HillPDA CONSULTING

A Level 3, 234 George St
Sydney NSW 2000
T 02 9252 8777
W hillpda.com
ABN: 52 003 963 755

Mr T Tredrea
Strategic Social Planner
Lane Cove Council
48 Longueville Road
Lane Cove NSW 2066

12 July 2017

Dear Terry

Subject: St Leonards South Precinct S94 Parkland / Open Space Acquisition Rate Advice

In response to your request on behalf of Lane Cove Council (Council) to identify a suitable land acquisition rate for parkland and open space for inclusion in the S94 Contributions Plan, we have updated our initial advice provided to you in mid-2016.

We have undertaken analysis of subsequent site sales in the St Leonards South Precinct both amalgamated and individual sales.

This advice forms an update of that provided in April 2016.

Market Value Basis

We have assessed an indicative site acquisition rate for this precinct based on recent site sales a sample of which is described in tables below.

We identified two further amalgamated sales and further individual single dwelling sales.

The conditional sales have not settled and illustrate developers' perceptions for increased density potential although these observations are not based on any statement or document produced by Council.

Background

Prior to the St Leonards South draft LEP

The sale price trend for detached dwellings in the St Leonards South precinct based on the densities in the Lane Cove LEP 2009 (prior to the effect of the draft St Leonards South LEP) has shown a core range of $2.5 to $3.0million for dwellings of average size and appeal.

For a typical lot size of 650m² this shows an indicative rate of $4,615/m² (based on $3.0m).

Adjusted Residential Land Pricing for the draft St Leonards South LEP.

Pricing speculation has increased sharply since the adoption by Council in mid 2015 of the Precinct Master Plan for dwellings east of Park Road, set by the results for the amalgamated lot sales summarised in tables below that show a substantially higher rate per dwelling around $6.0million and up to $11,500/m² of land area.

Our prior report explained the speculation from developers reflected in conditional sales expected to settle soon after the LEP is gazetted.

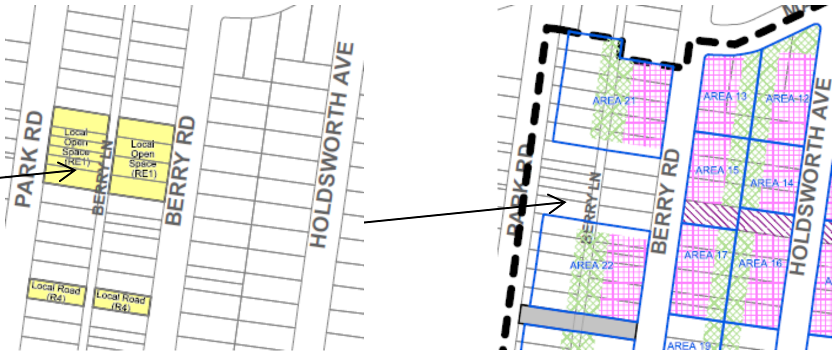
Selling agents marketing information reveals the vendors have been advised of a maximised FSR of 3.5:1 with the qualification "STCA" which has been reflected in the purchase prices paid.

The conditional sales are likely to depend on achieving a nominated unit yield by the gazetted LEP or possibly a DA consent. Not achieving a satisfactory outcome could allow some developer/purchasers to vary the price or even rescind the contract if they fall short of achieving their target unit density that may not reach 3.5:1 as indicated in agent's marketing data ("STCA").

St Leonards South Precinct – Open Space Areas Designated

The Open Space designated by Council in the St Leonards South precinct is revealed in the draft "Land Reservation and Acquisition Map" as shown in the map extract below (left). This corresponds to the undesignated area in the Special Provisions Area map (right) for the same space.

Figure 1: Land Reservation Acquisition map (left) and Special Provisions Area map (right)



Our discussions with Council have confirmed that the land to the north and south of the designated Open Space area is to have an incentive FSR of 2.75:1. The planned LEP will only permit this incentive FSR if both the preferred site amalgamation and compliance with the Landscape Master Plan occurs on the site".

Sales Rates and Analysis

Our sales research has revealed recent sales that show a variation from $8,800/m² for an unconditional acquisition of amalgamated lots (Sale 2) to $11,819/m² containing examples of conditional sales analysed in the tables below. Not all sales align with the range as an unconditional sale has occurred at the upper rate (Sale 5).

Upper End Rate

The upper end of the range (ie. $11,800 /m² of site area rounded) reflects developers gaining control of a significant amalgamated site and lowering their risk in a conditional acquisition subject to factors such as gaining DA consent with a specific unit yield or gazettal of the LEP with (density) content supporting the planned scheme.

Lower End Rate

The lower end of the range (ie. $8,800/m² of land area) is illustrated by Sale 2 that appears to be based on achieving an FSR of 3.5:1. This applies as a guide for Council's potential acquisition of land for Open Space as the designated areas (see map extracts above) have an FSR limited to 2.75:1 in contrast to FSR's at and above 3.5:1 for the "developer sales".

Recommendation

Therefore, a rounded rate toward the lower end of the sales rate range of $8,500/m² of land area is recommended for adoption in Council's S94 Contributions Plan for parkland and open space acquisition with an FSR potential of 2.75:1.

Based on unconditional completed sales, a rate of $8,500/m² is indicative of the premium (above an historic single dwelling price) applicable to land in the Precinct to be acquired for Open Space given the difference in development potential between the land designated for Open Space in the extract maps shown above and the nearby land captured in developer sales as analysed below.

Owners have been conditioned to a higher result by witnessing $11,500/m² (rounded) being reported for numerous sales (conditional and one unconditional). It will be necessary in negotiations with owners (of future Open Space) to explain these development potential differences and hence the lower market value attributable to their land given the LEP based development controls and the unconditional nature (not dependent upon DA consent) of the acquisition.

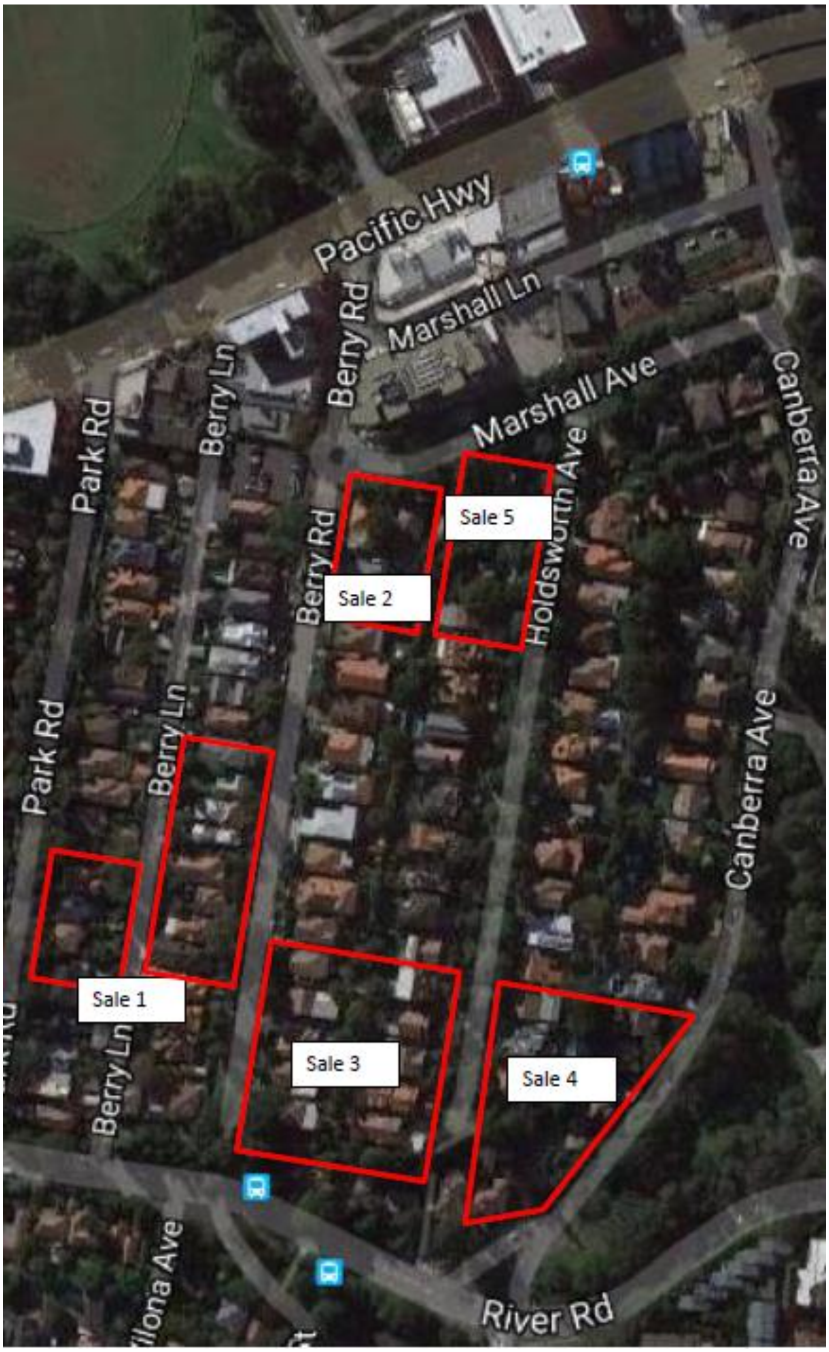
This recommended rate of $8,500/m² reflects the upper end of the range and includes aspects of compensation if (compulsorily) acquired under the Just Terms Act and a moderate provision for possible litigation costs if disputed by the owner.

Site Sales Research

Our research and enquiry into recent relevant site sales within the Precinct have revealed the following transaction details.

The analysis of each sale follows the map below.

Figure 2: St Leonards South Precinct



Development Site Sales Evidence

Since our prior advice in mid-2016, two further sales of amalgamated houses are recorded below in addition to a few single dwelling sales.

Our discussion with agents has revealed developer's interest is moderating in the St Leonards South precinct given five major sales that await planning outcomes as summarised below. Some will proceed to construction and it's likely others will be on-sold (traded) for development by other parties at a later date.

A recent key sale confirms the upper end of the range of $11,000/m² of site area or $295,238/unit (see "Berry Park" below) set by prior sales (also noted below). An unconditional sale (Sale 2 below) reveals a lower rate around $8,800/m² ($227,814/unit) as expected for the greater (Planning) uncertainty accepted by the purchaser. The conditional sales are likely to be subject to a nominated unit yield being achieved by the gazetted LEP or further a DA consent.

Table 1: Development site sales evidence

Sale 1 "Berry Park"	Date	Sale Price	Site Area	Potential yield & Rate
36-40B Park Road & 27-43A Berry Road St Leonards	Mar. 2017	$61,000,000 reported	5,212m² $11,704/m²	210 units indicated $295,238/unit
Another cluster of home owners marketing their houses as Berry Park formed by dwellings on Park Road (4) and further residences on Berry Road (8) however they are bisected by Berry Lane that provides rear parking access to garages at the rear of most blocks. As for other sites in the St Leonards South precinct the properties are located 500 metres from St Leonards Railway Station and the Pacific Highway. The sold property comprises of two rectangular sites almost aligned across the bisecting Berry Lane that provides a dual street frontage to each. The marketing information suggests district views to the south over the Harbour and Sydney CBD from the upper levels could be achieved. The marketing agent's expressed an estimate of 210 apartments derived from a potential gross floor area (GFA) of 19,170m² ("STCA"). This equates to an estimated FSR of 3.68:1 given an average unit area of 91m² and shows a derived purchaser's site rate of $295,238 /unit. This represents an artificial density potential which was not based on any statement or document produced by Council.				
Sale 2 14-16 Marshall & 2 Berry Rd, St Leo.	Dec. 2016	$17,541,680	1,990m² $8,815/m²	Based on 3.5:1 $227,814/unit
A low profile campaign by a city based agent resulted in three houses being sold in one line to a developer. Key aspects of this transaction are noted below. Its appealing location near the top of the hill allows more extensive district views. The transaction has settled (ie unconditional). This is expected to show a lower site rate than the other sales that are conditional on DA consent (for a prescribed unit yield presumably). The site has a regular shape with a corner frontage and close proximity to the railway station. The purchaser's density estimate represents an artificial density potential which was not based on any statement or document produced by Council.				

Table 2: Further development site sales evidence

<table>
<tr><th>Address</th><th>Date</th><th>Sale Price</th><th>Site Area & Rate</th><th>Potential yield & Rate</th></tr>
<tr><td>Sale 3
23-31 Holdsworth Ave & 24-32 Berry Rd, St Leonards</td><td>Jan. 2016</td><td>$61,500,000</td><td>5,574m²
$11,033/m²</td><td>246 units indicated
$250,000/unit</td></tr>
<tr><td colspan="5">After a high profile marketing campaign this site comprising ten detached dwellings is located 500 metres from St Leonards Railway Station and the Pacific Highway sold to overseas interests.

The site has a rectangular shape with a dual street frontage of 76 metres will provide district views to the south over the Harbour and Sydney CBD from the upper levels. Close proximity to extensive infrastructure has appeal to overseas (unit) buyers. Marketed with the selling agent's expressed estimates of 246 apartments and a potential gross floor area (GFA) of 19,927m² ("STCA"). This equates to an estimated FSR of 3.57:1 given an average unit area of 81m² and shows a derived purchaser's site rate of $250,000 /unit. This represents an artificial density potential which was not based on any statement or document produced by Council.</td></tr>
<tr><td>Sale 4
31-41 Canberra & 28-32 Holdsworth Ave., St Leonards</td><td>Sept. 2015</td><td>$66,000,000</td><td>5,700m²
$11,579/m²</td><td>257 units
$257,000/unit</td></tr>
<tr><td colspan="5">A key site comprising eight (8) dwellings situated close to Newlands Park and around 500 metres from the St Leonards Railway Station.

This location allows a (walking) proximity to the planned railway station upgrade (public) works. The tower will provide district views to the south over the Harbour and CBD from the upper levels. This site has a broad street frontage relative to the site area.

Marketed with an agent's expressed estimate of 257 apartments. Based on an average unit area of 80m² this equates to a potential GFA of 20,560m² and an FSR of 3.6:1. This shows a derived purchaser's site rate of $257,000 /unit. This represents an artificial density potential which was not based on any statement or document produced by Council.</td></tr>
<tr><td>Sale 5
12 Marshall & 1-3 Holdsworth Ave.s, St Leonards</td><td>Sept. 2015</td><td>$31,000,000</td><td>2,623m²
$11,819/m²</td><td>115 units
$261,000/unit</td></tr>
<tr><td colspan="5">This site comprises four (4) dwellings also in a key position of the Master Plan Precinct with similar features to that described above. This site lies opposite the first major sale in the Precinct being 1-13 Marshall Avenue.

It lies in a lower price range to the transactions above (ie. greater demand) but is located in the same key sector of this Precinct.

It was marketed with an agent's expressed estimates of a potential GFA of 9,200m² and an FSR of 3.5:1. Given an average area of 80m² per unit this equates to 115 units and a derived (purchaser's) site rate of $261,000 /unit. This represents an artificial density potential which was not based on any statement or document produced by Council.</td></tr>
</table>

Table 3: Recent individual dwelling sales

Address	Date	Sale Price	Site Area & Rate
42 River Road St Leonards	Dec. 2016	$3,070,000	670m² $4.582/m²
34 Berry Road St Leonards	Nov 2016	$1,625,000	413m² $3,935/m²

The sale at 42 River Road confirms the pricing trend for single dwellings around $3.0million created by perceptions of a density increase under the pending LEP. This is evident in numerous older sales of single dwellings. It lies adjacent to a major amalgamated sale.

The sale above at 34 Berry Road ($1.625m) appears out of line with this observed pricing trend.

The amalgamated sales reveal a pricing increase to around $6.0million per dwelling. Most transactions remain conditional upon achieving a nominated unit yield by the gazetted LEP or (possibly) a DA consent.

Further sales of single dwellings will vary within this range of $3.0m to $6.0m depending on the likelihood of the property being part of a larger amalgamated sale. That is, developers will commence negotiations around $3.0m per dwelling and offer higher prices if the contract reflects the condition of amalgamating a significant site area. Other buyers will attempt to acquire properties adjacent to amalgamated sites and attempt to on sell to the developers at a premium.

The rate of development site sales will slow given the number that have occurred within the compact Precinct area. Our Market Commentary below describes the main drivers affecting the development site pricing being interest rates and perceptions of unit demand with a gradual “cooling” of the market expected to result in subdued growth and potentially a decline in sites values as development sites form (one of) the most volatile property sectors.

Market Commentary

We provide a development site property market commentary to describe the main drivers that effect purchaser demand, unit pricing and as a result development site value rates.

The main drivers are listed below.

Interest Rates

A cycle of historically low interest rates has underpinned buoyant house and unit pricing in the Eastern Seaboard capital cities in recent years. This extends to unit pricing on the Upper North Shore and St Leonards supporting our average pricing adopted of $800,000 for one bedroom units, around $1.30million for two bedroom units and $1.70million for three bedroom units.

Whilst this buoyant market phase is expected to continue in the short term some indications of a change in the low interest rate cycle have emerged. Rates for investors have increased with more restrictive loan conditions applied.

Soundings from the Reserve Bank and market commentators suggest a series of moderate interest rate increases could occur over 2018 in response to a strengthening economy.

In summary the buoyant market conditions for pricing of both units and development sites are broadly understood to be approaching the end of the cycle peak, however, the change is expected to be moderate over one to two years. Early signs of an easing market are evident in sales clearance rates slowing, pre-sales requiring greater time and unit price growth moderating.

Capital Sources

The residential development market in Sydney continues to be underpinned by overseas capital pursuing the key sites in capital cities and inner ring areas such as St Leonards South.

Local developers have also participated in sites acquisitions with a number of established entities such as Winten and Dyldam entering (and exiting) St Leonards.

Development sites form one of the most volatile property sectors therefore rates paid will decline in response to a fall in sentiment in unit pricing where early signs are emerging. The pricing adopted for St Leonards South is expected to reflect the peak of the market.

Development Feasibility Modelling

We have reviewed our development modelling completed in mid-2016 for the Precinct, to test the feasibility for various densities shown by FSR's of:

- 2.5:1; 2.75:1 and 3.5:1 anticipated in the LEP.

Gross Realisations

We have reviewed sales of new and modern units in the vicinity in addition to pre-sales activity and found stability in the pricing observed as follows expressed as an average given some variation over the height of the tower buildings:

- One bedroom units (55m²) – $800,000 (shows $14,545/m²)
- Two bedroom units (85m²) - $1.20million (shows $14,118/m²); and
- Three bedroom units (115m²) - $1.60million (shows $13,913/m²).

Range of feasibility returns

Testing the recommended rate of $8,500/m² of land area results in the following range of development returns.

Table 4: Development feasibility returns – Recommended rate

Density	2.5:1 ($8,250/m²)	2.75:1 ($8,500/m²)
IRR %	18.05% - -viable	18.55% - -viable

The densities of 2.5:1 and 2.75:1 and the recommend Open Space rate of $8,250/m² to $8,500/m² show viable returns indicated by the summarised results in the table above.

To demonstrate a range of results a higher site acquisition price of $11,000/m² of land area and a greater density of 3.5:1 reveals a marginal return of 16.20% that reflects developer activity for sites with a higher development potential than the land designated for Open Space.

Table 5: Range of development feasibility returns – Higher rate

Density	2.5:1	2.75:1	3.5:1
IRR %	7.2% - Non-viable	10.4% -Non-viable	16.20% - Marginal

Summary of Findings

To facilitate Council's acquisition of parkland and open space in the St Leonards South Precinct, we recommend a rate of **$8,500/m² of site**

area as at June 2017 for inclusion in the S94 Contributions Plan that reflects the current state of the market.

This rate is based on described site sales following Council's adoption of the Master Plan and is also characteristic of many other Sydney neighbourhood precincts similarly affected with LEP based density uplifts pending that attract speculative developer interest.

Recommendation

Recommending $8,500/m² of site area for inclusion in the S94 Contributions Plan has been explained above to reflect a reasonable rate drawn from the sales evidence to date with relevance to the specific land designated for Open Space in the draft LEP map (extract included).

Allowing negotiations to commence (and possibly conclude) below this rate for a 90 day settlement (ie. unconditional) is anticipated in providing this advice   This recommended rate of $8,500/m² is considered reasonable and should therefore reduce the likelihood of litigation costs. Each specific acquisition case should be evaluated separately and be potentially finalised at a lesser rate.

This recommended rate is inclusive of reasonable compensation costs under the Just Terms Act that will include (specified) consultants costs and re-location costs (all referred to as "Disturbance Costs") and a small allowance permitted by the Act for long term occupiers of a principle residence ("Solatium"). Stamp duty recovery is also permitted under Just Terms but is not included in the rate advised.

It is recommended this result is reviewed periodically as the site sales trend rate will vary over time as the Precinct is developed.

Yours faithfully

CHRIS D. SMITH FAPI, MRICS

Senior Associate

Chris.Smith@hillpda.com

APPENDIX A: ESTATE MASTER FEASIBILITY MODELLING (FSR 2.75:1)

EstateMaster Development Feasibility

SUMMARY OF PROJECT RETURNS

St Leonards South S96a Plan
Option 3 FSR 2.75
Based on Purch pr of $8,500

HillPDA CONSULTING
Estate Master Licensed to: HillPDA

Time Span:	Jan-16 to Jun-18		
Type:	Residential		
Status:	Under Review		
Site Area:	2,100		
#N/A	2.75:1	Equated GFA:	5,775
Project Size:	65 Units	1 per 32.3 of Site Area	
	5,775 GFA	1 per 0.36 of Site Area	

				Total AUD	AUD Per Unit	AUD Per GFA	AUD Per Total Net Revenue
Revenues							
	Quantity	SqM	AUD/Quantity				
Gross Sales Revenue	66	-	[illegible]	72,533,207	1,115,895	12,560	114.9%
Residential - 1 Bedroom Units	33	-	811,576.47	26,782,023			
Residential - 2 Bedroom Units	20	-	1,193,704.32	23,874,086			
Residential - 3 Bedroom Units	13	-	1,682,853.60	21,877,097			
Less Selling Costs				(2,792,528)	42,962	484	-4.4%
Less Purchasers Costs				-	-	-	0.0%
NET SALES REVENUE				69,740,678	1,072,934	12,076	110.4%
	Average Yield	SqM	AUD/SqM/annum				
Gross Rental Income	-	-	-	-	-	-	0.0%
Less Outgoings & Vacancies				-	-	-	0.0%
Less Letting Fees				-	-	-	0.0%
Less Incentives (Rent Free and Fitout Costs)				-	-	-	0.0%
Less Other Leasing Costs				-	-	-	0.0%
NET RENTAL INCOME				-	-	-	0.0%
Interest Received				-	-	-	0.0%
Other Income				-	-	-	0.0%
TOTAL REVENUE (before GST paid)				69,740,678	1,072,934	12,076	110.4%
Less GST paid on all Revenue				(6,593,928)	101,445	1,142	-10.4%
TOTAL REVENUE (after GST paid)				**63,146,750**	**971,488**	**10,935**	**100.0%**
Costs							
Land Purchase Cost				19,635,000	302,077	3,400	31.1%
Land Acquisition Costs				1,334,575	20,532	231	2.1%
Construction Costs (inc. Contingency)				28,659,066	440,909	4,963	45.4%
Other Construction Costs				27,294,349	419,913	4,726	43.2%
Contingency				1,364,717	20,996	236	2.2%
Professional Fees				2,954,408	45,452	512	4.7%
Statutory Fees				1,046,070	16,093	181	1.7%
Miscellaneous Costs 2				-	-	-	0.0%
Miscellaneous Costs 3				-	-	-	0.0%
Project Contingency (Reserve)				-	-	-	0.0%
Land Holding Costs				892,443	13,730	155	1.4%
Pre-Sale Commissions				-	-	-	0.0%
Finance Charges (inc. Fees)				-	-	-	0.0%
Interest Expense				3,025,098	46,540	524	4.8%
TOTAL COSTS (before GST reclaimed)				57,546,661	885,333	9,965	91.1%
Less GST reclaimed				(4,914,604)	75,609	851	-7.8%
Plus Corporate Tax				-	-	-	0.0%
TOTAL COSTS (after GST reclaimed)				**52,632,057**	**809,724**	**9,114**	**83.3%**

Performance Indicators			Per Unit	Per GFA
[1] **Net Development Profit**		**10,514,693**	161,765	1,821
[3] **Development Margin (Profit/Risk Margin)**	Based on total costs (exc selling & leasing costs)	**19.88%**		
[5] **Net Present Value**	Based on Discount Rate of 18% p.a. Effective	**290,515**		
[6] Benefit Cost Ratio		1.0069		
[7] **Project Internal Rate of Return (IRR)**	Per annum Effective	**18.55%**		
[8] Residual Land Value	Based on NPV (Exclusive of GST)	18,114,998	278,692	3,137

Disclaimer

1. This report is for the confidential use only of the party to whom it is addressed ("Client") for the specific purposes to which it refers and has been based on, and takes into account, the Client's specific instructions. It is not intended to be relied on by any third party who, subject to paragraph 3, must make their own enquiries in relation to the issues with which this report deals.
2. Hill PDA makes no representations as to the appropriateness, accuracy or completeness of this report for the purpose of any party other than the Client ("Recipient"). Hill PDA disclaims all liability to any Recipient for any loss, error or other consequence which may arise as a result of the Recipient acting, relying upon or using the whole or part of this report's contents.
3. This report must not be disclosed to any Recipient or reproduced in whole or in part, for any purpose not directly connected to the project for which Hill PDA was engaged to prepare the report, without the prior written approval of Hill PDA. In the event that a Recipient wishes to rely upon this report, the Recipient must inform Hill PDA who may, in its sole discretion and on specified terms, provide its consent.
4. This report and its attached appendices are based on estimates, assumptions and information provided by the Client or sourced and referenced from external sources by Hill PDA. While we endeavour to check these estimates, assumptions and information, no warranty is given in relation to their reliability, feasibility, accuracy or reasonableness. Hill PDA presents these estimates and assumptions as a basis for the Client's interpretation and analysis. With respect to forecasts, Hill PDA does not present them as results that will actually be achieved. Hill PDA relies upon the interpretation of the Client to judge for itself the likelihood of whether these projections can be achieved or not.
5. Due care has been taken to prepare the attached financial models from available information at the time of writing, however no responsibility can be or is accepted for errors or inaccuracies that may have occurred either with the programming or the resultant financial projections and their assumptions.
6. This report does not constitute a valuation of any property or interest in property. In preparing this report Hill PDA has relied upon information concerning the subject property and/or proposed development provided by the Client and Hill PDA has

not independently verified this information except where noted in this report.

7. HillPDA makes no representations or warranties of any kind, about the accuracy, reliability, completeness, suitability or fitness in relation to maps generated by HillPDA or contained within this report.
8. This report has been prepared for the private and confidential use of Lane Cove Council. It should not, without the express written authority of HillPDA be reproduced in whole or in part or relied upon by any other party for any purpose. Our warning is registered here, that any party, other than those specifically named in this paragraph, should obtain their own valuation before acting in any respect to the property.
9. This valuation is current as at the date of valuation only. The value assessed herein may change significantly unexpectedly over a short period (including and because of general market movements or factors specific to the particular property).

Liability limited by a scheme approved under the Professional Standards Legislation