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Lane Cove Council
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Lane Cove NSW 2066

20 July 2017

Dear Terry

**Subject: St Leonards South Precinct Community Facility
Density Increase Advice Update**

In response to your request we provide an update to our advice submitted in mid-2016 to identify a suitable density uplift through a VPA (Voluntary Planning Agreement) for a community centre as described below. A hypothetical sample site in the St Leonards South Precinct has been selected to test the uplift that preserves development project returns before and after inclusion of the community facility (strata lot).

This advice forms an update to that provided in mid-2016 and should be read in conjunction with associated correspondence for Affordable Housing and Open Space acquisition prepared concurrently.

Market Value Basis

Our primary method of valuation assessment is the development feasibility modelling referred to below supported by Direct Comparison with recent site sales evidence. These results should be reviewed periodically to reflect movements in the residential property market annually.

Background

As described in our prior advice we understand Council seeks a community facility to be included in the St Leonards South precinct on one of the specific sites noted below that are expected to be redeveloped with residential buildings following release of the revised LEP with increased densities.

The nominated sites have been advised to be:

- 12-20 Berry Road - site area of 2,225m²; and
- 13-17 Canberra Avenue - site area of 1,935m².

Council has advised the target features for the community facility will be as follows:

- Enclosed area of 600m² located on the ground floor provided as a "cold shell" with services connected to the premises perimeter; &
- Basement parking for 15 vehicles.

A VPA basis of acquiring a community facility from a developer provides Council with an effective way of obtaining ownership of the ground floor strata lot and basement carbays. It allows Council to negotiate with the developer for the dedication of strata lots (ground floor premises and basement carbays) in return for added apartments (density) by an amount assessed below.

Outcome

Our development feasibility modelling reveals the added density of **1,000m² of gross floor area** (ie. excluding the community facility) is recommended as a suitable density increase for inclusion of a community centre of 600m² and 15 basement carbays.

The density area amount applies as a constant across varying site areas and equates to an FSR for the subject sites as listed below based on an uplift from a base case of 2.75:1.

This FSR uplift below reflects an area of 1,600m² inclusive of the added apartment area required and the community facility.

Table 1: Nominated community facility sites

13-17 Canberra Avenue	Site area of 1,935m ²	FSR uplift of 0.82	to 3.57:1.
12-20 Berry Road	Site area of 2,225m ²	FSR uplift of 0.72	to 3.47:1.

"Gross Floor Area" Definition

The gross floor area (GFA) is defined as the building area that Council applies to the stated FSR to derive a building area envelope size.

In this case it applies to a residential apartments use and excludes the community facility.

The gross building area (GBA) utilised by a quantity surveyor is typically 10% larger than the GFA for the inclusion of stairwells and service areas.

The saleable (enclosed living) area is typically 5 to 10% smaller than the GFA after deleting common areas.

Balconies and basement parking areas are not included in any of the areas defined above.

Development Feasibility Modelling

In order to test the density increase required for a developer to be (reasonably) persuaded to dedicate a community facility and parking bays as described above, we have analysed a sample site area starting with a "base case" density of 2.75:1 and then formulating the scenarios below.

Our feasibility modelling has been based on the constant inputs in each case as follows.

Table 2: Summary of input data

Development Feasibility Parameters	Input variables
Land Area	4,200m ² (8 blocks of 525m ²)
Land Purchase Price	\$35.4million (\$8,250/m ² & \$274,411 /unit).
Design and consultants fees	4% of construction costs
Building construction cost rate	\$3,000/m ² of GBA (total building area)
Basement parking	\$50,000 / bay
Selling costs, Marketing & Legal fees	2.0% - 1.0% - 0.5% respectively excl. GST
Project Returns (base case)	IRR - 18.0% Development Margin - 22.9%

Site Acquisition Rate

A site acquisition rate of \$8,250/m² is adopted based on an unconditional sale rate as reflected by a sale at 14-16 Marshall Ave and 2 Berry Street St Leonards analysed in our associated correspondence for Open Space and affordable housing.

Gross Realisations

Our gross realisations have been derived from sales evidence analysis with a sample shown in the annexures of this report and adopted the following Gross Realisations.

Table 3: Gross realisations assessed

Type	Rate Adopted		Gross Realisations
	Av. Enclosed Living Area		
1 bedroom	\$14,500/m ²	55m ²	\$ 797,500
2 bedrooms	\$13,800/m ²	85m ²	\$1,173,000
3 bedrooms	\$13,800/m ²	115m ²	\$1,587,000

We have examined the following Development feasibility testing scenarios:

- Base Case (FSR 2.75:1) without a Community Facility - IRR of 18%
- Base Case (FSR 2.75:1) with a Community Facility (no added units) - IRR declines to 16.39%
- Bonus FSR up to 2.98:1 (1,000m² of added saleable area) with a Community Facility - IRR target threshold regained of 18%.

The three development options above describe a base case without a Community Facility with a viable return (IRR of 18%) for the nominated land acquisition price of \$34.65million given the rates stated above.

In the second scenario the Community Facility is included without any added units to show a reduction in the IRR to 16.82%.

The third scenario shows an added density from 2.75:1 to 2.98:1 is required to restore the IRR to 18% for the same land acquisition price.

The added FSR equates to $0.23 (2.98-2.75) \times \text{site area } (4,200\text{m}^2) = 966\text{m}^2$ rounded to 1,000m².

This is a constant required density amount unrelated to the area of the site and therefore applies to a wide range of site areas that includes the specific area of each nominated site for a community facility.

With feasibility input data tabled below we have identified the additional saleable area (enclosed living area) that provides the same project development returns for the included community centre that comprises 600m² with 15 basement parking bays.

Recommendation

To facilitate Council's acquisition of a community facility in the St Leonards South precinct through a VPA agreement that remains subject to negotiation, we recommend incorporating an added gross floor area (GFA) for apartments of 1,000m² as a reasonable and effective density uplift to encourage a developer to participate as at June 2017.

It is recommended that this result is reviewed periodically as the development feasibility trends will vary over time as the Precinct is developed.

Yours faithfully




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APPENDIX A: ESTATE MASTER FEASIBILITY MODELLING (BASE CASE - FSR 2.75 :1) - NO COMMUNITY FACILITY.

EstateMaster <small>Development Feasibility</small>		SUMMARY OF PROJECT RETURNS					
St Leonards South S96a Plan							
Base Case FSR 2.75:1 (8 lots -- 8*525sqm) No Community Centre							
 <small>Estate Master Licensed to: HIPDA</small>							
Time Span:	Jun-17 to Jan-20						
Type:	Residential						
Status:	Under Review						
Site Area:	4,200						
#N/A:	2.75:1						
Project Size:	125 Units	Equated GFA:	11,550				
	11,550 GFA		1 per 32.55 of Site Area				
			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	130	-	1,101,600.24	143,241,571	1,110,400	12,402	114.9%
Residential - 1 Bedroom Units	65	-	811,576.47	52,752,470			
Residential - 2 Bedroom Units	39	-	1,193,704.32	46,554,468			
Residential - 3 Bedroom Units	26	-	1,689,793.55	43,934,632			
Less Selling Costs				(5,514,800)	42,750	477	-4.4%
Less Purchasers Costs				-	-	-	0.0%
NET SALES REVENUE				137,726,770	1,067,649	11,924	110.4%
TOTAL REVENUE (before GST paid)				137,726,770	1,067,649	11,924	110.4%
Less GST paid on all Revenue				(13,021,961)	100,945	1,127	-10.4%
TOTAL REVENUE (after GST paid)				124,704,809	966,704	10,797	100.0%
Costs							
Land Purchase Cost				38,938,903	301,852	3,371	31.2%
Land Acquisition Costs				2,705,152	20,970	234	2.2%
Construction Costs (inc. Contingency)				55,722,939	431,961	4,824	44.7%
Other Construction Costs				53,069,465	411,391	4,595	42.6%
Contingency				2,653,473	20,570	230	2.1%
Professional Fees				4,457,835	34,557	386	3.6%
Statutory Fees				2,141,400	16,600	185	1.7%
Land Holding Costs				1,905,809	14,774	165	1.5%
Pre-Sale Commissions				-	-	-	0.0%
Finance Charges (inc. Fees)				-	-	-	0.0%
Interest Expense				4,984,568	38,640	432	4.0%
TOTAL COSTS (before GST reclaimed)				110,856,606	859,354	9,598	88.9%
Less GST reclaimed				(9,515,765)	73,766	824	-7.6%
Plus Corporate Tax				-	-	-	0.0%
TOTAL COSTS (after GST reclaimed)				101,340,841	785,588	8,774	81.3%
Performance Indicators					Per Unit	Per GFA	
¹ Net Development Profit				23,363,969	181,116	2,023	
² Development Margin (Profit/Risk Margin)	Based on total costs (exc selling & leasing costs)			22.94%			
⁵ Net Present Value	Based on Discount Rate of 18% p.a. Effective			-			
⁶ Benefit Cost Ratio				1,0000			
⁷ Project Internal Rate of Return (IRR)	Per annum Effective			18.00%			
⁸ Residual Land Value	Based on NPV (Exclusive of GST)			35,399,003	274,411	3,065	

APPENDIX B: ESTATE MASTER FEASIBILITY MODELLING (BONUS FSR SHOWS 2.98 :1) COMMUNITY FACILITY CONTAINED

EstateMaster Development Feasibility		SUMMARY OF PROJECT RETURNS			
St Leonards South S96a Plan Bonus FSR + 600 sqm Community Facility Community Facility					 <small>Estate Master Licensed to HillPDA</small>
Time Span:	Jun-17 to Feb-20	Equated GFA:	12,516		
Type:	Residential	1 per 30' of Site Area			
Status:	Under Review	1 per 0.33' of Site Area			
Site Area:	4,200				
#N/A:	2.98:1				
Project Size:	140 Units				
	12,516 GFA				

	Quantity	SqM	AUD/Quantity	Total	AUD Per	AUD Per	AUD Per
				AUD	Unit	GFA	Total Net Revenue
Revenues							
Gross Sales Revenue	140	420.00	1,102,004.00	154,357,613	1,102,554	12,333	114.9%
Residential - 1 Bedroom Units	70	-	811,576.47	56,810,353			
Residential - 2 Bedroom Units	42	-	1,193,704.32	50,135,581			
Residential - 3 Bedroom Units	28	-	1,693,274.25	47,411,679			
Not Classified	-	420.00	-	-			
Less Selling Costs				(5,942,768)	42,448	475	-4.4%
Less Purchasers Costs				-	-	-	0.0%
NET SALES REVENUE				148,414,845	1,060,106	11,858	110.4%
TOTAL REVENUE (before GST paid)				148,414,845	1,060,106	11,858	110.4%
Less GST paid on all Revenue				(14,032,510)	100,232	1,121	-10.4%
TOTAL REVENUE (after GST paid)				134,382,335	959,874	10,737	100.0%
Costs							
Land Purchase Cost				38,938,903	278,135	3,111	29.0%
Land Acquisition Costs				2,705,152	19,323	216	2.0%
Construction Costs (inc. Contingency)				62,763,717	448,312	5,015	46.7%
Other Construction Costs				59,774,969	426,964	4,776	44.5%
Contingency				2,988,748	21,348	239	2.2%
Professional Fees				5,021,097	35,865	401	3.7%
Statutory Fees				2,324,000	16,600	186	1.7%
Land Holding Costs				1,951,980	13,943	156	1.5%
Pre-Sale Commissions				-	-	-	0.0%
Finance Charges (inc. Fees)				-	-	-	0.0%
Interest Expense				5,340,292	38,145	427	4.0%
TOTAL COSTS (before GST reclaimed)				119,045,141	850,322	9,511	88.6%
Less GST reclaimed				(10,245,948)	73,185	819	-7.6%
Plus Corporate Tax				-	-	-	0.0%
TOTAL COSTS (after GST reclaimed)				108,799,194	777,137	8,693	81.0%
Performance Indicators							
¹ Net Development Profit				25,583,141	Per Unit: 182,737	Per GFA: 2,044	
³ Development Margin (Profit/Risk Margin)		Based on total costs (exc selling & leasing costs)		23.40%			
⁵ Net Present Value		Based on Discount Rate of 18% p.a. Effective		51,232			
⁶ Benefit Cost Ratio		Per annum Effective		1,0006			
⁷ Project Internal Rate of Return (IRR)		Per annum Effective		18.04%			
⁸ Residual Land Value		Based on NPV (Exclusive of GST)		35,445,692	253,184	2,832	

APPENDIX C: UNIT SALES EVIDENCE

Existing Stock Address	Units (based on recent unit sales)	Type
<p>“The Forum” 1 Sergeants Lane St Leonards</p>	<p>Sales range summary: \$1,600,000 to \$2,400,000 (\$17,391/m² av.)</p> <p>Specific sales:</p> <p>Unit 2107 (L21 east view) \$1.68m in May 2017 \$16,800/m²</p> <p>Unit 3408 (L34 east view) \$2.225m in May 2017 \$19,347/m²</p> <p>Unit 1801 (L18 west view) \$2.05m in March 2017 \$16,400/m²</p> <p>Unit 1808 (L18 east view) \$2.00m in March 2017 \$16,000/m²</p> <p>Unit 3308 (L33 east view) \$2.175m in Feb 2017 \$18,913/m²</p> <p>Unit 2201 (L22 west view) \$1.88m in Feb 2017 \$18,800/m²</p>	<p>3 bedrooms (excl. penthouses) 100m² living - 3 bedrms 115m² living - 3 bedrms 125m² living - 3 bedrms 125m² living - 3 bedrms 115m² living - 3 bedrms 100m² living - 3 bedrms</p>
<p>“The Abode” 599 Pacific Hwy St Leonards (cnr Albany Street)</p>	<p>Sales range summary: \$750,000 to \$880,000 (\$16,300 /m² av.) \$1,100,000 to \$1,400,000 (\$13,888/m² av.) \$1,300,000 to \$2,000,000 (\$15,000/m² av.)</p> <p>Specific sales:</p> <p>Unit 174 (L15 west) \$1.9m in Feb 2017 \$14,961/m²</p> <p>Unit 59 (L7 east) \$1.2m in Feb 2017 \$14,634/m²</p> <p>Unit 163 (L13 west) \$770,000 in Feb 2017 \$17,111/m²</p> <p>Unit 185 (L17 west) \$1.3m in Jan 2017 \$13,000/m²</p> <p>Unit 124 (L7 west) \$850,000 in Dec 2016 \$15,740/m²</p>	<p>1 bedroom 2 bedrooms 3 bedrooms 127m² living - 3 bedrms 90m² living - 2 bedrms 45m² living 1 bedrm 100m² living 3 bedrms 54m² living 1 bedrm</p>

The Forum

This complex comprises of 38 stories (118 metres) with 483 in two (2) towers. Forum West is the second to the Forum Tower building, with 25 stories and 290 apartments. Forum Tower was completed in August 1999 and the Forum West was completed 3 years later. Both have a concierge, pool, spa, gym and private and public car parking facilities each. Developed by the [Winten Property Group](#).

599 Pacific Highway

This residential tower was built around 2000 and forms a prominent building with high visibility to traffic along the Pacific Highway. It has a 24 hour concierge, gym, spa, 15metre pool and lifts to all parking levels.

Existing Stock		
Address	Units (based on recent unit sales)	Type
"Air"	Sales range summary:	
10 Atchison Street	\$720,000 to \$955,000 (\$800,000 av. shows \$14,286/m ² av.)	1 bedroom
St Leonards	\$1,100,000 to \$1,500,000 (\$16,250/m ² av.)	2 bedrooms
	Specific sales:	
	Unit 2409 (L21 west view) \$780,000 in Feb 2017 \$14,181/m ²	55m ² living - 1 bedrm no car 55m ² living - 1 bedrm no car
	Unit 2509 (L25 west view) \$795,000 in Feb 2017 \$14,454/m ²	56m ² living - 1 bedrm no car
	Unit 2109 (L21 west view) \$725,000 in Dec 2016 \$12,946/m ²	82m ² living - 2 bedrms 1 car 78m ² living - 2 bedrms 1 car
	Unit 2408 (L24 west view) \$1.44m in Dec 2016 \$17,560/m ²	57m ² living - 1 bedrm 1 car 58m ² living 1 bedrm 1 car
	Unit 1705 (L17 east view) \$1.125m in Nov 2016 \$14,423/m ²	82m ² living 2 bedrms 2 cars
	Unit 1706 (L17 west view) \$760,000 in Nov 2016 \$13,333/m ²	
	Unit 2806 (L28 south view) \$955,000 in Nov 2016 \$16,465/m ²	
	Unit 2508 (L25 W & S view) \$1.465m in Oct 2016 \$17,865/m ²	

10 Atchison Street, St Leonards

The most recently completed high rise residential tower in St Leonards.

The following lists reported pre-sold stock results.

Pre-sold stock Address	Unit sales from recent enquiry	Type
“St Leonards Square”	\$845,000 (\$16,900/m ² av.)	50m ² av. for 1 bedroom
472-486 Pacific Hwy &	\$1.61m to \$1.75m (\$22,158/m ² av.)	69m ² av. For 2 bedrooms
	\$2.0m (\$21,053/m ² av.)	95m ² av. for 3 bedrooms
“Embassy Tower”	\$640,000 (\$12,800/m ² av.)	50m ² av. for 1 bedroom
1 Marshall Avenue	\$1.37m - \$1.9m (\$19,699/m ² av.)	83m ² av. for 2 bedrooms
St Leonards.	\$1.77m av. (\$17,700/m ²)	100m ² av. for 3 bedrooms

St Leonards Square

St Leonards Square comprises two (2) residential apartment towers with 539 units over 35 storeys in the vicinity of the railway station.

Our enquiries with Mirvac revealed the asking prices are being achieved in pre-sales completed as anticipated for high profile marketing campaigns undertaken by a major apartment developer that is widely recognised with a lengthy track record.

Embassy Tower & 25 Marshall Ave, St Leonards

The Embassy Tower at 1-17 Marshall Ave is the second stage of a project underway by Loftex. This building will contain around 217 apartments with a mix of studios, one, two and three bedroom units with district views extending to the Sydney CBD for upper levels.

The prior building at 25 Marshall Avenue was recently completed with settlement prices consistent with the trends shown for other completed towers in the results above.

The developer has contributed funds toward the construction of a public plaza to be built over the southern section of the St Leonards Railway Station line.

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