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# ST LEONARDS AND CROWS NEST PLANNED PRECINCT

SIC FEASIBILITY TESTING

DEPARTMENT OF PLANNING AND ENVIRONMENT

APRIL 2018

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## DOCUMENT CONTROL

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Document Name: St Leonards Crows Nest CtP Final  
Last Saved: 12/10/2018 12:18 PM

Version	Date	Reviewed	Approved
Draft	27/04/2018	JV, EC	EC
Revised Draft	12/07/2018	JV, EC	EC
Revised Draft v2	18/07/2018	JV, EC	EC
Final	08/10/2018	JV, EC	EC

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# EXECUTIVE SUMMARY

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## BACKGROUND

The NSW State Government has announced application of a Special Infrastructure Contribution (SIC) to assist in funding state and regional infrastructure. The SIC will apply to Priority Growth Areas (PGAs) and Planned Precincts (PPs).

The Special Infrastructure Contribution envisages a contribution rate applied to residential building work and/or residential subdivision, imposed as a condition of development consent.

The SIC which is applicable in each PGA and PP is to be separately determined based on:

- Infrastructure requirements and costs determined in collaboration with various agencies.
- Analysis of the precincts' growth patterns.
- Timing of infrastructure delivery.
- Development feasibility.

Depending on the cost of required infrastructure and developments' capacity to pay, developers will be required to contribute to the cost of providing state and regional infrastructure.

AEC Group (AEC) is engaged by Department of Planning and Environment (DPE) to carry out a development feasibility analysis to understand the capacity of new development to pay a SIC in the St Leonards and Crows Nest Planned Precinct (referred to as 'the Precinct' or 'Study Area').

## PURPOSE & APPROACH

DPE recognises that in considering if and how a SIC could be implemented within the Study Area, the assembly of an evidence base is necessary. This is firstly to understand the circumstances under which development could occur, and secondly the extent to which a SIC could be imposed without undermining development feasibility.

The objective of the Study is to address the following with respect to the Study Area:

- Understand the extent of changes to the planning framework and development typologies likely to occur.
- Test how much can feasibly be levied on new development based on planning controls being considered.
- Aggregate the findings to identify if there is a generic contribution rate/s that could apply in the Study Area and the observations that should influence the rate/s.
- Investigate the tolerance range for a generic contributions rate where development is still feasible.
- Identify matters for consideration when implementing SIC rates to fund State and regional infrastructure.

The Study Area is expansive, straddling three local government areas (Willoughby, North Sydney and Lane Cove) across the suburbs of St Leonards, Greenwich, Naremburn, Wollstonecraft, Crows Nest and Artarmon.

Property and development markets are nuanced, subject to different demand drivers and market characteristics. In this context, it is not the objective of the Study to explore each of the respective markets at a fine grain level. The Study adopts an approach that profiles various markets and sub-markets, making observations that are then aggregated across markets and sub-markets that are comparable.

Not all current planning controls in the Study Area are envisaged to change, with the magnitude of change also differing across character areas. As application of the SIC is on an inclusionary basis ('included' or mandated) on the total number of dwellings proposed in the draft 2036 Plan, the impact to development feasibility will invariably be different. Sites which benefit from a greater increase to density will have a greater tolerance to a proposed SIC.

The Study is not intended to assess the feasibility of the planning controls being investigated in the first instance, rather to test the capacity of development to tolerate a SIC.

The Study additionally identifies key matters for consideration and makes recommendations for implementation of SIC rates on development in the Study Area.

### TOLERANCE OF DEVELOPMENT TO SIC

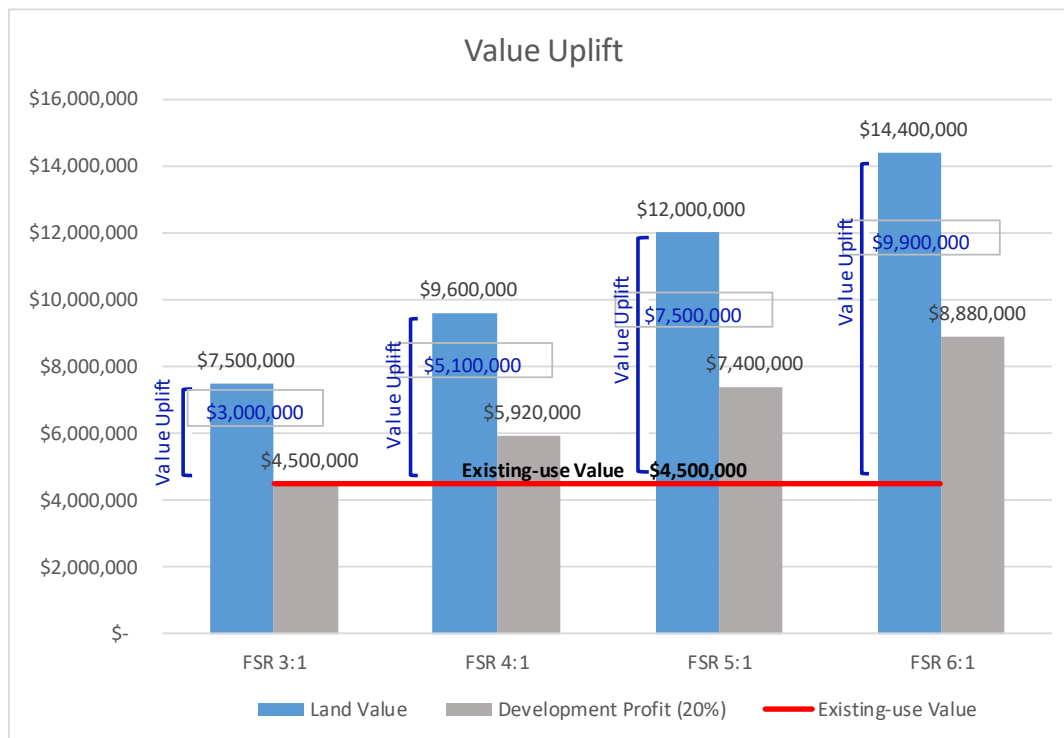
Land values are intrinsically linked to their permitted and existing use, whichever is the higher. A change in land use zone and/or change in permitted density often leads to a financial benefit, also termed “Value Uplift” or “Land Value Uplift”. It is through a capture of some of the value uplift that development can afford to contribute to SIC rates. The Retained Value Uplift (i.e. the portion that is not captured for contribution) is available for retention by the landowner or developer, whichever the case may be.

A key metric for development feasibility (i.e. developments’ tolerance to imposition of a SIC) is measured by Value Retained. Value Retained is comprised of Existing-use Value (i.e. the ‘as is’ improved property values before the rezoning/upzoning including a premium) and Retained Value Uplift (i.e. the portion of value uplift not captured for SIC contribution).

The Value Retained is the amount that a developer can afford to pay for the site and is ultimately subject to negotiations with a landowner. In some cases the developer may already be the landowner.

Figure ES.1 illustrates the premise of the testing using a hypothetical example. With an existing-use value of \$4.5m, change in FSR controls to FSR 3:1 to FSR 6:1 delivers a value uplift of between \$3m and \$9.9m. The change in FSR controls also results in commensurate increase in profit to a developer, reflective of a larger development.

**Figure ES.1: Conceptual Diagram of Value Uplift v Existing Use Value**

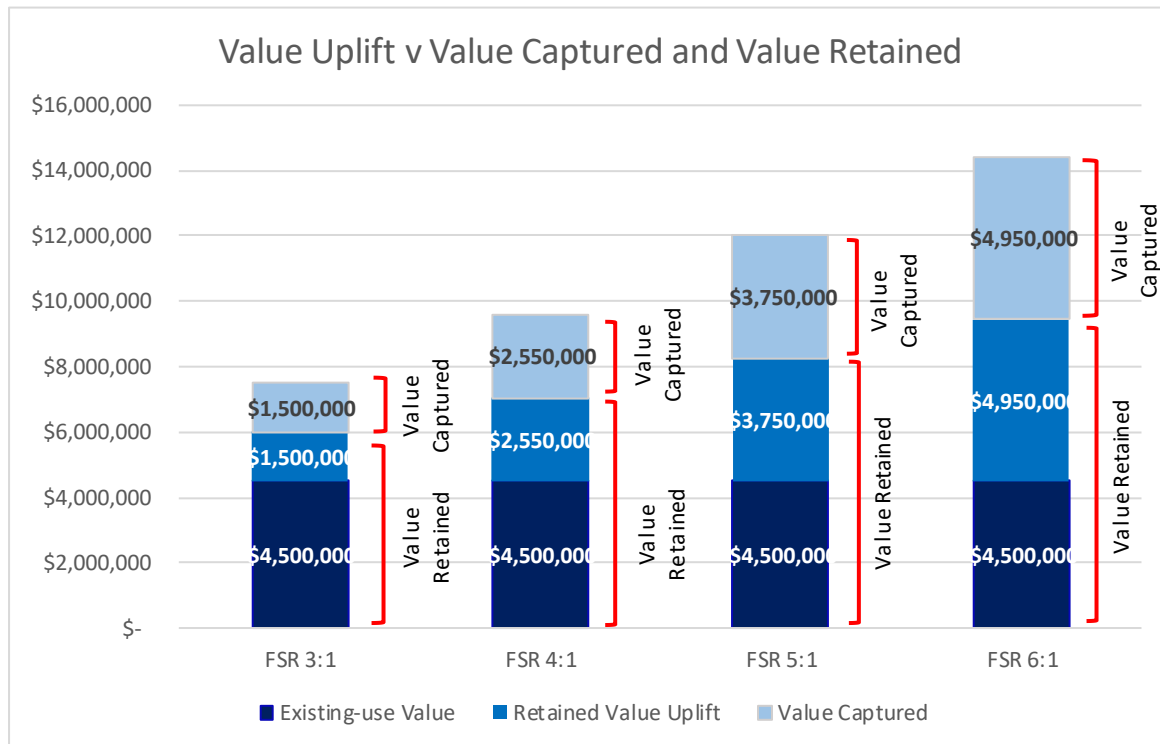


Source: AEC

The analysis has been structured to consider a SIC that captures 50% of Value Uplift. This leaves capacity for some of the upside to be retained by a developer/landowner or to cater for changes in development costs. The remainder of the Value Uplift is the Retained Value Uplift and when added to the Existing-use Value forms the Value Retained.

Figure ES.2 illustrates conceptually the uplift that is captured (‘Value Captured’ or ‘Planning Gain’) for a SIC. This amount can be appropriated entirely to a SIC or to a combination of forms of public benefit, e.g. affordable housing, works-in-kind and other contributions that may be delivered through a planning agreement.

Figure ES.2: Conceptual Diagram of Value Uplift, Value Captured and Value Retained



Source: AEC

Table ES.1 illustrates the aggregated results of feasibility testing which appropriates the Value Captured to a SIC. The testing has allowed for s7.11 contributions at \$20,000 per dwelling.

Table ES.1: Generic Development Tolerance to SIC\*

Zone	Proposed Planning Controls		SIC on Overall Dwellings	
	Res. FSR	Non-Res. FSR	GFA	Unit
<b>St Leonards Centre and Crows Nest Station</b>				
B4	2:1	5:1	\$250-\$270	\$21,000-\$23,000
B4	3:1	1:1	No capacity to pay	
B4	5:1	1:1	\$640-\$660	\$55,000-\$57,000
B4	3.5:1	3:1	No capacity to pay	
B4	10:1	6:1	\$440-\$460	\$38,000-\$40,000
<b>Crows Nest Village</b>				
B4	2:1	2:1	\$20-\$75	\$1,750-\$2,250
B4	1:1	2:1	No capacity to pay	
<b>St Leonards South</b>				
R4	2.75:1- 4:1	-	No capacity to pay	

Source: AEC

\*The testing does not allow for a SIC credit for existing use. It is not possible to predict every situation under which a development could occur. In some cases the SIC credit may be more significant, in other cases the credit may be more modest. Given the testing does not include receipt of a SIC credit, the tolerance of development to a SIC will be greater than that represented above.

Sample scenarios were selected in each character area to ascertain if development under planning controls being considered can tolerate imposition of a SIC, and if so, the quantum of contributions tolerated. The following observations can be drawn from the feasibility testing results detailed in Table ES.1.

- St Leonards Centre and Crows Nest Station**

Development tolerance to a SIC ranges from nil to \$57,000 per dwelling. The upper end of the range is achieved on sites where a high quantum of residential density is proposed, which results in substantial Value Uplift and thus greater tolerance to a SIC. High 'as is' values make it challenging for modest development

densities to be feasible to develop, much less contribute to a SIC. This is particularly observed where fine grain lot patterns are observed (resulting in high site consolidation costs) and/or where existing improvements are highly valuable (investment grade office buildings, high-rise hotels, modern mixed-use buildings). Along with modest proposed uplifts in residential densities, redevelopment in these instances is challenged.

- **Crows Nest Village**

Feasibility modelling indicates there is a modest tolerance to a SIC ranging from nil to \$2,250 per dwelling. Site consolidation along the Crows Nest Village is particularly costly given the fine grain nature of lot patterns and high value commercial buildings. Additionally, the residential densities proposed are relatively low (FSR 1:1 to 2:1). This has the cumulative effect of resulting in only modest tolerance to a SIC.

- **St Leonards South**

Market evidence indicates that majority of sites in St Leonards South character area were purchased at prices reflective of proposed planning controls (St Leonards planning proposal) prior to announcement of a proposed SIC. Accordingly, any result Value Uplift is subsumed, resulting in little capacity to pay a SIC.

It is noted not all current planning controls are envisaged to change, with the nature of change also differing across the Study Area. As application of the SIC is on an inclusionary basis ('included' or mandated) on the total number of dwellings proposed in the draft 2036 Plan, the impact to development feasibility will invariably be different. Sites which benefit from a greater increase in residential density will have a greater tolerance to a proposed SIC.

Table ES.1 illustrates that SIC rates vary across the Study Area according to the uses that currently exist and new planning controls that are under consideration. Those sites with the capacity to contribute vary from just under \$2,000 to nearly \$60,000 per dwelling. Rather than selecting an average or a mid-point, the capacity of development to pay is examined by considering the SIC rate range most representative of sites able to tolerate to a SIC, i.e. occurrences within a bell curve. Using this approach, a SIC range of \$21,000-\$23,000 per dwelling results.

Many sites that do not have the capacity to contribute a SIC may not be feasible to develop in the first instance, whether due to valuable buildings that exist or difficult/expensive site consolidation. In these instances imposition of a SIC will be moot to the issue of development.

Sensitivity analysis is undertaken to assess the impact of including an affordable housing contribution. Modelling results indicate that when a 5% affordable housing contribution is introduced, the tolerance of development to a SIC is negatively affected.

## RECOMMENDATIONS

This Study makes the following key recommendations:

- **Coordination with Other Contributions Regimes**

The capacity of an upzoned development site to contribute to public benefit is finite. The analysis assumes s7.11 contributions *before* applying a 50% target capture of Value Uplift to approximate the quantum of additional SIC that could potentially be made if a site was rezoned or upzoned.

While the testing shows the magnitude of the capacity of development to contribute to a SIC, the form of contribution could equally be for affordable housing, works-in-kind and other items of public benefit.

The imposition of contributions seeking to leverage value capture opportunities needs to be implemented holistically, cognisant of the different competing infrastructure priorities and different contribution requirements.

- **Clear and Adequate Notice to Market**

Clear and adequate notice to the market of the contribution rates and their timing for implementation will allow their consideration in due diligence calculations. Exhibition of the draft SIC will allow the market to provide feedback and comment before implementation.

- **Delivery in-kind**

Delivery of infrastructure (in-kind) by developers has economies of scale when progressed with the main development and also helps overcome resource and delivery limitations of agencies (where appropriate). If a



development site has sufficient scale that it has the capacity to deliver some of the infrastructure contemplated, it may be more efficient for that development to either contribute wholly or partially in-kind.

- **Indexation and Regular Review**

Following full implementation, it will be prudent to review and monitor market response and housing delivery. Given objective of SICs to fund infrastructure, indexation to the Producers Price Index would ensure that contributions are aligned to change in the cost of infrastructure over time. However, to ensure the SICs remain within development tolerance, it would be prudent to regularly review the capacity of development to pay with reference to market and development activity, as well as the overall contributions liability.

This Study acknowledges the benefits of simplicity in applying generic SIC rates, however we highlight the difficulty in adopting a single generic contribution rate across areas. Notwithstanding the nuances of markets and sub-markets, the application of generic contribution rates provides certainty to the market, allowing developers and investors to give due consideration to their contributions liability when negotiating to acquire sites.

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## GLOSSARY OF TERMS

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'As Is' Value	Refer to Existing-use Value
Capacity to Pay	The capacity of a development site to contribute to a SIC and remain feasible to develop
Development Profit	Total revenue less total cost including interest paid and received, or the spread between cost to develop and value on completion
Existing-use Value	The value of a site in its existing use, also referred to as 'as-is' value (i.e. before a rezoning/upzoning). This could be higher or lower than its value as a development site.
FHB	First home buyer
Inclusionary Zoning	Contributions that are 'included' or mandated for specified development.
Land Value Uplift	This refers to the value 'created' as a result of a change to planning controls. It is the difference between the value of a site before and after a rezoning/upzoning.
Market Value	The value of a site in its existing use or the value of a site as a development opportunity (as permitted by existing planning controls), whichever is the higher.
Planning Gain	A percentage share/capture of Value Uplift which is appropriated for public benefit (e.g. affordable housing, regional infrastructure, etc.). Planning Gain and "Capture of Value Uplift" are used interchangeably.
Priority Growth Area	Specific growth areas as defined by Department of Planning and Environment
Planned Precinct	Specific growth precincts as defined by Department of Planning and Environment
Residual Land Value	The maximum price a developer would be prepared to pay for a site in exchange for the opportunity to develop the site, whilst achieving target hurdle rates for profit and project return. This represents the site value after a rezoning/upzoning of the site.
Retained Land Value	The Retained Land Value is comprised of the Retained Value Uplift <i>and</i> the Existing-use Value. The Retained Land Value is available for the purposes of negotiations between landowner and developer.
Retained Value Uplift	This refers to the portion of the Land Value Uplift that remains after a portion is captured for contribution.
SIC	Special Infrastructure Contribution
Study Area/The Precinct	St Leonards and Crows Nest Planned Precinct
Value Capture	A sharing/capture of land value uplift as a development contribution to be appropriated to public benefit.
Value Uplift	This can refer to the increased value of an asset due to improved transport services (e.g. new train line or new motorway access) or enhanced development potential. In the context of the Study, Value Uplift refers to Land Value Uplift following a rezoning or upzoning of a site.
Value Retained	Refer to Retained Land Value

# 1. INTRODUCTION

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## 1.1 BACKGROUND

The NSW State Government has announced a Special Infrastructure Contribution (SIC) to assist in funding state and regional infrastructure. The SIC will only apply to Priority Growth Areas (PGAs) and Planned Precincts (PPs).

The Special Infrastructure Contribution envisages a contribution rate applied to residential building work and/or residential subdivision, imposed as a condition of development consent. A SIC is not required to be made in a number of circumstances, including, *inter alia*:

- Where a SIC or contribution under a planning agreement has already been made.
- New residential building work will not result in an increase in the number of dwellings on the land.
- Development for public housing, seniors housing or affordable housing carried out by or on behalf of a social housing provider.

The SIC which is applicable in each PGA and PP is to be separately determined based on:

- Infrastructure requirements and costs determined in collaboration with various agencies.
- Analysis of the precincts' growth patterns.
- Timing of infrastructure delivery.
- Development feasibility.

Depending on the cost of required infrastructure and developments' capacity to pay as a result of changes in planning controls, developers will be required to contribute to the cost of providing state and regional infrastructure upgrades, implemented through SIC rates.

AEC Group (AEC) is engaged by Department of Planning and Environment (DPE) to carry out a development feasibility analysis to understand the capacity of new development to pay a SIC in the St Leonards and Crows Nest Planned Precinct (referred to as 'the Precinct' or 'Study Area' interchangeably).

## 1.2 PURPOSE AND APPROACH

The objectives of the Study with respect the Study Area are to:

- Understand the extent of changes to the planning framework and development typologies likely to occur.
- Test how much can feasibly be levied on new development based on planning controls under consideration.
- Aggregate the findings to identify if there is a generic contribution rate/s that could apply in the Study Area and the observations that should influence the rate/s.
- Investigate the tolerance range for a generic contributions rate/s where development is still feasible.
- Identify matters for consideration when implementing SIC rates to fund regional infrastructure.

In order to meet the requirements of the brief, AEC carried out the following tasks:

- Review of precinct planning and draft St Leonards and Crows Nest Plan for 2036.
- Investigated development tolerance and capacity to contribute a SIC.
  - Property market appraisal and profiling of the property market in the Study Area to understand market and development activity, as well as purchaser preferences and requirements.
  - Generic feasibility testing to examine tolerance bands of development to contribute a SIC.
- Aggregated the modelling results to identify a tolerance range for a SIC where development is still feasible.
- Made recommendations on appropriate SIC ranges and matters to consider for implementation.

We note the purpose of the Study is not to assess the feasibility of planning controls under consideration in the first instance, rather to test the capacity of development to tolerate a SIC.

### 1.3 STRUCTURE OF THE STUDY

The overarching objectives of the Study is a clear understanding of the tolerance of development, or developments' capacity to pay a SIC in the Study Area. The Study Area traverses the suburbs of St Leonards, Greenwich, Naremburn, Wollstonecraft, Crows Nest and Artarmon.

The Study is structured in the following chapters:

Chapter 2 describes the context of the Study Area, current planning framework, precinct planning and outcomes of the draft St Leonards and Crows Nest Plan for 2036. The chapter also carries out a property market appraisal to understand the nature of market and development activity in the Study Area.

Chapter 3 investigates the capacity of development in the Study Area to contribute a SIC.

Chapter 4 makes recommendations and identifies key matters for consideration for implementing a SIC in the Study Area.

### 1.4 ASSUMPTIONS AND LIMITATIONS

AEC relied on the following information received in consultation with DPE:

- Precinct planning documents, land use and implementation strategies/plans.
- Built form analysis converting maximum building heights into approximate FSR controls where no FSR control is provided within the local environment plan (by SJB Urban).

#### **Aggregated Approach**

The Study Area is expansive, traversing multiple suburbs across the Willoughby, North Sydney and Lane Cove LGAs. Property and development markets are nuanced, subject to different demand drivers and market characteristics. In this context, it is not the objective of the Study to explore every sub-market at a fine grain level. Accordingly, this Study adopts an approach that profiles respective markets and sub-markets, making observations that are then aggregated across markets and sub-markets that are comparable.

It is not the intention or objective of the Study to establish if development under existing planning controls is in the first instance feasible, or to predict landowner objectives. Rather, it is the intention of the Study to examine the 'incremental' value uplift that could potentially result following an upzoning of land (increase in FSR) or rezoning.

For example, if a site currently designated with FSR 0.6:1 is upzoned to FSR 2:1, the value uplift resulting from the rezoning may not necessarily be associated with the FSR 1.4:1 increase if development at FSR 0.6:1 is not feasible to undertake in the first instance.

Notwithstanding, precinct planning in PGAs and PPs is generally subject to feasibility testing by DPE (Urban Feasibility Model, UFM) to ensure proposed changes to planning controls are reflective of commercial realities. Deliverability of a precinct plan and the delivery of infrastructure from a SIC is ultimately a long term proposition, redevelopment and renewal not expected to occur immediately but over a period of time.

#### **Generic Feasibility Testing**

AEC acknowledges a number of limitations associated with generic feasibility analysis undertaken in Chapter 3.

- Generic development options are formulated for feasibility testing based on permissible and proposed FSRs. This is useful for the purposes of considering the financial feasibility of development options and corresponding impacts when a SIC is included. Development schemes tested however are notional only, and have not been capacity, urban design or engineering tested.
- Desktop appraisal of 'as is' property values (or existing-use values) without the benefit of internal inspections.

- Generic feasibility testing does not consider nuances of a site (for example where the cost of lead-in infrastructure works may be more expensive, or indeed lower) typically considered in detailed feasibility analysis where the outcomes of technical investigations and cost information are available.

As a consequence of application of generic assumptions and modelling, exceptions to the modelling results are inevitable. The intent would be to, approximate the feasibility of the majority of sites for development. There will invariably be sites that are not feasible to develop owing to valuable and functional existing buildings. These sites may not be feasible for redevelopment, with or without the imposition of a SIC. Conversely, some sites may realise a greater uplift to planning controls and therefore have a greater capacity to pay a SIC than what is found.

Despite the limitations of generic feasibility analysis, the analysis is considered to be instructive in understanding the impacts of SIC rates in the Study Area and its sub-markets in aggregate.

### **Contributions other than the SIC**

The Study examines the potential for development in the Study Area to contribute a SIC where a rezoning or upzoning occurs. The Study however recognises that there are other infrastructure funding requirements that could equally require development contributions (e.g. affordable housing, VPA items of community infrastructure, etc.).

Local councils will be responsible for preparing development contribution plans and affordable housing strategies that will each quantify the amount of s7.11 contributions and affordable housing contributions required. Existing s7.11 contributions range from \$8,000 to \$24,000 per dwelling (Lane Cove LGA) to \$13,000 to \$22,000 per dwelling (North Sydney LGA). Development in Willoughby LGA is subject to s7.12 contributions of 1% of development cost.

The Study acknowledges that s7.11 contributions were 'uncapped' in 2017 when the Environmental Planning and Assessment (Local Infrastructure Contributions) Direction 2012 was amended. While the amendment removed the cap for s7.11 contributions, there is still the requirement for contributions to be calculated in accordance with IPART (Independent Pricing and Regulatory Tribunal) reviewed contributions plan. Should there be any substantial increase to s7.11 contributions beyond current levels, an IPART review will be necessary, conceivably allowing for any revision to be captured within periodic review of SIC rates. For the purposes of feasibility modelling the Study assumes an average s7.11 contribution of \$20,000 per dwelling.

Depending on the cumulative monetary requirement from contributions to SIC rates, affordable housing, VPA items of infrastructure, etc. concurrently required, developments' tolerance and capacity to pay has the potential to be impacted.

Sensitivity testing has been included to assess the impact of a 5% affordable housing contribution based on additional dwellings that result from a rezoning/upzoning. This approach assumes only 95% of additional residential yield is available for sale; the remaining 5% to be contributed as affordable housing. This is effectively an 'in-kind' contribution.



## 2. ST LEONARDS AND CROWS NEST PLANNED PRECINCT

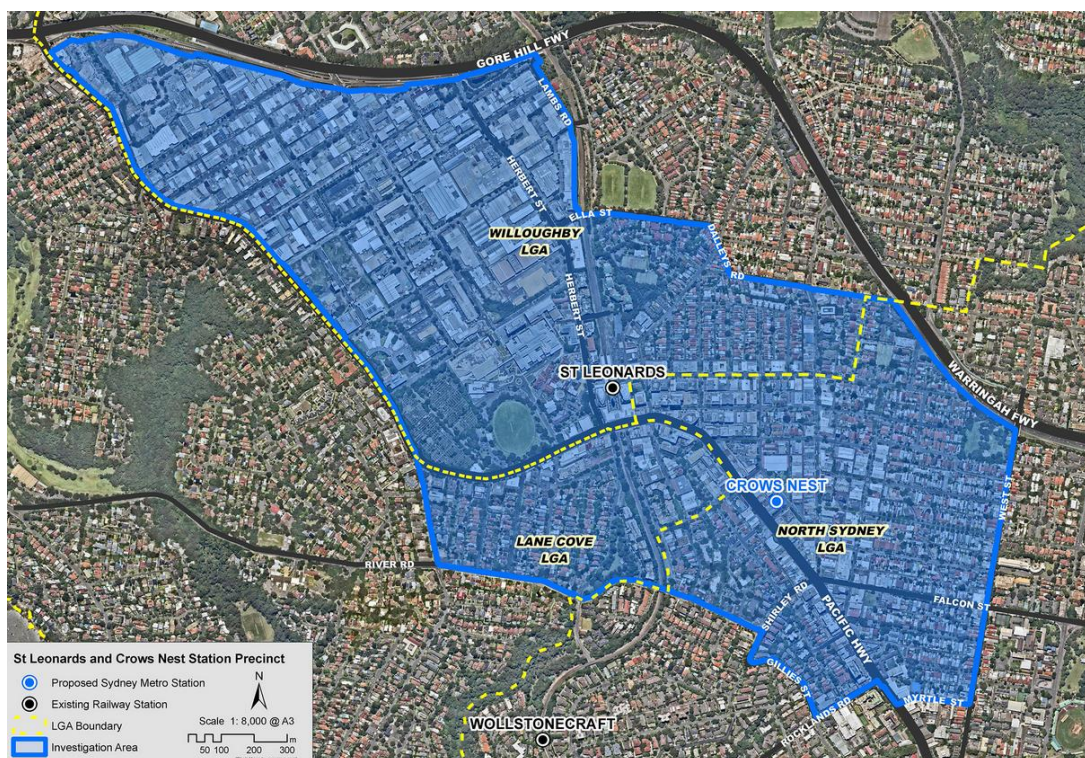
### 2.1 LOCATION AND OVERVIEW

The St Leonards and Crows Nest Planned Precinct is located approximately 5km north-west of the Sydney CBD and traverses the suburbs of St Leonards, Greenwich, Naremburn, Wollstonecraft, Crows Nest and Artarmon. The Precinct is generally bounded by the Gore Hill Freeway in the north, the Pacific Highway and River Road in the west, River Road and Gillies Street in the south and West Street in the east.

The Precinct comprises a range of existing land uses with a diverse range of built form. Anchored by the St Leonards train station and Royal North Shore Hospital and incorporating both the St Leonards and Crows Nest centres, the Precinct is a major commercial precinct and residential area on Sydney's North Shore.

St Leonards is identified as a Strategic Centre within the North District Plan with Royal North Shore Hospital precinct envisaged to evolve into a future health and education super precinct.

Figure 2.1: The Study Area



Source: DPE

Owing to the range of land uses comprised within the Study Area, existing built form varies significantly.

- A mix of industrial buildings and warehouses, homeware centres, large format retail showrooms and medical facilities are observed north of the Royal North Shore Hospital within Artarmon.
- Low-density housing is observed mostly along the Precinct boundaries within the suburbs of Wollstonecraft, Crows Nest, Greenwich and Naremburn.
- The Royal North Shore Hospital and TAFE NSW are centrally located within the Precinct.
- High rise office towers, residential flat buildings and retail showrooms traverse the Precinct along the Pacific Highway and along Chandos Street and Atchison Street.
- Retail uses are clustered around St Leonards train station and along Willoughby Road.

The next section examines future land uses contemplated including key objectives of precinct planning.

## 2.2 ST LEONARDS AND CROWS NEST PLAN FOR 2036 (DRAFT)

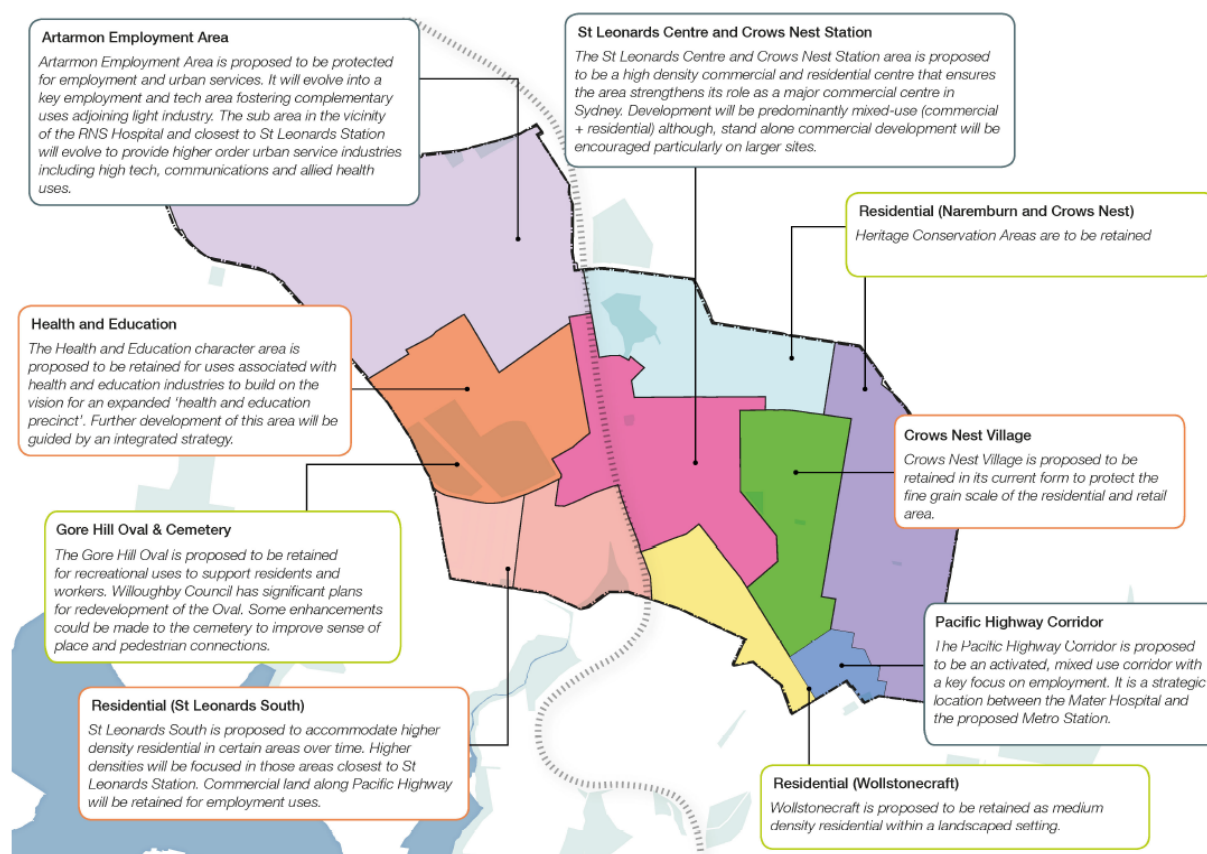
The draft St Leonards and Crows Nest Plan 2036 (the draft 2036 Plan) sets the strategic vision, objectives and guiding principles for future land use and development in the Study Area.

The vision of the draft 2036 Plan is for the St Leonards and Crows Nest area to be a major centre for workers, residents, students and visitors, offering a variety of homes, jobs and activities for the diverse local population. This vision is further centred around a number of key themes as sourced from the draft 2036 Plan:

- **Place**
  - *A vibrant community* - New development around the Crows Nest Metro station will provide energy and life along the Pacific Highway and St Leonards. The existing vibrancy and liveliness of the Crows Nest Village and Willoughby Road will provide a foundation for the revitalisation of the St Leonards Core.
  - *A place that protects its past* - Heritage Conservation Areas are to be retained and celebrated as an important connection to the past.
- **Movement**
  - *An accessible place* – An attractive and easy place to walk, cycle and move through, with improved local and regional connections.
- **Built Form**
  - *A well-designed place* - New buildings that model the highest quality design, respecting and enhancing the existing local character of the area.
- **Land use**
  - *An employment hub* - Providing 16,500 additional jobs over the next 20 years to support a growing and evolving economy, with opportunities for employment in the industrial, professional, creative, retail and health and education sectors.
  - *A home for people of all ages* – A greater mix of homes will be available to the diverse range of people that live in the area.
- **Landscape**
  - *A greener place* – Parks and public green spaces will provide areas for locals to be active, creative, and enjoy green leafy spaces throughout the area, away from built up areas in St Leonards.

An Urban Design Study (SJB, 2018) of the Study Area was completed as part of the suite of technical investigations undertaken to inform the draft 2036 Plan. The Urban Design Study identifies nine distinct 'Character Areas' based on existing land uses and employment. Key opportunities and considerations for future land use within each Character Area are identified in Figure 2.2.

Figure 2.2: Character Areas, St Leonards and Crows Nest 2036 Urban Design Study



Source: SJB (2018)

The following broad objectives and considerations are outlined for each respective Character Area within the Urban Design Study include:

- Retain and protect the **Artarmon Employment Area** for employment and urban services. The area will transition into a key employment and technology hub with area closest to the Royal North Shore Hospital to evolve to provide higher order urban service industries including high tech, communications and allied health.
- Support the transition of the North Shore Hospital Precinct into a **health and education precinct**. Further development of this area will be guided by an integrated strategy.
- Retain and upgrade the **Gore Hill Oval and Cemetery**.
- Support an activated, high density mixed use **Pacific Highway Corridor** with a key focus on employment.
- Progress the transition of the **St Leonards South** precinct into a high-density residential area with increased densities proximate to the new Metro station.
- Retain the **Wollstonecraft** precinct as a low and medium density residential area.
- Facilitate the development of the **St Leonards Centre and Crows Nest Station area** as a high-density commercial and residential centre. Development will be predominantly mixed-use with stand alone commercial development to be encouraged on larger sites.
- Retain the fine grain scale of the **Crows Nest Village** in its current form.
- Retain low-density residential areas in **Crows Nest and Naremburn** and protect Heritage Conservation Areas.



## 2.3 EXISTING AND FUTURE PLANNING CONTROLS

### Existing Planning Controls

The Precinct traverses three local government areas, namely Willoughby, Lane Cove and North Sydney. Accordingly, planning controls within the precinct vary according to the applicable local environment plan. Existing land use zones accommodate a variety of uses, including employment, residential, infrastructure and recreational uses.

Existing planning controls, namely building densities (Floor Space Ratios) and maximum building heights are detailed below in Table 2.1. In the case of the North Sydney Local Environment Plan 2013 which does not provide a building density control, urban design testing has been undertaken (SJB) to convert existing building heights into an approximate equivalent FSR control.

**Table 2.1: Existing Planning Controls**

Character Area	LEP	Zone	FSR <sup>#</sup>	Building Height	Description
Artarmon Employment	WLEP	IN1, IN2	1:1	N/A	Industrial, commercial and showroom buildings
		B7	1:1	20m	
Health and Education	WLEP	SP2	N/A	N/A	Hospital and health-related facilities
Gore Hill Oval & Cemetery	WLEP	SP1	N/A	N/A	Cemetery
		RE1	N/A	N/A	Public open space
Pacific Highway Corridor	NSLEP	B4	2:1 to 3:1	10m-16m	Retail strip, showroom, mixed-use
		SP2	N/A	8.5m	Education buildings
St Leonards South	LCLEP	B3	1.2:1 to 3:1	25m	Commercial office buildings
		R2*	0.5:1 to 0.6:1*	9.5m*	Low density housing
		R4	0.8:1 to 2:1	12m-21m	Medium density apartments
Residential (Wollstonecraft)	NSLEP	R3	1:1	8.5m	Medium density apartments
		R4	1.35:1	8.5m-30m	
St Leonards Centre and Crows Nest Station	LCLEP NSLEP WLEP	B3	2:1 to 17.1:1	15m-190m	Commercial buildings, office towers
		B4	2:1 to 18.6:1	10m-227m	Retail strip, showroom, mixed-use
		R3	1:1 to 1.5:1	8.5m-12m	Medium density apartments
		R4	3:1 to 3.3:1	34m-98m	High density apartments
Crows Nest Village	NSLEP	B3	3:1	10m-19m	Medium density apartments
		B4	2:1 to 2.5:1	10m-16m	Retail strip, showroom, mixed-use
		R2	0.65:1	8.5m	Low density housing
		R4	2:1	16m	Medium density apartments
Residential (Naremburn and Crows Nest)	NSLEP	B4	1:1 to 2:1	10m	Retail strip, showroom, mixed-use
		R2	0.65:1	8.5m	Low density housing
		R3	1:1	8.5m	Medium density apartments
		R4	1.35:1	12m	Medium density apartments

<sup>#</sup>Density (FSR) controls for properties within the North Sydney LGA have been approximated from building heights by SJB Urban

\*Does not reflect the proposed controls in the *St Leonards South Planning Proposal*

Source: LCLEP (2009)/NSLEP (2013)/SJB/WLEP (2012)

### Future Land Use

A suite of changes to the existing planning framework is being investigated, specifically relating to land use zone, built form and density controls (FSR). The extent of change varies across the Study Area in line the specific vision for each Character Area.

Table 2.2 identifies the planning controls currently under investigation across the Study Area. Character Areas which are not subject to a proposed change in planning controls are not included below.

**Table 2.2: Planning Controls (Existing and Proposed)**

Character Area	Existing Controls		Proposed Controls		Nature of Proposed Change
	Zone	FSR	Zone	FSR	
Crows Nest Village	B4	2:1 to 3:1	B4	3:1 to 4:1	Increase in densities within select areas of the existing B4 zone
Residential (St Leonards South)	R2	0.5:1 to 0.6:1	R4*	2.75:1 to 4:1*	Change of zone from R2 to R4, increase in density to align with St Leonards South Planning Proposal
St Leonards Centre and Crows Nest Station	B3	2:1-17.1:1	B4	7:1-16:1	Change in land use zone from B3 to B4; increase in density in some areas
	B3	3:1	B3	8:1	Increase in density
	B4	2:1 to 7.1:1	B4	3:1 to 12:1	Increase in density within existing B4 zone

\*Reflects the controls proposed within St Leonards South Planning Proposal  
Source: DPE/LCLEP (2009)/NSLEP (2013)/SJB/WLEP (2012)

The majority of changes in planning controls is envisaged within the St Leonards Centre and Crows Nest Station and Crows Nest Village character areas. Changes proposed in St Leonards South broadly align with those previously proposed in the St Leonards South planning proposal. Minimal changes to planning controls are considered within the other Character Areas.

Minimum non-residential floorspace are proposed within the Pacific Highway Corridor and St Leonards Centre to ensure inclusion of employment floorspace within any new development under the proposed controls.

The next section considers the market context in which the Study Area operates.

## 2.4 MARKET OVERVIEW

This section provides an overview of current market dynamics within the Study Area, including existing use values, off-the-plan residential sales, the current development pipeline and site sales activity.

### 2.4.1 Existing Use Values

Existing-use values (or 'as is' values) across the Study Area vary reflective of their land use. Albeit a recently softening of market conditions, 'as is' values across the Study Area are distinctly high with both residential and commercial property experiencing significant price increases over the past 18-24 months.

The existing uses (and existing buildings) of property across the Study Area are important to note for the purposes of feasibility modelling. These values underpin the price a developer will have to pay to assemble a development site. In order to economically acquire and develop land, the proposed use must translate into a higher value than the existing use.

Residential housing across the Study Area is typically older style housing (Victorian and Federation) on small lots (sub-450sqm). The suburbs of Crows Nest, St Leonards, Naremburn and Wollstonecraft are highly desirable residential markets and command high residential values. A desktop review of recent sales activity across these markets indicates low-density dwellings are achieving sales rates circa \$7,000/sqm to \$8,500/sqm of site area.

Very few sales of commercial buildings zoned B3 Commercial Core within the St Leonards CBD have been observed in recent times with local agents observing landowners delaying any divestment pending completion of precinct planning. Strong sale prices have been observed for a number of commercial buildings, largely owing to the number of investment grade office buildings located within the B3 zone. For instance, 72 Christie Street sold for \$76 million in December 2016, equating to \$27,000/sqm of improved site area. Local agents note many recent sales of B3 buildings have been purchased speculatively on the basis for potential changes to planning controls. Review of sales activity indicates that B3 commercial sites can range from \$20,000/sqm to \$30,000/sqm of overall site area however this is highly dependent on age of improvements, site area and quality of existing tenancies.

Sites for sale in the B4 Mixed Use zones across the Precinct have received strong interest over the past 12-24 months with a flurry of developer activity securing sites following announcement of the Study Area as a Planned Precinct. Sale prices are typically reflective of development site sale values, ranging from \$8,000/sqm to \$20,000/sqm of site area.

Where changes to planning controls pre-date the precinct planning in the Study Area have been known to the market, market activity and landowner expectations are observed to have shifted dramatically.

The St Leonards South Masterplan has been progressed by Lane Cove Council since late 2014 and pre-dates the announcement of the Study Area as a Planned Precinct. Market values for low-density dwellings in the Masterplan area increased significantly over this period as developers purchased sites predicated on anticipated development upside foreshadowed in the proposed Masterplan planning controls.

#### 2.4.2 Off-the-Plan Sales Activity

The St Leonards and Crows Nest market has performed remarkably well over the past 12-18 months notwithstanding a softening of market conditions across metropolitan Sydney. Informal discussions with selling and marketing agents suggest demand for new apartment product remains robust and relatively evenly spread amongst owner occupiers and investors; the former increasing as a proportion of total buyers over the past 6-9 months. Interest from Chinese investors remains albeit on a much lower scale compared to that witnessed over 2014-15.

Owner occupier purchasers are overwhelmingly young professional couples and/or newly established families owing to the respective price points of the St Leonards market. Downsizers comprise an albeit smaller yet important segment of the market, with anecdotal evidence from sales and marketing agents indicating many such buyers are relocating from the upper and lower North Shore and paying high prices for penthouse style product. First home buyers (FHBs) have found it difficult to compete with the established owner occupier and investor market given even 1 bedroom apartments are typically priced from >\$700,000.

Table 2.3 illustrates sales rates achieved for major developments within the Study Area over the past 12-18 months, analysed on a dollar per square metre of internal area basis.

**Table 2.3: Off-the-Plan Sales, Study Area**

Address	Unit Mix		Internal Area (sqm)	Sale Price		
	No.	Type		Low	High	Analysis (\$/sqm)
Urbain Residences 41-49 Atchison St Crows Nest	17	1BR	51	\$900,000	\$950,000	\$17,500-\$18,500
	17	2BR	79-87	\$1,300,000	\$1,500,000	\$16,500-\$17,200
	2	3BR	104	\$1,800,000	\$2,000,000	\$17,300-\$19,200
Embassy Residences 15-25 Marshall Avenue St Leonards	0	Studio	-	-	-	-
	27	1BR	50-63	\$710,000	\$900,000	\$16,000-\$17,000
	33	2BR	73-89	\$1,300,000	\$1,500,000	\$16,000-\$17,000
	6	3BR	110	\$1,600,000	\$1,900,000	\$15,000-\$16,500
The Davenport 563-565 Pacific Highway St Leonards	3	Studio	41	\$500,000	\$550,000	\$12,200-\$13,400
	6	1BR	52	\$800,000	\$900,000	\$15,400-\$17,300
	8	2BR	70-78	\$1,000,000	\$1,300,000	\$14,300-\$16,600
Embassy Tower 1-13 Marshall Avenue St Leonards	21	Studio	40-42	\$625,000	\$700,000	\$15,600-\$16,600
	98	1BR	52-57	\$800,000	\$1,100,000	\$17,000-\$19,000
	113	2BR	73-107	\$1,285,000	\$2,200,000	\$17,000-\$19,000
	37	3BR	102-155	\$1,695,000	\$3,600,000	\$16,600-\$23,000
St Leonards Square 472-486 Pacific Highway St Leonards	41	Studio	40-47	\$650,000	\$675,000	\$14,400-\$16,000
	108	1BR	50-78	\$740,000	\$980,000	\$12,600-\$14,800
	324	2BR	92-102	\$1,305,000	\$1,975,000	\$14,200-\$19,400
	66	3BR	127	-	\$2,535,000	\$20,000

Source: AEC/Cordell Connect/CoreLogic RP Data

Take-up rates for new apartment product within the St Leonards and Crows Nest market have been swift in recent years with many projects subject to extraordinary market responses where large numbers of sales were secured on the initial day of marketing, e.g. 88 Christie secured 70% of Stage 1 pre-sales (125 apartments) on initial release in Q2 2018 and Embassy Tower secured over 150 sales on first day of Stage 1 release in August 2016.

Local agents note that the general downturn in take-up rates observed throughout many other sub-markets across metropolitan Sydney has yet to materialise on a large scale on the North Shore market with strong demand remaining from both owner occupiers and investors alike. For instance, a smaller project (36 units) at 41-49 Atchison Road known as 'Urbain Residences' was released to market in February 2018 and is over 95% sold, equating to 5-6 sales per week. Buyers have overwhelmingly been owner occupiers (>80%), many relocating and upgrading from their existing residences in the North Shore or Eastern Suburbs.

The following section examines current development activity observed within the Precinct.

## 2.5 DEVELOPMENT ACTIVITY

A flurry of development activity has been observed with strong interest observed from local and Chinese-based developers. The Crows Nest and St Leonards residential markets remain amongst the strongest on the North Shore with local agents noting the proposed Metro Station at Crows Nest further fuelling speculative developer interest.

Development currently progressed are predominately residential towers ranging from 10 to 15 storeys however much larger developments along Pacific Highway such as the 44 storey residential tower at 500-520 Pacific Highway are observed in light of the strong sale prices achieved for high-rise product within the market. Owing to high 'as is' values, no low-density or medium-density development is observed to be progressed in the Study Area.

The next sections review the development pipeline, unit mix and site sales activity observed within the Study Area.

### Development Pipeline

The Study Area is poised to deliver just under 4,000 dwellings over the next 3-5 years, assuming all projects eventuate into delivery. High-density development dominates the residential pipeline with no new low-density or medium-density housing observed in the development pipeline.

Table 2.4 identifies the quantum and type of development currently proposed within the Study Area.

**Table 2.4: Development Pipeline**

Sub-Market	Dwellings	Development Typology		
		Low-density	Medium-density	High-density
Crows Nest	637	-	-	637
Greenwich	-	-	-	-
Naremburn	165	-	-	165
St Leonards	3,125	-	-	3,125
Wollstonecraft	6	-	-	6
<b>Total</b>	<b>3,933</b>	-	-	<b>3,933</b>

Source: Cordell Connect

New residential development in the Study Area is primarily observed in St Leonards, followed by Crows Nest and Naremburn. Little new development is currently proposed in Wollstonecraft whilst there is currently no new residential development proposed in Greenwich.

### Unit Mix

Review of the development pipeline indicates developers strongly favour positioning a unit mix towards two bedroom units, often incorporating more than 50% of the total unit mix as two bedroom product. Studio apartments are also prominent in the Crows Nest and St Leonards market, while three bedroom apartments comprise a small component of total unit mix.

Despite comprising a small proportion, larger three and four bedroom 'penthouse style' product is expected to increase given strong end sale values achieved in recent times and growing downsizer buyer cohort.

Table 2.5 identifies the proposed unit mix for the major developments being progressed throughout the Study Area.

**Table 2.5: Unit Mix, Study Area**

Address	Units	Unit Mix							
		Studio		1 Bed		2 Bed		3 Bed	
		No.	%	No.	%	No.	%	No.	%
472-486 Pacific Highway, St Leonards	539	41	8%	108	20%	324	60%	66	12%
496-498, 500 & 504-520 Pacific Hwy, St Leonards	458	122	27%	45	10%	199	43%	84	18%
1-13 Marshall Avenue, St Leonards	269	21	8%	98	36%	111	41%	37	14%
6-16 Atchison Street, St Leonards	173	30	17%	64	37%	66	38%	13	8%
101-111 Willoughby Rd & Zig Zag Ln Crows Nest	67	3	4%	19	28%	41	61%	4	6%
8-14 Northcote St, Naremburn	64	0	0%	48	75%	14	25%	0	0%
139-147 West St, Crows Nest	54	13	24%	23	43%	15	28%	3	6%

Source: Cordell Connect

### Development Site Sales

Numerous residential development sites have transacted in St Leonards over 2016-2017, particularly along Pacific Highway and within the St Leonards South Precinct as developers vie to capitalise on the proposed Crows Nest Metro Station and the proposed amendments to the LCLEP 2009 via Lane Cove Council's planning proposal. Chinese developers have shown a strong interest in the North Shore area over this period.

A number of dwellings within the St Leonards South Precinct have been acquired and consolidated by developers, with landowners selling lots in one-line to developers to achieve higher sale prices. Elsewhere, developers are observed to be targeting aged commercial buildings within the B4 zone, particularly along Pacific Highway. Prices paid for development sites fall within a relatively tight range of \$3,500/sqm GFA to \$4,000/sqm potential GFA.

Table 2.6 analyses recent development site sale activity within the Study Area to understand current market pricing for development opportunities.

Table 2.6: Development Site Sales, Study Area

Address	Site Area	Sale Price (Sale Date)	Analysis	Comments
563-565 Pacific Hwy St Leonards	285sqm	\$6,500,000 (Mar 2018)	<ul style="list-style-type: none"> <li>\$22,807/sqm site area</li> <li>\$2,250/sqm GFA</li> <li>\$344,500/unit equiv.</li> </ul>	Development site sold with DA approval for construction of an 8 storey mixed use development comprising ground floor commercial space (285sqm) and 17 apartments on the upper levels. Sold to a local builder developer following an EOI campaign. Highly constrained site which resulted in relatively low sale price.
8-22 Berry Rd 13-21 Holdsworth Ave St Leonards	6,666sqm	\$78,499,700 (Oct 2017)	<ul style="list-style-type: none"> <li>\$11,776/sqm site area</li> <li>\$4,000/sqm GFA (base FSR)</li> <li>\$3,600/sqm GFA (max FSR)</li> </ul>	A total of 13 single storey houses sold in one-line to a private developer. Located within St Leonards South Precinct with proposed base FSR 2:1. Falls entirely within Special Area 16 and 17 and partly within Area 15, 18 and 19. The minimum site requirements for Special Areas 16 and 17 are achieved unlocking additional FSR (Area 16: FSR 3:1; Area 17: FSR 3.8:1). The remaining lots do not meet the respective site requirements to unlock FSR above the base FSR 2:1. If calculated on the maximum FSR permitted for all lots (despite site requirements for Area 15, 18 and 19 not being met), the sale price equates to \$3,600/sqm GFA. If the base FSR 2:1 is applied to these Areas however, the sale price analyses to \$4,000/sqm GFA.
88 Christie 82-90 Christie St, 71-79 Lithgow St, 558-564 Pacific Hwy St Leonards	4,566sqm	\$295,000,000 (July 2017)	<ul style="list-style-type: none"> <li>\$64,608/sqm site area</li> <li>\$4,148/sqm GFA</li> <li>\$310,000/unit equiv.</li> </ul>	Development site originally purchased by Dyldam in June 2016 for \$120m following 2 years of negotiation with Council and subsequently received rezoning approval for a mixed-use development with 777 apartments and large retail/commercial component. Sale price was likely agreed with landowners at much earlier date. Site was advertised for sale following Planning Proposal approval and was acquired by Chinese-backed JQZ in July 2017 for \$295m, indicative of a 145% increase in market value over a 12 month period.
21-27A Canberra St 18-26 Holdsworth St St Leonards	5,757sqm	\$67,153,560 (April 2017)	<ul style="list-style-type: none"> <li>\$11,600/sqm site area</li> <li>\$4,090/sqm GFA</li> </ul>	A total of 20 single storey houses sold in one-line to a Chinese developer. Located within St Leonards South Precinct with proposed base FSR 2:1. Falls entirely within Special Areas 7, 8, 9, 10 and 11. Minimum site requirements for each respective Special Area are achieved unlocking additional FSR 2.75:1-3:1.
36-40B Park Rd 27-43A Berry Rd St Leonards	5,212sqm	Circa \$60,000,000 (Nov 2016)	<ul style="list-style-type: none"> <li>\$11,512/sqm of site area</li> <li>\$5,756/sqm GFA (base FSR)</li> <li>\$4,186/sqm GFA (max FSR)</li> </ul>	Located within St Leonards South Precinct. Understood to have sold in November 2016. The lots fall within Area 22 and 23, however do not meet the minimum site requirements to access the maximum FSR 2.75:1. If calculated on the maximum permitted FSR (despite the minimum site requirements not being met), the purchase price of \$60m equates to \$4,186/sqm max FSR potential. If analysed on the base FSR 2:1, the purchase price equates to \$5,756/sqm FSR.
23-31 Holdsworth Ave 24-32 Berry Rd St Leonards	5,574sqm	Circa \$60,000,000 (Oct 2016)	<ul style="list-style-type: none"> <li>\$10,670/sqm site area</li> <li>\$5,335/sqm GFA (base FSR)</li> <li>\$3,880/sqm GFA (max FSR)</li> </ul>	Located within St Leonards South Precinct. Understood to have sold via an EOI campaign in October 2016. The lots fall within Area 18, 19 and 20, however do not meet the minimum site requirements to access the maximum FSR 2.75:1. If calculated on the maximum permitted FSR (despite the minimum site requirements not being met), the purchase price of \$60m equates to \$3,880/sqm max FSR potential. If analysed on the base FSR 2:1, the purchase price equates to \$5,335/sqm FSR.
Site bounded by Berry Rd & Park Rd	7,414sqm	\$79,500,000* (Feb 2016)	<ul style="list-style-type: none"> <li>\$10,720/sqm site area</li> </ul>	Located within St Leonards South Precinct. Approximately 19 houses sold in one-line purchased by Poly Group in February 2016. Limited information available.
64-66 Chandos St St Leonards	835sqm	\$7,200,000 (April 2016)	<ul style="list-style-type: none"> <li>\$8,263/sqm site area</li> <li>\$3,264/sqm FSR</li> <li>\$276,923/unit</li> </ul>	Sold to a local developer without DA approval in April 2016. DA was subsequently submitted and approved on basis of a mixed-use development comprising shop top housing with a total of 26 units. An additional FSR of 0.3:1 was requested a s96 request and subsequently approved. Development has since been deferred.
The Landmark 500-520 Pacific Highway	3,727sqm	\$150,000,000 (Aug 2015)	<ul style="list-style-type: none"> <li>\$40,247/sqm site area</li> <li>\$3,311/sqm FSR</li> <li>\$327,511/unit</li> </ul>	Development site purchased in August 2015. The Planning Proposal to rezone the site to B4 to allow for a mixed use development comprising 458 units (44 storeys) was approved prior to sale. Recreational areas are included (swimming pool, gym, library, meeting rooms, ball pit and children's play area). Sale is dated, more than 12 months old.

Source: Cordell Connect

We are aware of a number of development sites within the Study Area that are currently being offered for sale, the majority of these clustered around the proposed location of the Crows Nest Metro Station.

- **69 Christie Street, St Leonards** is a 2,326sqm site zoned B3 Commercial Core (FSR 10:1) improved with a six (6) storey commercial office building, known as AMA House. It is understood the site is being offered for circa \$70 million and is marketed as having future development potential as part of the St Leonards and Crows Nest Planned Precinct. When analysed on maximum GFA potential under existing LEP controls, the asking price equates to just over \$3,000/sqm existing GFA potential (as a purely commercial property).
- **104-106 Alexander Street, Crows Nest** is a small development site (467sqm) located approximately 300m from the future Crows Nest Metro Station. The site has existing DA approval for construction of a four (4) storey shop-top development comprising a ground floor retail suite (244sqm) and 10 residential apartments on the upper floors. Anecdotal evidence from the selling agent indicates the vendor is seeking circa \$7 million, equating to circa \$6,000/sqm of GFA or \$548,000 per unit equivalent/site.
- **433-459 Pacific Highway, Crows Nest** is a large block of strip retail located along Pacific Highway currently marketed as a potential development opportunity. Located approximately 50m from the future Crows Nest Metro Station, the marketing agent noted strong interest from builder developers and investors has been received to date.

Development site acquisition activity in 2016-2017 was generally focused in the St Leonards South Precinct, where developers were observed to be paying in the order of \$10,500/sqm to \$11,500/sqm of site area. On prices paid per square metre of potential floorspace (calculated on the maximum FSR potential under the St Leonards South Planning Proposal), the range observed is from \$3,900/sqm to \$4,200/sqm of maximum GFA.

Outside the St Leonards South Precinct, site sales activity is more dated in nature (many more than 18 months old). Expectedly, prices paid on a rate per square metre of floorspace, are lower in range from \$3,300/sqm to \$3,900/sqm of gross floor area. The exception to this is the more recent sale of the 88 Christie Street site which sold in July 2017 for \$4,150/sqm of GFA. The price paid for this large site is reflective of the strong market conditions sustained within the Study Area over the 2016-2017 period.



## 3. TOLERANCE OF DEVELOPMENT TO SIC

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### 3.1 OBJECTIVES AND APPROACH

Land values are intrinsically linked to their permitted and existing use, whichever is the higher. A change in land use zone and/or change in permitted density often leads to a financial benefit, also termed “Value Uplift”. It is through a capture of some of the value uplift that development can afford to contribute to SIC rates. The Retained Value Uplift (i.e. the portion of value that is not captured for contribution) is available for retention by the landowner or developer, whichever the case may be.

The objectives of this chapter are to:

- Examine likely value uplift from enhanced development potential as a consequence of additional permitted residential<sup>1</sup> density (upzoning of land).
- Assess the capacity of development to contribute a SIC.

Having carried out Property Market Appraisal in the Precinct (summarised in section 2.4 and 2.5), this chapter:

- Examines likely opportunities for residential intensification in the Precinct.
- Identifies likely development typologies that will accommodate a densification of residential floorspace.
- Formulates hypothetical development scenarios (including notional development yield, land use split, number of storeys, etc.) for feasibility testing.
- Carries out generic feasibility modelling to test the tolerance of hypothetical development scenarios to a SIC by iteratively including SIC rates to test their impact on development feasibility.

The objective of the generic feasibility modelling is to test the tolerance of development to a SIC, specifically its implications on project hurdle rates and Value Retained.

### 3.2 DEVELOPMENT FEASIBILITY TESTING

Generic feasibility testing is carried out to ascertain the tolerance of development (under new planning controls being considered) to the imposition of a SIC. This section outlines financial modelling of notional development schemes that investigate the impact of additional floorspace (through changes to planning controls) and a new SIC.

In the absence of concepts or schemes, the notional development schemes are considered in generic terms only, with the adoption of generic cost and revenue assumptions provided in Appendix A.

The Residual Land Value approach is adopted as the most appropriate method of feasibility testing. The Residual Land Value (RLV) is defined to be the maximum price a developer would be prepared to pay in exchange for the opportunity to develop the site, while achieving target hurdle rates for profit and project return.

This approach involves assessing the value of the completed product, making a deduction for development costs and a further deduction for profit and risk whilst ensuring the development achieves the target project margin and return.

A key metric for development feasibility (i.e. developments’ tolerance to imposition of a SIC) is measured by Value Retained which is comprised of Existing-use Value (i.e. the ‘as is’ improved property values before the rezoning/upzoning including a premium) and Retained Value Uplift (i.e. the portion of value uplift not captured for SIC contribution).

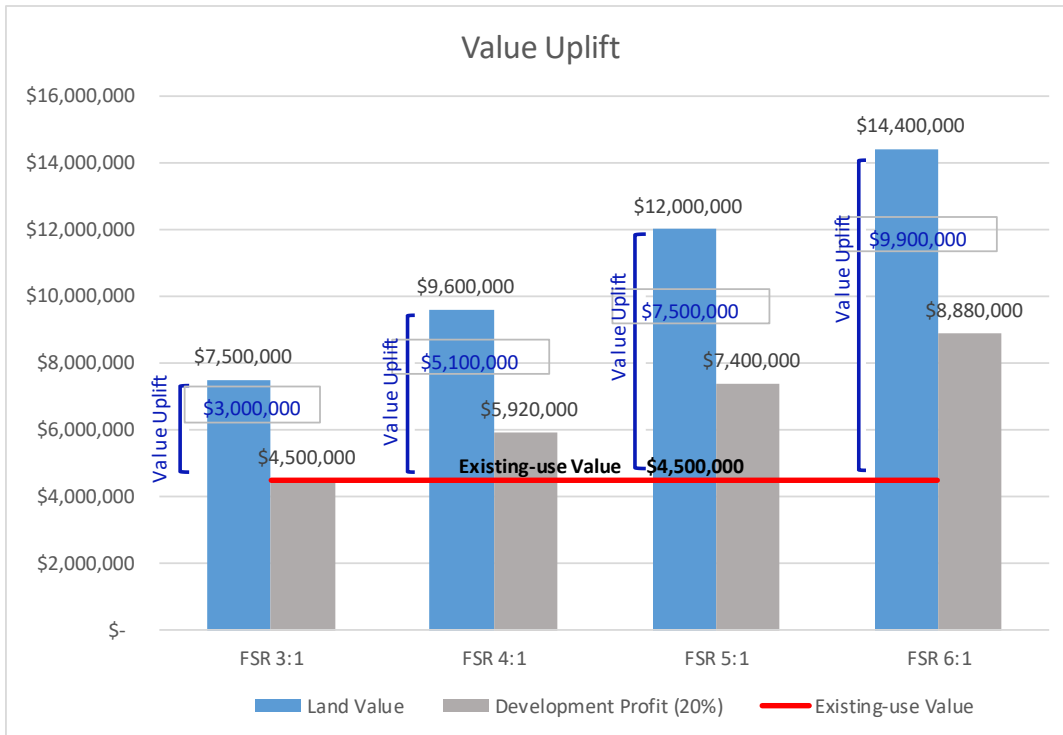
The Value Retained is the amount that a developer can afford to pay for the site, and is ultimately subject to negotiations with a landowner. In some cases the developer may already be the landowner.

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<sup>1</sup> On the premise that SIC contributions are proposed to be implemented only on *residential* floorspace of a development

Figure 3.1 illustrates the premise of the testing using a hypothetical example. With an existing-use value of \$4.5m, change in FSR controls to FSR 3:1 to FSR 6:1 delivers a value uplift of between \$3m and \$9.9m. The change in FSR controls also results in commensurate increase in profit to a developer, reflective of a larger development.

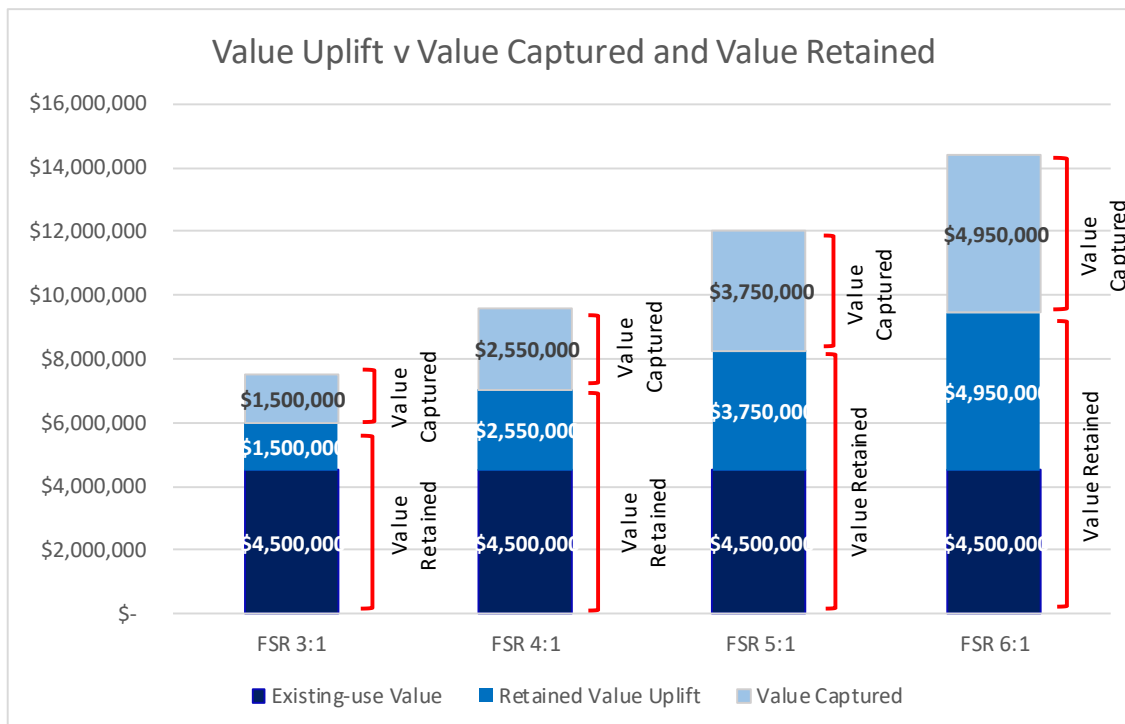
**Figure 3.1: Conceptual Diagram of Value Uplift v Existing-use Value**



Source: AEC

The impact of a SIC that captures 50% of the Value Uplift is examined. The remainder of the value uplift is the Retained Value Uplift and when added to the Existing-use Value forms the Value Retained. Figure 3.2 illustrates.

**Figure 3.2: Conceptual Diagram of Value Uplift, Value Captured and Value Retained**



Source: AEC

### Purpose and Approach

The feasibility testing is iterative in nature and is intended to test the feasibility/performance of development (as envisaged by alternate planning controls) to tolerate a new SIC. The analysis is structured to consider a SIC that would capture 50% of Value Uplift. This leaves capacity for some of the upside to be retained by a developer/landowner or to cater for changes in development costs.

In order to calculate the land value uplift, residual land values are modelled assuming new planning controls under consideration (some which facilitate residential-only development and some mixed-use development), and the RLVs are then compared against assumed 'as is' values (aggregated across different character areas). The difference between the two is referred to as the 'Value Uplift'. Iterative testing of a potential new SIC rate based on 50% capture of the Value Uplift is then undertaken, ensuring project hurdle rates are met.

Figure 3.2 provides a conceptual illustration of the value uplift that is captured (also referred to as 'Value Captured' or 'Planning Gain') for contribution to a SIC. This amount can be appropriated entirely to a SIC or to a combination of forms of public benefit, for example, affordable housing, works-in-kind and other contributions that may be delivered through a planning agreement. The testing investigates the capacity of development to make a contribution over and above the existing s7.11 contributions (assumed at \$20,000 per dwelling).

### Assumptions in Aggregate

The feasibility testing exercise includes an assessment of aggregate 'as is' property values in each character area (based on existing planning controls).

Different environmental conditions will influence the developability of land, ultimately influencing the value of the site to a developer. It is not the intention of the analysis to assess the development capacity of sites at a fine grain, rather to profile various precincts/markets and make observations that are aggregated across comparable markets.

### Notional Development Scenarios and Land Cost Assumptions

In order to understand the feasibility implications of the various proposed densities, various sample sites (or development blocks) are identified for the purposes of estimating a likely acquisition cost. The cost of land is a critical variable that underpins the feasibility of development in urban areas.

Sales transactions in sample locations are examined to estimate a likely acquisition cost to a developer to consolidate a development block. An overarching assumption is that road and utility infrastructure is available, a developer not having to fund trunk infrastructure or significant lead-in works and there are no extraordinary costs.

**Table 3.1: Notional Development Scenarios for Testing**

Character Area	Proposed Controls			Existing Controls			Existing Improvements	Assumed Cost of Land (\$/sqm overall site area)*
	Zone	Res. FSR	Non-Res. FSR	Zone	Res. FSR	Non-Res. FSR		
St Leonards Centre and Crows Nest Station	B4	2:1	5:1	B3	-	2:1, 6:1	Low rise commercial buildings	\$18,000-\$20,000
	B4	3:1	1:1	B4	2.5:1	0.6:1	Low rise office buildings	\$15,000-\$17,000
	B4	5:1	1:1	B4	2.5:1	0.6:1	Low rise office buildings	\$16,000-\$18,000
	B4	3.5:1	3:1	B4	2.5:1	3:1	Medium rise office buildings	\$28,000-\$30,000
	B4	10:1	6:1	B3	-	10.1:1	High rise office building	\$28,000-\$30,000
Crows Nest Village	B4	2:1	2:1	B4	1.5:1	0.5:1	Low rise commercial buildings	\$17,000-\$19,000
	B4	1:1	2:1	B4	1.5:1	0.5:1	Low rise commercial buildings	
St Leonards South	R4	2.75:1 to 4:1	-	R2	0.5:1-0.6:1	-	Low density detached housing	\$8,000-\$14,000^

<sup>^</sup>Market evidence indicates existing use values have shifted following precinct planning for the St Leonards South precinct in 2012.  
Source: AEC/DPE

\*Existing-use values are adopted as the assumed cost of land. Depending on the existing planning controls and existing uses and buildings, 'as is' values or existing-use values can be divergent within the same locality. There will invariably be 'outliers', properties whose values fall outside of the assumed ranges.

The adopted ranges are intended to be representative of properties in the sample locations. The assumed cost of land rates includes a premium to incentivise landowners and assist with site consolidation. This is *before* considering any Value Uplift that may be conveyed to landowners after a rezoning/upzoning.

### Other Contributions Assumptions

New s7.11 development contributions plans for the Study Area are expected to be prepared in due course. For the purposes of the Study, the modelling assumes a base average s7.11 contribution of \$20,000 per dwelling. Sensitivity testing has been included to assess to impact of a 5% affordable housing contribution based on additional dwellings that result from a rezoning/upzoning. This approach assumes only 95% of additional residential yield is available for sale; the remaining 5% to be contributed as affordable housing. This is effectively an 'in-kind' contribution.

## 3.3 CAPACITY TO PAY AND TOLERANCE TO SIC

The key performance indicators are project IRR and development margin. The objective is to assess if after incorporating assumed land cost in each character area, other assumed development costs and payment of a SIC, development feasibility still meets the minimum hurdle rates (project IRR and development margin). The minimum hurdle rates assumed are 20% project IRR and 20% development margin.

A number of development scenarios at various densities are tested to ascertain if development under the alternate planning controls can tolerate imposition of a SIC, and if so, the quantum of contributions tolerated. The densities (FSR) tested are not an exhaustive list of all densities considered within the Study Area but are representative of where development could likely occur in the short to medium term.

The assumed cost of land outlined in Table 3.1 is incorporated in the feasibility testing to calculate the land value uplift associated with changes to the planning controls. SIC rates are then iteratively applied to capture 50% of the Value Uplift. If the project return indicators exceed the minimum hurdle rates, development is considered to be feasible even after imposition of the SIC contribution.

Land Value Uplift is attributed to the additional floorspace generated from the proposed controls above those already permitted under existing controls. A proportion of the Land Value Uplift (Value Captured) is then divided by the overall residential yield permitted under the proposed controls to calculate SIC rate per dwelling. Table 3.2 outlines the generic tolerance to a SIC. Metrics presented use a hypothetical 2,000sqm site for the purposes of modelling.

**Table 3.2: Generic Development Tolerance to SIC\***

Proposed Planning Controls			SIC on Overall Dwellings	
Zone	Res. FSR	Non-Res. FSR	GFA	Unit
<b>St Leonards Centre and Crows Nest Station</b>				
B4	2:1	5:1	\$250-\$270	\$21,000-\$23,000
B4	3:1	1:1	No capacity to pay	
B4	5:1	1:1	\$640-\$660	\$55,000-\$57,000
B4	3.5:1	3:1	No capacity to pay	
B4	10:1	6:1	\$440-\$460	\$38,000-\$40,000
<b>Crows Nest Village</b>				
B4	2:1	2:1	\$20-\$25	\$1,750-\$2,250
B4	1:1	2:1	No capacity to pay	
<b>St Leonards South</b>				
R4	2.75:1- 4:1	-	No capacity to pay	

Source: AEC

\*The testing does not allow for a SIC credit for existing use. It is not possible to predict every situation under which a development could occur. In some cases the SIC credit may be more significant, in other cases the credit may be more modest. Given the testing does not include receipt of a SIC credit, the tolerance of development to a SIC will be greater than that which is represented in this section.

The following observations can be drawn from the feasibility results outlined in Table 3.2:

- Development's capacity to pay a SIC varies across the Study Area given the varied 'as is' values and Value Uplift as a consequence of planning controls under consideration. The quantum of additional residential density proposed by new controls is the primary driver behind capacity for development to pay a SIC within the Study Area.
- Where no or little additional residential density is considered, high 'as is' values across the Study Area generally results in no capacity to pay a SIC. This is observed within parts of the St Leonards Centre and Crows Nest Station area which is assessed as having no capacity to pay a SIC. Where fine grain lot patterns are observed (resulting in high site consolidation costs) and/or where existing improvements are highly valuable (investment grade office buildings, hotels, modern mixed-use buildings), redevelopment can be challenged.
- Sample scenarios were selected within the St Leonards Centre and Crows Nest Station for testing. Feasibility modelling found development tolerance to a SIC ranged from nil to \$57,000 per dwelling. High 'as is' values (owing to speculative buying activity in recent years and highly valued investment grade stock) make it challenging for modest development densities to be feasible to develop, much less contribute to a SIC.

Of the sample scenarios which met key feasibility hurdle rates, tolerance to a SIC ranged from \$21,000 to \$57,000 per dwelling. The upper end of this range is achieved on sites where a high quantum of residential density is proposed (overall FSR 6:1 with the majority permitted for residential floorspace) which results in substantial Value Uplift and thus a greater tolerance to a SIC.

- Two density scenarios within the Crows Nest Village area were tested. Feasibility modelling results indicate tolerance to a SIC ranges from nil to \$2,250 per dwelling. Site consolidation within Crows Nest Village is particularly costly given the fine grain nature of lot patterns with high value commercial buildings. Additionally, the residential densities proposed within Crows Nest Village are relatively low (FSR 1:1 to 2:1). Collectively, these two factors result in only modest tolerance to a SIC.
- Four density scenarios within the St Leonards South area were tested. Feasibility results indicate any introduction of a SIC is not viable as the majority of sites in St Leonards South are observed to have been purchased at prices reflective of the new (proposed) planning controls as indicated by the St Leonards planning proposal (prior announcement of a proposed SIC). Accordingly, any resultant value uplift is subsumed, resulting in little capacity to pay any contribution over s7.11 contributions.

Not all current planning controls are envisaged to change, with the nature of change also differing across the Study Area, e.g. change of zone and/or change to density. As application of the SIC is on an inclusionary basis ('included' or mandated) on the total number of dwellings proposed in the 2036 Plan, the impact to development feasibility will invariably be different on different sites. Sites which benefit from a greater uplift in density (particularly residential development upside) will have a greater tolerance to a proposed SIC. Where multiple lots are required for consolidation in high value areas, capacity to pay for the SIC under alternate controls is more constrained. We highlight the feasibility results detailed in Table 3.2 are sensitive to key assumed variables such as the cost to acquire land and consolidate sites and construction costs.

Table 3.2 illustrates that SIC rates vary across the Study Area according to the uses that currently exist and new planning controls that are being investigated. Those sites with the capacity to contribute vary from just under \$2,000 to nearly \$60,000 per dwelling. Rather than selecting an average or a mid-point, the capacity of development to pay is examined by considering the SIC rate range most representative of sites able to tolerate to a SIC, i.e. observing occurrences within a bell curve. Using this approach, a SIC range of \$21,000-\$23,000 per dwelling results.

We highlight that this Study does not seek to establish if development under existing planning controls is in the first instance feasible. A base presumption of feasibility under existing planning controls is implicit in this approach.

For those sites that are not feasible to develop in the first instance (even before imposition of a SIC), imposition of a SIC will be moot to the issue of development. This is true for those sites identified as unfeasible within Table 3.2 as development under the proposed controls is not a commercially proposition even *without* introduction of a SIC.

### **Affordable Housing Contributions**

Sensitivity analysis was undertaken to assess the impact of introducing an affordable housing contribution on additional dwellings which result from a rezoning/upzoning. Modelling assumed that revenue was only received on 95% of additional residential yield, allowing for 5% contribution to affordable housing. This is effectively an 'in-kind' contribution with the cost of construction to be borne by the developer for dedication on completion.

Modelling results indicate that when a 5% affordable housing contribution is introduced, the tolerance of development to a SIC is affected. The earlier assessed broad SIC range for the St Leonards Centre and Crows Nest Planned Precinct falls from \$21,000 to \$57,000 per dwelling to \$12,000 to \$45,000 per dwelling when a 5% affordable housing is introduced.

In the Crows Nest Village area, the introduction of a 5% affordable housing results in nil tolerance to a SIC.

The next chapter considers the implications of the chapter's findings for implementation of the SIC.

## 4. CONCLUSION AND RECOMMENDATIONS

### 4.1 CAPACITY TO PAY AND TOLERANCE TO SIC

The Study finds that value capture opportunities have the potential to contribute to public benefit, whether to a SIC, affordable housing or other infrastructure items. Notwithstanding, the Study recognises there are competing infrastructure priorities (e.g. those to be funded from a SIC or a Voluntary Planning Agreement) which may also require funding from value capture opportunities.

Tolerance of development to SIC varies by proposed density and cost of land, influenced by the following:

- **Existing-use Values (or 'As Is' Values)**  
Existing-use values in the Study Area are high, reflective of their market desirability and appeal. In cases where the cost to consolidate development sites is high, only where there are substantial increases to residential density do these lands have capacity to contribute a SIC before development becomes unfeasible.  
  
Where proposed densities are more modest, redevelopment will occur at a more incremental pace with only those buildings that are dilapidated likely candidates for redevelopment.
- **Extent or Scale of Rezoning/Upzoning**  
Properties that benefit from modest or no change to planning controls have little to no ability to tolerate a SIC contribution without adverse impact to project return. In contrast, those properties that undergo a rezoning or upzoning that results in a significant value uplift have better ability to contribute a SIC.
- **Development Typology and Intensity of Development**  
The cost of construction increases as density increases. Notwithstanding the higher construction costs (owing to taller buildings), end sale values within taller buildings are on average typically higher than those in low rise buildings. On balance, residual land values for sites developed into taller buildings are higher. As a consequence, these sites have better capacity to contribute a SIC.
- **Effective Demand for Higher Density Product**  
Residential markets are diverse. Market acceptance for higher density product is good within most inner suburbs of Sydney, hence end sale prices of the completed product justify the higher cost of construction. In strong apartment markets such as the Study Area, developers are increasingly seeking to progress taller developments given the strong end sale values attributed to units on higher levels.

The analysis suggests the capacity of development to pay for a SIC is generally sensitive to the scale/extent of rezoning/upzoning and the price paid for a development site.

### 4.2 MATTERS FOR CONSIDERATION

There are a number of matters that warrant consideration in the formulation of a SIC framework.

#### Competing Infrastructure Priorities

The capacity of development to pay additional contributions (over and above current scheduled statutory contributions such as s7.11, s7.12) is finite. Planning Gain (which is a proportion of the land value uplift) represents the total amount that is available for contribution to public benefit, which could comprise infrastructure and public domain work, affordable housing, etc.

Careful coordination of all various contributions in the early stages will ensure they do not exceed the overall Planning Gain, which is the tolerance of upzoned development to contribute to public benefit before becoming unfeasible to deliver.

#### Market Cycles and Structural Factors

The last 24-30 months witnessed unprecedented development and market activity in metropolitan Sydney, particularly in locations in and around transport nodes and established centres. Fierce and frenzied competition between players resulted in compressed development margin as a result of high prices paid for development sites.



Many purchasers are observed to have paid high speculative prices and assume high planning risk for rezoning of sites, etc.

While the market has moderated in recent months, the appeal and demand for well-located and well-priced product nevertheless endures. Established urban areas such as those in the Study Area enjoy good market acceptance, and while this bodes well for the capacity of development to pay a SIC, a higher cost of land also applies, potentially diluting any additional capacity to pay a SIC in some instances.

### **Impact on Development Feasibility**

It is not the intention or objective of this Study to establish if development under existing planning controls is in the first instance feasible, or to predict landowner objectives. Rather, it is the intention of the Study to examine the 'incremental' value uplift that could potentially result following an upzoning of land (increase in FSR). A base presumption of feasibility under existing planning controls is implicit in this approach.

For example, if a site currently designated with FSR 0.6:1 is upzoned to FSR 2:1, the value uplift resulting from the upzoning may not necessarily be associated with the FSR 1.4:1 increase if development at FSR 0.6:1 is not feasible in the first instance. Notwithstanding, precinct planning in priority growth areas and planned precincts is generally subject to feasibility testing undertaken by DPE (by Urban Feasibility Model, UFM) to ensure proposed changes to planning controls are reflective of commercial realities.

The Study does however, make observations and comment on the overall capacity of a market to contribute to a SIC, noting current market attitudes and preferences to higher density living and the existing-use values compared to potential development site values and that which is retained after a SIC contribution (the Retained Land Value).

In a buoyant and active market, competition for development opportunities is fierce. In a rising market developers are more willing to pay premiums for sites in anticipation that rising end sale values will help offset the cost of land.

An upshot of a competitive development market is limited tolerance to costs not previously allowed for in due diligence and pre-feasibility analysis. Clear and definitive notice to the market of DPE's intentions to implement a SIC would provide certainty for investment and development planning. In time, market dynamics will adjust as the market factors-in the cost of the SIC rates.

Owing to entrepreneurial effort, a developer may have secured a site for below market value and that being the case, should be allowed to benefit from the discount secured. Equally, a developer may have overpaid for a site and paid a premium for the development opportunity. This is a risk assumed by the developer.

SIC rates (and any other contributions) are only viable where the prices paid for development sites reflect the planning controls and contributions liability that are applicable, i.e. that a developer does not overpay for a site.

Those sites that are not feasible to develop in the first instance (even before imposition of a SIC), imposition of a SIC will be moot to the issue of development.

### **Notice to the Market**

It is important for clear and adequate notice to be provided prior to the imposition of any contribution requirement (whether for affordable housing, SIC, etc.). This notice is critical, not just of DPE's intentions but of the contribution rates and their timing for implementation. Exhibition of the draft SIC will allow the market to provide feedback and comment before implementation.

## **4.3 RECOMMENDATIONS**

This Study makes the following key recommendations:

- **Coordination with Other Contributions Regimes**

The capacity of an upzoned development site to contribute to public benefit is finite. This Study assumes a contribution for s7.11 *before* applying a 50% capture of Value Uplift to approximate the capacity of development to pay if a site was hypothetically rezoned or upzoned.

The imposition of contributions seeking to leverage value capture opportunities needs to be implemented holistically, reflective of competing infrastructure priorities and various contribution requirements.

- **Clear and Adequate Notice to Market**

Clear and adequate notice to the market of the contribution rates and their timing for implementation will allow their consideration in due diligence calculations. Exhibition of the draft SIC will allow the market to provide feedback and comment before implementation.

- **Delivery in-kind**

Delivery of infrastructure (in-kind) by developers has economies of scale when progressed with the main development and also helps overcome resource and delivery limitations of agencies (where appropriate). If a development site has sufficient scale that it has the capacity to deliver some of the state infrastructure contemplated, it may be more efficient for that development to either contribute wholly or partially in-kind.

- **Indexation and Regular Review**

Following full implementation, it will be prudent to review and monitor market response and housing delivery.

Given the objective of SICs to fund state infrastructure, indexation to the Producers Price Index would ensure that the contributes are aligned to change in the cost of infrastructure over time. However, to ensure the SICs remain within development tolerance, it would be prudent to regularly review the overall capacity of development to pay with reference to market and development activity as well as the overall contributions liability.

The limitations of the Study and aggregate nature of the analysis are acknowledged. Aggregate analyses provide high-level and indicative results and do not necessarily reflect the nuances and specific characteristics of a site.

Notwithstanding, this Study acknowledges the benefits of simplicity in applying generic SIC rates, however we highlight the difficulty in adopting a single generic contribution rate across areas. Despite the nuances of markets and sub-markets, the application of generic contribution rates provides certainty to the market, allowing developers and investors to give due consideration to their contributions liability when negotiating to acquire sites. This Study recommends the application of generic contribution rates over case-by-case negotiations and site-by-site viability assessments.

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## APPENDIX A: DEVELOPMENT FEASIBILITY TESTING ASSUMPTIONS

Generic feasibility testing adopts the Residual Land Value approach. This involves assessing the value of the end product of a hypothetical development, then deducting all of the development costs (including developer's infrastructure costs, construction costs, consultant fees for design and project management, statutory fees) and making a further deduction for the profit and risk that a developer would require to take on the project.

The land value is the 'residual' that remains, i.e. the amount a developer could afford to pay in exchange for the opportunity to develop the site.

### Project Timing

Development application is assumed to be progressed immediately upon settlement with pre-sales occurring shortly thereafter.

Construction is assumed to begin in Month 12 and span for 12-18 months depending on the scale of the development, sale of remaining units to be completed immediately following.

### Development Yield

Development yield assumes average unit sizes and mixes of:

- Studio units (45sqm): 5%
- 1 bedroom units (55sqm): 40%
- 2 bedroom units (75sqm): 45%
- 3 bedroom units (100sqm): 10%

Parking requirements as per the Lane Cove DCP (2010), Willoughby DCP (2006) and North Sydney DCP (2013):

**Table A.1: Car Parking Rates**

Typology	Lane Cove DCP (2010)	Willoughby DCP (2006)	North Sydney DCP (2013)		
			B4 Mixed Use St Leonards Precincts 2-3	B4 Mixed Use All other Precincts	All Other Zones
Studio	0.5	0.5	0.25	0.5	1
One bedroom	0.5	1	0.25	0.5	1
Two bedroom	0.9	1	0.5	1	1
Three bedroom	1.4	1.25	0.5	1	1.5
Visitor	0.2	0.25	0.25	0.25	0.25
Commercial/business	1 space per 100sqm GFA	1 space per 110sqm GFA	1 space per 400sqm GFA		

Source: Lane Cove Council (2016), Willoughby Council (2006), North Sydney Council (2013).

### Revenue Assumptions

Market analysis indicates the demand for new residential product within the Study Area is strong as evidenced by swift take-up rates and high sale prices, albeit a slight softening compared to 12-18 months ago.

The following average sale prices and sale rates are assumed.

**Table A.2: Residential Revenue Assumptions**

Typology	Average Sale Price	\$/sqm internal floor area
<b>Below 10 storeys</b>		
Studio	\$670,500	\$15,000/sqm
One bedroom	\$900,000	\$15,000/sqm

Typology	Average Sale Price	\$/sqm internal floor area
Two bedroom	\$1,200,000	\$15,000/sqm
Three bedroom	\$1,550,000	\$15,500/sqm
<b>10-20 storeys</b>		
Studio	\$697,500	\$15,500/sqm
One bedroom	\$900,000	\$15,000/sqm
Two bedroom	\$1,200,000	\$15,000/sqm
Three bedroom	\$1,550,000	\$15,500/sqm
<b>Above 20 storeys</b>		
Studio	\$708,750	\$15,750/sqm
One bedroom	\$945,000	\$15,750/sqm
Two bedroom	\$1,280,000	\$16,000/sqm
Three bedroom	\$1,600,000	\$16,000/sqm

Source: AEC

- Retail ranging from \$7,000/sqm GLA to \$10,000/sqm GLA depending on location and proximity to future Crows Nest Metro station.
- Commercial at \$6,000/sqm of NLA.
- Residential revenue was assumed to escalate at 3.0% per annum; commercial/retail revenue was assumed to escalate at 3% per annum.
- It was assumed that 75% of apartments would be pre-sold prior to construction and the balance would be settled after construction at the rate of between 8 and 18 units per month.
- Other revenue assumptions:
  - GST is included on the residential sales but excluded on non-residential sales.
  - Marketing costs at 1% of gross sales revenue.
  - Sales commission on sales was included at 2.5% of gross residential sales and 1.5% of non-residential sales.
  - Legal cost on sales was included at 0.25% of gross sales.

### Cost Assumptions

- Land cost based on a desktop analysis of 'as is' values within the Study Area.
- Legal costs, valuation and due diligence was assumed at 0.5% of land price and stamp duty was included. These costs to be paid at settlement assumed in Month 3.
- Cost escalation of 3% per annum was assumed to commencement of construction.
- Construction of residential units at:
  - \$2,600/sqm-\$2,800/sqm of building area for buildings below 10 storeys.
  - \$2,800/sqm-\$3,000/sqm of building area for buildings between 10 and 20 storeys.
  - \$3,000/sqm-\$3,200/sqm of building area for buildings above 20 storeys.
- Balconies at \$800/sqm.
- Basement car parking was included at \$45,000 per space.
- Construction of ground floor retail/commercial space was assumed at \$2,500/sqm of building area.
- Site works and excavation at 1% of construction cost.
- Services infrastructure at 1% of construction cost.
- Landscaping allowed at \$200/sqm of site area.

- Professional fees at 9% of construction costs.
- 5% construction contingency allowance was included.
- Development management fee at 1% of project cost (excluding land and finance).
- Section s7.11 contributions assumed at average \$20,000 per unit.
- Land holding costs including land tax, Council and water rates based on assumed unimproved land values.
- Other cost assumptions include:
  - Developers equity is assumed at land cost. Equity is progressively injected when required.
  - The balance of project cost is assumed to be debt funded with interest capitalised monthly (nominal 7.0% per annum).
  - Finance establishment costs at 0.35% of project debt.

### Hurdle Rates and Performance Indicators

Target hurdle rates are dependent on the perceived risk associated with a project (planning, market, financial and construction risk). The more risk associated with a project, the higher the hurdle rate. A number of performance indicators are relied upon when ascertaining the feasibility or otherwise of a development.

- Development margin is the profit divided by total development costs (including selling costs). The industry benchmark of 20% is assumed as the target hurdle rate.
- Discount Rate - this refers to the project internal rate of return (IRR) at which the net present values of an investment becomes zero.
- Residual Land Value - this has been determined by establishing the maximum land value a developer is willing to pay based on a 20% internal rate of return (IRR) taking into account all other costs and project revenue.
- Development Profit - this represents the total revenue less total cost including interest paid and received.



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OUTCOME DRIVEN

