” to be tested which has a proposed incentive FSR of 1.54:1 and has a combined site area of 8,585sqm.

HillPDA has undertaken market research (Section 2.2) of individual residential dwellings within and in proximity of the Castle Hill North Planning Precinct (Study Area). RPData showed that the Castle Hill median price for non-strata is \$1,330,000, free of GST (May 2019) however within the study area the site sales are generally higher (\$1.9 to 2.1m) with some as high as \$3,800,000. This is maybe due to some speculation of a rezoning.

For the purposes of our modelling, we have adopted a more conservative lower average acquisition price of \$2,000,000, exclusive of GST per land parcel. Given the subject “hypothetical site” consists of 11 parcels of land the developer's acquisition price is \$22,000,000 exclusive of GST.

Section 3 details our feasibility testing assumptions for the base case and our FSR tipping point. Adopting financial viability benchmarks of 18%p.a. Internal Rate of Return (IRR) and 20% development margin our results are summarised in the table below:

|                              | Base Case    | Tipping point |
|------------------------------|--------------|---------------|
| Adopted RLV (Purchase price) | \$22,000,000 | \$22,000,000  |
| Adopted FSR                  | 1.54: 1      | 2.53: 1       |
| Project IRR                  | 8.91%        | 18.06%        |
| Developers Margin            | 5.86%        | 20.19%        |
| Viability                    | Not feasible | Feasible      |

Source HillPDA

It is anticipated that financial analysis will vary from one development parcel to another due to differences in acquisition and site costs and locational attributes and hence it is prudent, we consider, to adopt a tipping point range of 2.4 to 2.6:1. It is noted for the base case (FSR 1.54m) the average residual land value (RLV) per parcel of land ranges from \$1.2m to \$1.45m. This RLV is in our opinion too low to encourage an orderly viable redevelopment of the Castle Hill North Planning Precinct as proposed.

A low-angle, upward-looking photograph of a modern multi-story building. The building features a series of balconies with glass railings and prominent horizontal and vertical structural elements in a reddish-brown or terracotta color. The facade is a mix of light-colored panels and large glass windows. The entire image is overlaid with a semi-transparent dark blue filter. A thin white rectangular border is centered on the page, framing the text.

# PLANNING CONTEXT

# 1.0 PLANNING CONTEXT

## 1.1 Castle Hill North Planning Proposal

In response to the to the State Government's North West Rail Link Corridor Strategy, the Hills Shire Council developed the Castle Hill North Planning Proposal. In November 2015, the Council resolved to forward the Planning Proposal to the Department of Planning & Environment for Gateway Determination.

According to the Hills Shire council, the Planning Proposal aims to deliver 3,283 additional dwellings, which when combined with the existing housing stock in the area will result in 3,575 additional dwellings across the Castle Hill North Planning Proposal area.

### Overview

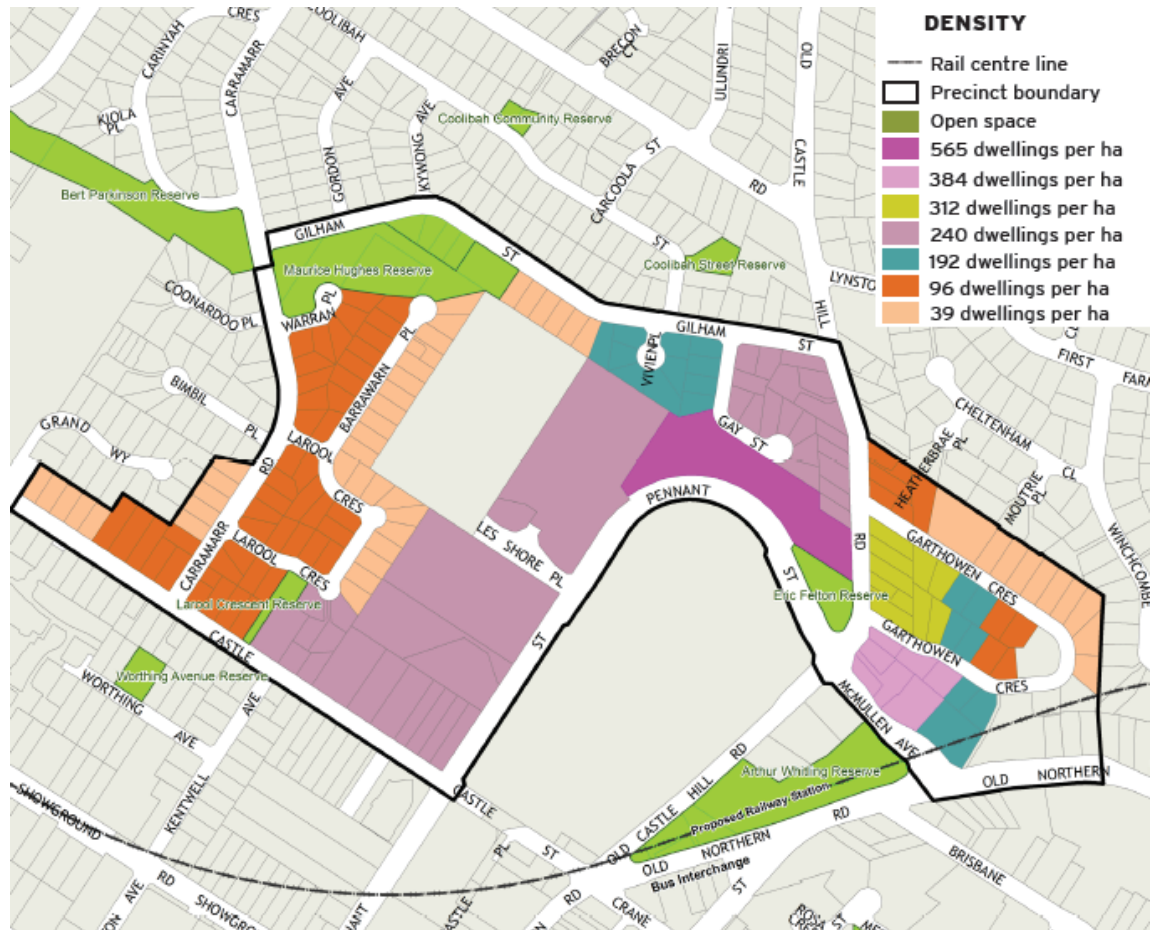
The Castle Hill North Planning Proposal will deliver the following changes to the Castle Hill Local Environmental Plan:

1. Rezone land in the Precinct from R1 General Residential and R2 Low Density Residential to R1 General Residential, R3 Medium Density Residential and R4 High Density Residential;
2. Apply a minimum lot size of 1,800m<sup>2</sup> across the precinct;
3. Apply a 'base' floor space ratio ranging from 1:1 to 1.1:1 and an 'incentivised' floor space ratio ranging from 1.2:1 to 4.8:1.
4. Identify the proposed R4 High Density Residential portion of the land as "Area A within the Floor Space Ratio Map;
5. Remove height of buildings for land proposed to be zoned R1 General Residential and R4 High Density Residential;
6. Introduce a maximum height of buildings of 10 metres for land proposed to be zoned R3 Medium Density Residential;
7. Add to clause 4.4B Floor Space Ratio to provide a floor space incentive for key mapped sites to amalgamate where it can be demonstrated that the amalgamation will deliver improved outcomes and public domain improvements.
8. Amend draft Clause 7.7 Design Excellence to apply to all development with a height of 25 metres or more, with revised considerations for design excellence and provision for a Design Excellence Panel.

## Location

The Castle Hill North Precinct is generally bound by Pennant Street and Castle Street to the south, Gilham Street to the north, Old Northern Road to the east and Carramarr Road to the west.

Figure 1: Castle Hill North Precinct boundary



Source: Castle Hill North Precinct Plan

## 1.2 Planning details

The specific planning details applicable to Castle Hill North are:

**Local authority**

The Hills Shire

**Planning Scheme**

The Hills Local Environmental Plan 2012

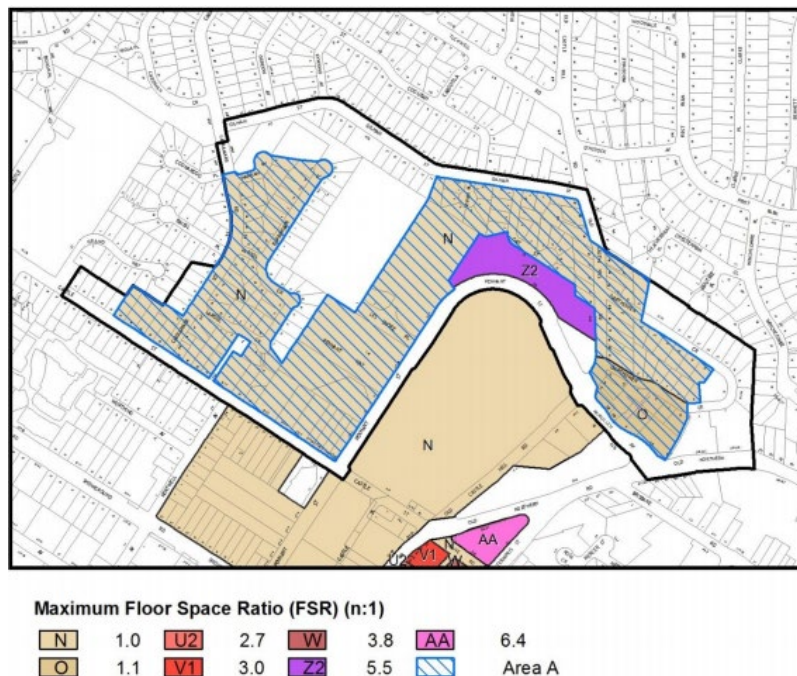
**Additional planning controls**

**Castle Hill North Precinct Plan 2015**

The hypothetical site is situated within the Castle Hill North Precinct Plan and has been identified to potentially provide **192 dwellings per hectare** due to its proximity to the new metro station and a core major centre.

The hypothetical site have been earmarked for **proposed FSR of 1:1** and **proposed incentive FSR of 1.54: 1**.

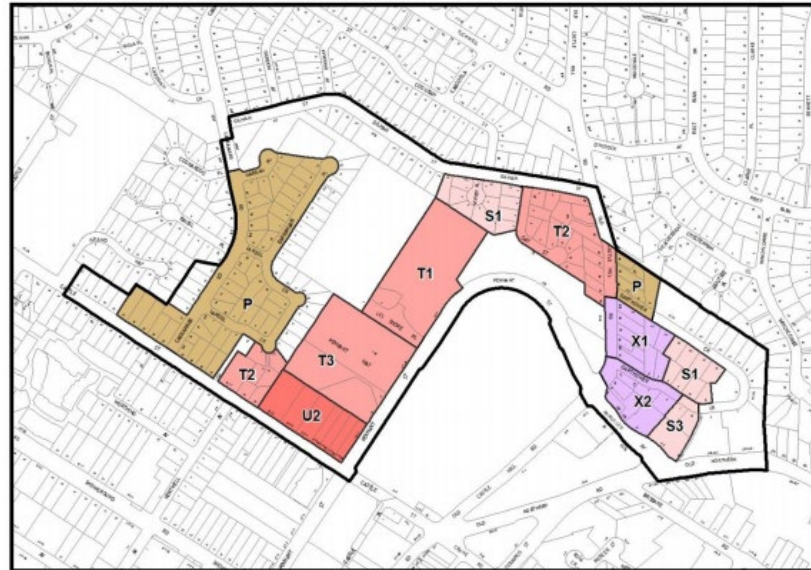
**Proposed Floor Space ratio map**





**Additional planning controls – continued**

**Proposed Floor Space ratio incentive map**

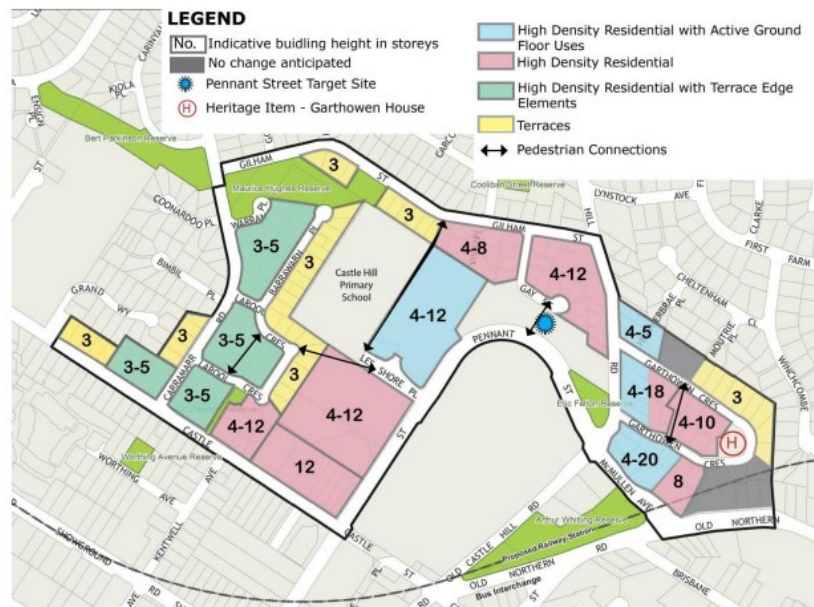


**Maximum Floor Space Ratio Incentive (FSI) (n:1)**

|    |      |    |      |    |      |    |      |    |     |
|----|------|----|------|----|------|----|------|----|-----|
| P  | 1.2  | S3 | 1.92 | T2 | 2.04 | U2 | 2.88 | X2 | 4.8 |
| S1 | 1.54 | T1 | 2.0  | T3 | 2.2  | X1 | 4.3  |    |     |

Castle Hill North have been earmarked for proposed building height 3 to 20 storeys.

**Castle Hill North Structure Plan**





# MARKET RESEARCH

## 2.0 MARKET RESEARCH

### 2.1 Residential Market Overview

The Sydney housing market was driven by investor demand from 2014-2017 responding to cheap and accessible credit, this has exacerbated housing affordability. During this period market growth in some areas topped double digits but have more recently fallen marginally or plateaued across the Sydney Metropolitan.

A number of influences have triggered this brake in momentum with general easing in demand in certain parts of the Sydney Metropolitan Region. These include APRA encouraging tighter bank lending practices from late 2014 to 2016 which has regulated residential property investors. Chinese investment into Australia slumped by 40 per cent last year<sup>1</sup> as China has placed restrictions on foreign investment in the Australian market. Demand for credit by investors in the housing market has slowed noticeably as the dynamics of the housing market have changed. Conditions have also weakened in the rental market.

The above influences have resulted in unprecedented high levels of 'off the plan' apartment stock and increased settlement risk as advertised listings are 20% lower than the previous year. As a result, valuations for settlement are valued below the sale price. Consequently, projects are experiencing longer selling campaigns and slower absorption rates.

However, the economic fundamentals still remain strong with the Australian economy expected to grow by around 3% this year. This growth outlook is being supported by increased business and public infrastructure investment. Inflation remains favourably low and stable; CPI inflation was at 1.8 per cent over 2018. Australia's unemployment rate currently sits at 5%, the lowest level since mid-2011. However, the GDP growth during Q3 was lower than expected owing to slow growth in household consumption and household income. The main contributor to the uncertainty is around falling housing prices in some cities.<sup>2</sup> However, there is speculation that a housing recovery is to occur in the late 2020/2021 as first home buyers increase.

In May 2019, the median sale value in Castle Hill for a non-strata dwelling was \$1,330,000<sup>3</sup>. This represents a decrease of 15% over a 12-month period. This is in line with the general easing in demand levels that has been witnessed across the Sydney Metropolitan area.

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<sup>1</sup> AFR, Chinese investment in Australia slumps 40 per cent (October 2018)

<sup>2</sup> Reserve Bank of Australia, Statement by Philip Lowe, Governor: Monetary Policy Decision (2019-01)

<sup>3</sup> RPdata –Suburb Statistics Report August 2019



## 2.2 Market transactions of residential dwellings

We have examined recent market activity and have had particular regard to the following sales evidence, which we consider set the market parameters by which an incentivised land purchase price may be established. This purchase price is at an amount that would incentivise an owner to sell to a developer. The housing stock within Castle Hill comprises mainly of single dwellings built circa 1980s situated on 600 to 800sqm sized allotments. The below sale transactions represent properties have been land-banked by developers, the majority of the properties have limited development potential in isolation (do not meet planning control requirements for redevelopment) or are potential dual occupancy sites (STCA).

The below sale evidence show that owners are prepared to accept offers in the vicinity of \$2,000,000, exclusive of GST (lower price limit). This shows a premium of 40 to 50% over local area's median price of \$1,330,000, free of GST (May 2019). This premium is required in this location as developers are required to purchase multiple parcels of land to form a development site. The premium is to ensure all owners are incentivised to sell.

| Address                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Sale Date | Sale Price  | Land Area (sqm) | Rate \$/sqm land area |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------|-----------------|-----------------------|
| <b>15 Ashford Avenue, Castle Hill</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 02/19     | \$2,100,000 | 1,040           | \$2,019               |
| <p>Circa 1980s built five-bedroom, two-bathroom dwelling partially renovated to an average standard. Sold in isolation with existing underlying zone of 'R4 High-Density Residential' and has limited development potential in isolation due to a minimum lot size requirement of 1,800sqm.</p> <p>Sale as advised and yet not confirmed (settled).</p> <p><b>Comments:</b></p> <p>We consider a similar value is warranted to incentivise an owner to sell and be amalgamated as a development site.</p>                                                                                                                          |           |             |                 |                       |
| <b>61 Old Castle Hill Road, Castle Hill</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 02/19     | \$2,000,000 | 626             | \$3,195               |
| <p>Circa 1950s built fibro three-bedroom dwelling partially renovated to a poor standard. Located within the Castle Hill North Precinct Plan 2015 with an identified density of 384 dwellings per hectare and proposed FSR of 2.04:1. In close proximity to Castle Towers and the new metro station. Sold in isolation with the existing underlying zone of 'R3 Medium Density Residential' and has development potential as a dual occupancy (Subject to Council approval).</p> <p><b>Comments:</b></p> <p>We consider a similar value is warranted to incentivise an owner to sell and be amalgamated as a development site.</p> |           |             |                 |                       |
| <b>35 Purser Avenue, Castle Hill</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 01/19     | \$1,950,000 | 870             | \$2,241               |
| <p>Circa 1950s built three-bedroom dwelling partially renovated to a poor standard. Located outside the Castle Hill North Precinct Plan 2015 and in close proximity to Castle Towers and new metro station. Sold in isolation with the existing underlying zone of 'R3 Medium Density Residential' and has development potential as a dual occupancy (Subject to Council approval).</p> <p><b>Comments:</b></p> <p>We consider a similar value is warranted to incentivise an owner to sell and be amalgamated as a development site.</p>                                                                                          |           |             |                 |                       |

| Address                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Sale Date | Sale Price  | Land Area (sqm) | Rate \$/sqm land area |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------|-----------------|-----------------------|
| <b>4 Gay Street, Castle Hill</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 11/18     | \$2,230,000 | 703             | \$3,172               |
| <p>Circa 1980s built four bedroom, two bathroom dwelling partially renovated to an average standard. Located within the Castle Hill North Precinct Plan 2015 with an identified density of 240 dwellings per hectare and proposed FSR of 2.04:1. In close proximity to Castle Towers and new metro station.</p> <p>Sold in isolation with existing underlying zone of 'R2 Low Density Residential' and has development potential as a dual occupancy (Subject to Council approval).</p> <p><b>Comments:</b></p> <p>We consider a lower value is warranted to incentivise an owner to sell and be amalgamated as a development site.</p>                               |           |             |                 |                       |
| <b>38 Old Castle Hill Road, Castle Hill</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 11/18     | \$2,380,000 | 885             | \$2,689               |
| <p>Circa 1970s built three bedroom, two bathroom dwelling in original condition plus self-contained granny flat.</p> <p>Located within the Castle Hill North Precinct Plan 2015 with an identified density of 312 dwellings per hectare. and proposed FSR of 1.2:1. In close proximity to Castle Towers and new metro station.</p> <p>Sold in isolation with existing underlying zone of 'R3 Medium Density Residential' and has development potential as a dual occupancy (Subject to Council approval).</p> <p><b>Comments:</b></p> <p>We consider a lower value is warranted to incentivise an owner to sell to facilitate amalgamation as a development site.</p> |           |             |                 |                       |
| <b>3 Gilham Street, Castle Hill</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 06/17     | \$2,050,000 | 800             | \$2,563               |
| <p>Circa 1980s built four bedroom, two bathroom dwelling in an average state of repair.</p> <p>Located on the fringe of Castle Hill North Precinct and in close proximity to Castle Towers and new metro station.</p> <p>Sold in isolation with existing underlying zone of 'R3 Medium Density Residential' and has development potential as a dual occupancy (subject to Council approval).</p> <p><b>Comments:</b></p> <p>We consider a similar value is warranted to incentivise an owner to sell and be amalgamated as a development site.</p>                                                                                                                    |           |             |                 |                       |

The above sales show a sale value range of between \$1,950,000 and \$2,380,000 and a rate per square metre of improved area of between \$2,019 and \$3,195.

#### **Sale history of other relevant properties:**

In our market research we have come by speculative sale transactions of single dwellings within the Castle Hill North precinct within the vicinity of \$3,100,00 to \$3,800,000, for example 4 Garthowen Crescent, Castle Hill sold for \$3.2M to the owner (developer) of the adjoining property. These transactions are well above the sale range of \$1,950,000 and \$2,380,000 tabulated above. This represent a premium of 220% to 270% being paid by developers.

Although the above evidence is an indicator of how much a developer is prepared to pay for the amalgamation of the site in this locality, we consider these values to be disproportionate to the above sales. We have erred on the conservative side and adopted an average value of \$2,000,000, exclusive of GST per dwelling as the RLV in our tipping point analysis.

Additional market research of 'off the plan' and established residential apartments was undertaken to establish the end sale revenue which are imputed into our tipping point analysis.

## 2.3 Residential Apartment Sales Evidence

This section provides an assessment of selected 'off-the-plan' and established residential sales to understand the current and potential residential market supply in the study area. This will be used to determine a likely gross realisation by which the value of the hypothetical units on completion may be determined in our tipping point analysis.

We have examined the recent market activity and have had a particular regard to the following sales evidence, which we consider set the market parameters by which the value of the gross realisation may be established.

The sold and asking prices of the 3 following developments were analysed:

1. Skyview, 51 Old Castle Hill Road, Castle Hill
2. 299-301 Old Northern Road, Castle Hill
3. 11 Garthowen Crescent, Castle Hill

### 2.3.1 'Off the plan' apartment sales

#### 2.3.1.1 Skyview, 51 Old Castle Hill Road, Castle Hill

Proposed development to provide 5 apartment buildings of 18 to 23 storeys comprising 923 residential apartments (202 x one, 675 x two and 40 x three bedroom apartments). Built over 5 levels of basement car parking for 1154 vehicles, 923 bicycle spaces and 24 motorcycle spaces.

Conversations with the selling agent has indicated that the marketing campaign commenced in August 2017 and approximately 50% of the apartments have since been sold. This represents a sale rate of 20 units per month. The agent has also indicated there has been increased level of enquires over recent months and high demand for three bedroom units.

| Skyview, Castle Hill                                                                 |                         |                     |                    |
|--------------------------------------------------------------------------------------|-------------------------|---------------------|--------------------|
|  |                         |                     |                    |
| Type                                                                                 | Price range             | Internal Area (sqm) | \$/sqm of NSA      |
| One Bedroom                                                                          | \$607,000-\$661,000     | 50-75               | \$8,813 - \$12,140 |
| Two Bedroom                                                                          | \$800,000-\$940,000     | 70-110              | \$8,545-\$11,429   |
| Three Bedroom                                                                        | \$1,116,000-\$1,147,000 | 95-135              | \$8,496-\$11,747   |

Source: Selling agent and Domain website

### 2.3.2 Established residential apartment sales in Castle Hill

To establish a baseline of achieved sale values in Castle Hill, we have analysed re-sales of apartments in the area. The results revealed 1 bedroom units are achieving \$670,000 (\$11,167/sqm), 2 bedrooms are achieving \$700,000 to \$980,000 (\$7,042-\$12,250/sqm) and three bedrooms are achieving \$1,030,000 to \$2,400,000 (\$7,357-\$11,000/sqm).

#### 2.3.2.1 299-301 Old Northern Road, Castle Hill

The development comprises 2 mixed-use buildings of 20 to 21 storeys containing 378 apartments (consisting of 95 x 1, 275 x 2 & 8 x 3 bedroom, 19 of which are adaptable) over 1,612sqm of retail and 5 levels of basement car parking for 550 vehicles.

The development was built by Toplace and is located in close proximity to Castle Towers and on the fringe of the CBD area.

The most recent sales (2018 to 2019) are tabulated below.

| 299-301 Old Northern Road, Castle Hill |                         |                     |                   |
|----------------------------------------|-------------------------|---------------------|-------------------|
| Type                                   | Price range             | Internal Area (sqm) | \$/sqm of NSA     |
| One Bedroom                            | \$670,000               | 60 average          | \$11,167          |
| Two Bedroom                            | \$700,000-\$980,000     | 80 average          | \$8,750-\$12,250  |
| Three Bedroom                          | \$1,070,000-\$1,100,000 | 100 average         | \$10,700-\$11,000 |

#### 2.3.2.2 11 Garthowen Crescent, Castle Hill

The development comprises 3 separate buildings, comprising that provide 39 residential units (1 x one, 32 x two and 6 x three bedrooms) over basement car parking for 99 vehicles.

The most recent sales (2018 to 2019) are tabulated below.

| 11 Garthowen Crescent, Castle Hill |                         |                     |                 |
|------------------------------------|-------------------------|---------------------|-----------------|
| Type                               | Price range             | Internal Area (sqm) | \$/sqm of NSA   |
| Two Bedroom + study                | \$845,000               | 120                 | \$7,042         |
| Three bedroom                      | \$1,030,000-\$1,250,000 | 140 average         | \$7,357-\$8,929 |
| Three Bedroom + study              | \$2,400,000             | 250                 | \$9,600         |



### 2.3.3 Rationale for hypothetical gross realisations

The above sales indicate average values for the hypothetical units 'as if complete' as follows, this is in consideration of its proximity to Castle Towers and new Metro station:

| Typology      | Average     |
|---------------|-------------|
| One bedroom   | \$625,000   |
| Two bedroom   | \$880,000   |
| Three bedroom | \$1,010,000 |

A low-angle, upward-looking photograph of a modern multi-story building. The building features a complex facade with numerous balconies, each enclosed by glass railings. The balconies are framed by dark, possibly metallic, structural elements. The building's facade is a mix of light-colored panels and darker, vertical slatted sections. The overall image has a blue tint, and a white rectangular border is superimposed over the center, framing the text.

# DEVELOPMENT FEASIBILITY

## 3.0 DEVELOPMENT FEASIBILITY

This Chapter outlines our tipping point analysis, where the proposed FSR was not found to be viable and further feasibility testing was undertaken to determine the tipping point. This tipping point is the minimum FSR required to achieve a financially viable development based on the established land purchase price. The Chapter also outlines the assumptions for the modelling and the results.

For the purpose of this exercise we have used the consolidation of 1–6 Vivien Place, 1, 3, 5 and 7 Gay Street and 12 Gilham Street, Castle Hill as the hypothetical site to be tested which has a proposed FSR of 1.54:1 and a combined site area of 8,585sqm.

### 3.1 Feasibility Methodology

To undertake the feasibility modelling, we have used the proprietary software EstateMaster which is an industry benchmark used by developers, financiers and property valuers. This method calculates the residual land value by subtracting from the anticipated net sales revenue, the anticipated costs of development plus a margin for its profit and risk.

Any unpredicted change, such as an increase in developer contributions or development costs in the short term could have a notable effect on development feasibility unless it could be absorbed by either making allowances in the project contingency or increases in market sale values for the developed product.

A feasibility assessment is based on profit and risk factors. These two factors are subjective elements that determine the minimum level a developer is willing to purchase a site for, factoring in the risk associated with a proposed development. For the purpose of our hypothetical modelling, regard has been given to the following:

- **Project Internal Rate of Return (IRR):** is the actual return on the investment on an annualised basis and expressed as a percentage. This approach takes into account the cost of time in its calculation within cash flow and indicating average returns over a period of time. Typically, this is 14% (townhouse) to 18% (unit) p.a. as the primary indicator
- **Development Margin (DM):** it is the net profit expressed as a percentage of the development costs. Typically, this is Development Margin (DM) of 16% to 22% pa townhouse, mixed-use and residential apartment buildings.
- **Residential Land Value:** is the maximum price that a hypothetical developer would pay for the land to achieve acceptable hurdle rates (such as an IRR) based on the highest and best use or optimal development option for the land.

Using hypothetical development feasibility testing, HillPDA identified a residual land value (RLV) that was viable for development. It is a critical point that for development to be viable, the RLV must be higher than the market value “as-is”. Where sites are unable to be developed in isolation, it is common that a premium is paid for the lot amalgamations to incentivise landowners to sell. For the purpose of our modelling, we have applied a premium of 40% for amalgamated lots as demonstrated in our sales analysis.

| Performance         | Project IRR | Development Margin |
|---------------------|-------------|--------------------|
| Feasible            | >18%        | >20%-25%           |
| Marginally feasible | 16%-18%     | 18%-20%            |
| Not feasible        | <16%        | <18%               |

## 3.2 Financial Modelling Options

The purpose of the modelling is to test the tipping point. The following options were tested based on the proposed DCP Controls (Base case) as per the Castle Hill North Precinct and Tipping Point Scenario (Uplift in planning controls to warrant viability):

|             | Proposed DCP controls ('Base Case')                                                                                                                                                   | Tipping Point Scenario<br>(Uplift in planning controls)                                                                                                                                |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Description | FSR 1.54:1<br>One-bedroom units: 27 (20%)<br>Two-bedroom units: 83 (61%)<br>Three-bedroom units: 25 (19%)<br>Total no. of units: 135 units<br>Basement car parking for 297 car spaces | FSR 2.53:1<br>One-bedroom units: 45 (20%)<br>Two-bedroom units: 136 (60%)<br>Three-bedroom units: 45 (20%)<br>Total no. of units: 226 units<br>Basement car parking for 497 car spaces |

Our assessment is based on a high-level analysis of our understanding of existing planning controls.

## 3.3 Rationale for revenue assumptions

For the purpose of our feasibility assessment, the following revenue assumptions were adopted.

| Revenue typology      | Rationale                                                                                                                                                                                                              |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Residential dwellings | The analysed sales show a sale value range of between \$1,950,000 and \$2,380,000, exclusive of GST. Therefore, we have assumed an average purchase price of \$2,000,000, exclusive of GST.                            |
| Apartments            | Our sales evidence shows the following sale value ranges:<br>One bedroom apartments: \$607,000 to \$670,000<br>Two bedroom apartments: \$700,000 to \$980,000<br>Three bedroom apartments: \$1,030,000 to \$1,250,000. |

### 3.3.1 Hypothetical Residential Realisations

Based on our market research for the project 'off the plan' and established unit sales, we have determined the hypothetical sale prices for dwellings on completion. Consideration has been given on the following factors:

- The adequate quality level of finishes and fit-out typical for this locality;
- One basement car parking per 1 bedroom apartment and two car parking spaces per 2 & 3 bedroom apartment; and
- Location in close proximity to Castle Hill Towers which provides regional amenities and metro station.

We have determined the unit mix (as per the draft DCP Castle Hill North Precinct) and average proposed values for the hypothetical unit 'as if complete' as follows and have been adopted below in our feasibility model.

#### Base case

|               | Number of units | Unit value range | Gross Realisation    |
|---------------|-----------------|------------------|----------------------|
| One bedroom   | 27 (20%)        | \$625,000        | \$16,875,000         |
| Two bedroom   | 83 (61%)        | \$880,000        | \$73,040,000         |
| Three bedroom | 25 (19%)        | \$1,010,000      | \$25,250,000         |
| <b>Total</b>  | <b>135</b>      |                  | <b>\$115,165,000</b> |

#### Tipping Point scenario

|               | Number of units | Unit value range | Gross Realisation    |
|---------------|-----------------|------------------|----------------------|
| One bedroom   | 45 (20%)        | \$625,000        | \$28,125,000         |
| Two bedroom   | 136 (60%)       | \$880,000        | \$119,680,000        |
| Three bedroom | 45 (20%)        | \$1,010,000      | \$45,540,000         |
| <b>Total</b>  | <b>226</b>      |                  | <b>\$193,345,000</b> |

#### 3.3.1.1 Feasibility Modelling Assumptions and Projections

Construction cost and time estimates have been estimated by means of Rawlinsons Construction Handbook and our professional experience and are summarised as follows:

| Residual land value (RLV) | \$22,000,000, exclusive of GST                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Description               | <div>FSR 1.54:1</div> <div>One bedroom units: 27 (20%)</div> <div>Two bedroom units: 83 (61%)</div> <div>Three bedroom units: 25 (19%)</div> <div>Total no. of units: 135 units</div> <div>Basement car parking for 297 car spaces</div> <div>FSR 2.53:1</div> <div>One bedroom units: 45 (20%)</div> <div>Two bedroom units: 136 (60%)</div> <div>Three bedroom units: 45 (20%)</div> <div>Total no. of units: 226 units</div> <div>Basement car parking for 497 car spaces</div> |
| Professional Fees         | Design 4% of Construction costs.<br>Consultants 4% of Construction costs.<br>Development Management 2% of project costs (excluding land, finance & tax).                                                                                                                                                                                                                                                                                                                           |
| Escalation                | Nil.                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Construction Costs        | As per Rawlinson's we have adopted the following rates:<br>Demolition: \$20,000 per dwelling<br>Construction: \$2,700/sqm of GFA<br>Basement car parking: \$50,000/bay                                                                                                                                                                                                                                                                                                             |
| Construction Period       | 16-18 month construction period.<br>We have allowed a 15-18 month lead-in period for development approval and to achieve the required level of pre-sales prior to construction.                                                                                                                                                                                                                                                                                                    |
| Contingency               | 5% of Construction Costs                                                                                                                                                                                                                                                                                                                                                                                                                                                           |



| <b>Statutory Fees</b>                           | DA & CC set at 0.35% of Construction Cost.<br>Long Service Levy of 0.35% of Construction Cost.<br>Draft Contribution Plan No. 17 – Castle Hill North:<br>1 bedroom: \$19,819.80 per unit<br>2 bedroom: \$20,985.67 per unit<br>3 bedroom: \$29,146.77 per unit<br>Existing 11 dwellings are credited. |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>State Infrastructure Contributions (SIC)</b> | Nil assumed in the models.                                                                                                                                                                                                                                                                            |
| <b>Affordable housing</b>                       | Nil assumed in the models.                                                                                                                                                                                                                                                                            |
| <b>Selling Costs</b>                            | Sales Commissions<br>3% of Gross Revenue<br>Other Costs<br>Marketing 1.0% of Gross Sales<br>Legal \$1,500 per unit                                                                                                                                                                                    |
| <b>Land Holding Costs</b>                       | Statutory costs (Council rates, water rates and land tax) to be paid diminishing with settlements based on a Statutory Land Value. Land tax is paid annually with council and water rates are paid quarterly in the cash flow.                                                                        |
| <b>Financing</b>                                |                                                                                                                                                                                                                                                                                                       |
| <b>Equity</b>                                   | Assuming 20% of Net Cash Flow to be Funded by the developer.                                                                                                                                                                                                                                          |
| <b>Loan</b>                                     | 6.5% per annum compounded.                                                                                                                                                                                                                                                                            |
| <b>Project Hurdle Rates</b>                     | 18% Target IRR was used for projections.                                                                                                                                                                                                                                                              |

We are not Quantity Surveyors and have therefore relied upon Rawlinsons Construction Handbook to assist in determining the RLV on an 'as is' basis.

### 3.4 Financial results

This method of assessment determines a price that could be paid for the land, given the expected Gross Realisations from the individual sale of the completed hypothetical units and the cost and charges of the proposed development, given normal market profit expectations, with cognisance of all the known characteristics of the property and the inherent risks involved in its proposed development.

A Residual Cash Flow analysis has been prepared based on values assessed previously in this report. Cash flow projections are forecasts based on available information and are exposed to fluctuating economic and property market conditions. The cash flow analysis results are summarised below:

|                              | Base Case    | Tipping point |
|------------------------------|--------------|---------------|
| Adopted RLV (Purchase price) | \$22,000,000 | \$22,000,000  |
| Adopted FSR                  | 1.54: 1      | 2.53: 1       |
| Project IRR                  | 8.91%        | 18.06%        |
| Developers Margin            | 5.86%        | 20.19%        |
| Viability                    | Not feasible | Feasible      |

The above results show that the Base Case which permits an FSR of 1.53:1 allows a developer a return on the project (or a profit and risk factor) of 5.86% and an annualised return (IRR) of 8.91% which is significantly lower than industry benchmarks for an unapproved project. It is noted for the base case (FSR 1.54m) the average residual land value (RLV) per parcel of land ranges from \$1.2m to \$1.45m. This is in our opinion too low to encourage an orderly viable redevelopment of the Castle Hill North Planning Precinct as proposed.

It is anticipated that financial analysis will vary from one development parcel to another due to differences in acquisition and site costs and locational attributes and hence it is prudent, we consider, to adopt a tipping point range of 2.4 to 2.6:1.

### 3.5 Key Findings and Recommendations

- In our investigations, we note that the applicable developer contribution to Castle Hill North (detailed within the Contributions Plan No. 17) is significantly higher than The Hills Shire Section 7.12 fees and this will be factored into how much a developer is prepared to pay for a potential site (RLV)
- As previously detailed, the Castle Hill North Precinct Plan has identified the hypothetical site to have a suitable density of 192 dwellings per hectare. Based on the site area of 8,582sqm this would equate to 164 dwellings. This is higher than the 'base case' but is lower than the tipping point scenario.
- At FSR 1.54:1 the RLV for a hypothetical redevelopment shows no land price premium to the median house price to incentivise landowners to sell.
- Based on our assumptions and financial modelling, we are of the opinion that an increase of FSR to 2.40 to 2.60:1 is necessary for the hypothetical project to be viable.

## APPENDIX A: RESIDUAL CASHFLOW SUMMARY

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