

15 November 2021

Karen Judd  
City of Canada Bay Council

Sent via email: [karen.judd@canadabay.nsw.gov.au](mailto:karen.judd@canadabay.nsw.gov.au)

Dear Karen

## Re: 1 Ramsay Road, Five Dock - Affordable Housing Feasibility Analysis

A Planning Proposal for 1-7 Ramsay Road and 5-7 Harrabrook Avenue, Five Dock (the Site) was submitted in March 2021 to the City of Canada Bay Council (Council). The Planning Proposal proposes the following amendments to the Canada Bay Local Environmental Plan (2013):

- Rezoning of 5-7 Harrabrook Avenue from R2 Low Density Residential to B1 Neighbourhood Centre.
- Increase in height of buildings controls from 8.5m and 10m to 10m and 14m respectively.
- Increase in FSR controls from FSR 0.5:1 and 1:1 to FSR 0.5:1 and 1.73:1.
- Reducing the minimum lot size controls for 5-7 Harrabrook Avenue from 450sqm to 360sqm.
- Allowing residential flat buildings on part of the Site.

Council reviewed the Planning Proposal and found that it was generally consistent with the objectives of Council's Local Strategic Planning Statement which encourages growth in and near established centres. Prior to the Planning Proposal being submitted to Department of Planning, Industry and Environment for a Gateway Determination, Council resolved to require:

- That the Planning Proposal be updated to:
  - Reduce the maximum building height.
  - Ensure retention of a significant tree.
  - Introduce an active street frontage.
- An analysis on contamination.
- The requirement for Affordable Housing be addressed.

A revised Planning Proposal was submitted to Council in August 2021 that proposed:

- Introducing an active street frontage on Ramsay Road that extends 20m along Henley Marine Drive.
- Providing a 5% Affordable Housing contribution for the Site, with the proponent's preference for a monetary contribution rather than on-site dedication of completed dwellings.

## SCOPE OF WORK

Atlas Urban Economics (Atlas) is engaged by Council to investigate the opportunity for Affordable Housing contributions by the development (whether as completed dwellings or a monetary contribution). This analysis specifically examines:

- The impact of Affordable Housing contributions on development feasibility.
- The implications of requiring Affordable Housing as monetary contributions as cash or in-kind contributions (in the form of completed dwellings) within the proposed development.

The analysis additionally considers the implications on development feasibility should the Site be required to contribute to regional infrastructure rates (which are proposed to be gradually phased-in from 1 July 2022).

## APPROACH

To fulfil the requirements of the brief, Atlas carried out the following tasks:

- Review of Planning Proposal and revised Planning Proposal.
- Analysis of property market activity including prices paid for development sites and completed floorspace (dwellings and non-residential floorspace).
- Feasibility testing of the proposed scheme to observe:
  - The impact of Affordable Housing contributions on development feasibility.
  - The implications of the method of contribution (cash or in-kind) on development feasibility.
  - If the above findings would be significantly different if regional infrastructure contributions were required.
- Recommendations on Affordable Housing rates and method of contribution.

Atlas acknowledges several limitations with the analysis. The feasibility testing is carried out relying on generic cost and revenue assumptions based on researched outcomes and past experience. The cost assumptions do not reflect any site-specific characteristics (e.g. geotechnical issues) which could result in more expensive construction cost.

Despite the adoption of various assumptions and the acknowledged limitations, the analysis is considered to be instructive in understanding the impact of Affordable Housing contributions on development feasibility.

### Monetising Affordable Housing Contributions

Before commencing development feasibility testing, it is necessary to 'monetise' the cost of Affordable Housing contributions into a dollar value. This then allows the contributions to be 'included' as a dollar value in testing impact on feasibility.

The following two-step process describes the 'monetisation' of Affordable Housing contributions.

1. Estimate the baseline cost of purchasing a strata-titled dwelling in the Canada Bay LGA.
2. Convert the estimated baseline cost into various contribution (%) rates. This establishes a dollar value of contributions.

A base cost for delivering Affordable Housing can be inferred from the market value of a completed strata dwelling in any given particular area. This base cost effectively represents the cost which would be incurred by Council to purchase a strata-titled dwelling in the private market for the purposes of use as Affordable Housing.

The median sale price for strata dwellings in the Canada Bay LGA is a useful proxy for this base cost. In March 2021, the median strata dwelling price in the Canada Bay LGA was \$1,030,000 (per NSW DCJ *Sales and Rents Report*).

If an average unit size of 85sqm is assumed and a generic cost of procuring an Affordable Housing dwelling (strata) is \$12,118/sqm GFA ( $\$1,030,000 \div 85\text{sqm GFA}$ ).

Based on the above steps the cost of Affordable Housing in the Canada Bay LGA is calculated as \$12,118/sqm GFA based on the median strata dwelling price recorded in March 2021 and assumed average strata dwelling size.

Once a generic cost of Affordable Housing (on a \$/sqm GFA basis) is established, the percentage cost of Affordable Housing contributions can be calculated. This is done by applying percentage rates to the generic cost, as shown in **Table 1**.

**Table 1: Affordable Housing Contribution Rates**

Contribution Rate (%)	\$/sqm Gross Floor Area
Median Strata Dwelling at \$1,030,000	\$12,118
1%	\$121
2%	\$242
3%	\$364
4%	\$485
5%	\$606

Source: Atlas/DCJ (2021)

These monetised/ dollar value rates can be factored into the feasibility testing to assess tolerance of development to Affordable Housing contribution (%) rates.

## FEASIBILITY TESTING

Generic feasibility modelling is undertaken to test the capacity of development to contribute to Affordable Housing.

### Tested Development Scheme

The revised Planning Proposal envisages a development scheme described in **Table 2**.

**Table 2: Proposed Development Yields**

Particulars	
Site Area	2,578sqm
Gross Floor Area (GFA)	4,432sqm
Equivalent FSR	1.72:1
Retail GFA	580sqm
Residential GFA	3,852sqm
Indicative Apartments	33 units
Average GFA per Apartment	110sqm
Proposed Affordable Housing	5% or 193sqm GFA

Source: City of Canada Bay Council

### Testing Scenarios

The Residual Land Value (RLV) approach is adopted as the method of assessment. The RLV approach involves assessing the value of the completed product, making a deduction for development costs and a further deduction for profit and risk while ensuring the development achieves target profit margin and target return. The amount that a development can afford to pay for land is a 'residual', i.e. the amount that remains after development costs are deducted and target hurdle rates are achieved.

Based on the proposed development yields, generic feasibility modelling is undertaken to assess the capacity of the proposed scheme to contribute to Affordable Housing at 5%. All statutory fees and charges, including s7.12 contributions are included.

The cost of land is a critical variable to the feasibility of development. If the price paid for land exceeds its value as a development site as permitted, its viability as a feasible development site will be challenging. The Site was assembled as a development site over a period of almost three years, with a total price of \$17,558,000 paid (RP data).

Benchmark hurdle rates and their 'feasible' ranges are indicated in **Table 3**.

**Table 3: Benchmark Hurdle Rates\***

Performance Indicator	Feasible	Marginal to Feasible	Not Feasible
Development Margin	>20%	18%-20%	< 18%
Project Return (Project IRR)	>18%	17%-18%	< 17%

\*We note historic low interest rates (expected to endure at least for the medium term) have re-set market expectations and lowered benchmark project returns.  
Source: Atlas

Where the project IRR falls below 18% but remains above 17%, the project is considered to still be overall feasible, however with a reduced return and profit. Where the project IRR approaches 17% the development is considered marginal, and where project IRR falls below 17% the development is considered not feasible.

Similarly, where development margin falls below 20% but above 18%, the project is considered marginal-to-feasible, however with a reduced profit. Where the development margin falls below 18% the development is considered not feasible.

The feasibility testing examines the feasibility of development considering the impact of:

- Affordable Housing contributions at 5% (cash and in-kind), and
- Regional infrastructure contributions (\$10,000 per dwellings, \$30/sqm retail GFA).

The testing scenarios and their respective contribution assumptions are detailed in **Table 4**.

**Table 4: Testing Scenarios**

Scenario Description		Affordable Housing	Regional Contributions
1	All applicable statutory fees and charges	No	No
2a	Scenario 1 + Affordable Housing 5% cash contributions	\$2,334,312 (\$606 x 3,852sqm residential GFA)	No
2b	Scenario 1 + Affordable Housing 5% in-kind contributions	Foregone sales revenue (193sqm residential GFA)	No
3a	Scenario 2a + Regional infrastructure contributions	\$2,334,312 (\$606 x 3,852sqm residential GFA)	\$367,400 (\$10,000 x 35 dwellings, \$30 x 580sqm retail GFA)
3b	Scenario 2b + Regional infrastructure contributions	Foregone sales revenue (193sqm residential GFA)	\$367,400 (\$10,000 x 35 dwellings, \$30 x 580sqm retail GFA)

Source: Atlas

**Testing Outcomes**

Tolerance of the proposed development to Affordable Housing contributions varies. Contributions in-kind (in the form of completed dwellings) as a cash flow benefit to the development compared to a cash contribution/ payment upfront.

The testing scenario outcomes are summarised in **Table 5**.

**Table 5: Testing Scenario Outcomes**

Scenario	Project IRR	Development Margin	Feasible?	Comment
1	22.5%	23.3%	Yes	The proposed development scheme yields healthy returns in this scenario (which assumes all statutory fees and charges but no Affordable Housing or Regional infrastructure contributions).
2a	18.1%	17.4%	Marginal to Feasible	Scenario 2b (contribution of 5% completed dwellings on-site) yields marginally better returns as the Affordable Housing contributions in-kind occur over the course of development, not as a bullet cash payment in the case of Scenario 2a.
2b	18.9%	18.9%		
3a	17.2%	16.3%	No	If Regional infrastructure contributions were payable, development returns are reduced further. Scenario 3b also performs better than Scenario 3a, as the latter requires a bullet cash payment of Affordable Housing contributions.
3b	18.1%	17.7%	Marginal	

Source: Atlas

**FINDINGS AND RECOMMENDATIONS**

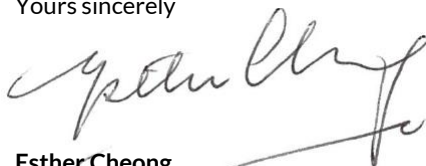
The Planning Proposal's suggested 5% Affordable Housing contributions is marginally tolerated by the development.

While an upfront cash contribution (\$2.3 million) results in a slightly greater impact to development feasibility than if Affordable Housing contributions were made in the form of completed dwellings, the proponent may nevertheless elect to make a monetary contribution.

If regional infrastructure contributions were also required, development feasibility would be more marginal. Under the NSW Government's proposed infrastructure contributions reform, regional infrastructure contributions are proposed to be phased-in from 1 July 2022. The regional contribution rates would commence at discounted rates (50%), with savings provisions applicable to developments already in the system.

The Planning Proposal's inclusion of 5% Affordable Housing contributions is considered appropriate. Should Council receive a cash contribution, we recommend a dollar rate of \$606/sqm for multiplication against the residential GFA. We trust this assists Council in its review of the Planning Proposal.

Yours sincerely



**Esther Cheong**  
Director

T: 02 8016 3864

E: esther.cheong@atlasurbaneconomics.com

# Feasibility Testing Assumptions

## Project Timing

The site is assumed to be appropriate zoned. Planning and design are assumed to be progressed immediately upon settlement and span 9 months. Thereafter a development application is assumed to occur with pre-sales occurring shortly thereafter.

Demolition and construction are assumed from Month 15 in a stage spanning 12-18 months. The project is assumed to be completed in 2-3 years following sales completion.

## Revenue Assumptions

Average end sale values are adopted based on market research and analysis.

- Non-residential - \$10,000/sqm to 12,000/sqm
- Residential:
  - 1 bedroom units - \$13,500/sqm to \$14,500/sqm
  - 2 bedroom units - \$14,000/sqm to \$15,000/sqm
  - 3 bedroom units - \$14,000/sqm to \$15,000/sqm

It is assumed that 75% of the apartments would be pre-sold prior to completion of construction and the balance would be sold post completion at an average rate of 4-6 units per month.

Other revenue assumptions:

- GST is excluding on non-residential sales and included on the residential sales.
- Sales commission at 2.5% and marketing costs of 2.0% on gross sales.
- Legal cost on sales included at \$1,500 per unit.

## Cost Assumptions

- Assumed cost of land based on historical purchase price.
- Legal costs, valuation and due diligence assumed at 0.5% of land price and stamp duty at NSW statutory rates.
- Construction costs are estimated with reference to cost publications and professional experience:
  - Retail/ commercial construction (warm shell) assumed at \$2,000/sqm of building area
  - Residential construction assumed \$3,000/sqm to \$3,500/sqm of building area, balconies at \$1,000/sqm.
  - Basement car parking at \$50,000 per car space.
- Construction contingency at 5%.
- Provisional allowance for lead-in and services infrastructure at 2% of construction costs.
- Professional fees and application fees at 10% of construction costs.
- Development management fees at 1% of construction costs.
- Statutory fees:
  - DA fees of 1% of construction costs.
  - CC fees of 0.5% of construction costs.
  - Long service levy of 0.35% of construction costs.
  - s7.12 contributions at 1% of construction costs.

- Finance costs:
  - Land value assumed as equity contribution with balance funded at interest capitalised monthly at 6% per annum.
  - Establishment fee at 0.35% of peak 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.

Key hurdle rates assumed for the feasibility modelling are 18% discount rate (effective) and 20% development margin.

If the resulting profit from this feasibility analysis is sufficient to meet the target hurdles (target development margin and discount rate), the project is considered financially viable for development.