FSR Viability Analysis

Castle Hill North Planning Precinct

September 2019

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FSR Viability Analysis

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Charter Contact	Sam Barrow
Report Author	Sam Barrow / Ryan Latham

1. Executive Summary .

Our executive summary should be read in conjunction with our full report.

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<u>Residential Apartment Projects</u>: We have identified four projects located within some 2 – 4 kilometres from the Castle Hill North Planning Precinct. Prevailing rates p.s.m. range between $8,500 and $11,500 p.s.m. depending on the project characteristics.
<u>Residential Development Site Sales</u>: The transactions summarised above are most appropriately analysed on a GFA rate and p.u.s. basis as a result of their varying development potential. The evidence on a GFA rate basis is generally within a range of between $1,361 p.s.m. and $2,271 p.s.m. and between $146,104 p.u.s. and $216,667 p.u.s.</td></tr>
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- Our development feasibility analysis has concluded that a 2.25:1 FSR would generate value uplift in the order of 64% for residents within the Precinct, whilst and FSR of 3:1 and 3.27:1 would generate uplifts of 83% and 100% respectively.

- It is clear from the development feasibility analysis that there is a discount for magnitude and as the scale of the project increases the value of the development site per potential dwelling (p.u.s) and per sq.m. of GFA decreases which supports the requirement for greater density to ensure the optimal value uplift can be delivered.

- The development feasibility analysis we have undertaken is based on the current market prices/values, adopts an average house price and is not site specific.

    - Market fluctuations can significantly impact the value of the residential development sites. It is common for the value of development sites to have a greater percentage decline than the residential house and apartment market during periods of market softening due to a range of factors such as lower price for completed stock, longer selling periods, higher risk/return expectations from developers etc. If the development market was to deteriorate then the percentage uplift achievable for residents will decrease.

    - The average house price is only an indicative figure and we anticipate that many houses within the precinct will have higher values which will reduce the value uplift achievable for these properties.

- We have provided two case studies within this report that evidence the successful amalgamation of several homes in Castle Hill and St Leonards, these amalgamations resulted in value uplifts for residents of 150% and 106% respectively.

- We are of the opinion that value uplift in excess of 75% and ideally around/above 100% are important to encourage the successful and orderly redevelopment of a residential precinct. Specifically, uplift of this order ensures a greater portion of larger amalgamations which are considered critical to the success of the Precinct. We note the following key considerations:

    - It is important to encourage larger amalgamations. At higher FSR's residential apartment development is clearly highest and best use and as such it is not viable to develop smaller medium density (townhouses, semi-detached ect) projects.

    - Larger amalgamation reduce the risk of isolated properties;

    - Larger amalgamations reduce the number of smaller piecemeal developments that only amalgamate 2 to 4 dwellings.

    - Larger projects create superior urban design outcomes for the area such more attractive streetscapes (e.g. due to fewer driveways)

    - Larger projects provide superior amenity for residents (e.g. communal open spec such as gardens).

- We note that whilst our analysis has identified potential uplifts between 64% and 100% between FSR's of 2.25:1 and 3.27:1 respectively given the changing shape of the market, site specific characteristics and various other factors this percentage uplift can vary greatly from site to site and as such it important to provide as large a buffer as possible in order to avoid stalled development and inferior outcomes.</td></tr>
</table>

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FSR Recommendations	After consideration of the analysis contained herein we are of the opinion that the FSR that should be applied to the precinct in order to encourage the orderly development should be in accordance with the following:

FSR Recommendation

	Lower End Viability Range	Middle Viability Range	Higher Viability Range
FSR Requirement	**2.25:1**	**3:1**	**3.27:1**
Potential Value Uplift	**64%**	**83%**	**100%**

2. Introduction.

2.1 Client

Mr Greg Hynd
Castle 7 Pty Ltd
C/- Foresight Management
Level 6, 89 York Street,
Sydney NSW 2000

2.2 Brief

We have been instructed to provide advice in order to establish the viability of redevelopment at a range of development densities within the Castle Hill North Planning Precinct.

Our study considers the likelihood of the controls proposed by Council delivering Council's aspirations for the Castle Hill North Planning Precinct and in doing so the establish the ease at which the precinct will contribute to delivering on accommodating increased residential density, given the strategic location close to jobs, transport and services as outlined by Council.

Charter propose undertaking analysis to demonstrate the FSR controls required to facilitate viable development. This includes feasibility analysis of the controls outlined in the Precinct Plan (existing controls) to broadly understand if, and the extent to which, development potential can be unlocked.

We propose the following scope of works:

- Review the Precinct Plan to understand the vision and objectives.
- Carry out property market research and analysis to inform feasibility analysis. This includes analysis of competing residential development projects in addition to development site sales.
- Profile properties in the precinct to understand existing-use values to calculate the potential cost of site assembly for the precinct.
- Carry out generic feasibility of the precinct to test the financial feasibility/viability of development at various FSR's (maximum of 3).
- In light of the feasibility analysis, comment as the FSR required to ensure redevelopment is viable.

3. Precinct Overview.

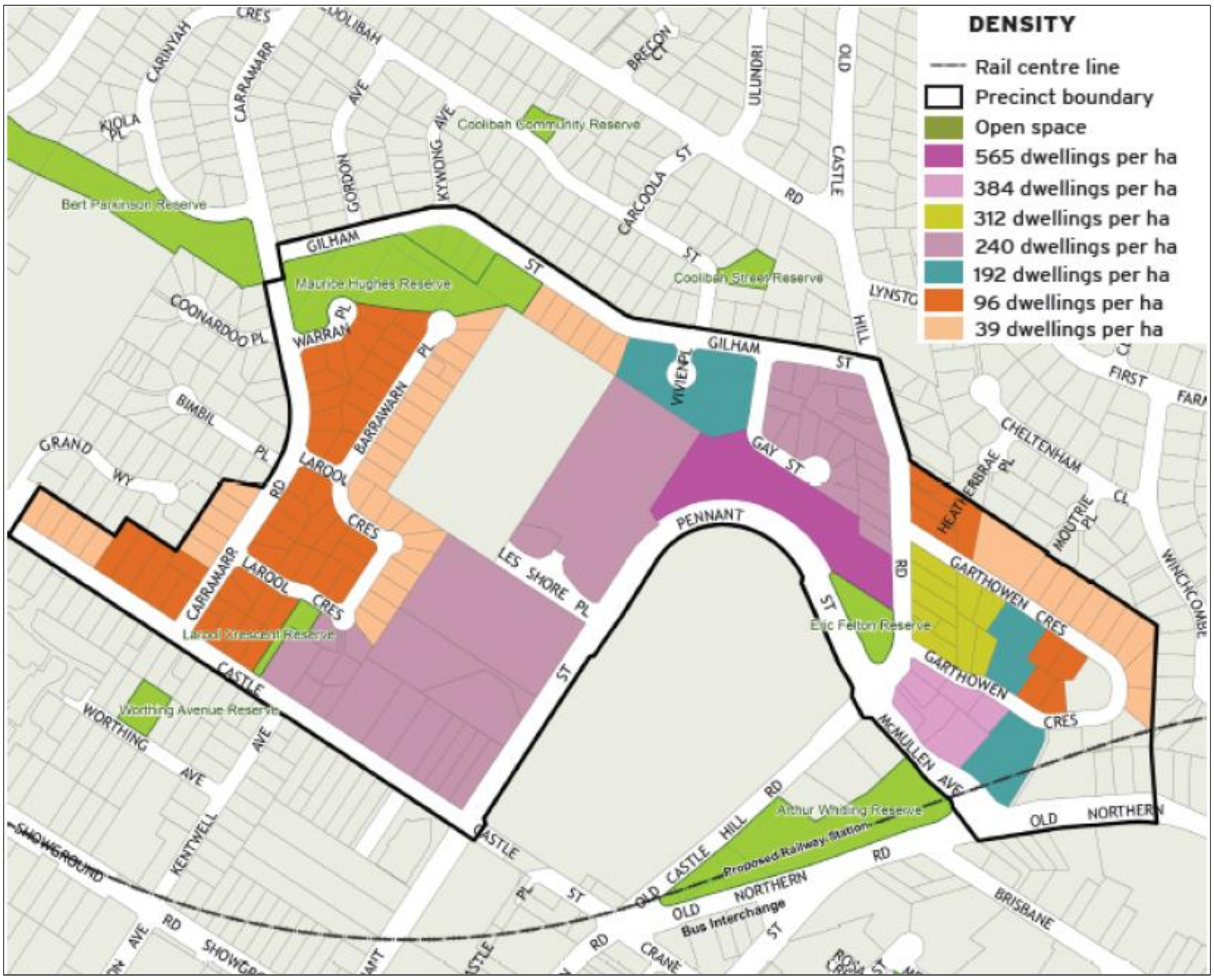
3.1 Castle Hill North Planning Precinct

Due to the development of the North West Rail Link and the resulting significant population growth into the future the Hills Shire Council has prepared the Castle Hill North Precinct Plan relating to land referred to as the Castle Hill North Planning Precinct ("the Precinct").

According to the Hills Shire Council *the Precinct Plan for Castle Hill North recognises the capacity within the Precinct for higher density residential development opportunities and the strong demand that will exist for apartment and townhouse living in Castle Hill. The plan identifies density, character and streetscape typologies to guide future development outcomes.*

According to the Precinct Plan prepared in November 2015 it is anticipated that the precinct could accommodate 3217 dwellings (2984 additional dwellings) which will result in approximately 5540 additional people.

The Castle Hill North Planning Precinct is identified on the below plan.



SOURCE – Castle Hill North Precinct Plan.

4. Location Overview.

4.1 Introduction

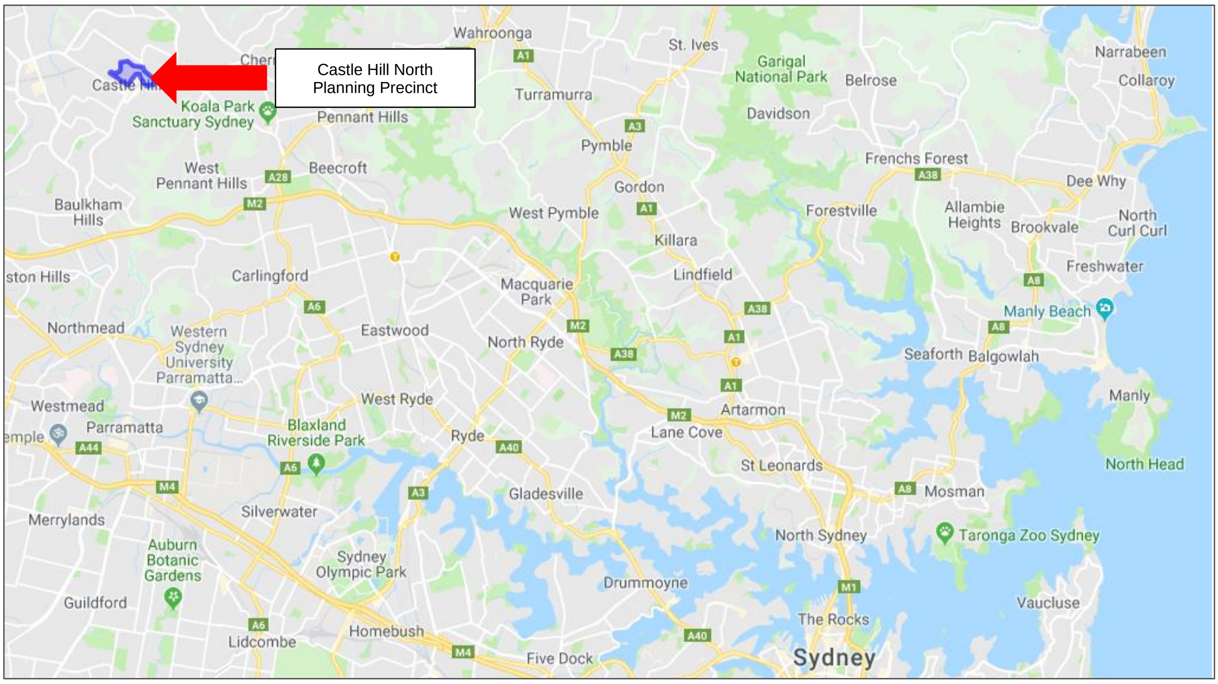
The Precinct is located approximately 10 kilometres north of the Parramatta Central Business District and 32 kilometres north west of the Sydney Central Business District within the Local Government Area of The Hills Shire Council.

The Castle Hill North Precinct is situated to the west, north and north east of the Castel Towers Shopping Centre.

Satellite Image

SOURCE – NearMap.com

Regional Map



SOURCE – NearMap.com

4.2 Transport Infrastructure

The Castle Hill station is situated adjacent to the Castle Towers shopping centre and forms part of the Sydney Metro North West which extends 21km between Rouse Hill and Chatswood. The Metro stops at 13 stations along the North West corridor and includes 8 new metro stations and 5 upgraded station designed to improve connectivity between Sydney's North West and Sydney's CBD. The Castle Hill station opened in May 2019.

Additional public bus services operate throughout with services across the majority of Sydney metropolitan and include routes to Sydney CBD, Parramatta, Sydney's upper north shore and Blacktown.

A number of major roads intersect Castle Hill with the more notable being the Old Northern Road and Showground Road that provide access to the M2 Motorway.

4.3 Commercial and Retail Amenity

The Precinct is well serviced in terms of commercial amenity with the majority of commercial and retail amenity situated along the Old Northern Road.

To the southern side of the Old Northern Road lies traditional strip retail amenity which includes Castle Mall shopping centre that provides over 30 specialty retailers, food outlets and second tier supermarkets. Additionally, you can find major bank operators, cafes, bars and restaurants.

To the northern side of the Old Northern Road lies the contemporary Castle Towers shopping centre. The centre provides two department stores, cinemas, a range of specialty stores, a library & community centre.

4.4 Lifestyle Amenity

In addition to the retail and transport amenity within the area, Castle Hill and the broader locality has a number of parks/reserves which include the Castlewood Park, Lawrence Oval, Damien Oval and Bidjigal Reserve (bushland) that provides several walking trails. Additional recreational amenity includes tennis courts, swimming pools, golf courses and multi-purpose sporting fields are located within proximity.

4.5 Education

A number of schools are located in the immediate area including Castle Hill Public School, Castle Hill High School, Oakhill College, St Bernadette's Primary School and Oakhill Drive Public School. A number of additional schools are located nearby.

There are a number of tertiary institutes within proximity to the subject site, Western Sydney University, Parramatta and Macquarie University, Macquarie.

5. Methodology.

5.1 Introduction

We have undertaken market research and financial feasibility analysis in order to establish the viability of redevelopment at a range of development densities within the Castle Hill North Planning Precinct.

A key factor considered critical to ensuring the orderly redevelopment of a residential precinct at a higher density is the rezoning to an FSR/density high enough to ensure the successful redevelopment of the precinct in accordance with the long term planning objectives for the area.

5.2 Precinct Objectives

A preliminary review of the Castle Hill North Precinct Plan (November 2015) provides a broad understanding of the vison and objectives for the precinct.

There are a number of key themes evident in this document, in particular:

- The construction of the Sydney Metro Northwest provides an opportunity to take advantage of a new high frequency transport service.
- It is important that land uses around stations support each stations role and achieve housing and jobs targets.
- The Precinct Plan capitalises on the implementation of the rail line and train station but focuses on promoting the role of Castle Hill as a premier strategic centre.
- The provision of Transport Orientated Development conveys and image of higher density development designed to maximise patronage for the new railway line.
- The Castle Hill North Precinct Plan provides a way to increase residential densities.
- Population growth should be located close to jobs, transport and amenities.
- The plan notes that the next steps will be to amend Councils planning famework including changes to zones and development controls to facilitate redevelopment.
- The intended yield for the precinct can only be achieved where a number of properties amalgamate to form development sites. This allows developments to be master planned to deliver dwellings with high levels of amenity and attractive and usable common spaces.

5.3 Amalgamation and Value uplift

In our opinion the following points should be considered when addressing the likelihood of achieving the required objectives for the precinct.

- The new FSR/Density should be designed to encourage a departure from the existing low density base by promoting the amalgamation of larger sites that can deliver projects of say 100 apartments plus. This approach will have the following result.
  - Reduces the risk of isolated properties;
  - Avoid smaller piecemeal developments that only amalgamate 2 to 4 dwellings.
  - Creates superior urban design outcomes for the area. Larger amalgamations promote more attractive streetscapes (e.g. due to fewer driveways)
  - Provide improved amenity for residents (e.g. communal open spec such as gardens).
- If apartment development is desired and a target density exists, then the proposed FSR must be such that highest and best use is clearly apartment development. If apartment development is not clearly highest and best use then smaller developers seeking to redevelop the land for townhouses and dual occupancy dwellings will compete with residential apartment developers for sites.
- To encourage amalgamation of larger sites for redevelopment value uplift for individual house owners in the vicinity of 100% or higher than the value of the homes as stand-alone residential dwellings is required. An uplift such as this will encourage the orderly amalgamation and development of the precinct in larger parcels. We have included case studies within the Market Research component of this report to support this conclusion. A summary of the outcomes at certain uplifts are as follows:
  - 0% to 30% uplift: Slow and challenging to amalgamate. May not result in larger amalgamations. The density proposed would more likely promote dual occupancy and small townhouse development. Not considered viable.

- 30% to 50% uplift: Unlikely to result in larger amalgamations. The density proposed would more likely promote medium density townhouse or smaller ad hock apartment development. More feasible than a sub 30% uplift however still considered not considered viable.
- 50% to 100%: More likely to result in some larger amalgamations in the precinct however there will be challenges at the lower end of this uplift range (50%), albeit still likely to result larger high density development in an orderly manner.
- 100% plus: Not without challenges due the fragmented nature of the land holdings. The attractiveness of the precinct to developers would be enhanced as amalgamation is considered more viable. Apartment development would more clearly be considered highest and best use and the outcome would be the amalgamation of larger apartment sites and the orderly development of the precinct.

In summary, we are seeking to determine the value uplift resulting from three different FSR's in order to establish at what FSR the stated objectives for the precinct start to become clearly achievable. In doing this we provide guidance as to the FSR required to ensure the orderly redevelopment of the precinct at a higher density could be achieved.

5.4 Methodology

In order to establish the viability of redevelopment at a range of development densities within the Castle Hill North Planning Precinct we note the following methodology.

1. We will establish prevailing values for individual homes in the immediate area in order to gauge base property values for the precinct. Our opinion of value for individual properties will exclude any value attributable to redevelopment potential.
2. We propose to undertake three hypothetical development feasibilities adopting three different development scenarios as follows:
   a. Scenario 1: Base Case FSR of 1.54:1
   b. Scenario 2: Moderate FSR of 2.25:1
   c. Scenario 3: Higher Density FSR of 3:1
3. In order to undertake Feasibility Analysis on this basis we will establish a development yield for each scenario based on the amalgamation of 10 houses with an average land area of 700 sq.m. each. The hypothetical site assumes the amalgamation of10 houses as this scale of development will promote quality urban design outcomes and encourage the successful orderly development of the precinct. Our feasibility analysis for each option is undertaken on the basis of a hypothetical developer purchasing and developing each of the options. Key tasks required to complete the feasibility analysis would include:
   a. Determine anticipated "upon completion" values for each of the relevant uses/product types (e.g. residential apartments, town houses, residential lots, ancillary retail etc.), benchmarked against comparable developments in the surrounding area;
   b. Understand likely sales rates and general market acceptance, which will assist in overall project timing;
   c. Provide insight into other relevant developer considerations, such as target hurdle rates including developer profit margin and project internal rate of return (IRR), cost assumptions and financing and embed these within the model;
   d. Our feasibility will adopt market based assumptions in relation to other potential project costs including professional fees, contingencies, land holding costs etc. in addition to purchase and selling expenses.
   e. Based upon a total gross realisation, we would undertake hypothetical development feasibility analysis utilising the development feasibility software, Estate Master. The development feasibility model would outline project costs, timing, funding requirements and the likely project profit, thereby providing PNSW with pertinent information relating to the potential development scenarios.
   f. The residual land values analysed by way of development feasibility analysis will be cross checked against the scenario land values assessed by way of analysis of comparable development site sales evidence completed within the previous Phase.
4. Completion of case studies regarding other precincts that have been rezoned to higher densities.
5. Provide conclusions regarding the uplift likely to be achieved from the proposed FSR's and as such the optimal minimum FSR to achieve the relevant objectives.

6. Market Research.

6.1 Residential Dwelling Sales

We have identified numerous sales from 'outside' the Castle Hill North Planning Precinct to determine a typical sale price for standalone residential dwellings that do not offer any development upside. The properties selected are of varying ages and standard of finishes and range between 479 to 930sqm in land area, with the average area being roughly 700sqm.

Residential House Sales Evidence

Address	Sale Date	Sale Price	BRs / Baths	Land Area (sq.m.)	$ / p.s.m. Improved
5 English Avenue **Castle Hill**	*09/19	$1,156,000	3 / 1	708	$1,633
12 Ashmead Avenue **Castle Hill**	*09/19	$1,755,000	5 / 3	728	$2,411
19 Olola Avenue **Castle Hill**	*09/19	$1,360,700	3 / 2	702	$1,937
27 Chiltern Crescent **Castle Hill**	*08/19	$1,657,500	5 / 3	930	$1,783
50 Pentonville Parade **Castle Hill**	08/19	$1,335,000	4 / 2	479	$2,787
27 Beaumaris Avenue **Castle Hill**	07/19	$1,560,000	5 / 3	504	$3,095
10 Tathra Place **Castle Hill**	07/19	$1,315,000	3 / 1	714	$1,842
21 Longley Place **Castle Hill**	07/19	$1,160,000	3 / 2	477	$2,432
92 Yaringa Road **Castle Hill**	06/19	$1,910,000	4 / 3	700	$2,729

*Not yet settled.

For the purposes of our analysis we have adopted $1,500,000 as the typical value of a residential house in and around the Castle Hill North Planning Precinct.

6.2 Residential Project Profiles

We have identified four projects located within some 2 – 4 kilometres from the Castle Hill North Planning Precinct. They are considered to be somewhat representative of what we would anticipate being developed within the precinct and as such provide a guide to the gross realisations that might be achievable for new developments within the precinct. The projects analysed herein are of a medium – high standard and comprise between 100 and 400 apartments.

Having regard to the analysed projects and our knowledge of current/recent market activity we summarise prevailing pricing for new residential apartment within Castle Hill.

Off the Plan Apartment Sales

"Skyview", 51-53 Old Castle Hill Road, Castle Hill

Developer	**Toplace**
Architect	**Krikis Tayler Architects**
Status	**Under construction**
Estimated Completion	**Q4 2020**
Site Area	**14,797 sqm**
No. of bldgs.	**5**
No. of levels	**18 - 23**
No. of Units	**923**
Specification / Finish	**Above average**
Car Spaces (Ratio)	**1.25:1**

	Unit Mix		Int. Area (sq.m.)			Sale Price ($)			Value Rate p.s.m		
Unit Type	**No.**	**%**	**Min**	**Avg.**	**Max**	**Min**	**Avg.**	**Max**	**Min**	**Avg**	**Max**
1 Bedroom	202	22%	53	58.5	64	$607,000	$634,000	$661,000	$9,484	$10,838	$10,328
2 Bedroom	675	73%	75	81	87	$800,000	$870,000	$940,000	$10,667	$10,741	$10,805
3 Bedroom	46	5%	101	107	113	$1,147,000	$1,153,000	$1,160,000	$11,485	$10,776	$10,150
Overall	**923**	**100%**									

Sales Summary		
Sales Commenced	**Sales to Date**	**Proportion Sold**
Q3-2017	462 units	Approx. 50%

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"Oriel", 29-33 Dawes Avenue, Castle Hill

Developer	**CBD Core**
Architect	**LFA Pacific**
Status	**Require presale**
Estimated Completion	**Q1 2021**
Site Area	**4,191 sqm**
No. of bldgs.	**1**
No. of levels	**8**
No. of Units	**85**
Specification / Finish	**Medium to good**
Car Spaces (Ratio)	**0.8:1**

	Unit Mix		Int. Area (sq.m.)			Sale Price ($)			Value Rate p.s.m		
Unit Type	**No.**	**%**	**Min**	**Avg.**	**Max**	**Min**	**Avg.**	**Max**	**Min**	**Avg**	**Max**
1 Bedroom	12	10%	70	70	70	$645,000	$665,000	$685,000	$9,214	$9,500	$9,786
2 Bedroom	58	70%	78	88	98	$785,000	$802,500	$820,000	$10,064	$9,119	$8,367
3 Bedroom	15	20%	100	120	139	$985,000	$1,140,000	$1,295,000	$9,850	$9,500	$9,317
Overall	**85**	**100%**									

***Sales prices above are asking price only**

Sales Summary

Sales Commenced	Sales to Date	Proportion Sold
Q3-2019	0 units	0%

"Atmosphere Towers", 299-309 Old Northern Road, Castle Hill

Developer	**Toplace**
Architect	**Krikis Tayler Architects**
Completion	**2018**
Site Area	**sq.m.**
No. of Floors	**21**
No. of Units	**378**
Specification / Finish	**Medium to good**
Car Spaces (Ratio)	**:1**

Lot No.	Sale Date	Level	Int. Area (sq.m.)	Ext. Area (sq.m.)	Car Spaces	Sale Price	$ / p.s.m Int. Area
			1 Bedroom Units				
Lot 86	07/19	Bldg A – 2	64	8	1	$622,500	$9,727
Lot 7	09/18	Bldg A – 2	64	12	1	$625,000	$9,766
Lot 93		Bldg A – 3	56	18	1	$590,000	$10,536
			2 Bedroom Units				
Lot 63	07/19	Bldg A - 13	82	23	1	$805,000	$9,817
Lot 333	04/19	Bldg B – 9	90	20	1	$790,000	$8,778
Lot 206	10/18	Bldg B – 2	95	22	1	$800,000	$8,421
Lot 373	10/18	Bldg B – 17	95	20	1	$1,070,000	$11,263
Lot 184	09/18	Bldg A – 17	95	70	1	$975,000	$10,263
Lot 36	09/18	Bldg A – 8	89	12	1	$860,000	$9,663
Lot 43	09/18	Bldg A – 9	80	12	1	$845,000	$10,563
Lot 342	09/19	Bldg B – 10	78	15	1	$860,000	$11,026
Lot 158	08/18	Bldg A – 12	84	10	1	$980,000	$11,667
Lot 29	08/18	Bldg A – 6	90	22	1	$820,000	$9,111
Lot 3	07/18	Bldg A – 1	79	12	1	$800,000	$10,127
Lot 146	06/18	Bldg A – 11	81	25	1	$900,000	$11,111
Lot 133	05/18	Bldg A – 9	85	17	1	$900,000	$10,588
Lot 19	04/18	Bldg A – 4	91	22	1	$800,000	$8,791
Lot 357	04/18	Bldg B – 13	78	12	1	$910,000	$11,667
Lot 105	03/18	Bldg A – 5	88	16	1	$825,000	$9,375
Lot 317	02/18	Bldg B – 6	79	14	1	$890,000	$11,266
			3 Bedroom Units				
Lot 56	01/19	Bldg A – 12	124	51	2	$1,100,000	$8,871
Lot 193	07/18	Bldg A - 19	102	43	2	$1,275,000	$12,500

Comment

“Northpoint Rise”, 11-13 Garthowen Crescent, Castle Hill

Developer	**Tyrone Luxury Residences**
Architect	**Gelder Architect Group**
Completion	**2016**
Site Area	**4,834 sq.m.**
No. of Floors	**2-6**
No. of Units	**39**
Specification / Finish	**Medium to good**
Car Spaces (Ratio)	**2.5:1**

Lot No.	Sale Date	Level	Int. Area (sq.m.)	Ext. Area (sq.m.)	Car Spaces	Sale Price	$ / p.s.m Int. Area
2 Bedroom Units							
Lot 28	07/19	1	105	14	2	$765,000	$7,286
3 Bedroom Units							
Lot 16	02/19	2	118	11	2	$1,030,000	$8,729
Lot 23	12/18	3	105	17	2	$845,000	$8,048
Lot 2	06/18	3	120	55	2	$1,070,000	$8,917
Lot 24	05/18	4	228	158	4	$2,400,000	$10,526

Comment

Value Conclusion for Off the Plan Apartments

Having regard the characteristics of the precinct, in particular the “Skyview” and “Atmosphere Towers”, we are of the opinion it is reasonable to assume new residential projects within the Castle Hill North Planning Precinct could achieve in the order of $10,000 to $11,000 p.s.m of internal area (NSA) and for the purposes of out feasibility analysis we have adopted an average rate p.s.m. of $10,500 for our Gross Realisation.

6.3 Residential Development Site Sales

We have included a number of development site sales from within Castle Hill and surrounding suburbs which have been utilised to determine what a 'fair' price may be accepted for sites within the Castle Hill North precinct.

These sites can be cross referenced with the residual cashflow analysis that has been prepared in Section 6 of this report to assist in ascribing value to a hypothetical development site within the targeted Castle Hill North precinct study area. We have summarised the following sales:

125 - 127 Showground Road, 4 - 10 Carrington Road & 15A - 23 Sexton Avenue, Castle Hill

Sale Date	December 2018
Sale Price	$45,000,000
Land Area	9,634 sq.m.
Zoning	*R4 High Density Residential – under the Hills LEP 2012 & State Environmental Policy (Showground station precinct 2017)*
Maximum Height	40 m.
FSR	3.1:1 – Potential GFA 33,077 sq.m.
DA Approval	Potential for circa 308 units.
Land Value Rate	$4,671 p.s.m.
GFA Rate	$1,361 p.s.m.
P.U.S. Value Rate	$146,104 p.u.s.

Description

A residential development site that is an amalgamation of 12 properties which form a prominent corner position with street frontages to Carrington Road, Showground Road and Sexton Avenue. The site forms part of the Showground Station Precinct and is situated approximately 50 metres to the future Showground railway station.

Prior to the sale, the site was rezoned to High Density Residential and benefited from an increased FSR of 3.1:1. No concept schemes were prepared, although a dwelling yield of circa 308 units had been advised by the selling agent.

Details regarding the purchaser remain unknown.

19 - 23 Post Office Street, 2 - 8A Donald Street, 6 - 10 Tanderra Avenue & 10 Paul Place, Carlingford

Sale Date	October 2018
Sale Price	Circa $26,000,000
Land Area	7,843 sq.m.
Zoning	*R4 High Density Residential – under the Hills LEP 2012*
Maximum Height	21 m.
FSR	1.46:1 – Approved GFA 11,451 sq.m.
DA Approval	Approved for 120 units.
Land Value Rate	$3,315 p.s.m.
GFA Rate	$2,271 p.s.m.
P.U.S. Value Rate	$216,667 p.u.s.

Description

An irregular shaped residential development site subject to a slight cross fall from east to west. Existing improvements at the time of sale comprised 11 single and two storey houses.

The site benefits from four street frontages to Post Office Street, Donald Street, Tanderra Avenue and Paul Place and is located approximately 400 metres north from Carlingford railway station and approximately 500 metres south-west from Carlingford Court Shopping Centre.

The site sold with existing Development Consent for the demolition of the existing improvements and the construction of 3 x 5 storey residential flat buildings comprising 120 home units (7 x one bedroom, 100 x two bedroom and 13 x three bedroom) over 2 levels of basement car parking for 239 vehicles.

The site was sold free of GST as eligible residential premises to a local Chinese developer following an Expression of Interest campaign by Savills and Colliers International as a Mortgagee in Possession Sale with the benefit of 42 existing pre-sales totalling $32,472,500. Exact details of the sale remain confidential. Sale details are as advised but not yet confirmed.

11 - 13 Solent Circuit, Norwest

Sale Date	July 2018
Sale Price	$62,500,000
Land Area	12,000 sq.m.
Zoning	*B2 Local Centre & SP2 Infrastructure under Hills LEP*
Maximum Height	143.2 m.
FSR	2.55:1 – Approved GFA 30,649 sq.m.
DA Approval	Approved for 252 units + 14 retail suites & 36 commercial suites.
Land Value Rate	$5,208 p.s.m.
GFA Rate	$2,039 p.s.m.
P.U.S. Value Rate	$211,864 p.u.s.

Description

An irregular shaped mixed use development site subject to a slight cross fall from south to north. The site is located at the south eastern alignment of Solent Circuit and adjoins Norwest Lake at its north eastern boundary.

The subject site was acquired with the benefit of existing DA, Section 4.55 and Stage 1 CC Consents for the construction of 252 home units, 14 retail suites and 36 commercial suites. For the purposes of my analysis the 14 retail suites and 36 commercial suites have been treated as 43 equivalent units on an average residential unit value basis. The site was sold with pre-sales in place.

The site was acquired in an off market transaction through PRD Nationwide Norwest. The purchase price comprises a land component of $35,000,000 and a deed of assignment and novation of Development Management Agreement $27,500,000.

"The Island", 2 - 12 Sexton Avenue & 24 - 34 Fishburn Crescent, Castle Hill

Sale Date	June 2018
Sale Price	$60,850,000
Land Area	12,374 sq.m.
Zoning	*R4 High Density Residential – under the Hills LEP 2012 & State Environmental Policy (Showground station precinct 2017)*
Maximum Height	25 m.
Base FSR	1.9:1 (permissible base FSR).
Bonus FSR	2.7:1 (permissible bonus incentive)
DA Approval	Potential for circa 334 units.
Land Value Rate	$4,918 p.s.m.
GFA Rate	$1,821 p.s.m.
P.U.S. Value Rate	$206,972 p.u.s.

Description

An irregular shaped amalgamated residential development site subject to a slight cross fall from north to south. Existing improvements at the time of sale comprised 13 detached houses.

The site benefits from two street frontages to Sexton Avenue and Fishburn Crescent and is located approximately 350 metres south-east from the proposed Showground metro station as well as being approximately 2.2 kilometres west from Castle Towers Shopping Centre.

The site sold as a raw site without Development Consent or a Development Application lodged.

In order to achieve the bonus incentive FSR, the unit mix must not include more than 25% studio or one bedroom units, at least 20% must be three bedroom units, at least 40% of the two bedroom units must have a minimum internal area of 110m^2, at least 40% of the three bedroom units must have a minimum internal area of 135m^2 along with a requirement for one car space for each unit in addition to for every 5 units – 1 addition a car space must be provided.

With regard to the existing planning controls and assuming an 85% site efficiency and average unit size of 85m^2, we understand the site has potential for 294 units.

The site was sold following an Expressions of Interest campaign conducted by Knight Frank via a 2 year Put and Call Option Agreement. Sale details are advised but not yet confirmed.

The transactions summarised above are most appropriately analysed on a GFA rate and p.u.s. basis as a result of their varying development potential. The evidence on a GFA rate basis is generally within a range of between $1,361 p.s.m. and $2,271 p.s.m. and between $146,104 p.u.s. and $216,667 p.u.s. Variances within the sale range are attributable to the site's location, density controls, scale, development approval status and the potential view profiles for the product. Sales at the upper end of this range are sites typically in a premium location, transact with development approval, offer excellent view potential to most proposed apartments, are supported with existing holding income or offer additional favourable site attributes.

The prevailing value rates for development sites in Castle Hill and surrounding suburbs are summarised below:

Development Site Values		
Value Rates	**Lower End Range**	**Upper End Range**
Rate p.s.m. of GFA	$1,361	$2,271
Rate per unit site	$146,104	$216,667

6.4 Site Amalgamation Marketing Agents Feedback (Colliers and Savills)

In order to further confirm the viability of redevelopment at a range of development densities within the Castle Hill North Planning Precinct we have enquired with two experienced marketing agents that specialise in development site sales. The marketing agents we have spoken to in this regard are:

- Colliers International: Guillaume Volz (National Director | Head of Development Sites)
- Savills: Stuart Cox (Director | Residential Site Sales NSW)

Both marketing agents provided letter responses to our queries, a summary of which is provided below. The respective letters are annexed to this report.

Colliers International: Guillaume Volz (National Director | Head of Development Sites)

- Mr Volz indicated that in their experience a premium between 50% and 100% above current market value is required for home owners to sell their properties to a developer. It was also noted that Colliers have past experience where the uplift has needed to be greater than 100%.
- Further, it was advised that lower value homes in the $1,000,000 to $1,500,000 range require a larger premium than homes in the $2,000,000 + price bracket.
- A larger premium is required in order to amalgamate a greater number of properties.

Savills: Stuart Cox (Director | Residential Site Sales NSW)

- Landowners typically require a premium to market on average of at least 75%-100% of the market value of their property as an inducement to sell.
- The actual premium will vary depending on circumstances such as the underlying market value and the number of lots to be amalgamated.

Mr Cox noted several relevant transactions and the estimated uplift received for land owners, a summary of which is provided below.

Address	Description	Uplift Achieved
13-23 Gibbons Street, Redfern	Block of 32 existing apartments	90% premium to existing market value
9 Peach Tree Road, Macquarie Park	Block of 30 existing apartments	75% premium to existing market value
10-20 Neich Parade, Burwood	7 houses	100% premium to market value
93 Bridge Road, Westmead	31 villas	100% premium to market value
17-23 Esher Street, Burwood	4 houses	100% premium to market value

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7. Development Feasibility Analysis.

7.1 Introduction

We have completed feasibility analysis in relation to the three hypothetical development concept utilising Estate Master feasibility software 6.50.

Revenue assumptions have been assessed by way of analysis of the sales evidence summarised within this report, whilst the construction cost assumptions incorporated herein have been determined using previous experience and knowledge of previous projects to support this. Timeframe assumptions have been assessed based on our experience with respect to other comparable development projects.

The target project hurdle rates, being both development margin and project internal rate of return (IRR), for which the project related site values have been analysed, have been assessed having regard to the specific risk profile of the development project and with reference to our knowledge of market based developer required hurdle rates.

Our feasibility analysis has been prepared on a hypothetical development basis, whereby we have assumed a third party developer acquires the site and develops the relevant development concept.

7.2 Development Scenarios

The site area schedule is detailed below.

Development Scenarios			
Land Use	**Base Case FSR 1.54:1**	**Moderate FSR 2.25:1**	**Higher Density FSR 3:1**
Land Area	7,000	7,000	7,000
FSR	1.54:1	2.25:1	3:1
Potential GFA (sq.m.)	10,780	15,750	21,000
Assumed Efficiency (85%)	85%	85%	85%
Total NSA	9,163	13,388	17,850
NSA per Apt	85	85	85
Apartment Yield	108	158	210

Key Assumptions	Base Case FSR 1.54:1	Moderate FSR 2.25:1	Higher Density FSR 3:1
Sale and Settlement Period – Land Acquisition	10% - Upon Contract Balance – Month 2	10% - Upon Contract Balance – Month 2	10% - Upon Contract Balance – Month 2
Time Horizon			
Development Application, Approval	9	9	9
Time to achieve 50% presales	11	16	21
Construction Period	15	18	21
Total Project Timeframe	**37**	**43**	**56**
Key Cost and Assumptions			
Land Purchase Price	See "Project Related Site Value" in Section 6.3		
Stamp Duty	As per NSW SRO (note: subject to confirmation)		
Other Land Purchase Costs (Legals and Due Diligence)	0.13% of Land Purchase (for valuation and legals)		
Professional Fees	7% + GST of Construction Cost		
Development Management	1% + GST of Construction Cost		
Construction Costs (incl. Prelims and Margin) (excl. GST and Contingency)	$350,000 including demolition and construction of two basement levels		
Developer Contributions	Estimated at $17,500 per dwelling No value uplift allowance / additional VPA has been considered.		
Construction Contingency	5% of Construction Cost		
Marketing Costs	1% + GST of Gross Revenue		
Legals on Sale – Residential	$1,250 per unit + GST		
Agents Commission Residential	2.50% of Gross Revenue		
Finance & Hurdle Rates			
Senior Debt Interest	7.0% p.a.		
Approximate Equity Contribution	100% Debt Funded (Nil Equity)		
Target Hurdle Rates	Profit and Risk Margin - 18% | Internal Rate of Return (IRR) – 18 We have made an allowance for a lower IRR hurdle in the event that the profit margin is approximately 25% or above.		

7.3 Feasibility Outputs

The outputs of our feasibility analysis, including the project related site value and the indicative potential profit figure, are summarised within the table below:

Feasibility Summary	Base Case FSR 1.54:1	Moderate FSR 2.25:1	Higher Density FSR 3:1
Revenue			
Sales Revenue	$96,211,500	$140,574,000	$187,425,000
Less Selling Costs	($3,971,443)	($5,803,149)	($7,735,613)
Total Revenue Before GST Paid	$92,240,057	**$134,770,851**	**$179,689,388**
Less GST Paid	($8,746,500)	($12,779,455)	($17,038,636)
Total Revenue After GST Paid	**$83,493,557**	**$121,991,396**	**$162,650,751**
Costs			
Land Purchase Cost	$19,500,000	$24,600,000	$27,500,000
Acquisition Costs	$1,332,303	$1,696,315	$1,903,303
Construction (incl. Demolition, Internal Site Works, External Site Works and Contingency)	$40,540,500	$59,309,250	$78,828,750
Professional Fees	$3,529,681	$5,114,667	$6,737,859
Statutory Fees (incl. Section 94)	$2,012,850	$2,944,724	$3,913,875
Land Holding Costs	$617,500	$617,500	$902,500
Interest Expense - Inc Finance Charges	$7,024,233	$11,431,297	$17,555,071
Total Costs Before GST Reclaimed	$74,557,067	$105,713,754	$137,341,304
Less GST Reclaimed	($4,369,858)	($6,387,354)	($8,485,458)
Total Costs After GST Reclaimed	**$70,187,209**	**$99,326,400**	**$128,855,846**
Performance Indicators			
Net Development Profit	$13,306,348	$22,664,996	$33,794,905
Project IRR	18.12%	18.02%	17.04%
Development Margin (or Profit / Risk Margin)	17.94%	21.56%	24.74%
Sales Analysis			
Project Related Site Value (Rounded)	$19,500,000	$24,600,000	$27,500,000
Rate p.s.m. of GFA / Rate p.u.s.	$1,809	$1,562	$1,310
Price Per House – Rounded (assumes amalgamation of 10 residential lots 700 sq.m. per lot)	$1,950,000	$2,460,000	$2,750,000

We have analysed the project related site value - being the price a developer may potentially pay to acquire the development site, based upon each development option having regard to three scenarios - by way of feasibility analysis based upon a target Development Margin of 18% or above and a target Internal Rate of Return (IRR) in excess of 18%. We have made an allowance for a lower IRR hurdle in the event that the profit margin is approximately 25% or above.

8. Conclusions.

8.1 Value Conclusions

Our value conclusions regarding the value of residential houses in and around the Castle Hill North Planning Precinct and the value of typical development sites within the precinct at FSR's of 1.54:1, 2.25:1 and 3:1 are detailed below. We have not undertaken development feasibility analysis on the 100% uplift scenario but rather have extrapolated out the value rate p.s.m. assessed for the "Higher density" option to provide an indicative guide as to FSR requite red to generate a 100% uplift for residents.

Value Conclusions					
	Typical Residential House	Base Case FSR 1.54:1	Moderate FSR 2.25:1	Higher Density FSR 3:1	100% Uplift Estimate* FSR 3.27:1
Land Area	700 sq.m.	7,000 sq.m.	7,000 sq.m.	7,000 sq.m.	7,000 sq.m.
Assumed Improvements	4 bedroom dwelling	N/a.	N/a.	N/a.	N/a.
Development Potential – Apts	N/a.	108	158	210	229
Development Potential – GFA	N/a.	10,780 sq.m.	15,750 sq.m.	21,000 sq.m.	22,900 sq.m.
Assessed Value	**Adopted $1,500,000**	**$19,500,000**	**$24,600,000**	**$27,500,000**	**$30,000,000**
Rate p.s.m. of Land	$2,143 (Improved)	$2,786	$3,514	$3,929	$4,286
Rate p.s.m. of GFA	N/a.	$1,809	$1,562	$1,310	$1,310
Rate p.u.s.	N/a.	$180,556	$155,696	$130,952	$133,929

*We have not undertaken development feasibility analysis on the 100% uplift scenario but rather have extrapolated out the value rate p.s.m. assessed for the "Higher density" option to determine at what FSR a 100% uplift would be achieved.

We note that the values derived from our development feasibility analysis demonstrate rates p.s.m. of GFA ranging between $1,310 and $1,809 and rates p.u.s. ranging between $131,000 and $180,556. These value ranges are in line with the development site sales evidence contained herein and as such our assessments are considered to be in line with market parameters.

8.2 Potential Value Uplift Analysis

Our assessment of potentially value uplift at the adopted FSR's is detailed din the following table.

Development Scenarios				
	Base Case FSR 1.54:1	Moderate FSR 2.25:1	Higher Density FSR 3:1	100% Uplift Estimate** FSR 3.27:1
Assessed Land Value	$19,500,000	$24,600,000	$27,500,000	$30,000,000
Apportionment per Lot*	$1,950,000	$2,460,000	$2,750,000	$3,000,000
Average Value Per House	$1,500,000	$1,500,000	$1,500,000	$1,500,000
Uplift from House Value to Development Value	**30%**	**64%**	**83%**	**100%**
Viability	**Not viable**	**Moderately Viable**	**Viable**	**Viable**

*Assumes amalgamation of 10 houses with average land area of 700 sq.m.

** We have not undertaken development feasibility analysis on the 100% uplift scenario but rather have extrapolated out the value rate p.s.m. assessed for the "Higher density" option to determine at what FSR a 100% uplift would be achieved.

8.3 Comments and Conclusions

After investigation of the market and preparation of our development feasibility analysis we make the following key comments and conclusions.

- Our development feasibility analysis has concluded that a 2.25:1 FSR would generate value uplift in the order of 64% for residents within the Precinct, whilst and FSR of 3:1 and 3.27:1 would generate uplifts of 83% and 100% respectively.
- It is clear from the development feasibility analysis that there is a discount for magnitude and as the scale of the project increases the value of the development site per potential dwelling (p.u.s) and per sq.m. of GFA decreases which supports the requirement for greater density to ensure the optimal value uplift can be delivered.
- The development feasibility analysis we have undertaken is based on the current market prices/values, adopts an average house price and is not site specific.
  - Market fluctuations can significantly impact the value of the residential development sites. It is common for the value of development sites to have a greater percentage decline than the residential house and apartment market during periods of market softening due to a range of factors such as lower price for completed stock, longer selling periods, higher risk/return expectations from developers etc. If the development market was to deteriorate then the percentage uplift achievable for residents will decrease.
  - The average house price is only an indicative figure and we anticipate that many houses within the precinct will have higher values which will reduce the value uplift achievable for these properties.
- We have provided two case studies within this report that evidence the successful amalgamation of several homes in Castle Hill and St Leonards, these amalgamations resulted in value uplifts for residents of 150% and 106% respectively.
- We are of the opinion that value uplift in excess of 75% and ideally around/above 100% are important to encourage the successful and orderly redevelopment of a residential precinct. Specifically, uplift of this order ensures a greater portion of larger amalgamations which are considered critical to the success of the Precinct. We note the following key considerations:
  - It is important to encourage larger amalgamations. At higher FSR's residential apartment development is clearly highest and best use and as such it is not viable to develop smaller medium density (townhouses, semi-detached ect) projects.
  - Larger amalgamation reduce the risk of isolated properties;
  - Larger amalgamations reduce the number of smaller piecemeal developments that only amalgamate 2 to 4 dwellings.
  - Larger projects create superior urban design outcomes for the area such more attractive streetscapes (e.g. due to fewer driveways)
  - Larger projects provide superior amenity for residents (e.g. communal open spec such as gardens).
- We note that whilst our analysis has identified potential uplifts between 64% and 100% between FSR's of 2.25:1 and 3.27:1 respectively given the changing shape of the market, site specific characteristics and various other factors this percentage uplift can vary greatly from site to site and as such it important to provide as large a buffer as possible in order to avoid stalled development and inferior outcomes.

8.4 FSR Recommendations

After consideration of the analysis contained herein we are of the opinion that the FSR that should be applied to the precinct in order to encourage the orderly development should be in accordance with the following:

FSR Recommendation			
	Lower End Viability Range	Middle Viability Range	Higher Viability Range
FSR Requirement	2.25:1	3:1	3.27:1
Potential Value Uplift	64%	83%	100%

9. Statement of Limiting Conditions and Contact Details.

In terms of Charter's standard reporting practice, we advise as follows:

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