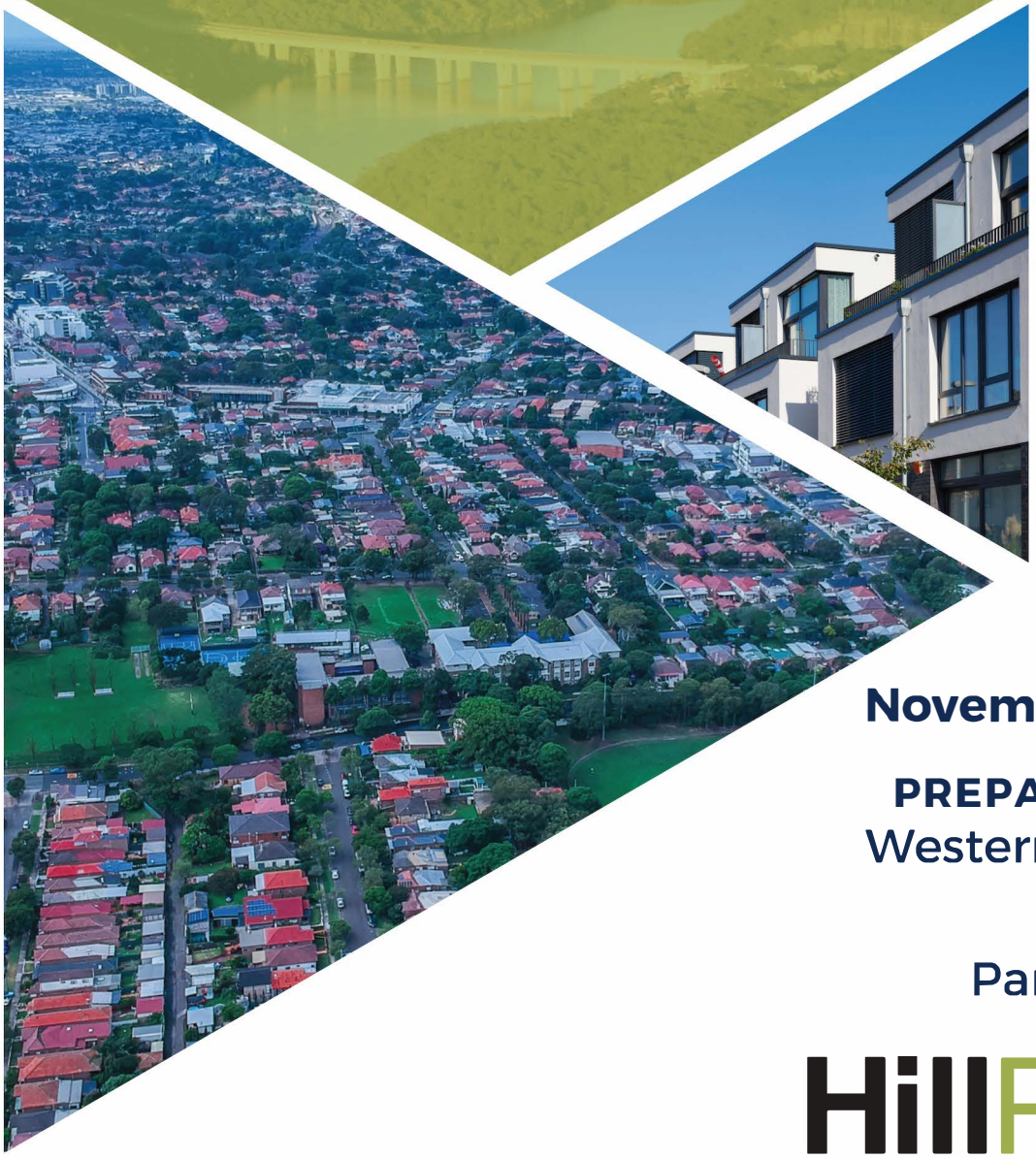
Attachment 4 to Item 4.3.1

Economic Testing Hill PDA

Date of meeting: 30 January 2024
Location: Council Chambers
Time: 6:30 p.m.

WESTERN SYDNEY AFFORDABLE HOUSING CONTRIBUTION SCHEME

ECONOMIC TESTING



November 2023

PREPARED FOR
Western Sydney Planning Partnership

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CONTENTS

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This document is for discussion purposes only unless signed and dated.

Reviewer

Signature		Dated	10/11/23

Report details

Job number	V24027
Version	Final
File name	Economic testing for Draft Western Sydney AH Contribution Scheme
Date issued	10 November 2023

Executive Summary

Affordable housing is critically important for Western Sydney. The Western City District Plan released by the NSW Government identified a 5-10% affordable housing target subject to uplift for the region in 2018. This recognised the critical role of housing in providing stability, diversity, and economic productivity. While, the Western Parkland City is relatively more affordable than other parts of the metropolitan region, it has experienced significant dwelling sales and rental price increases, with rents escalating approximately 30% since late 2021. The NSW Government directed each of the Councils to develop an affordable housing contribution scheme through its Local Housing Strategy approval process.

The Western Sydney Planning Partnership (WSPP) was established by the 2018 Western Sydney City Deal and is a collaborative council-led initiative that helps deliver common approaches for Western Sydney planning. The WSPP has proposed that 1.5% of the gross floor area be provided as affordable housing, to apply to all development in Western Sydney as a monetary equivalent contribution.

HillPDA has been engaged by the WSPP to review the economic impact of the proposed affordable housing contribution scheme.

The monetary equivalent rate

The proposed scheme would apply to residential development, land subdivision, and non-residential development. Non-residential development cannot be used for residential uses. A warehouse or logistics hub would be unsuitable for residential accommodation. Therefore, a monetary equivalent is required.

In addition, collecting affordable housing as a monetary contribution enables the WSPP to deliver more affordable housing by co-funding development in addition to just being dedicated dwellings. It allows for the delivery of affordable housing in purpose-built development in Western Sydney lowering lifecycle costs.

HillPDA considered in principle the monetary contribution should be comparable to a developer dedicating floorspace and its sale revenue foregone. If you had a 200-apartment development and needed to dedicate 1.5% of apartments as affordable housing, then it would be 3 apartments dedicated. The impact to the developer is forgone revenue for 3 apartments. This principle has been applied for the calculation of the monetary-equivalent rates:

- **Residential Development – 1.5% of the median residential strata dwelling price in the applicable LGA**. Benchmarking to the median strata residential dwelling price provides a consistent rate that can be applied for all development, it allows the scheme to reflect the actual price to acquire dwellings in the LGA.
- **Residential Subdivision – 1.5% of the average residential unimproved land value in the applicable LGA**. Residential subdivision has a different delivery mechanism to residential built-form development and revenues are lower because only the land is acquired and then the homebuyer builds a house. If a residential developer were to provide 1.5% of their developable area to affordable housing, they would dedicate 1.5% of the land only. Therefore, the rates need to be benchmarked across the value of land, which is why residential subdivision is based on the average unimproved land value.
- **Non-Residential Development – 0.3% of the median residential strata dwelling price in the applicable LGA**. Non-Residential Development has been benchmarked against residential strata dwelling prices to allow for simplicity in the scheme. It also reflects the need to purchase residential floorspace for affordable housing. The rate of 0.3% of the median residential strata dwelling price considers the price

differential between non-residential and residential development to ensure that non-residential development is not paying more than 1.5% of revenue.

This resulted in the following recommended contribution rates:

Table 1 Contribution Rates to be applied in each LGA

LGA	Median Strata Price	Monetary Equivalent for Residential built form $/sqm GFA	Example for residential subdivision $/ha NDA	Discounted Equivalent for Non-Residential $/sqm GFA
Blacktown	$612,000	$102	$210,000	$20
Blue Mountains	$630,000	$105	$170,000	$21
Camden	$705,000	$118	$220,000	$24
Campbelltown	$559,000	$93	$190,000	$19
Fairfield	$482,000	$80	$240,000	$16
Hawkesbury	$625,000	$104	$200,000	$21
Liverpool	$528,000	$88	$240,000	$18
Penrith	$575,000	$96	$200,000	$19
Wollondilly	*Insufficient data*	$80*	$210,000	$16

* Where insufficient data have adopted the lowest rate

Source: HillPDA 2023, DCJ 2023, Valuer-General 2023

Staged introduction of the scheme ensures the current development pipeline remains viable

The 1.5% contribution rate was tested across 31 different types of development across Western Sydney. HillPDA tested eight different types of development that occurred across Western Sydney:

- Subdivision
- Dual occupancies
- Townhouses
- 3-5 storey apartments
- 5-10 storey apartments
- 10-15 storey apartments
- Commercial development
- Industrial development

The typologies were tested in a range of typical locations that represented both 'high' and 'low' markets in Western Sydney, as well as different contexts such as centres, suburban infill development, and greenfield locations.

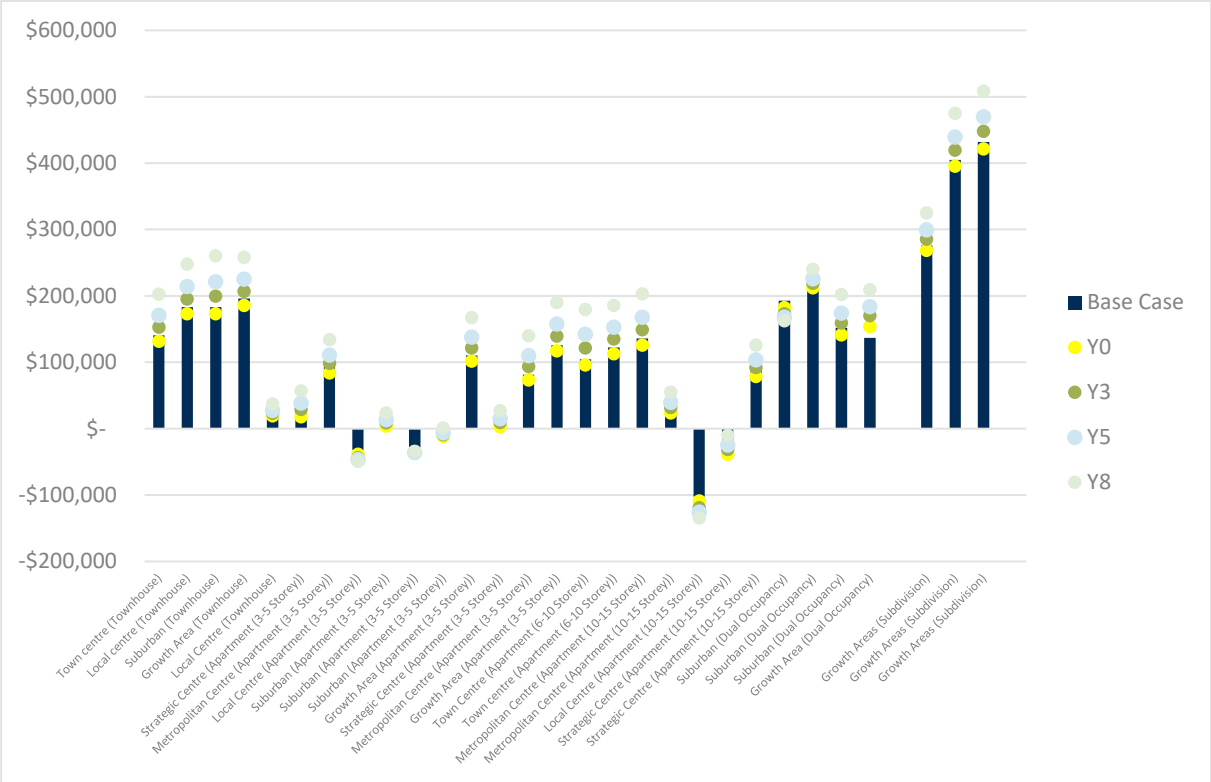
The Residual Land Value is the maximum price that a developer can pay for land. The Residual Land Value is calculated by calculating the total revenue (how much a developer can sell the land for) and costs and required profit margin. If the Residual Land Value is higher than the sale price of the land based on its existing use, then the development is viable. HillPDA considered the impact of the proposed contributions on the Residual Land Value.

The introduction of an affordable housing contribution rate as proposed by the scheme would not significantly impact the viability of the development. We found that most developers would be able to absorb the change almost immediately within a prudent development contingency allowance.

Prices change over time. Figure 1 shows the escalation in residual land value over the coming years based on likely increases to construction costs, sales prices, and the impact of the affordable housing contribution. The dark blue bar is the base residual land value with no contribution. The yellow marker shows the residual land

value at year zero with the contribution rate in place and the dark green marker shows the residual land value after three years. In general, a three-year transition will be more than sufficient for the residual land value to absorb the cost impact of the affordable housing contribution. This means that a broader base of development would be viable with a staged introduction of the affordable housing contribution scheme. This reflects that residential property markets increase in average sales values over time, making development relatively more attractive. Furthermore, developers seeking to adjust purchase prices (based on the knowledge that affordable housing contributions are in place)can calculate accurate residual land values for 2026.

Figure 1 Residual land value escalation



Source: HillPDA, 2023

Non-residential development reflects the demand for affordable housing that business generates. Non-residential development has differing abilities to absorb an affordable housing contribution depending on the use type. Currently industrial development is strongly viable and able to absorb the additional contributions immediately. The commercial market remains challenged. However, over time with improvements in amenity because of the aerotropolis, it will likely recover, and we consider that flagging the required contributions early would allow these to be considered. This would help ensure that viability of commercial development that support affordable housing provisions, essential workers, and jobs in Western Sydney.

Key Conclusions

HillPDA recommends the WSPP Councils introduce a stepped affordable housing contribution scheme. Delaying the introduction for a three-year period (to be implemented March 2027) for all development types to allow existing land to go through the development application process, and new acquisitions to consider the impact of affordable housing, will help residual land values adjust. In our view the impact of the scheme would have a manageable financial impact on market housing and employment in Western Sydney. Importantly, the scheme would help further catalyse the development of affordable housing in the region now and into the future, ensuring the Region is attractive and affordable for workers.

ECONOMIC REPORT

WESTERN SYDNEY AFFORDABLE HOUSING ECONOMIC REPORT

HillPDA CONSULTING

1.0 INTRODUCTION

The Western Sydney Planning Partnership (WSPP) consists of the councils in the Western Parkland District and Blacktown City Council referred to collectively in this report as WSPP Councils, these are:

- Blacktown
- Blue Mountains
- Camden
- Campbelltown
- Fairfield
- Hawkesbury
- Liverpool
- Penrith
- Wollondilly

The WSPP has sought to develop a regional affordable housing contribution scheme that would accommodate the Local Housing Strategy approval conditions of each of the councils to prepare an affordable housing contribution scheme.

The WSPP is seeking to implement a low flat rate contribution through an inclusionary zoning approach, which is more suitable for the region than the uplift approach addressed in the Department of Planning and Environment's *Affordable Housing Contribution Scheme Guideline*. The WSPP engaged specialist expertise in developing the scheme, which recommended a 1.5% floorspace flat rate contribution on new residential and non-residential development in Western Sydney.

HillPDA has been engaged by the WSPP to undertake viability testing for a Regional Affordable Housing Scheme. The WSPP proposed for testing and potential modification a contribution rate of 1.5% of gross floor area (GFA) across all development in the LGAs. This includes both residential and non-residential development. This study sought to answer the following questions:

- Is a contribution rate viable?
- What would be a sufficient transition period for introduction?
- How to convert the 1.5% GFA into a monetary equivalent?
- How to index the monetary equivalent?

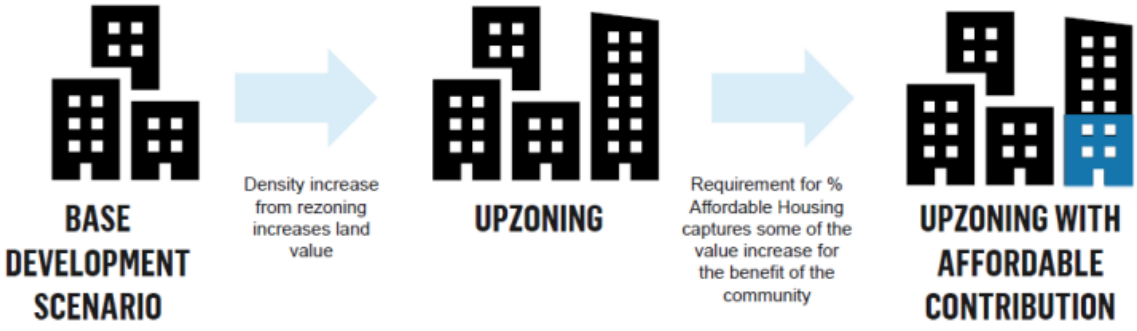
2.0 METHODOLOGY

The Western Sydney Planning Partnership (WSPP) is proposing a broad inclusionary levy on all development. Therefore, the WSPP has sought to develop an alternative methodology to the standard residual land value methodology prescribed in the *Affordable Housing Contribution Scheme Guideline*.

2.1 DPE Guideline

The *Affordable Housing Contribution Scheme Guideline* relies on the value uplift created by a rezoning to determine the portion of affordable housing, with the value to then be shared between the developer and the community. That is when there is a rezoning there is an increase in value, which results in an affordable housing contribution.

Figure 2 Contributions calculated on uplift



Source: DPE, 2019

This approach has not been utilised as the WSPP's proposed scheme seeks an inclusionary approach based on housing need and demand for affordable housing (rather than the uplift to which the Guideline applies); however, some key elements have been maintained:

- Development margins consistent with the Guidelines have been adopted (20%).
- Base land value has been adopted, (i.e. based on the existing land-use value), which is an alternative approach under the scheme.
- A residual land value consideration as per the Guideline has been maintained.

2.2 Feasibility methodology

HillPDA has undertaken feasibility testing for 9 Local Government Areas (LGAs) in Western Sydney, considering 3 key variables in each of the markets selected:

1. Anticipated revenue
2. Development cost
3. Land price

These three variables largely determine the viability of site redevelopment. To support the testing, we have analysed market transactions to verify the findings. This forms the basis to assess the market viability across the investigation areas.

We have used a target development margin of 20% and the Residual Land Value as the primary indicators of project viability. We note that the development margin does not take into account the time value of money, however for the purposes of this high-level testing we have assumed that all projects would not span for more than 2 years.

Our analysis has sought to consider 'The Typical Developer' which is a developer that:

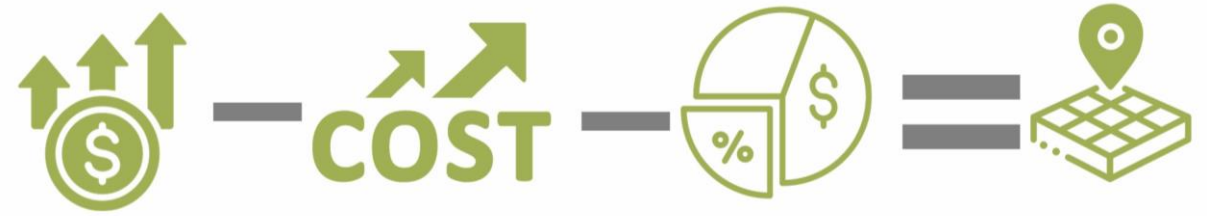
- Purchases land in the current market
- Seeks to sell in the same market
- Commences development process as soon as the land is purchased
- Uses average construction costs
- Develops consistent with Council's strategic objectives

Existing landowners who are seeking to sell their land to a developer are considered through the residual land value. The residual land value is the maximum price that a developer is likely to purchase the land for. The time it takes for the residual land value to recover is considered through the escalation profiles.

Smaller scale developers have been considered through the dual occupancy and townhouse scenarios, however, often these developers operate at tighter margins, so could be less impacted by the changes, as sites would still be able to be purchased competitively.

2.3 Residual Land Value

The residual land value represents the amount that a prudent developer would pay for a site considering the revenue and development costs that could likely be achieved. Where the residual land value of the site is greater than the land values in an area, development is viable.



The maximum price a developer will pay for land is total costs and profit margin subtracted from total revenue from the proposed development.

HillPDA has reviewed all transactions in the test suburb at zoning where the development typology would likely be permissible, typically R3 or R4. In general, we consider the 30th percentile land value is the value that indicates the development site. The 30th percentile indicates sites that are less likely to be recently or significantly improved, and therefore reflect potential development sites. A developer would very rarely develop a recently constructed or heavily improved building.

A relatively generous 25% percent premium is applied to provide for the possibility of amalgamation where multiple sites are required. Where lot sizes are sufficient to allow development on a single site, the existing site value is used.

The residual land value is compared to the existing use value. Where the residual land value is higher than the existing use value, then the development is viable. Where the residual land value is lower than the existing use value, HillPDA has considered the percentile of sites that are suitable for development.

2.4 Development Margin

A development margin of 20% has been adopted in the analysis. This is a highly conservative margin and has been adopted consistent with the *Affordable Housing Contribution Scheme Guidelines*. In our recent market observations, margins have been tighter reflecting the heightened level of competition in the market.

The margin represents the level of risk for development. Generally, smaller-scale developments and greenfield developments have lower levels of risk than high-rise residential development and consequently a lower margin to be viable. In our experience development margins as low as 12% can be viable.

2.5 Assumptions

The following key assumptions were applied for the study:

- Revenues have been assessed on recent market transactions for the typology in similar locations in Western Sydney. This includes off the plan sales, asking prices, and sales. These are detailed in Appendix A.
- Costs have been based on reference to industry benchmarks, Rawlinsons, RLB Construction Costs, and our experience with similar projects. These are detailed in Appendix A
- Infrastructure Contributions have been considered based on the current infrastructure contributions considering the Housing and Productivity Charge (HPC), Sydney Water Development Servicing Plan (DSP) charges, and Section 7.11 (based on either current plans or an estimate).

With recent changes to the contribution framework, the modelling takes these charges into account. Where the charges are in place, they have been adopted, where they are not in place or known (such as the biodiversity component of the HPC) then they have not been taken into consideration.

In our view, "subject to viability" cannot reasonably consider all potential charges that may or may not come into effect in the future. Otherwise, no contribution would ever be viable. Furthermore, we note that the District Plan objective came into effect in March 2018 well before any of these additional charges were contemplated. Therefore, we consider a prudent developer would have considered a 5-10% contribution could have been implemented, and therefore would have considered that potential at site acquisition. It would be unreasonable for that consideration to be absorbed by other policy changes and amendments.

2.6 Viability over time

The revenues and costs are not consistent over differing periods, over time prices and costs tend to escalate upwards. This was tested through price escalations described in Section 3.

2.7 Locations

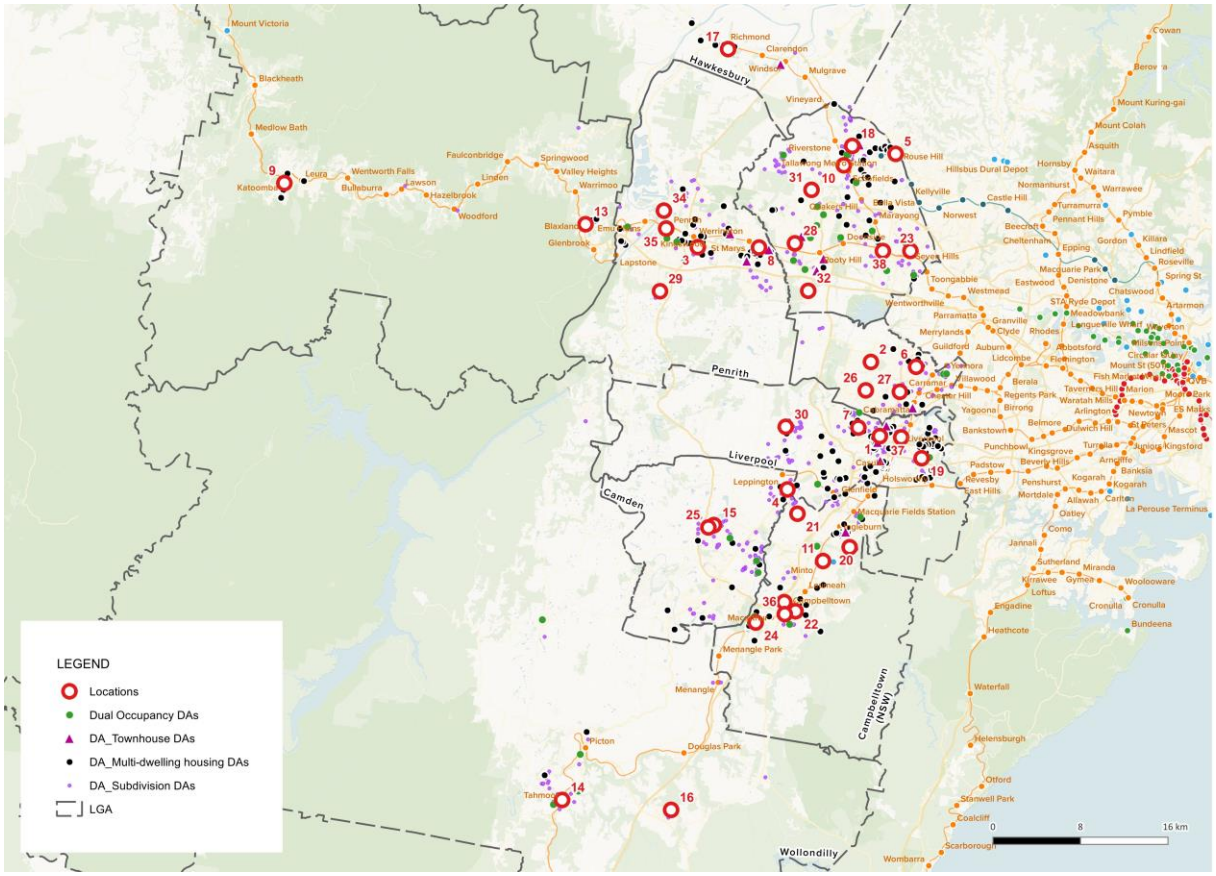
Locations and typologies were selected to represent the range of development outcomes in Western Sydney. Typologies tested were:

- Greenfield subdivision
- Dual occupancy
- Townhouse
- Low-rise apartment
- 5-10 storey apartment
- 10-15 storey apartment

- Commercial
- Industrial Development

HillPDA tested locations across the Western Sydney Region. The locations are intended to be characteristic of the type of area that a development could occur such as suburban infill, greenfield, town centre, transit-oriented development, with the aim of considering viability typical in the type of area in Western Sydney. These locations were agreed with the WSPP and considered typical of a higher value and lower value markets. The selected locations and typologies are as follows:

Figure 3: Map of selected locations



Source: HillPDA, 2023

Table 2: Selected test site and typologies across the investigation area

Site	Fid	Typology	Locality type	LGA
S1	11	Townhouse	Town centre	Campbelltown
S2	9	Townhouse	Local centre	Blue Mountains
S3	13	Townhouse	Suburban	Blue Mountains
S4	10	Townhouse	Growth Area	Blacktown
S5	14	Townhouse	Local Centre	Wollondilly
S6	8	Apartment (3-5 Storey)	Strategic Centre	Penrith
S7	7	Apartment (3-5 Storey)	Metropolitan Centre	Liverpool
S8	17	Apartment (3-5 Storey)	Local Centre	Hawkesbury
S9	6	Apartment (3-5 Storey)	Suburban	Fairfield
S10	26	Apartment (3-5 Storey)	Suburban	Fairfield
S11	27	Apartment (3-5 Storey)	Suburban	Fairfield
S12	15	Apartment (3-5 Storey)	Growth Area	Camden

S13	28	Apartment (3-5 Storey)	Strategic Centre	Blacktown
S14	24	Apartment (3-5 Storey)	Metropolitan Centre	Campbelltown
S15	25	Apartment (3-5 Storey)	Growth Area	Camden
S16	22	Apartment (6-10 Storey)	Town Centre	Campbelltown
S17	23	Apartment (6-10 Storey)	Town centre	Blacktown
S18	3	Apartment (10-15 Storey)	Metropolitan Centre	Penrith
S19	1	Apartment (10-15 Storey)	Metropolitan Centre	Liverpool
S20	2	Apartment (10-15 Storey)	Local Centre	Fairfield
S21	4	Apartment (10-15 Storey)	Strategic Centre	Liverpool
S22	5	Apartment (10-15 Storey)	Strategic Centre	Blacktown
S23	19	Dual Occupancy	Suburban	Liverpool
S24	20	Dual Occupancy	Suburban	Campbelltown
S25	21	Dual Occupancy	Suburban	Liverpool
S26	18	Dual Occupancy	Growth Area	Hawkesbury
S27	16	Subdivision	Growth Areas	Wollondilly
S28	29	Subdivision	Growth Areas	Penrith
S29	30	Subdivision	Growth Areas	Liverpool

Source: HillPDA, 2023

3.0 ECONOMIC CONTEXT

This section outlines key economic factors that are impacting on the residential and non-residential markets and the viability of development more generally across western Sydney.

3.1 Building completions

To understand trends in building supply HillPDA have analysed building approval and completions data sourced from the Department of Planning and Environment. The below table details the building approval and completions by LGA by financial year.

The approvals data shows the highest number of approvals were in the Blacktown, Camden and Liverpool Local Government Areas. Areas with lowest approvals were the Blue Mountains and Hawkesbury. In FY20 there was a notable decrease in building approvals across Western Sydney. Building completions increased in the FY19 financial year, but saw a decline in FY20. The building approvals tell a part of the picture with not all approved projects developed as seen in Table 3.

The majority of LGAs saw an increase in both approvals and completions in FY21 with FY22 and FY23 seeing a decline likely due to the pressures of increasing interest rates, and rising costs of construction flowing through post Covid-19 pandemic. The data shows that all LGAs have some market activity even in the Blue Mountains which saw the lowest dwelling completions across all LGAs.

Table 3: Building approvals for all dwelling types by financial year

	Approvals (Number of dwellings)					Approvals (% Change from previous period)				
FY	18-19	19-20	20-21	21-22	22-23	18-19	19-20	20-21	21-22	22-23
Blacktown	5,231	4,440	6,762	5,751	3,659	-2%	-15%	52%	-15%	-36%
Blue Mountains	219	147	217	164	116	-22%	-33%	48%	-24%	-29%
Camden	2,532	2,085	2,459	2,475	1,522	-28%	-18%	18%	1%	-39%
Campbelltown	1,883	1,678	1,679	1,217	824	2%	-11%	0%	-28%	-32%
Fairfield	1,030	863	966	1,130	1,066	3%	-16%	12%	17%	-6%
Hawkesbury	204	257	325	221	283	-15%	26%	26%	-32%	28%
Liverpool	2,709	2,048	2,373	2,489	2,091	-14%	-24%	16%	5%	-16%
Penrith	1,930	1,251	1,122	1,220	1,259	-31%	-35%	-10%	9%	3%
Wollondilly	359	407	780	765	765	-31%	13%	92%	-2%	0%
Greater Sydney	**48,945**	**41,697**	**50,922**	**45,059**	**32,481**	**-23%**	**-15%**	**22%**	**-12%**	**-28%**

Source: DPE 2023

The completion and approvals indicate that although approvals increased in FY21 and additional approvals were still flowing, the number of building completions in FY22 and FY23 have declined and most LGAs likely due to pressures as a result of construction constraints, presale and financing challenges, and interest rates rises in the current market placing pressure on viability.

Table 4: Residential dwelling completions for all dwelling types by financial year

	Completions (Number of dwellings)					Completions (% Change from previous period)				
FY	18-19	19-20	20-21	21-22	22-23	18-19	19-20	20-21	21-22	22-23
Blacktown	3,105	3,515	4,793	4,553	3,638	-6%	13%	36%	-5%	-20%
Blue Mountains	129	93	78	52	61	-42%	-28%	-16%	-33%	17%
Camden	2,949	1,348	2,241	1,952	1,597	10%	-54%	66%	-13%	-18%
Campbelltown	1,610	808	1,341	781	518	31%	-50%	66%	-42%	-34%
Fairfield	394	326	362	427	166	16%	-17%	11%	18%	-61%

Hawkesbury	233	86	244	181	110	10%	-63%	184%	-26%	-39%
Liverpool	2,224	1,800	1,907	2,050	1,646	29%	-19%	6%	7%	-20%
Penrith	2,171	841	1,365	776	718	-3%	-61%	62%	-43%	-7%
Wollondilly	454	166	416	588	387	62%	-63%	151%	41%	-34%
Greater Sydney	**42,414**	**32,464**	**29,785**	**24,641**	**16.268**	**1%**	**-23%**	**-8%**	**-17%**	**-34%**

Source: DPE 2023

3.1.1 Multi-unit completions

Breaking down the completions by typology, the Multi-unit dwelling completions give a better indication of delivery in high density locations. The Multi-unit category includes strata typologies like apartments, townhouses, dual occupancies, and villas. As to be expected, the completions in LGAs with strong town centres like Liverpool and Penrith were higher however there has been a consistent downward trend in the majority of LGAs between FY20 and FY23. This is consistent with substantial declines experienced across Greater Sydney. In particular because of relatively flat multi-unit prices over the past few years.

Table 5 Building completions for multi-unit housing (by financial year

LGA	18-19	19-20	20-21	21-22	22-23	18-19	19-20	20-21	21-22	22-23
Blacktown	800	1,878	1,526	1,457	1,620	3%	135%	-19%	-5%	11%
Blue Mountains	41	31	-	2	26	-31%	-24%	-100%		1200%
Camden	156	90	150	115	164	-49%	-42%	67%	-23%	43%
Campbelltown	569	187	127	46	73	53%	-67%	-32%	-64%	59%
Fairfield	190	188	195	260	58	28%	-1%	4%	33%	-78%
Hawkesbury	24	2	8	12	-	26%	-92%	300%	50%	-100%
Liverpool	1,220	1,329	714	825	508	111%	9%	-46%	16%	-38%
Penrith	1,183	503	830	471	463	-19%	-57%	65%	-43%	-2%
Wollondilly	53	22	27	14	25	4%	-58%	23%	-48%	79%
Greater Sydney	**29,815**	**25,536**	**17,432**	**13,232**	**8,391**	-2%	-14%	-32%	-24%	-37%

Source: DPE 2023

3.1.2 Detached dwelling completions

Detached dwellings have seen stronger rates of completions in Growth Centre Councils with Significant Land Release LGAs like Camden, Blacktown and Campbelltown. The completions have typically seen a downward trend however FY21 saw an increase, likely fuelled by the Government Homebuilder Grant.

Table 6 Building completions for detached housing (by financial year)

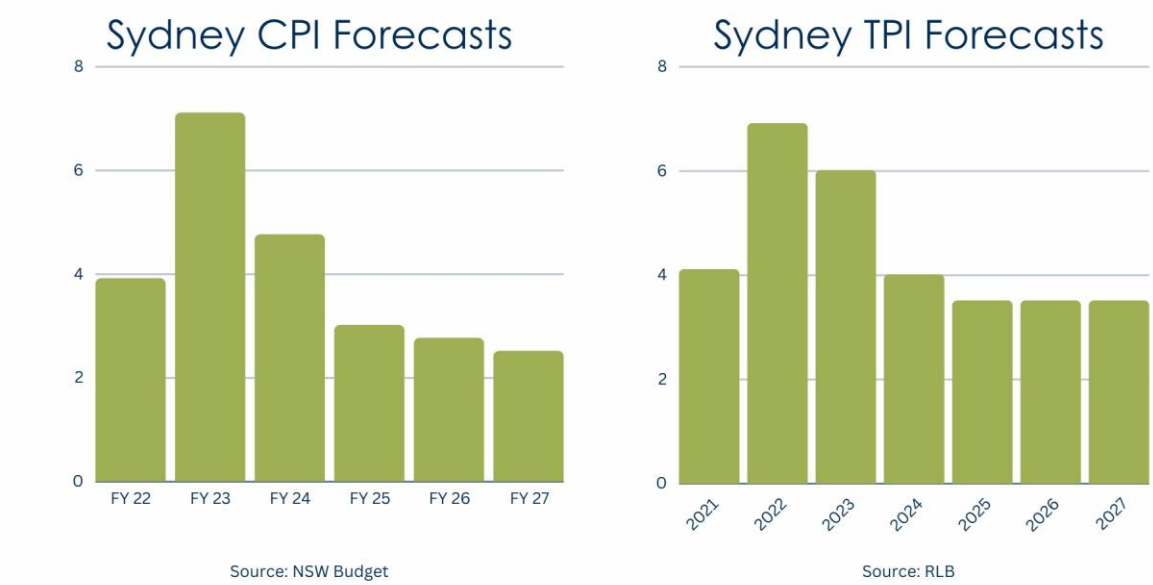
LGA	18-19	19-20	20-21	21-22	22-23	18-19	19-20	20-21	21-22	22-23
Blacktown	2,305	1,637	3,267	3,096	2,018	-8%	-29%	100%	-5%	-35%
Blue Mountains	88	62	78	50	35	-47%	-30%	26%	-36%	-30%
Camden	2,793	1,258	2,091	1,837	1,433	17%	-55%	66%	-12%	-22%
Campbelltown	1,041	621	1,214	735	445	21%	-40%	95%	-39%	-39%
Fairfield	204	138	167	167	108	6%	-32%	21%	0%	-35%
Hawkesbury	209	84	236	169	110	8%	-60%	181%	-28%	-35%
Liverpool	1,004	471	1,193	1,225	1,138	-12%	-53%	153%	3%	-7%
Penrith	988	338	535	305	255	27%	-66%	58%	-43%	-16%
Wollondilly	401	144	389	574	362	74%	-64%	170%	48%	-37%
Greater Sydney	12,599	6,928	12,353	11,409	7,877	8%	-45%	78%	-8%	-31%

Source: DPE 2023

3.2 Cost escalation

There have been substantial cost pressures on the construction industry. RLB regularly release a Tender Price Index (TPI) that shows movement in general construction cost inflation and escalation based on actual tendered construction costs across the industry as a whole. Sydney TPI has increased by 15% since March 2020 as a result of material shortages, wage increases, and supply issues. These pressures are forecast to ease in the coming year with Rawlinsons and RLB TPI forecast easing price escalations.

Figure 4 Cost Forecasts



Source: NSW Budget 2023, RLB TPI 2023

The Reserve Bank of Australia expects inflation to ease over the coming months coming down to 3.25% in June next year lowering to 3% in June 2025, slightly lower than seen in the NSW Budget.

The increased costs due to materials shortages further exacerbated by delays have meant cashflow has been challenging for the construction sector. This has resulted in the highest level of insolvencies in the sector on record in the June 2023 quarter. The Reserve Bank Liaison Program records weakness in demand for detached dwellings, with significant buyer uncertainty.

Residential construction is challenged with pressures sourcing finishing trades such as tilers and painters, but other labour pressures have eased as the level of residential construction has declined. It is anticipated that completion times will return to normal levels over the next year, which would help start to normalise cost escalation. Rawlinsons has reported that the construction industry continues to experience labour and material shortages, and while there has been an easing in the labour market and material prices have stabilised, additional pressure has been felt through increasing energy and transport costs. These cost increases have been accelerated by global pressures, in particular the ongoing war in Ukraine.

HillPDA considers that in the next four years based on the RLB and Rawlinsons forecasting that cost escalations will remain below 4% per annum for construction costs. This is a faster cost escalation than the pre-covid period, but reflects normalising wages, potentially slower construction activity, and easing materials shortages. While there still may be shocks, viability testing cannot account for all potential market situations.

3.3 Revenue escalation

3.3.1 Residential Prices

There has been considerable price growth over the past five years In Western Sydney. The Capitalised Average Growth Rate has varied between 2.62% and 5.44% per annum across each of the LGAs. This growth has been predominately focussed on non-strata property. With the exception of Camden, all apartment price growth has been relatively flatter with significant price variation through the pandemic.

Figure 5 Median Non-Strata Dwelling Price

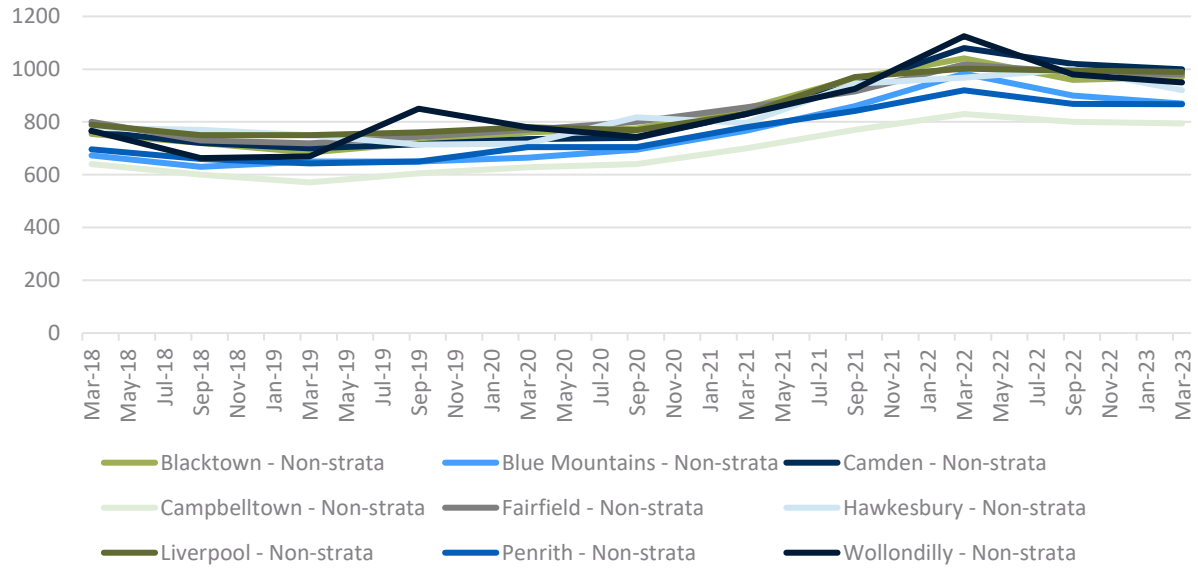
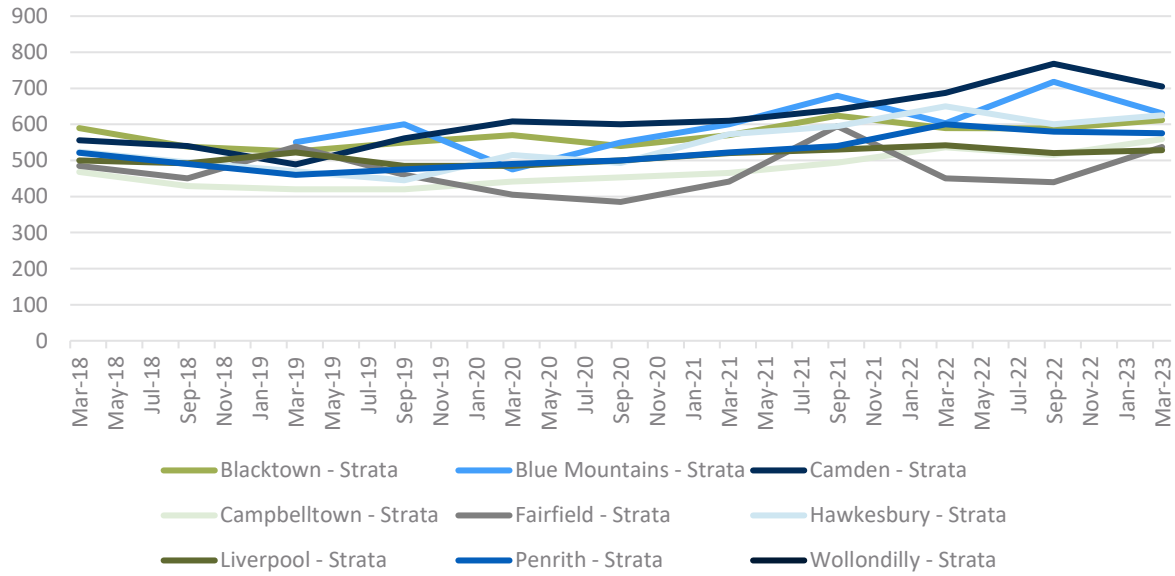


Figure 6 Median Strata Dwelling Price



The continued expected population growth, and increased financing costs through higher interest rates may contribute to buyers making a shift to a relatively more affordable options, therefore supporting demand for strata properties.

The NSW Budget assumes house prices would escalate by 2.5% per annum over the next four years in Greater Sydney. However, Stockland expects the average settlement pricing to be 5-10% higher in FY24 than in FY23,

which reflects expectations for continually high house prices. Recent research by KMPG shows substantial residential price growth:

Figure 7 Projected dwelling price growth

	December 2023	June 2024	December 2024	June 2025
Houses	6.2%	4.7%	6.6%	10.3%
Units	4.7%	4.3%	6.6%	8.6%

Source: KPMG 2023

Ultimately, KPMG's analysis found that constrained supply would likely dominate other factors influencing prices such as interest rates. In addition, KPMG forecasted annual rent growth to be 5.6% over the next two years. Similarly, CBA is forecasting a 7% growth of in house prices in 2023, with growth sustained at 5% in 2024.

Overall, we consider that residential property prices could escalate by an average of 5% per annum over the next five years.

3.3.2 Commercial Property

Commercial property is extremely challenged with high vacancy rates, expanding capitalisation rates, and reduced income as rents slightly ease.

The capitalisation rate (cap rate) is the ratio between rent and the value of the property. Property investors usually have a target capitalisation rate when transacting a development, as there is a yield that they need to satisfy the commerciality of investment. In general, the capitalisation rate moves with the interest rate, because as interest rates increase because the cost to service a loan increase, or alternate lower-risk products become relatively more attractive. This means that where rents are steady, but the target capitalisation rate increases, then the property value reduces. Capitalisation rates have been under significant pressure as there has been a market correction, we have maintained largely consistent capitalisation rates at 6%, although they could exceed 7% in some parts of Western Sydney depending on the tenancy profile and future demand expectations.

There continues to be high levels of vacancies in commercial property vacancy rates in the Sydney CBD with vacancies currently at 14.4%, 19.9% in North Sydney, 23.5% in Parramatta and 22.7% in Sydney Olympic Park and Rhodes. However, we understand that there has been some growth in net effective rent in most markets. Dexus estimates that capitalisation rats have expanded by 50 to 88 basis points for prime CBD offices. Absorption has been negative in all major Sydney markets reflecting banks, financiers, technology firms, and government seeking to consolidate space, as they have transitioned to hybrid work longer-term.

This means that there is a significant portion of floorspace (139,000sqm) that could be taken up by tenants, which would likely make it difficult to secure large-scale pre-commitments for commercial office in Western Sydney. Furthermore, HillPDA has observed a trend in Macquarie Park where the commercial office space is being sought for conversion into build-to-rent.

Location requirements of major office occupiers and development in Western Parkland City prepared by Savills in 2021 stated that rents in New A Grade Office Building in the Western Parkland City generally were \$520-550/m^2 and rents in Macquarie Park were approximately \$500/m^2 or more for A Grade office. Currently Net Effective Rents (the rent that a landlord receives) in Macquarie Park is approximately \$450/sqm and in Sydney Olympic Park approximately \$435/sqm. Net face rents had increased 1.5% across A grade office in Sydney from FY22 to FY23.

In our opinion, it is unlikely that there will be factors that would enable significant rental growth in the next three years. However, we consider cap rates could ease along with easing interest rates. **Therefore, for the purposes of this study, commercial property escalation is assumed to be equal to CPI.**

As demand increases as a result of the economic activity generated by the Western Sydney Airport and associated Bradfield City Centre, it is likely that additional price acceleration would occur in Western Sydney, thereby

supporting growth and development. This has not been considered in this study, because we see it as an 'upside risk' to development.

3.3.3 Industrial Property

Sydney continues to have a shortage of industrial property for example there is a vacancy rate of 0.1% for properties greater than 5,000sqm. Industrial capitalisation rates have reduced reflecting the shortage in property, and industry expectation for the continued need for industrial property, as a result of the rise of e-commerce, logistics, and consideration of future manufacturing capacity.

There continues to be low market vacancies, which is supporting increased rents. The asking rent for prime industrial property in Outer Western Sydney has grown 12 months to June 2023. In addition, there has been limited vacancy and very few incentives such as rent-free periods or rent reductions over the last few months. However, expanding cap rates have resulted in slightly lower land values in outer Western Sydney.

We expect to see rents continue to grow at a fast pace approximately 10% per annum. There remains substantial uncertainty about the capitalisation rate; however, we consider that cap rates would most likely increase along with projected increases in interest rates. We consider it is possible that interest rates could increase by up to 50 basis points; however, we note that:

> *The path for the cash rate reflects expectations derived from surveys of professional economists and financial market pricing, with an assumed peak in the cash rate of around 4¼ per cent by the end of 2023 before declining to 3¼ per cent by the end of 2025.* (RBA Statement on Monetary Policy)

Therefore, this would indicate that there is less likely to be a substantial increase in the capitalisation rate, as such we consider that there could be a substantial increase in industrial rents, which would then be reflected directly into price growth. **As such, growth of approximately 10% per annum could continue.**

4.0 FEASIBILITY RESULTS – RESIDENTIAL

HillPDA undertook high level residual land value analysis based on a Target development margin of 20% to determine the viability of a site. We have made assumptions around costs and anticipated revenue based on industry benchmarks like Rawlinson's Construction Handbook and market research. Given the residual land value was greater than the development site value as evidenced by research, the development would be considered viable.

The residual land value approach calculates the remaining funds available to purchase the development site after deducting all costs and a target margin (20%) from the anticipated revenue. As a market check, HillPDA have referred to actual market transactions that have occurred to determine the land acquisition rate that developers have paid to deliver new projects. Where no such evidence exists, we have extrapolated from comparable markets. It is worth noting that in adopting this approach the modelling represents a typical development for the specific typology. The limitation of this approach is that it cannot capture all development scenarios and there would be instances where, although the results of the testing may indicate projects are unviable, developers operating at tighter margins, lower costs or greater efficiencies might still able to meet targets hurdle rates. This would account for instances where results show development to be unviable however development is seen to occur in those areas. It is noted that the purpose of this modelling is to capture a **typical** development scenario for the selected typologies to determine the impact of an AH contribution.

4.1 Key assumptions

For the purposes of this testing, HillPDA has made some general modelling assumptions for fees, costs and revenue. The revenue has been informed by market research, however, where limited market evidence is available HillPDA have made value judgements based on comparable sales. For additional information and market evidence refer to the Appendix A. The following assumptions have been made in the modelling:

Table 7: Summary of assumptions

Fee/cost	Adopted rate
Revenue	As per typology based on market research Refer Appendix A1
Construction Costs	As per typology based on Rawlinson's Refer Appendix A3
Due Diligence	$20,000 plus 0.5% of Land price
DM/Consulting fees	6% of total construction cost
DA/BA fees % of CC	1.5% of total construction cost
Legals and marketing	1.5% of Gross Revenue
Interest	7.5% interest
Parking	As per DCP for locality Refer Appendix for rate
S7.11/S7.12	Average rate adopted for each location, in some instances a 7.11/7.12 rate of 1%-2% has been applied. Where S7.11 applies we have adopted the appropriate $/unit rate. Refer to Appendix A2
Housing and Productivity Charge (HPC)	12,000/dwelling for townhouse and dual occupancy 10,000/dwelling for multi-unit
DSP Charges	Initial DSP value – as per table in Appendix A2.

Source: HillPDA research, applicable Council documents

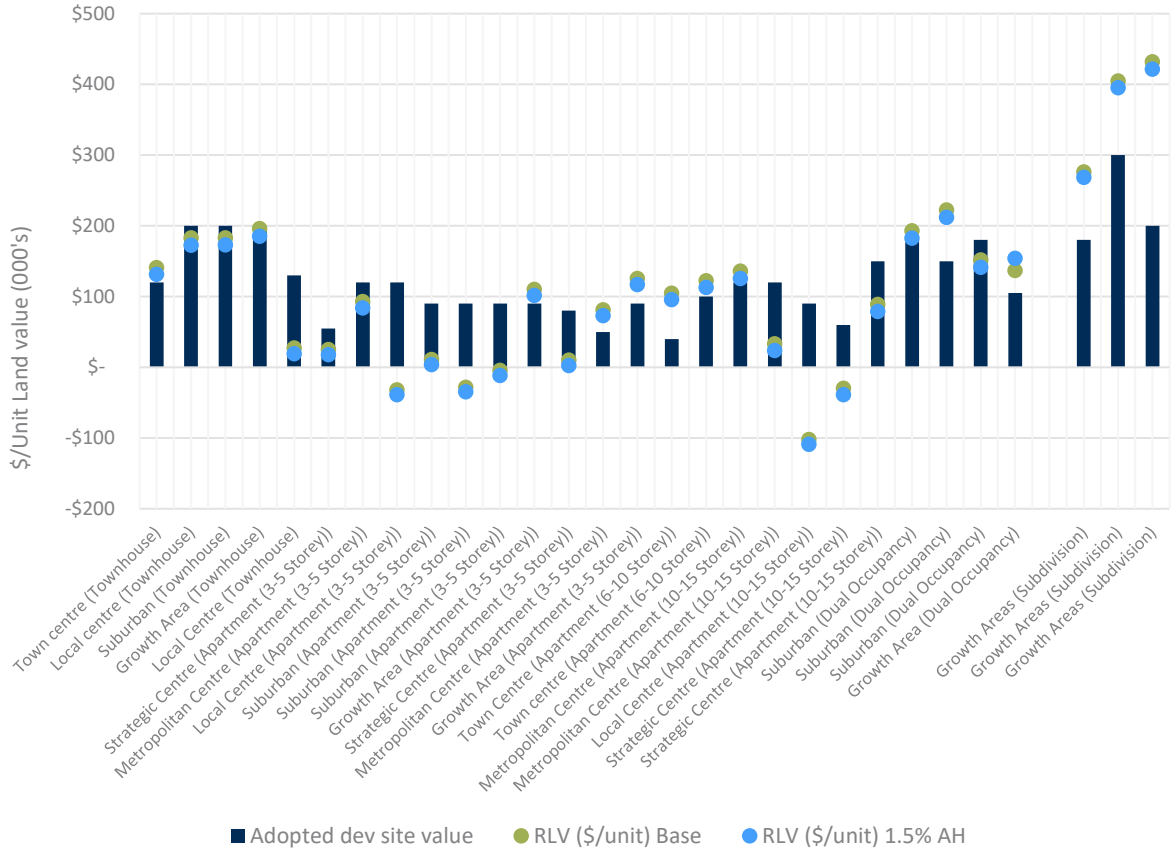
4.2 Testing results

The affordable housing testing results showed:

- Prior to an affordable housing contribution, the residual land value required for townhouses was generally lower than the market value, rendering development unviable. This likely reflects the higher margin as a result of the testing required, as well as increased construction costs. Where townhouses were viable, it resulted in cost pressures. However, the affordable housing contribution did not result in changes in viability.
- Apartments in the 3-5 storey locations were largely unviable (even where they may have been viable previously, because of increased costs in construction and in particular basement costs. Where at-grade car parking or ground floor carparking could be used, we speculate that projects could be viable). Subject to demand they could continue to be viable in growth areas and some existing centres. The affordable housing contribution did not result in changes in viability.
- Apartments in the 6-10 storey range were viable or marginally viable. The introduction of an affordable housing contribution would compromise the viability of this product in the characteristic locations tested.
- Apartments exceeding 10 storeys were generally not viable, we consider this is due to rising construction cost pressure. They would likely be viable in high amenity centres close to rail, where there is existing older stock that could be renewed. We consider this would best be part of a precinct strategy incorporating additional place-making. The affordable housing contribution did not change the viability result.

The economic analysis shows that the development market is under a lot of recent pressure for all development types. This is affecting both stronger and weaker markets in Western Sydney and means that for development to become viable in some areas prices would need to further escalate. In our opinion this makes affordable housing a critical component to balancing the sensible growth of a precinct. **Overall, we found that affordable housing contributions at 1.5% have a negligible impact on feasibility.**

Figure 8: RLV of selected investigation areas (000's)



Source: HillPDA 2023

We have undertaken analysis to determine the order of effect that a 1.5% affordable housing contribution (% of total GFA) would have on current project feasibility. The results show that in majority of cases the 1.5% contribution would not have a significant impact on development feasibility. If a project was already viable the contribution would not likely impact the results to any order of magnitude that would alter the bottom-line results. Projects that are just viable would likely become marginal.

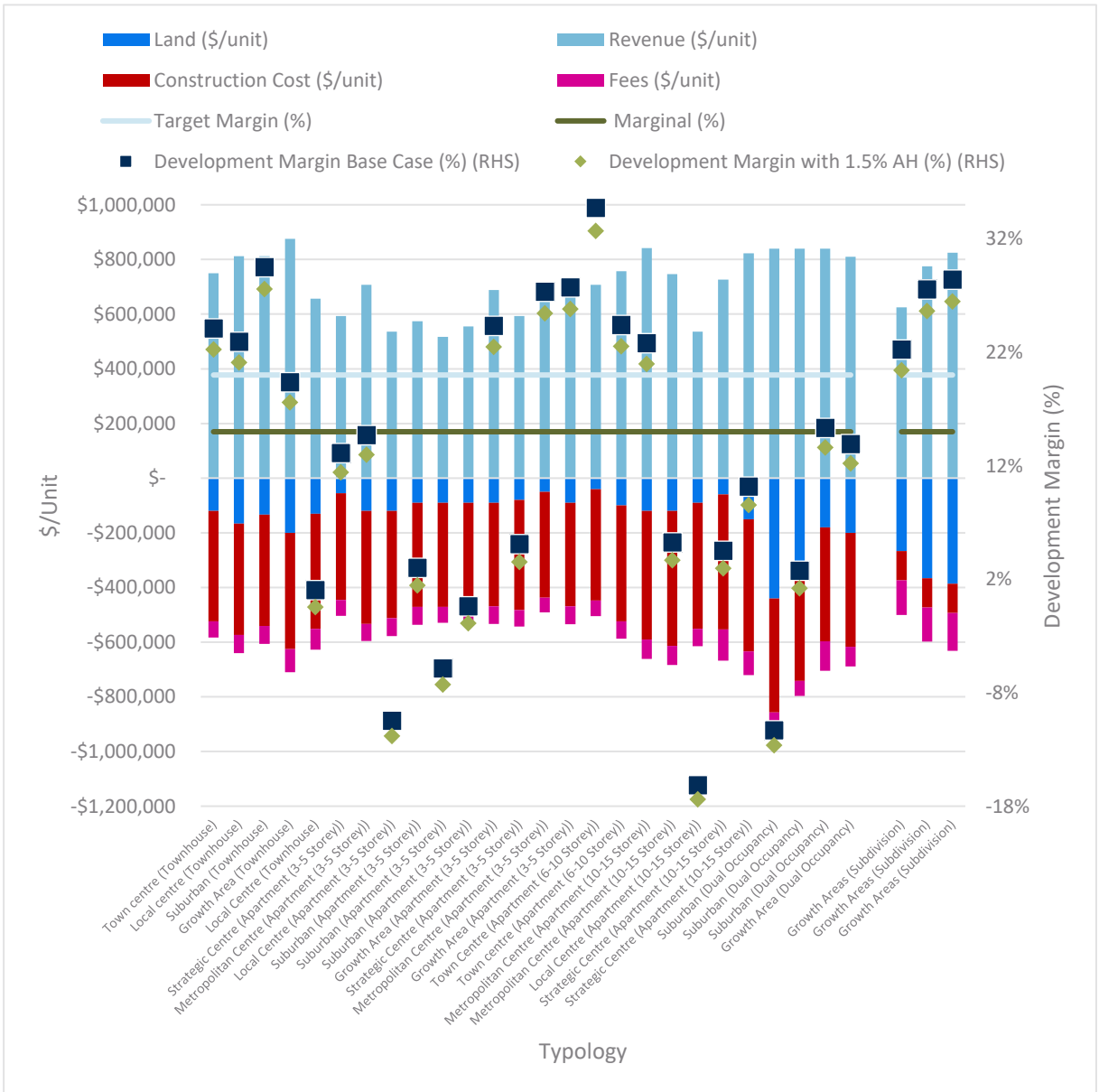
Table 4: Residual Land Value as at October 2023 ($/unit)

Typology	Locality type	RLV ($/unit) Base	Viable	RLV ($/unit) 1.5% AH	Viable
Townhouse	Town centre	$140,622	Viable	$106,622	Unviable
Townhouse	Local centre	$182,842	Unviable	$146,009	Unviable
Townhouse	Suburban	$183,016	Unviable	$146,183	Unviable
Townhouse	Growth Area	$196,157	Unviable	$156,491	Unviable
Townhouse	Local Centre	$27,413	Unviable	-$2,337	Unviable
Apartment (3-5 Storey)	Strategic Centre	$24,944	Unviable	-$1,933	Unviable
Apartment (3-5 Storey)	Metropolitan Centre	$92,732	Unviable	$60,653	Unviable
Apartment (3-5 Storey)	Local Centre	-$31,928	Unviable	-$56,204	Unviable
Apartment (3-5 Storey)	Suburban	$11,050	Unviable	-$14,960	Unviable
Apartment (3-5 Storey)	Suburban	-$28,247	Unviable	-$51,656	Unviable
Apartment (3-5 Storey)	Suburban	-$4,587	Unviable	-$29,730	Unviable
Apartment (3-5 Storey)	Growth Area	$110,023	Viable	$78,811	Marginal
Apartment (3-5 Storey)	Strategic Centre	$9,946	Unviable	-$16,931	Unviable
Apartment (3-5 Storey)	Metropolitan Centre	$81,216	Viable	$51,738	Viable
Apartment (3-5 Storey)	Growth Area	$125,660	Viable	$93,581	Viable
Apartment (6-10 Storey)	Town Centre	$104,414	Viable	$72,335	Viable
Apartment (6-10 Storey)	Town centre	$122,315	Viable	$87,982	Marginal
Apartment (10-15 Storey)	Metropolitan Centre	$135,984	Viable	$97,836	Marginal
Apartment (10-15 Storey)	Metropolitan Centre	$32,927	Unviable	-$886	Unviable
Apartment (10-15 Storey)	Local Centre	-$102,339	Unviable	-$126,615	Unviable
Apartment (10-15 Storey)	Strategic Centre	-$29,697	Unviable	-$62,643	Unviable
Apartment (10-15 Storey)	Strategic Centre	$88,887	Unviable	$51,606	Unviable
Dual Occupancy	Suburban	$192,816	Viable	$154,736	Marginal
Dual Occupancy	Suburban	$222,460	Viable	$184,380	Viable
Dual Occupancy	Suburban	$151,745	Unviable	$113,665	Unviable
Dual Occupancy	Growth Area	$136,968	Viable	$127,248	Viable
Subdivision	Growth Areas	$255,388	Viable	$247,888	Viable
Subdivision	Growth Areas	$379,005	Viable	$369,705	Viable
Subdivision	Growth Areas	$404,151	Viable	$394,251	Viable

Source: HillPDA, 2023

As a secondary method HillPDA adopted the development site value for the land purchase price. This approach gives an indication of the costs and revenues in relation to that in which developers have been able to deliver in the current market. Theoretically, if we adopt this value the project should be feasible as developers have demonstrated developments to be viable. However as previously discussed, developers who operate with tighter margins or have cost efficiencies greater than the 'typical developer' may still be able to make a development work. Additionally, there is a delay in the analysis of development site evidence with current cost and revenue escalations not likely captured. The below shows that given the site was acquired at the development site value, the majority of sites are viable. In some cases the hypothetical testing might see development fall below hurdle rates, but councils can identify completions occurring, in these instances it is likely the actual developers were operating at lower cost and hurdle rates than the 'typical developer'.

Figure 9: Development margin based on adopted development value for purchase price ($/sqm land)



Source: HillPDA, 2023

4.3 Escalation

Given a 1.5% contribution rate we have undertaken testing to determine the time required for rates to escalate to cover the additional cost. The escalation scenario assumes 5% growth in revenue and 4% growth in costs per annum. The following table shows that the time taken for escalation to cover the additional AH contribution of 1.5% (of total revenue) varies; however a typical 2-4 year period for the majority of typologies apply.

This indicates that it is likely that the impact of a 1.5% affordable housing contribution could be absorbed by natural market growth. It is worth noting that 1.5% of gross revenue is a relatively small proportion of cost when compared to typical contingencies which would range from 5-10% of costs.

Table 8: RLV ($/unit) escalation table

	No Contribution	With Contribution	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
S1	140,622	131,247	137,853	145,031	152,820	161,259	170,393	180,265	190,926	202,425
S2	182,842	172,686	179,596	187,116	195,286	204,152	213,758	224,153	235,390	247,523
S3	183,016	172,860	181,110	190,024	199,644	210,017	221,191	233,217	246,150	260,047
S4	196,157	185,220	191,811	199,025	206,904	215,495	224,845	235,005	246,030	257,978
S5	27,413	19,209	20,165	21,427	23,023	24,980	27,327	30,095	33,317	37,030
S6	24,944	17,533	20,901	24,647	28,798	33,384	38,434	43,983	50,064	56,714
S7	92,732	83,887	88,251	93,080	98,407	104,267	110,698	117,739	125,433	133,823
S8	-31,928	-38,622	-40,571	-42,378	-44,027	-45,500	-46,777	-47,838	-48,661	-49,223
S9	11,050	3,878	5,143	6,694	8,554	10,748	13,302	16,245	19,606	23,417
S10	-28,247	-34,702	-35,451	-36,019	-36,386	-36,535	-36,444	-36,093	-35,456	-34,510
S11	-4,587	-11,520	-11,029	-10,289	-9,282	-7,983	-6,369	-4,413	-2,089	634
S12	110,023	101,416	107,524	114,159	121,356	129,153	137,588	146,705	156,546	167,160
S13	9,946	2,535	4,302	6,384	8,805	11,591	14,770	18,372	22,428	26,973
S14	81,216	73,088	79,349	86,128	93,457	101,374	109,917	119,126	129,044	139,716
S15	125,660	116,815	123,696	131,143	139,192	147,884	157,259	167,363	178,241	189,944
S16	104,414	95,569	103,600	112,243	121,536	131,521	142,242	153,745	166,079	179,295
S17	122,315	112,848	119,579	126,890	134,819	143,408	152,701	162,743	173,583	185,274
S18	135,984	125,466	132,591	140,348	148,777	157,924	167,837	178,566	190,165	202,691
S19	32,927	23,603	25,870	28,533	31,624	35,177	39,226	43,809	48,965	54,739
S20	-102,339	-109,033	-112,598	-116,087	-119,484	-122,775	-125,943	-128,971	-131,840	-134,528
S21	-29,697	-38,782	-36,767	-34,375	-31,573	-28,330	-24,612	-20,383	-15,604	-10,234
S22	88,887	78,607	82,502	86,890	91,807	97,294	103,391	110,142	117,594	125,796
S23	192,816	182,316	178,904	175,700	172,729	170,020	167,602	165,506	163,766	162,419
S24	222,460	211,960	213,733	215,922	218,561	221,685	225,334	229,547	234,369	239,846
S25	151,745	141,245	146,590	152,494	158,995	166,137	173,963	182,522	191,862	202,039
S26	136,968	153,843	158,646	163,973	169,862	176,353	183,489	191,314	199,877	209,227
S27	276,222	268,409	273,609	279,274	285,434	292,123	299,377	307,233	315,731	324,912
S28	404,838	395,151	402,652	410,771	419,548	429,028	439,255	450,277	462,146	474,917
S29	431,651	421,339	429,498	438,321	447,853	458,140	469,230	481,176	494,031	507,854

Source: HillPDA, 2023

5.0 FEASIBILITY RESULTS – NON-RESIDENTIAL

HillPDA undertook broad viability testing for commercial and industrial developments across the investigation area. Our market research indicated that rents were generally consistent in each of the major centres in Western Sydney. This reflects the fact that commercial development is broadly competitive across areas, and not necessarily tied to a particular location. Transactions across each of the LGAs also informed our view on land values.

Rents were adopted based on *Locational Requirements of office occupiers demand for office space in suburban centres in Sydney and location requirements of office occupiers in the Western Parkland City* prepared by Savills and dated June 2021. That report found rents in Liverpool, Penrith, Campbelltown and Blacktown were typically between $520-550/sqm for A-grade office space and between $250-350/sqm for B grade office space. Outgoings for commercial property are typically around $120/sqm. A 6% capitalisation rate was adopted for commercial property.

Subtracting the estimated development costs sourced from Rawlinson's and additional fees including the Housing and Productivity Charge (HPC) and Section 7.12, and a 20% margin resulted in a residual land value (RLV) of -$366 for the Commercial. This indicates that commercial development will be unlikely to be viable until costs ease or net operating income substantially improve.

Table 9: Industrial and Commercial Feasibility (RLV with and without AH contribution)

Type	Net operating income ($/sqm/ann)	Cap Rates	Capitalised Value ($/Sqm/Ann)	Development cost (est)*	Margin (@20%)	RLV (No AH)	% of sales < RLV	RLV (With AH of 1.5%)	% of sales < RLV	RLV ($400 rent, 6.5% cap rate)
Typical Commercial	$400	6.0%	$6,667	$5,599	$1,333	- $266	0%	- $366	0%	- 676.32
Typical Industrial	$150	5.0%	$3,000	$1,203	$600	$1,197	45%	$1,152	43%	NA

Source: HillPDA, 2023

Development costs include the following costs and fees:

Table 10: Assumed costs for Industrial and Commercial

Type	Construction cost ($/sqm)	Fees S7.11 ($/sqm) @1% of CC	HPC ($/sqm GFA)	Parking ($/sqm)	Development cost (Est.)
Typical Commercial	2,940	29	30	$2,600	**$5,599**
Typical Industrial	1,170	12	15	$7	**$1,203**

Source: Rawlinson's Construction Handbook, Council/ Government Charges, 2023

Applying affordable housing contributions on this development would further challenge the viability of the typical commercial development. Although in our opinion commercial development relies on pre-commitments and there remain substantial vacancies across Greater Sydney as detailed in section 3.3.2, which means this typology may be challenged for at least 5-10 years. However, the typical industrial development will likely continue to be viable.

For Commercial a rate of 1,396/sqm represents the median rate for commercial zoned sites across the investigation area.

For commercial development, the Table 11 shows the land value required to purchase approximately one third of sites that have transacted in key centres. These are the sites that are likely to be most suitable for development, This shows that it is extremely challenging to develop in the centres in the current market.

Adopting the residual land value of $1,151/sqm for industrial development, approximately 44% of all industrial sales over the past 5 years have fallen below this rate. Table 11 shows the portion of sales in commercial and industrial zoned sites in the LGAs that fall under the residual land value for industrial development with a contribution rate, approximately 44% of all sites transacted would remain viable for development. Our analysis included sites of both development and undeveloped sites. Therefore, industrial development would likely be viable with the immediate introduction of the affordable housing contribution.

Table 11: Sale of Commercial and Industrial zoned sites in the past 5 years in the 9 LGA's

Test typology	Property Locality	LGA	# of sales	Adopted based rate	Sales under adopted rate	% under adopted rate (Incl premium)
Commercial	Penrith	Penrith	14	$1,400	5	36%
Commercial	Liverpool	Liverpool	31	$3,645	11	35%
Commercial	Campbelltown	Campbelltown	16	$1,480	6	38%
Commercial	Blacktown	Blacktown	24	$1,300	8	33%
Commercial	**All**	**All**	475	$1,285	229	48%
Industrial	Penrith	Penrith	14	$1,151	6	43%
Industrial	Campbelltown	Campbelltown	5	$1,151	3	60%
Industrial	Marsden Park	Blacktown	4	$1,151	3	75%
Industrial	Eastern Creek	Blacktown	21	$1,151	4	19%
Industrial	**All**	**All**	322	$1,151	142	44%

Source: HillPDA, 2023 *Commercial sites between 350-1500sqm**Industrial sites >5,000sqm

HillPDA has considered escalations for commercial and industrial development, based on the assumptions listed above, we consider that industrial development would take one year to absorb the cost change created by the affordable housing contribution.

When escalating commercial revenues by RBA CPI target, the development viability does not improve because we considered that cost would escalate at a faster rate. However, under a growth scenario that assumes the attractiveness of Western Sydney grows as the amenity increases with the Airport, we consider that there could be a substantial shift. This scenario assumes revenue growth double that of the RBA CPI target at 5% per annum. Under this scenario, the residual land value absorbs the impact of affordable housing after a 3-year period.

6.0 MONETARY EQUIVALENT RATES

The Western Sydney Planning Partnership have asked HillPDA to calculate the monetary equivalent rate with three standard rates for Western Sydney:

- Residential built-form rate
- Residential subdivision rate
- Non-residential Rate

These rates have been set taking into account the cost of delivering affordable housing in the region. The key principle for setting a monetary equivalent rate was ease of use for both councils and developers, to ensure the rate was transparent and properly reflected as a starting point, 1.5% of gross floor area provided for development, taking into account differences between residential built-form, subdivision, and non-residential development.

6.1.1 Monetary equivalent for residential rates

In principle, we consider 1.5% of GFA to be directly proportionate with revenue. Where a developer seeks to build 200 apartments or lots and 3 of them are required to be dedicated at no cost, then the developer forgoes the revenue from the 3 properties. Monetary equivalent rates can be calculated either:

- Case by case basis, or
- Using a standard approach per LGA/typology or region.

While a case-by-case basis would result in more revenue, this would be based on an actual estimate of revenue supported by a valuer to calculate contributions. This would have ensured the rates were fully cost reflective. However, we considered that this could lead to additional conflict points in the development assessment process and a less efficient process for both the developer and assessment authority.

Therefore, we considered applying an average rate would be suitable. This rate was determined to be based on the median strata dwelling in the LGA. The LGA basis was chosen to allow for consistency within the LGA, but also to recognise the value differences in existing dwellings in each LGA (across the region). Furthermore, it allowed easily accessible data through the DCJ Rent and Sales Reports.

We considered both the median and seventy-fifth percentile, as newer stock is likely to be higher value stock, and therefore trade above the median. The median was adopted, as this represented the price that a developer would be able to purchase affordable housing offsite.

The strata dwelling price was chosen instead of the total price, because most infill development would likely be strata development, and therefore be more reflective of those price points. Furthermore, the affordable housing development that would likely be delivered would be provided in an apartment building or townhouse.

The Affordable Housing Contribution Rate is determined by multiplying the median strata dwelling price by 1.5% and dividing it by an approximation of the average unit size.

$$Affordable\ Housing\ Contribution\ Rate\ (sqm/GFA) = \frac{Median\ Strata\ Dwelling\ Price\ \times 1.5\%}{Average\ Unit\ Size}$$

- Median Strata Dwelling Price is based on the current DCJ Rent and Sales Report (or if unavailable a similar credible data source)
- Average Unit Size was assumed to be 85sqm (This was based on an equal split between 1, 2, and 3 b

The affordable housing contribution to be paid by a development:

$$Affordable\ Housing\ Contribution = Affordable\ Housing\ Contribution\ Rate\ \times GFA$$

6.1.2 Monetary equivalent for land subdivision

Land subdivision was assumed to have a lower monetary equivalent. A developer in the business of land subdivision seeks to sell land, and therefore has lower revenues than the built-form developer, as such 1.5% is a lower number when applied to revenue.

The proposed monetary equivalent approach sought to ensure that there was a reflection of land price. The Valuer-General releases land value reports for each LGA every year (link to Blacktown example). The total residential land value divided by the total number of residential properties provides an average value of land in the LGA. An average lot was assumed to be approximately 500sqm, we note that this is larger than the 378sqm reported in the UDIA 2023 State of the Land Report. This takes into account the use of net developable area (NDA) instead of net sellable area for the proposed calculation.

The following formula is recommended for calculating the contribution rate:

$$Affordable\ Housing\ Contribution\ Rate = \frac{Property\ Zone\ (Total\ Land\ Value)}{Number\ of\ Properties\ in\ Zone \times 500} \times 1.5\%$$

- Property Zone (Total Land Value) sourced from Valuer-General Land-Value Summaries (or similar)
- Number of properties in zone sourced from Valuer-General Land-Value Summaries (or similar)
- 500 represents a generous lot size for new residential subdivision development.

The affordable housing contribution to be paid by a development:

$$Affordable\ Housing\ Contribution = Affordable\ Housing\ Contribution\ Rate\ \times NDA$$

6.1.3 Monetary equivalent for non-residential development

While a similar principle applies for non-residential development. It is substantially more challenging to determine a standard revenue for non-residential development because:

- Fewer aggregations of rents and transactions
- Lower stock turnover in Western Sydney to determine appropriate rates
- Highly sensitive to movements in macroeconomic trends
- Significant differences between sectors – industrial, commercial, retail

Furthermore, Western Sydney has a clear objective to grow jobs and economic activity in the region. To create a rate, with a need for a consistent and simple approach HillPDA considered three approaches

- Approach 1: Applying 1.5% of the end sale value of the property
- Approach 2: Applying 1.5% of the equivalent residential value
- Approach 3: Applying 1.5% of the average land value (similar to the subdivision approach above).

6.1.3.1 Approach 1: End Sale Vale

As discussed a 1.5% GFA dedication would be equivalent to 1.5% of revenue foregone for a residential development. Based on the forecast revenues detailed in Section 3.3, we consider that this would result on average in the following rates:

- Typical Commercial – $100/sqm
- Typical Industrial – $45/sqm

We consider the key limitation of this approach is that it is hard to regularly reset, will vary by exact typology, and it is difficult to reset due to much more sensitivity to macroeconomic movements than residential. Furthermore, there is less transaction evidence, which means the value would likely become a regular point of contention and difficult to escalate. Therefore, we consider an alternative, more appropriate approach would be to provide a consistent benchmark.

6.1.3.2 Approach 2: Referenced to residential property

The second approach is similar to the approach used by the City of Sydney. In this approach, it is assumed that the non-residential floorspace needs to purchase residential floorspace on the market to dedicate 1.5% of GFA. That is a 4,000sqm GFA commercial building would need to purchase 60sqm of residential floorspace. It is assumed that this would be purchased on the open market. We recommend using the median price, consistent with the residential property approach. Box 1 outlines the approach used in the City of Sydney for non-residential development with results in a $106.12/sqm contribution rate for non-residential property.

Box 1 – City of Sydney Approach

The City of Sydney Affordable Housing Contribution Scheme applies a 1% non-residential rate. The City of Sydney adopts the principle for non-residential property that it would be seeking to acquire property elsewhere in the LGA and therefore benchmarks against the median strata dwelling price in the City of Syndney. This removes the challenges related to fewer aggregations and stock-turnover by relating it to residential property. The equivalent rate is determined by the following formula:

$$1\% \times GFA \times Median\ Strata\ Dwelling\ Price\ in\ City\ of\ Sydney\ LGA$$

This approach is based on the idea of the equivalent cost of purchasing affordable housing in the LGA. The equivalent monetary contribution amount effective from 1 March 2023 to 29 February 2024 is $10,611.53. This corresponds to $106.12 per square metre.

If a 1.5% of GFA utilising the City of Sydney formula were applied in Western Sydney, then the following moentary rates in each of the LGA's would apply as detailed in Table below:

Table 12 Example applying City of Sydney Rate approach to Western Sydney at 1.5% contribution rate

LGA	Contribution Rate	Monetary Equivalent $/sqm
Blacktown	1.5%	$102
Blue Mountains	1.5%	$105
Camden	1.5%	$118
Campbelltown	1.5%	$93
Fairfield	1.5%	$80
Hawkesbury	1.5%	$104
Liverpool	1.5%	$88
Penrith	1.5%	$96
Wollondilly	1.5%	$80*
City of Sydney	1%	$106.12

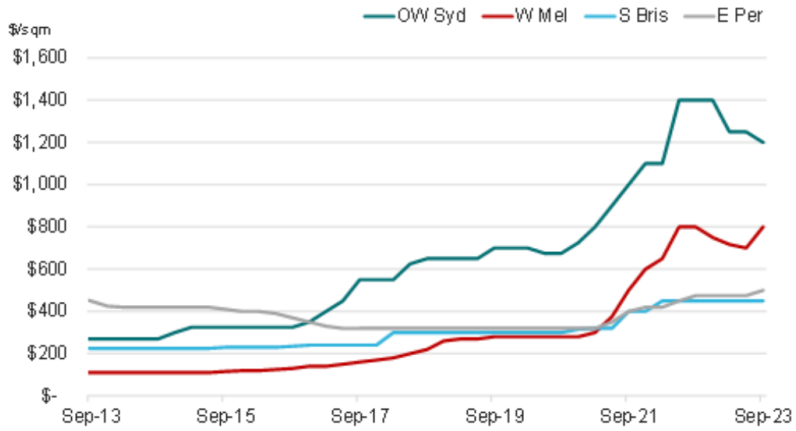
*Wollondilly has insufficient strata sales with fewer than ten sold, therefore the lowest rate was adopted

Source: HillPDA 2023 based on DCJ Rent and Sales Tables March 2023

In our opinion it is not reasonable for any region of Western Sydney to have a non-residential rate that is higher than the City of Sydney. The City of Sydney can command higher rents and values, and is already positioned as a key employment hub for the State. Furthermore, we consider these rates would place Western Sydney industrial land at a significant disadvantage compared to other precincts along the East Coast. There is highly limited industrial land in Sydney, Sydney is substantially more expensive than Brisbane and Melbourne (Figure 10).

Furthermore, rates ranging $80-$118 sqm results in between 6.67%-9.83% of revenue, which in principle would be a higher contribution for affordable housing.

Figure 10: Industrial land values by capital city



Source: JLL Research 2-5ha land values *East Peth = 1ha, Dexus Research

Furthermore, we consider the differences in land values creates a need for a discount between residential and non-residential, we note in the City of Sydney the non-residential rate is one-third of the residential rate.

6.1.3.3 Approach 3: Unimproved Land Vale

HillPDA have applied for Western Sydney the following calculation, to test an approach similar to that applied for subdivision:

$$Affordable\ Housing\ Contribution\ Rate = \frac{Property\ Zone\ (Total\ Land\ Value)}{ELDM\ Total\ Land\ Area \times 500} \times 1.5\%$$

The limitations in this approach are:

- Considers land value only
- Does not consider employment land in the centres
- Considers site area not GFA, so would need further adjustments

This resulted in a blended rate of $20.89/sqm site area for land value only in Western Sydney. If land value was assumed to be half the value of the development and FSR was assumed to be 0.5:1 then the development would be approximately $20/sqm GFA. Completing a detailed study of total value and GFA would be cost prohibitive for councils to complete regularly.

We did not adopt this approach because, we considered it would not apply to denser development, or development in town-centre locations effectively, and would be highly assumption driven when applied to built-form development.

6.1.3.4 Recommended Approach

The most transparent approach would be to reference the contribution rate to the median residential development price. This would create consistency for the scheme, provide clarity as to the floorspace the non-residential development is providing to affordable housing, and is easy for councils to calculate and index.

The 1.5% equivalent rate is too high in reference to the development revenues that are achieved in non-residential development. Therefore, we recommend that the non-residential development is benchmarked at one fifth of the residential development rate, considering the percentage of end-sale revenue, the rate that has been determined in approach 2, as well as consideration that increased automation has increased sizes of

industrial development but would likely lower job densities. Thereby providing a level of adjustment to demand. In addition, this would support the competitiveness of Western Sydney, the principle that 1.5% of revenue is provided for affordable housing, and a consistent benchmark for Western Sydney.

Therefore, we recommend an affordable housing contribution rate of 0.3% of residential GFA for non-residential development.

The recommended formula for a non-residential development contribution rate is as follows:

$$Affordable\ Housing\ Contribution\ Rate\ (sqm/GFA) = \frac{Median\ Strata\ Dwelling\ Price\ \times 0.3\%}{Average\ Unit\ Size}$$

- Median Strata Dwelling Price is based on the current DCJ Rent and Sales Report (or if unavailable a similar credible data source)
- Average Unit Size was assumed to be 85sqm

The affordable housing contribution to be paid by a development:

$$Affordable\ Housing\ Contribution = Affordable\ Housing\ Contribution\ Rate\ \times GFA$$

The affordable housing contribution to be paid by a mixed-use development is blended and calculated through the following formula:

$$Affordable\ Housing\ Contribution = AHC\ Rate_{Res}\ \times GFA_{Res} + AHC\ Rate_{Non-Res}\ \times GFA_{Non-Res}$$

6.2 Equivalent Monetary Rates

These calculations result in the following rates based on the most recent release of the DCJ Rent and Sales Report and Valuer-General LGA Land Value Reports:

Table 13 Equivalent Monetary Rates to be applied in each LGA

LGA	Median Strata Price	Monetary Equivalent for Residential built form $/sqm GFA	Example for residential subdivision $/ha NDA	Discounted Equivalent for Non-Residential $/sqm GFA
Blacktown	$612,000	$102	$210,000	$20
Blue Mountains	$630,000	$105	$170,000	$21
Camden	$705,000	$118	$220,000	$24
Campbelltown	$559,000	$93	$190,000	$19
Fairfield	$482,000	$80	$240,000	$16
Hawkesbury	$625,000	$104	$200,000	$21
Liverpool	$528,000	$88	$240,000	$18
Penrith	$575,000	$96	$200,000	$19
Wollondilly	*Insufficient data*	$80*	$210,000	$16

* Where insufficient data have adopted the lowest rate

Source: HillPDA 2023, DCJ 2023, Valuer-General 2023

6.3 Indexation

Indexing monetary equivalent contribution rates would be critical to the success of the plan. Appropriate indexation ensures that the monetary values remain real. The recommended approach to indexation is:

- DCJ Rent and Sales Report – Provides quarterly updates on the change in the median strata dwelling price. It is suggested that this is used as an index, because it is published by state government based on NSW data, has been successfully adopted by the City of Sydney, and has simplicity. When a new iteration of the report is released the value of the median strata dwelling price will be updated in the rate calculation formula. This will index the rates for residential built-form and non-residential contributions.
- Valuer-General Land Value– The Valuer-General releases new land value reports each year. As these reports are released, then the calculation for the residential subdivision rates would be adjusted with

updated Total Land Value for the residential property zone, and the total number of properties in the residential property zone. This would provide the indexation approach for residential subdivision. Contribution rates.

Where these reports are no longer available then other similar reports or residential price data could be used including change in median dwelling prices as reported by CoreLogic.

7.0 CONCLUSION

7.1 The proposed contribution rates are generally viable and a lead-in time is recommended

HillPDA tested the viability of the affordable housing contribution schemes using a residual land value model. Overall, we found that there is a manageable impact for development that is already viable. This is because:

- Prudent development margins and contingencies can absorb slight shifts in costs and revenues, the impact of an affordable housing contribution if it commenced immediately would be approximately a 1.5% decline in development margin or residual land value
- However, flagging the intention to introduce a scheme early allows for developers to consider the acquisition of the site in land acquisition, thereby adjusting the amount they are willing to pay. Our analysis shows that the residual land value would generally be able to absorb the contributions over a three year period.
- Prudent developers would have expected the introduction of an affordable housing contribution scheme, noting affordable housing contributions in Western Sydney were raised in the draft District and Regional Plan released in late 2017 and confirmed in the District Plan released in March 2018. These were in the range of 5-10% of uplift subject to viability. These were further confirmed by the LHS Approval Letters issued by the Department of Planning and Environment in 2021 and 2022, which required each Council to prepare an affordable housing contribution scheme to give effect to the District Plan targets.

Viable development in Western Sydney generally remains viable if the proposed affordable housing contribution rate were adopted. Our testing found that industrial development could immediately absorb the additional costs of the contribution rates, noting significant recent industrial rent and sales price escalation. While other non-residential sectors were more challenged, it was possible that staging in the introduction of the contribution over time would provide those developers time to adjust and achieve development viability.

While the contribution rates were generally viable, some developers that are operating on the margins of a viable development may be less well-placed to absorb shocks such as the introduction of the affordable housing contribution scheme. Hence, a three-year transition provides more than sufficient time for a developer that has recently acquired (or will recently acquire) a site to secure a development approval and commencement development, thereby avoiding the impact of the contribution. Some developers may choose not to take up the opportunity to seek a development approval and land-bank a site for several years. That is a business decision that they would have made knowing that the contribution is coming into effect.

As developers seek to purchase land at market rates, and their ability to pay is based on ensuring that there is a viable development, this transition period will give the market time to adjust. It is likely residual land values would need to adjust to accommodate this change. Major developers and market analysts expect price growth over the coming years, which means that within three years residual land value increases (due to other factors) could likely absorb the impact of the proposed contributions.

Where development is not currently viable, the imposition of the affordable housing contribution scheme does not help make the development viable, but it does not compromise the viability. In addition, areas which are not viable, may eventually become viable as affordability pressures, changing demographics, and state or local government interventions such as transport, placemaking, or rezoning occur. The introduction of the broad-based scheme ensures that affordable housing is considered when these areas or typologies are developed, ensuring that the contributions are viable. Therefore, HillPDA recommends the broad application of the scheme across development in Western Sydney.

7.2 Monetary equivalent rates and indexation

In general, HillPDA have applied the principle that 1.5% of floorspace dedicated to affordable housing is equivalent to the forgone revenue of that floorspace. There are three suggested formulas taking into account the unique differences of each development types

- Residential Development – 1.5% of the median residential strata dwelling price in the applicable LGA.
- Residential Subdivision – 1.5% of the average residential unimproved land value in the applicable LGA.
- Non-Residential Development – 0.3% of the median residential strata dwelling price in the applicable LGA.

This resulted in the following recommended contribution rates:

LGA	Median Strata Price	Monetary Equivalent for Residential built form $/sqm GFA	Example for residential subdivision $/ha NDA	Discounted Equivalent for Non-Residential $/sqm GFA
Blacktown	$612,000	$102	$210,000	$20
Blue Mountains	$630,000	$105	$170,000	$21
Camden	$705,000	$118	$220,000	$24
Campbelltown	$559,000	$93	$190,000	$19
Fairfield	$482,000	$80	$240,000	$16
Hawkesbury	$625,000	$104	$200,000	$21
Liverpool	$528,000	$88	$240,000	$18
Penrith	$575,000	$96	$200,000	$19
Wollondilly	*Insufficient data*	$80*	$210,000	$16

* Where insufficient data have adopted the lowest rate

Source: HillPDA 2023, DCJ 2023, Valuer-General 2023

This approach means that the rates are indexed to changes in the median residential strata dwelling price and residential unimproved land value.

7.3 Answering the study questions

WSPP asked HillPDA to answer four questions:

- Is a contribution scheme viable?
- When would be a sufficient transition period for introduction?
- How to convert floor area equivalence into a monetary equivalent?
- How to index the monetary equivalent?

HillPDA has concluded that the proposed contribution scheme is viable. It would be best to provide an approximately three-year transition period with the scheme coming into effect in 2027. The monetary equivalent contributions will be based on 1.5% of the median dwelling price for built-form development, 0.3% of the median dwelling price for non-residential development, and 1.5% of the unimproved land value for residential subdivision. The median dwelling price and unimproved land value will be updated regularly to ensure the scheme is indexed to current rates.

APPENDIX A : SUPPORTING INFORMATION

A.1 Market Revenue

HillPDA have undertaken market research for the different testing typologies. The market research was sourced from off the plan and new sales from domain.com.au, realestate.com.au and CoreLogic. Where no recent evidence existing HillPDA have made a value judgement based on comparable markets. The following $/sqm rates have been applied in the modelling.

Table 14: Revenue rates based on OTP sales and new apartments sales

LGA	Type	Revenue range ($/sqm NSA)	Adopted Revenue ($/sqm NSA)
Town centre	Townhouse	$5,500-6,000	$6,000
Local centre	Townhouse	$6,500-7,000	$6,500
Suburban	Townhouse	$6,500-7,000	$6,500
Growth Area	Townhouse	$6,000-7,000	$7,000
Local Centre	Townhouse	$5,000-5,500	$4,988
Strategic Centre	Apartment (3-5 Storey)	$7,500-8,000	$7,363
Metropolitan Centre	Apartment (3-5 Storey)	$9,000-9,500	$8,788
Local Centre	Apartment (3-5 Storey)	$6,750-7,250	$6,650
Suburban	Apartment (3-5 Storey)	$7,250-7,750	$7,125
Suburban	Apartment (3-5 Storey)	$6,500-7,000	$6,413
Suburban	Apartment (3-5 Storey)	$7,000-7,500	$6,888
Growth Area	Apartment (3-5 Storey)	$8,000-9,000	$8,075
Strategic Centre	Apartment (3-5 Storey)	$7,500-8,000	$7,363
Metropolitan Centre	Apartment (3-5 Storey)	$8,000-9,000	$8,075
Growth Area	Apartment (3-5 Storey)	$9,000-9,500	$8,788
Town Centre	Apartment (6-10)	$9,000-9,500	$8,788
Town centre	Apartment (6-10)	$9,500-10,000	$9,310
Metropolitan Centre	Apartment (10-15)	$10,500-11,000	$10,213
Metropolitan Centre	Apartment (10-15)	$9,250-9,750	$9,025
Local Centre	Apartment (10-15)	$6,500-7,000	$6,413
Strategic Centre	Apartment (10-15)	$9,000-9,500	$8,788
Strategic Centre	Apartment (10-15)	$10,250-10,750	$9,975
Suburban	Dual occupancy	$6,750-7,250	$6,650
Suburban	Dual occupancy	$5,500-6,000	$5,463
Suburban	Dual occupancy	$6,750-7,250	$6,650
Growth Area	Dual occupancy	$6,250-7,250	$6,413
Growth Areas	Subdivision	$1,250	$1,250
Growth Areas	Subdivision	$1,600	$1,550
Growth Areas	Subdivision	$1,800	$1,650

Source: HillPDA market research, Domain.com.au, Realestate.com.au, RPData

The following details the median house price in the relative to the median strata price. This gives an indication of what sites would need to be acquired for vs apartments would be sold for. The following strata prices however include townhouse, dual occ, apartments and all strata typologies and does not factor in the proportion of the typologies.

Table 15: Median prices for House and Strata by locality

Loc	Property Locality	LGA	Median House	Median Strata	Strata to house Index
Greenfield	Tahmoor	Wollondilly	$775,000	$625,000	0.81
Infill	Blaxland	Blue Mountains	$1,000,000	$727,500	0.73
Town Centre	Minto	Campbelltown	$823,500	$590,000	0.72
Infill	Katoomba	Blue Mountains	$812,000	$550,000	0.68
Greenfield	Schofields	Blacktown	$1,163,000	$640,000	0.55
Infill	St Marys	Penrith	$800,000	$605,000	0.76
Town Centre	Richmond	Hawkesbury	$848,500	$635,000	0.75
Greenfield	Oran Park	Camden	$1,058,950	$789,000	0.75
Town Centre	Oran Park	Camden	$1,058,950	$789,000	0.75
Town Centre	Bonnyrigg	Fairfield	$867,500	$640,000	0.74
Town Centre	Campbelltown	Campbelltown	$790,000	$520,000	0.66
Town Centre	Fairfield heights	Fairfield	$1,000,000	$650,000	0.65
Infill	Liverpool	Liverpool	$920,000	$480,000	0.52
Town Centre	Mount Druitt	Blacktown	$840,000	$420,000	0.50
Town Centre	Canley Heights	Fairfield	$980,000	NA	NA
Town Centre	Seven Hills	Blacktown	$944,750	$650,000	0.69
Town Centre	Campbelltown	Campbelltown	$790,000	$520,000	0.66
Town Centre	Penrith	Penrith	$856,000	$530,000	0.62
Town Centre	Liverpool	Liverpool	$920,000	$480,000	0.52
Town Centre	Rouse Hill	Blacktown	$1,392,500	$685,000	0.49
Town Centre	Leppington	Liverpool	$1,165,000	$540,000	0.46
Town Centre	Bossley Park	Fairfield	$1,050,000	NA	NA
Infill	Riverstone	Hawkesbury	$1,010,000	$865,000	0.86
Greenfield	Denham Court	Liverpool	$1,055,000	$859,000	0.81
Infill	Moorebank	Liverpool	$1,120,000	$810,000	0.72
Greenfield	Macquarie Fields	Campbelltown	$832,500	$540,000	0.65
Greenfield	Wilton	Wollondilly	$1,005,000	$740,000	0.74
Greenfield	Glenmore Park	Penrith	$1,005,000	$697,500	0.69
Greenfield	Austral	Liverpool	$880,000	$580,000	0.66

Source:

A.2 Fees and contributions

Table 16: Adopted fees and contribution rates

Fid	Centre type	Type	Parking rate (avg)	Contribution	Contribution rate	SIC ($/dwelling)	H&P ($/dwelling)	Sydney Water DSP (rate)	Sydney Water DSP ($)
11	Town centre	Townhouse	1.0	7.12	1%	-	12,000	$868	$8,191
9	Local centre	Townhouse	1.2	7.12	1%	-	12,000	$4,826	$23,163
13	Suburban	Townhouse	1.2	7.12	1%	-	12,000	$4,826	$18,530
10	Growth Area	Townhouse	2.4	HillPDA value	2%	15,426	12,000	$2,366	$21,684
14	Local Centre	Townhouse	2.2	7.11	$19,657	-	12,000	$820	$7,518
8	Strategic Centre	Apartment (3-5 Storey)	1.4	7.11	$6,724	-	10,000	$2,366	$50,194
7	Metropolitan Centre	Apartment (3-5 Storey)	1.8	7.12	2%	-	10,000	$868	$14,463
17	Local Centre	Apartment (3-5 Storey)	1.4	7.12	1%	-	10,000	$13,127	$192,748
6	Suburban	Apartment (3-5 Storey)	1.3	7.11	16,777	-	10,000	$868	$18,079
26	Suburban	Apartment (3-5 Storey)	1.3	7.11	9,489	-	10,000	$868	$37,224
27	Suburban	Apartment (3-5 Storey)	1.3	7.11	16,777	-	10,000	$868	$21,502
15	Growth Area	Apartment (3-5 Storey)	1.2	7.11	9,804	250,577	10,000	$4,826	$204,721
28	Strategic Centre	Apartment (3-5 Storey)	1.6	HillPDA value	2%	-	10,000	$2,366	$59,619
24	Metropolitan Centre	Apartment (3-5 Storey)	1.3	7.12	1%	-	10,000	$868	$23,010
25	Growth Area	Apartment (3-5 Storey)	1.2	7.11	9,804	250,577	10,000	$4,826	$136,480
22	Town Centre	Apartment (6-10)	1.4	7.12	1%	-	10,000	$868	$25,233
23	Town centre	Apartment (6-10)	1.6	HillPDA value	2%	-	10,000	$967	$34,201
3	Metropolitan Centre	Apartment (10-15)	1.4	7.11	$6,724	-	10,000	$4,826	$127,950
1	Metropolitan Centre	Apartment (10-15)	1.8	7.12	2%	-	10,000	$868	$23,141
2	Local Centre	Apartment (10-15)	1.3	7.11	9,489	`	10,000	$868	$6,508
4	Strategic Centre	Apartment (10-15)	1.8	7.11	-	250,577	10,000	$4,826	$179,131

5	Strategic Centre	Apartment (10-15)	1.6	HillPDA value	2%	15,426	10,000	$1,811	$57,618
19	Suburban	Dual occupancy	2.0	7.11	15,759	-	12,000	$868	$5,424
20	Suburban	Dual occupancy	1.0	7.12	1%	-	12,000	$868	$9,779
21	Suburban	Dual occupancy	2.0	7.11	-	-	12,000	$868	$10,354
18	Growth Area	Dual occupancy	2.0	7.12	1%	15,426	12,000	$2,366	$28,234
16	Growth Areas	Subdivision		7.11	$85,000	-	12,000	$11,036	$331,094
29	Growth Areas	Subdivision		7.11	$85,000	-	12,000	$4,826	$144,767
30	Growth Areas	Subdivision	1.0	7.11	$85,000	250,577	12,000	$4,826	$144,767

Source: HillPDA analysis

A.3 Construction costs

Table: Benchmark construction costs

	$/sqm	Average size GFA (sqm)	$/unit (avg)
Townhouse	2,800	125sqm	350,000
Apartment 3-5 Storey	3,000	90sqm	270,000
Apartment 6-10 Storey	3,200	90sqm	288,000
Apartment 10-15 Storey	3,800	90sqm	342,000
Dual Occupancy	2,900	120sqm	348,000

Source: Rawlinson's Construction Handbook 2023

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