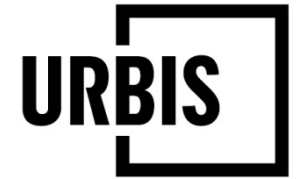


# **AFFORDABLE HOUSING FEASIBILITY STUDY**

**1 CRESCENT ST HOLROYD**

Prepared for Tiberius (Holroyd) Pty Ltd



31 MAY 2019

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# OVERVIEW

## PROJECT OVERVIEW

Urbis has been commissioned by Tiberius (Holroyd) Pty Ltd. (the proponent) to undertake an evaluation of the feasibility of various affordable housing contribution scenarios as part of their Gateway phase of their planning proposal submission to Sydney Central Planning Panel for 1 Crescent Street, Holroyd (subject site).

The proponent submitted a planning proposal for the rezoning of the Subject Site from B5 Business Development to four defined zones comprising R4 High Density Residential, B6 Enterprise Corridor (with permitted use of 'commercial premises'), RE1 Public Recreation, and SP2 Infrastructure. The proposal has been reviewed by a Planning Panel whose response is detailed in the Planning Panel Authority Record of Decision released 7 March 2019.

The proponent requires an independent assessment of the impacts of the Planning Panel requirement that affordable housing be provided in accordance with the *Cumberland Council's Interim Housing Policy* requirement of 15% or, alternatively, a minimum of 7% of new residential units on site be dedicated in perpetuity as affordable housing. The assessment will evaluate whether the requirement meets the Planning Panel Decision criteria of being "appropriate and financially viable." The feasibility of the applicant's preferred housing scheme will also be assessed.

## FINDINGS

- This report finds that the Cumberland Council Interim Housing Policy Requirement of 15% affordable housing in perpetuity and the Planning Panel Recommendation of 7% in perpetuity are **not viable**.
- The lost revenue from the contribution of affordable housing units in perpetuity deals a significant blow to net realisation value of the project, and thus the residual land value and overall feasibility.
- For the scenarios that have the same gross floor area (GFA), project costs are equal, meaning that the amount of capital at risk is the same, though the potential profit decreases as the percentage of affordable housing required increases.
- The significant contribution to investments that generate public benefits, including the public park, pedestrian bridge and sportsground improvements are also a large cost driver for the project.
- Uncertainty around the special infrastructure contribution is a limiting factor in this feasibility analysis. The addition of a special infrastructure contribution for the Greater Parramatta Growth Area would add significant cost and undermine feasibility in all four of the scenarios.

# CONTEXT + METHODOLOGY

## METHODOLOGY

- Urbis utilised a Residual Land Value modelling approach to test the four scenarios outlined in the table below
- The feasibility analysis utilises a version of the Affordable Housing Feasibility Tool that is currently under development with Urbis and the NSW Department of Planning & Environment as part of the SEPP 70 Policy development process. The tool is designed to assess the feasibility impacts of different affordable housing contribution requirements.
- RLV could be described as: “the price a rational developer would pay for a development site, based on the highest and best uses, assuming an average target rate for profit and risk.”
- Where the residual land value **exceeds** the base site value, a development is considered viable. If the RLV is **below** the site value, then the developer would simply sell the site instead of developing it.

## SITE OVERVIEW

- 1 Crescent Street, Holroyd is located in the suburb of Holroyd within the Cumberland Council Local Government Area. The site, formerly occupied by WesTrac is currently vacant.
- Improvements to the site comprise a 9,471 sqm industrial facility and 10,000 sqm of hardstand area.
- The site is located approximately 1.0 km from Granville Station, 1.7 km from Merrylands Station, 850 metres from Harris Park Station and 1.5 km from the Parramatta CBD.

## MARKET CONTEXT

- Overall, projected population growth in Western Sydney is expected to support strong housing demand in the long term.
- However, because of the current slowdown in the Sydney residential market, particularly in off-the-plan sales for new construction apartments, developers commencing projects face additional risk.
- In market slowdowns and for larger, more complex projects with longer timeframes, investors typically require higher profit and risk assumptions in order to account for the additional risk more uncertain market conditions.
- The feasibility modelling completed in this report is intentionally conservative because feasibility for long term projects (such as the development proposed at the subject site) must be viable through all stages of the market cycle.

SCENARIO	DESCRIPTION	CONTRIBUTION	TOTAL UNITS	AFFORDABLE UNITS
Scenario 1	Tiberius 2019 Proposed Affordable Housing Contribution	7% of residential floor space for 12 years	1,260	88
Scenario 2	Tiberius 2015/2016 Proposed Affordable Housing Contribution	10% of residential floor space for 12 years	1,900	190
Scenario 3	Cumberland Council Interim Affordable Housing Policy	15% of residential floor space in perpetuity	1,260	189
Scenario 4	Planning Panel Optional Recommendation	7% of residential floor space in perpetuity	1,260	88

# FEASIBILITY MODELLING - FINDINGS

## FEASIBILITY FINDINGS

### Key feasibility drivers

- Because the same gross floor area (GFA) is assumed across scenarios 1, 3, and 4, project costs are the same across those three scenarios. This means that the amount of capital at risk is the same, though the potential profit decreases as the percentage of affordable housing required increases.
- The major difference in feasibility across the scenarios is driven by revenue potential lost for the units dedicated in perpetuity to Council or a third party provider for affordable housing (Scenario 3 has net realisation value 14% percent lower than Scenario 1 and 43% lower than the proponent's 2015/2016 original affordable housing contribution offer).
- The significant contribution to investments that generate public benefits, including the public park, pedestrian bridge and sportsground improvements are also a large cost driver for the project.

### Scenario 1 - Viable

- Scenario 1, the proponent's proposed affordable housing contribution, is assessed to be viable with a residual land value of \$17 million, which is roughly equal to the estimated value of the site.
- Scenario 1 is just over the threshold for viability, which means that any unexpected costs or additional contributions (such as a special infrastructure contribution) that exceed the contingency for the project could undermine feasibility.
- Scenario 1 yields 88 units of affordable housing for 12 years.

### Scenario 2 - Viable

- The proponents 2015/2016 proposed offer of 1900 units with a 10% affordable housing contribution for 12 years was viable with a residual land value of \$39.9 million.
- Additional density on site drives overall project value and helps support higher level of affordable housing delivery.
- Scenario 2 yields 190 units of affordable housing for 12 years.

### Scenario 3 – Not viable

- A scenario in which 15% of residential floor space is dedicated to Council in perpetuity to operate as affordable housing is deemed unviable based on project costs that exceed project revenue and yield a residual land value of negative \$50.3M.
- Even if no investments that generate public benefits were made and full relief was provided from local infrastructure contribution requirements, the project would still not be viable.
- Scenario 3 yields 189 units of affordable housing in perpetuity.

### Scenario 4 – Not viable

- A scenario in which 7% of residential floor space is dedicated to Council to operate as affordable housing in perpetuity is deemed unviable based on project costs that exceed project revenue and yield a residual land value of negative \$11.5M.
- Even if no costs were incurred towards public benefits and full relief was provided from local infrastructure contribution requirements, the project would still not be viable.
- Scenario 4 yields 88 units of affordable housing in perpetuity.

## OTHER CONSIDERATIONS

### Operational Issues

- Affordable housing contributed directly to Council in perpetuity could pose challenges around operation of affordable housing and tenancy management.
- The proponent would prefer to maintain control of the units and liaise directly with a registered community housing provider for the most effective building management and the ability to create innovative ways to a secure housing alternatives for low to moderate income households who cannot afford private market rents.
- Liaising directly with a CHP would also incorporate the proponent's desire to include within the affordable housing a proportion of returned service men and women, who through disability, mental health or other disadvantages are not capable of affording rental property within the private rental market.

### Tenure Concerns

- If the proponent decided to develop any of the proposed residential units according to a build to rent model (retain ownership of all units and rent them out), the typical ownerships structure would be for the building to remain on a single title.
- In order to dedicate units in perpetuity to Council to be operated as affordable housing, then the proponent would need to strata title a portion of the development.
- This type of arrangement could lead to issues in building management and also in decision making around renewal and site redevelopment in the long term.

# FEASIBILITY MODELLING - FINDINGS

		SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4
		PROPOSED 2019 CONTRIBUTION	PROPOSED 2015/2016 CONTRIBUTION	CUMBERLAND COUNCIL AH POLICY	PLANNING PANEL OPTIONAL RECOMMENDATION
Affordable Housing contribution		7% for 12 years	10% for 12 years	15% in perpetuity	7% in perpetuity
Market rate units		1,172	1,710	1,071	1,172
Affordable units		88	190	189	88
Total units		1,260	1,900	1,260	1,260
<b>REVENUE</b>		<b>ASSUMPTIONS</b>			
Gross realisation value (sales revenue) for market units	\$6,850 per sq.m GFA	\$647,615,653	\$945,228,157	\$591,906,779	\$647,615,653
Gross realisation value - affordable units	\$5,823 per sq.m GFA	\$41,433,475	\$89,271,548	0	0
Less selling expenses and GST	10% GST & 4% Commission	-\$90,202,795	-\$135,425,416	-\$77,485,978	-\$84,778,776
Net realisation value		\$598,846,332	\$899,074,289	\$514,420,801	\$562,836,876
Profit and risk	25%	-\$119,769,266	-\$179,814,858	-\$102,884,160	-\$112,567,375
Net realisation after profit & risk		\$479,077,066	\$719,259,432	\$411,536,641	\$450,269,501
<b>DEVELOPMENT COSTS</b>					
Construction cost	\$3,255 per sq.m GFA	-\$330,938,189	-\$499,121,915	-\$330,938,189	-\$330,938,189
Site preparation & infrastructure	\$75 per site sq.m	-\$2,842,800	-\$2,842,800	-\$2,842,800	-\$2,842,800
Remediation costs	\$150 per site sq.m	-\$5,685,600	-\$5,685,600	-\$5,685,600	-\$5,685,600
Public benefit (pedestrian bridge, public park, sportsground improvements)		-\$17,925,976	-\$17,925,976	-\$17,925,976	-\$17,925,976
Professional fees	10% of constr. Cost	-\$35,739,257	-\$52,557,629	-\$35,739,257	-\$35,739,257
Contingency	10% of hard & soft costs	-\$39,313,182	-\$57,813,392	-\$39,313,182	-\$39,313,182
Statutory fees	Local infra \$7,274 per dwelling + Land Tax	-\$9,488,976	-\$14,145,574	-\$9,488,976	-\$9,488,976
Financing costs	6% interest	-\$19,887,029	-\$29,254,180	-\$19,887,029	-\$19,887,029
Residual land value		\$17,256,056	\$39,912,365	-\$50,284,369	-\$11,551,509
<b>OUTCOME</b>		<b>VIALE</b>	<b>VIALE</b>	<b>NOT VIALE</b>	<b>NOT VIALE</b>

# FEASIBILITY MODELLING - ASSUMPTIONS

## CONSTRUCTION COSTS

- **Site Preparation Costs and Construction Costs:** High level construction costs were estimated based on industry standard cost indices adjusted for proposed level of quality and building typology.
- Residential construction costs are estimated at \$3,255 per square metre, including parking and landscaping.
- **Remediation costs:** Remediation costs of heavy industrial sites such as the subject site are often difficult to estimate before any excavation begins. It is challenging to understand the level of contamination before breaking ground and costs can often escalate as a project advances. In the absence of a QS report estimating remediation costs, our analysis assumes a basic benchmark of \$150 per site sq.m.

## COSTS OF PUBLIC BENEFITS

The costs for investments generating public benefits include high level estimates for:

- A pedestrian bridge across Woodville Road to provide safe access to Granville Station
- A major public open space with kids playground, water play area and large contiguous green space, including 7,714 sq.m to be dedicated to Cumberland Council as parkland
- Contribution to Holroyd Sportsground upgrades
- Rehabilitation of A'Becketts Creek which runs along the northern boundary of the site.

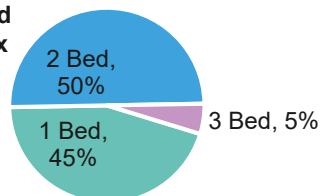
## REVENUE

- Revenue assumptions were based on market research of comparable properties in the local area, within 1.5km of the subject site, either in presales, under construction or recently completed.
- Because the subject site is located further from train stations than comparable projects adjacent to Granville or Merrylands Stations, sales at the subject site are expected to transact at a 10% discount to station-adjacent offerings.
- **Value of affordable housing units (Scenario 1 & 2 only):** We have designated a discounted 2019 value for the affordable housing units based on sales comparables from projects that have a mix of affordable and market rate units. Though the affordable units will not be sold in the this case, the sales comparable value is representative of the value to the proponent given 12 years of discounted rents, future sale value, etc.

## AVERAGE COMPARABLE UNIT PRICE

Unit Type	Avg. Price	Price per Sq.m	Price / sq.m GFA
1 Bed	\$491,813	\$9,458	\$7,566
2 Bed	\$626,063	\$8,348	\$6,678
3 Bed	\$747,000	\$6,496	\$5,196

**Adopted Unit Mix**



## STATUTORY FEES

- **Local Infrastructure Contribution:** Local infrastructure contribution was assumed at an average of \$7,274 per dwelling based on the proposed unit mix.
- **Special Infrastructure Contribution (SIC):** While the subject site falls within the Greater Parramatta Growth Area, it is not currently subject to a special infrastructure contribution, but a SIC framework is currently being prepared for the area.
- Uncertainty around the special infrastructure contribution is a limiting factor in this feasibility analysis. The proposed SIC in the Northwest Growth Area is over \$15,000 per dwelling. A similar SIC for Greater Parramatta would add ~\$20M in project cost and undermine feasibility on all four of the scenarios.

## BASE LAND VALUE

- The base land value of the site was determined using data from comparable industrial land sales within the Sydney Metropolitan area that transacted in the last 24 months, as shown below.
- Base land value was assumed to be \$450 per sq.m, or \$17M

Address	Sale Price	Site Area	Price / sq.m
2133-2149 Castlereagh Rd, Penrith	\$21M	69,920	\$300
65 Dunheved Circuit, St Marys	\$6.6M	40,500	\$163
12-18 Dunn Rd, Smeaton Grange	\$8.5M	13,500	\$630

# GLOSSARY

TERM	DEFINITION
Base Development Value	For this model, base development value is defined as the residual land value of the site if it were developed according to its existing zoning and DCP controls.
Community Housing Provider (CHP)	Registered Community Housing Providers (CHP) are generally not-for-profit organisations managed by a Board of Directors. They manage the properties that they own and also manage other properties that are owned by the government, or that are rented from private landlords with government funding. They may also manage properties for various entities on a fee for service basis.
Floor Space Ratio (FSR)	The floor space ratio is the ratio of the gross floor area of a development to the site area expressed as a factor of 1. That is, the total Gross Floor Area on all levels of the building minus any exclusions provided for in the definition of gross floor area, divided by the site area.
Gross Floor Area (GFA)	<p>Gross floor area means the sum of the floor area of each floor of the building measured from the internal face of external walls, or from the internal face of walls separating the building from any other building, measured at a height of 1.4 metres above the floor, and includes:</p> <ul style="list-style-type: none"> <li>(a) The area of a mezzanine, and</li> <li>(b) The habitable rooms in a basement or an attic, and</li> <li>(c) Any shop, auditorium, cinema, and the like, in a basement or attic</li> </ul> <p>but excludes:</p> <ul style="list-style-type: none"> <li>(d) Any area for common vertical circulation, such as lifts and stairs, and</li> <li>(e) Any basement (storage, and vehicular access, loading areas, garbage and services, and Plant rooms, lift towers and other areas used exclusively for mechanical services or ducting, and</li> <li>(g) Car parking to meet any requirements of the consent authority (including access to that car parking), and</li> <li>(h) Any space used for the unloading or loading of goods (including access to it), and</li> <li>(i) Terraces and balconies with outer walls less than 1.4 metres high, and</li> <li>(j) Voids above a floor at the level of a storey or a storeys above.</li> </ul>
Gross Realisation Value	Gross Realisation Value refers to the end value of a project (Revenue), calculated by summing the full market value or purchase price of the various elements of a completed project (e.g. the sum of the sale prices of all units within an apartment building, inclusive of GST).
Net Realisation Value	For this model, net realisation value is defined as the gross realisation value less the sales agent commissions, other direct selling costs such as conveyancing legal fees and GST.
Residual Land Value (RLV)	Residual land value is the value of the land that remains after any and all deductions associated with the cost of developing, maintaining or reselling the land and an allowance for a developer profit are deducted from the Net Realisation Value.
Local Infrastructure Contributions	Section 94 of the Environmental Planning and Assessment Act 1979 (EP&AAAct), enables local councils or other consent authorities to levy monetary contributions for public amenities required as a consequence of development.
Unit Mix	The proportion of different unit types within a given apartment building (e.g. the number of apartments by type, such as 1 bedroom, 2 bedroom and 3 bedroom apartments, etc.)



