Attachment F

Feasibility Analysis - AEC Group
October 2021

600-660 ELIZABETH STREET, REDFERN – FEASIBILITY STUDY

OCTOBER 2021

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EXECUTIVE SUMMARY

BACKGROUND

AEC Group (AEC) has been engaged by the City of Sydney Council (the City) to assist the City's understanding of 600-660 Elizabeth Street, Redfern's (the Site) ability to be redeveloped and provide affordable rental housing over and above a predefined threshold of 30% for dedication of social housing dwellings. Essentially, the City is seeking to understand what the 'tipping point' is i.e., the amount of GFA that can be ascribed to affordable rental housing in addition to social and market dwellings whilst the development project achieving desired hurdle rates and maintaining project profitability and viability.

The Site itself forms part of the Redfern Housing Estate and is a rectangular shaped site of 10,850m² bound by Elizabeth Street, Phillip Street, Walker Street and Kettle Street within the inner Sydney suburb of Redfern. The Site is currently owned by the Land and Housing Corporation (LAHC).

In March 2020, LAHC lodged a planning proposal with the City of Sydney (the City) to rezone the Site in order to develop a mixed use development providing 351 residential apartments across 3 buildings with building heights ranging between 4-16 storeys. A Gateway Determination was subsequently issued in February 2021 with the condition that at least 30% of the total residential floor space must be used for social and affordable rental housing. However, this is lower than the City's current benchmark of 40%, and it was also noted that the proposal does not specify the apportionment between social and affordable dwellings. The City is currently working with LAHC to ensure an appropriate mix of housing is provided on the Site.

Whilst the City were largely supportive of the proposal, the allocation towards social and affordable rental housing was deemed to be 10% lower than that determined by the City and that the composition of social and affordable rental housing was not properly defined. In response, the City prepared a revised reference scheme which was informed by the City's Design Advisory Panel (DAP) to introduce a maximum FSR of 2.75:1 with an allocation of social/affordable rental housing of 40% of residential floor space.

Furthermore, we have been provided with an Urban Design Analysis (UDA) which was prepared in April 2021 by LAHC, Silvester Fuller, Tyrell Studio and Architectus. The UDA proposes two concept designs over the Site whilst also, in both instances, achieving an FSR of 2.75:1. Of the two concept designs, AEC have been directed by the City to undertake feasibility modelling based on the "Alternate Mapping" scenario within the UDA which allows for a flexible grid configuration of three buildings with 301 apartments in total.

As instructed by the City, AEC have undertaken our modelling on the basis 30% of the apartments being allocated as social housing with the incremental addition of in-kind affordable rental housing to be iteratively modelled to determine where the feasibility 'tipping point' lies to ascertain the maximum number of affordable rental housing dwellings that could be incorporated whilst maintaining 30% social housing and the balance being market housing.

AEC consider the most appropriate variations of affordable rental housing to be tested are 5%, 7.5% and 10% (resulting in 65%, 62.5% and 60% private dwellings respectively). As an additional method of comparison, we have also undertaken modelling on the basis of an equivalent affordable rental housing 'monetary' contribution being provided in lieu of 'In-Kind' affordable rental housing.

PURPOSE

The objective of the feasibility study is to inform the City of the potential for social and affordable rental housing to be provided by LAHC under the Communities Plus model, while still ensuring the development results in an appropriate financial return to LAHC. It is noted the project was originally proposed to fall under a Build-to-Rent (BtR) scenario, but the City of Sydney have since confirmed the development is unlikely to be progressing in this format.

KEY FINDINGS

To assist the City with their understanding of the relevant feasibility parameters for inclusion of affordable rental housing on the Site, we have undertaken an initial feasibility based on the hypothetical scenario of 30% social dwellings and 70% market dwellings, this could be considered the 'base case'. We have then undertaken modelling to determine the project's capacity to deliver affordable rental housing (in addition to 30% social housing) at increments of 5%, 7.5% and 10% (the balance of which to be provided as market dwellings) without impacting the feasibility and/or viability of the proposal (essentially determining what the tipping point is to determine how much affordable rental housing dwellings can be added before the project becomes non-feasible).

A summary of the modelling outputs follows.

	30% Social 0% Affordable 70% Market	30% Social 5% Affordable 65% Market	30% Social 7.5% Affordable 62.5% Market	30% Social 10% Affordable 60% Market
Revenues				
Gross Sales Revenue	$245,776,050	$228,547,768	$219,580,161	$212,433,649
Less Selling Costs	-$5,947,780	-$5,530,856	-$5,313,840	-$5,140,894
Total Revenue (before GST paid)	$239,828,270	$223,016,912	$214,266,321	$207,292,755
Less GST paid on all Revenue	-$22,343,277	-$20,777,070	-$19,961,833	-$19,344,516
Total	$217,484,992	$202,239,842	$194,304,489	$187,980,605
Costs				
Land Acquisition Costs	$242,000	$242,000	$242,000	$242,000
Construction (inc. Construct. Contingency)	$142,815,870	$142,865,091	$142,889,702	$142,914,312
Professional Fees	$10,235,880	$10,235,752	$10,235,590	$10,235,728
Statutory Fees	$10,032,104	$9,754,711	$9,608,981	$9,484,546
Site Works	$3,219,254	$3,221,226	$3,221,249	$3,221,753
Pre-Sale Commissions	$812,061	$754,208	$725,831	$701,031
Finance Charges (inc. Fees)	$789,800	$778,800	$773,300	$770,000
Interest Expense	$7,827,387	$7,690,745	$7,624,774	$7,559,006
Total Costs (before GST reclaimed)	$175,973,353	$175,542,533	$175,319,811	$175,128,377
Less GST reclaimed	-$14,914,695	-$14,875,267	-$14,854,572	-$14,838,702
Total	$175,973,353	$160,667,267	$160,465,238	$160,289,675
Gross Development Profit	$56,462,334	$41,572,575	$34,164,812	$27,690,960
Development Margin (Profit/Risk Margin)	**33.79%**	**25.01%**	**20.41%**	**16.74%**
Residual Land Value (Target Margin)	$15,120,173	$5,506,117	$460,000	-$3,930,142
Project Internal Rate of Return (IRR)	**34.59%**	**28.32%**	**24.71%**	**21.68%**
Residual Land Value (NPV)	$19,093,357	$11,363,525	$7,331,963	$4,147,466

1 - Development Margin: profit divided by total development costs (incl. selling costs)
2 - Project Internal Rate of Return: discount rate where the NPV equals zero
Source: AEC

Tipping Point Scenario

The above feasibility modelling findings indicate that affordable rental housing (delivered in-kind) of up to 7.5% could feasibility be delivered, in addition with 30% social housing and the balance being market housing. This represents the 'tipping point' in which the project is deemed feasible (i.e., achieving desired hurdle rates).

A basic summary of this follows in the below tabulation.

Scenario	Feasible	Comment
Base case (30% SH, 70% market)	✓	Target hurdle parameters achieved or exceeded.
Scenario 1 (30% SH, 5% AH, 65% market)	✓	Target hurdle parameters achieved or exceeded.
Scenario 2 (30% SH, 7.5% AH, 62.5% market)	✓	Target hurdle parameters achieved or exceeded. Considered to be the tipping point before feasibility of project no longer viable.
Scenario 3 (30% SH, 10% AH, 60% market)	X	Whilst the resultant IRR is met under this scenario, the Development Margin has not been met and results in a negative RLV on this basis of assessment.

Source: AEC
* Hurdle parameters have been set at 17.50% for IRR and 20% development margin.

Affordable housing contributions can be made through several methods including 'land' dedication, 'in-kind' dedication of completed dwellings or equivalent 'monetary' contributions. The City of Sydney currently has an equivalent monetary contribution amount (effective from 1 March 2021 to 28 February 2022) of $10,588/m² of GFA.

As an alternate method of assessment to determine the City's position should they potentially elect to receive a monetary contribution as opposed to in-kind dedicated dwellings, further feasibility modelling has been undertaken with the following results.

	30% Social, 0% Affordable 70% Market	30% Social, 2.5% Affordable 67.5% Market	30% Social, 3.5% Affordable 66.5% Market	30% Social, 4.0% Affordable 66% Market	30% Social, 5% Affordable 65% Market	30% Social, 7.5% Affordable 62.5% Market
Development Margin (Profit/Risk Margin)	33.54%	25.90%	22.30%	20.47%	17.89%	10.40%
Residual Land Value (Target Margin)	$14,845,827	$6,671,568	$2,654,000	$551,429	-$2,679,200	-$12,869,887
Project Internal Rate of Return (IRR)	34.42%	27.63%	24.55%	23.00%	20.75%	14.29%
Residual Land Value (NPV)	$18,874,434	$11,732,818	$8,260,453	$6,484,606	$3,910,559	-$4,165,578

1 - Development Margin: profit divided by total costs (incl. selling costs)
2 - Project Internal Rate of Return: discount rate where the NPV equals zero
Source: AEC

Tipping Point Scenario

The results indicate an equivalent monetary contribution towards affordable rental housing of up to 4.0% could potentially be delivered in addition with 30% social housing and the balance being market housing. A basic summary of this follows in the below tabulation.

Scenario	Feasible	Comment
Base case (30% SH, 70% market)	✓	Target hurdle parameters achieved or exceeded.
Scenario 1 (30% SH, 2.5% AH, 67.5% market)	✓	Target hurdle parameters achieved or exceeded.
Scenario 2 (30% SH, 3.5% AH, 66.5% market)	✓	Target hurdle parameters achieved or exceeded. Considered to be the tipping point before feasibility of project no longer viable.
Scenario 3 (30% SH, 4% AH, 66% market)	✓	Target hurdle parameters achieved or exceeded. Considered to be the tipping point before feasibility of project no longer viable.
Scenario 4 (30% SH, 5% AH, 65% market)	X	Whilst the resultant IRR is met under this scenario, the Development Margin has not been met and results in a negative RLV on this basis of assessment.
Scenario 5 (30% SH, 7.5% AH, 62.5% market)	X	Both hurdle rate parameters not achieved under this scenario.

Source: AEC
* Hurdle parameters have been set at 17.50% for IRR and 20% development margin.

There are many potential scenarios including construction delays, cost increases, archaeological findings whilst excavating etc that can impact project profitability. An added element of complexity occurs with the application of affordable rental housing and the many potential funding arrangements/structures that exist which may depend on whether the CHP is providing a cost offset to the project, is dedicated a portion of the land themselves to construct affordable rental housing or whether a monetary contribution is provided as opposed to dedication of completed dwellings etc.

Based on the Critical Assumptions adopted within Section 7.1, we have concluded the following feasibility results.

In-Kind Dedication of Affordable Rental Housing

Based on AEC's analysis of the Alternate Mapping Scheme as identified within the UDA, the project can potentially accommodate **30%** social housing, up to **7.5%** affordable rental housing and **62.5%** market housing before development margins fall below market expectations.

Equivalent Monetary Contribution

As an alternate measure, should the City elect to receive an equivalent monetary contribution for affordable rental housing, the project could potentially accommodate **30%** social housing, **4%** equivalent monetary contribution and **65%** market housing before development margins start being negatively impacted.

The above approximate potential allocations towards affordable rental housing in-kind (and monetary contribution) are based on feasibility modelling which makes multiple assumptions in the absence of known feasibility inputs. These feasibility inputs are 'not exact' but are intended to represent a researched estimate based on the available market and in-house knowledge at the time. Whilst every endeavour has been undertaken by AEC to ensure these feasibility inputs and outputs have been checked for accuracy, the feasibility modelling exercise remains a 'hypothetical' exercise. Key factors which may influence a different feasibility outcome include construction costs (including latent ground conditions and unquantifiable remediation costs), market shifts influencing revenues, (potential value discounting to the private market revenues associated with being in close proximity to large concentrations of social housing) and multiple other factors.

Therefore, in recognition of the unverifiable feasibility inputs impacting feasibility sensitivity, we recommend the City acknowledge that a **feasibility tipping point tolerance attributable to the ARH contribution of between 1.50% - 2.00%** could be considered reasonable which resulting in a **Tipping Point sensitivity range of 5.5%/6.0% as the lower bound to 9.0%/9.5% as the upper bound attributable towards Affordable Rental Housing floor space in the project**.

Furthermore, our modelling has been undertaken on the basis of no financial input from a prospective CHP and that in accordance with the City of Sydney Affordable Housing Program, the affordable rental housing dwellings are delivered in-kind free of cost. Should a CHP potentially contribute to the financing of construction, equity or other means, this would likely improve upon the currently assessed return parameters.

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LIMITATIONS OF THIS STUDY

AEC acknowledges a number of limitations associated with this Study:

- All concept scheme designs and/or options remain conceptual and indicative only at the time of preparing this report having not been through the development planning approval process.
- We have not been provided with a quantity surveyor's construction costs for any of the proposed concept/design schemes and have relied upon our interpretation of the costs based on industry publications, perusal of costing reports prepared for other projects and discussions with developers.
- This is not a valuation report and should not be treated or relied upon for such purposes.
- The purpose of this report is to assist the City with their internal decision making only and should not be relied upon for any other purposes.
- We have not undertaken any Title searches in this instance and our assessment has been conducted on the basis the Title is free of any encumbrances (including easements, rights of carriageway, unregistered dealings etc.) that could potentially hinder redevelopment or materially deviate from anticipated development yield as identified within the Urban Design Analysis supplied.
- The feasibility modelling results are 'sensitive' to changes in construction costs and development yield. Obtaining a QS costing will provide further certainty in the development feasibility modelling.
- We have not confirmed if the proposed project configuration as modelled under the Urban Design Analysis complies with the Apartment Design Guideline. Should this not be the case, we reserve the right to review and amend this report if there is likely to be a material impact on the feasibility.
- In light of recent volatility in economic conditions resulting from the COVID-19 pandemic it is difficult to provide certainty in terms of market direction. Market dynamics can shift quickly and can adjust in a negative manner particularly for development sites. AEC therefore recommend that this assessment is kept under regular review.
- Details of transactions and settlement terms of the sales evidence considered within our assessment is information that is generally 'commercial in confidence' and can be difficult to obtain. The only settlement terms AEC can confirm is the exchange and settlement date and amounts as per land title information obtained through Pricefinder and only after the sale has settled.

The Feasibility Study is desktop in nature and a number of generic assumptions are necessitated by the conceptual nature of the options as well as the absence of detailed information available. These assumptions pertain to the revenue and sources of revenue, cost of infrastructure and public realm works, staging of redevelopment, 'hard' and 'soft' development costs.

Given the foregoing and limited information available, the outcomes of the Feasibility Study should only be relied on as preliminary or indicative.

TERMINOLOGY

A summary of the terminology used within this report follows.

Acronyms	Definition
ADG	**Australian Design Guideline** The Apartment Design Guide provides consistent planning and design standards for apartments across the State. It provides design criteria and general guidance about how development proposals can achieve the nine design quality principles identified in SEPP 65 (State Environmental Planning Policy No 65 - Design Quality of Residential Apartment Development).
DA	**Development Approval** A legal document that allows you to undertake a development. Development Approvals specify the design and other documents that the development must follow – i.e., plans for the location and design of the buildings and the structural details for the building such as the depth of footings.
GBA	**Gross Building Area** The total enclosed and unenclosed area of the building at all building floor levels measured between the normal outside face of any enclosing walls, balustrades and supports.
GFA	**Gross Floor Area** The sum of the floor area of each floor of a building measured from the internal face of external walls, or from the internal face of walls separating the building from any other building, measured at a height of 1.4 metres above the floor
FSR	**Floor Space Ratio** The ratio of a building's total floor area to the size of the parcel of land upon which it is built.
LAHC	**Land and Housing Corporation** The NSW Land and Housing Corporation (LAHC) is a self-funded Public Trading Enterprise (PTE), governed by the Housing Act 2001, and is part of the NSW Government's Department of Planning, Industry and Environment (DPIE).
LEP	**Local Environmental Plan** A type of Environmental Planning Instrument (EPI) which is a legal document that controls development and set out how land is to be used.
SQM (m^2)	**Square Metres** The area equal to a square that is 1 meter on each side.
QS	**Quantity Surveyor** A tertiary qualified professional who specialises in building measurement and estimates the value of construction costs
UDA	**Urban Design Analysis** We have been provided with an Urban Design Analysis (UDA) which was prepared in April 2021 for LAHC, Silvester Fuller, Tyrell Studio and Architectus. The UDA proposes two concept designs over the Site whilst in both instances achieving 2.75:1 FSR.

1. INTRODUCTION

1.1 BACKGROUND

600-660 Elizabeth Street, Redfern (the Site) forms part of the Redfern Housing Estate and is a rectangular shaped redevelopment site with a total land area of 10,850m². The Site is bound by Elizabeth Street, Phillip Street, Walker Street and Kettle Street within the inner Sydney suburb of Redfern and is currently owned by the Land and Housing Corporation (LAHC). It formerly accommodated 18 social housing dwellings that were subsequently demolished in 2013 with remaining improvements comprising a Police and Community Youth Club (PCYC) facility, basketball court and a series of planted exotic and native trees throughout the Site grounds.

In March 2020, LAHC lodged a planning proposal with the City of Sydney (the City) to rezone the Site in order to develop the following concept scheme:

- A mixed-use development to provide 351 residential apartments across 3 buildings with building heights ranging between 4-16 storeys and providing basement car parking over two levels. Non-residential floor space of approximately 1,600m² was also to be included.
- A mix of social, affordable and private housing.
- 30% of dwellings to be social and affordable rental housing (apportionment undetermined).
- A range of apartment sizes and types with accommodation ranging from studios to 3 bedrooms.
- 3,500m² of community facilities inclusive of ground level non-residential floor space (retail and/or commercial uses).

A Gateway determination was issued in February 2021 by DPIE with the condition that at least 30% of the total residential floor space must be used for social and affordable rental housing. However, this 30% apportionment is lower than the City's current benchmark of 40%, and it was also noted the proposal does not specify the mix of social and affordable dwellings as part of the 30% allocation.

The project is part of the Communities Plus program, under Future Directions for Social Housing in NSW which represents the NSW Government's 10-year plan for social housing. Under the program, LAHC seeks partnership opportunities with the private sector to fast-track redevelopment of its social housing portfolio. Over the next 10 years, the program provides for the NSW Government to, inter alia, seek to ensure large redevelopments target a 70:30 ratio of private to social housing to enable more integrated communities (generally with an increased number of social housing where practicable).

We also note the project was originally proposed to fall under a Build to Rent (BtR) scenario, but the City of Council have since confirmed this scenario is no longer progressing.

Whilst the City were largely supportive of LAHC's planning proposal, however the Gateway determination confirmed allocation towards social and affordable rental housing was deemed to be 10% lower than that being sought by the City and that the proportions of social and affordable rental housing were not properly defined within the Gateway determination. In response, the City prepared a revised reference scheme which was informed by the City's Design Advisory Panel (DAP), summarised as follows:

- Rezone the Site R1 - General Residential.
- Introduce a maximum FSR of 2.75:1.
- The revised scheme to provide an equivalent amount of GFA and achieve a similar number of apartments to the landowner's reference scheme.
- Allocation of social/affordable rental housing of 40% of residential floor space.
- Introduce a maximum height of buildings of RL 50.3 metres and RL 87.5 metres.
- Introduce Category B maximum car parking rates.

- 3,500m² of contiguous on-site land being used for community facilities.

We have been provided with an Urban Design Analysis (UDA) which was prepared in April 2021 by LAHC, Silvester Fuller, Tyrell Studio and Architectus. The UDA proposes two concept designs over the Site whilst also, in both instances, achieving:

- 2.75:1 FSR.
- Exceedance of ADG Solar.
- Exceedance of ADG Cross-Vent.
- No shadowing over Redfern Park.
- 70% solar access to the east.
- 15% deep soil.

Of the two concept designs, AEC have been advised by the City to undertake our modelling based on the "Alternate Mapping" scenario within the UDA which allows for a flexible grid configuration of buildings across the Site that can be modified further to allow for redesign and/or design excellence increases to FSR. The indicative Gross Floor Area under the Alternate Mapping scenario equates to 27,612m² (with a Net Saleable Area of 23,517m² exclusive of communal floor area). The apartment composition under this scenario follows:

- 942m² of retail floor space.
- Studios – 58.
- 1-bedroom apartments – 49.
- 2-bedroom apartments – 163.
- 3-bedroom apartments – 31.

Total number of apartments under this scenario equates to 301.

As instructed by the City, AEC have undertaken our modelling on the basis 30% of the apartments are to be allocated towards social housing (same typology/apportionment as the private and affordable dwellings) with the incremental addition of affordable rental housing to be iteratively modelled to reflect where the 'tipping point' lies to ascertain the maximum number of affordable rental housing dwellings that could be incorporated whilst maintaining social housing at 30% before the project is no longer deemed feasible.

AEC consider the most appropriate variations of affordable rental housing to be tested are 5%, 7.5% and 10% (resulting in 65%, 62.5% and 60% private dwellings respectively).

1.2 PURPOSE & SCOPE

The objective of the feasibility study is to inform the City of the potential for social and affordable rental housing to be provided by LAHC under the Communities Plus model, while still ensuring the development results in an appropriate financial return.

The scope of the Study is to:

- Undertake feasibility of the 'base case' proposal, based on a given yield, height profile, contribution requirement, public infrastructure requirement and tenure mix (30% of all residential floorspace to be provided as social housing).
- Test variations of the built form in the 'base case'; for each 'base case' outcome, test the impact of an additional affordable rental housing requirement (in addition to the 30% social housing requirement in the 'base case').
- Identify an optimal affordable rental housing requirement on the site, where:
  - the redevelopment results in an appropriate return to LAHC; and

- the forgone revenue to LAHC resulting from providing affordable rental housing, does not outweigh the costs of providing social housing elsewhere (where they would need to buy land to provide it). It is noted affordable rental housing and social housing may differ in 'value'.

1.2.1 Approach

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

- Review of LAHC options and the City's alternate development options.
- Development of parameters and assumptions for feasibility analysis of the:
  - Urban Design Analysis (as instructed by the City).
- Market appraisal and research to develop underpinning revenue assumptions.
- Review of generic cost assumptions from various quantity surveyors reports (provided by the City) for other inner Sydney projects and review of construction cost publications.
- Feasibility modelling of options to test ability of each option to fund delivery of affordable rental housing dwellings.

2. SITE PARTICULARS

2.1 LOCATION

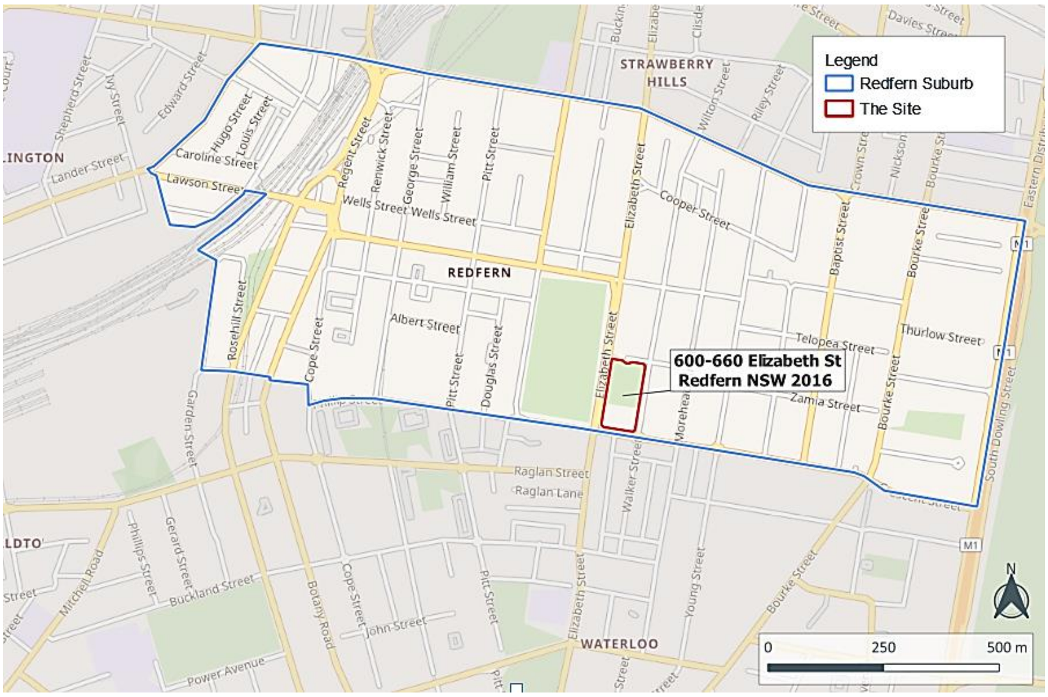
The property being the subject of this study is located at 600-660 Elizabeth Street, Redfern NSW ('the Site'). It is situated within the southern peripheries of the suburb of Redfern (bordering Waterloo). Redfern is approximately 3km south of Sydney CBD and comprises an established inner Sydney suburb characterised by a primary retail/commercial precinct (along Regent Street and Redfern Street), a mix of low to high density housing, ranging from Victorian era terrace housing through to modern apartment towers. The suburb is currently undergoing substantial gentrification, however, still retains approximately 20% of public housing. A summary of the locational attributes of the Site are outlined in Table 2.1.

Table 2.1. Locational Attributes of the Site

Category	Details
Position	Situated directly opposite Redfern Park/Oval, the Site features frontages to Elizabeth Street, Phillip Street, Walker Street and Kettle Street (forming an island site). The Site forms part of the Redfern Housing Estate.
Surrounding development	Redfern Oval provides training facilities for the South Sydney Rugby League Club, situated to the west of the Site. To the east, along Walker Street there is low to medium density housing comprising 1-2 storey townhouses and 4 storey apartment complexes constructed in 2013.To the north along Kettle Street which contains a cul-de-sac and residential buildings range from 3-9 storeys.
Access	At present, vehicular access to the Site is limited to the Elizabeth and Phillip Street alignments.
Amenities	Amenities within close proximity include a Woolworths Metro supermarket along Chalmers Street, Russel Crowe Skatepark, aforementioned Redfern Park/Oval and Prince Alfred Park to a lesser extent (some 770 metres distant).
Public transport	Bus routes and stops providing access to Eastgardens, Mascot and Sydney CBD are situated along Elizabeth Street and Phillip Street whilst the proposed Waterloo Metro Station is situated approximately 850 metres to the south-west. The existing Redfern Train Station is situated approximately 900 metres to the north-west.

Source: AEC

Figure 2.1. Site Location



Source: AEC.

2.2 SITE DESCRIPTION

The Site consists of a single allotment described as Lot 1 DP 1249145 and is owned by LAHC. It occupies a street block and has four road frontages: Elizabeth Street to the west, Kettle Street to the north, Walker Street to the east and Phillip Street to the south. A Stormwater Strategy Report prepared by AECOM concluded the southern section of the Site is affected by 100-year Average Recurrence Interval (ARI) flooding and the whole of the Site is situated within the Probable Maximum Flood (PMF). There are no known current heritage items on or within the Site however Stage 1 and 2 environmental reports have been undertaken on the Site which indicate there is contamination present within the Site grounds (including traces of lead, asbestos and infill materials).

An aerial view of the Site is illustrated in Figure 2.2 and the Site's dimensions are described in Table 2.2.

Figure 2.2. Aerial View of Site

Source: Google, AEC.

Table 2.2: Site Dimensions and Area

Description	Dimensions/Area
Elizabeth Street (west)	140.4m
Kettle Street (north)	72.0m
Walker Street (east)	138.8m
Phillip Street (south)	63.3m
Site Area	**10,850m²**

Source: Pricefinder (2021).

Existing development on the Site consists of the South Sydney PCYC located on the south-western corner of the Elizabeth Street and Phillip Street junction. The PCYC portion of the Site comprises three single level brick buildings, an outdoor basketball court and children's playground.

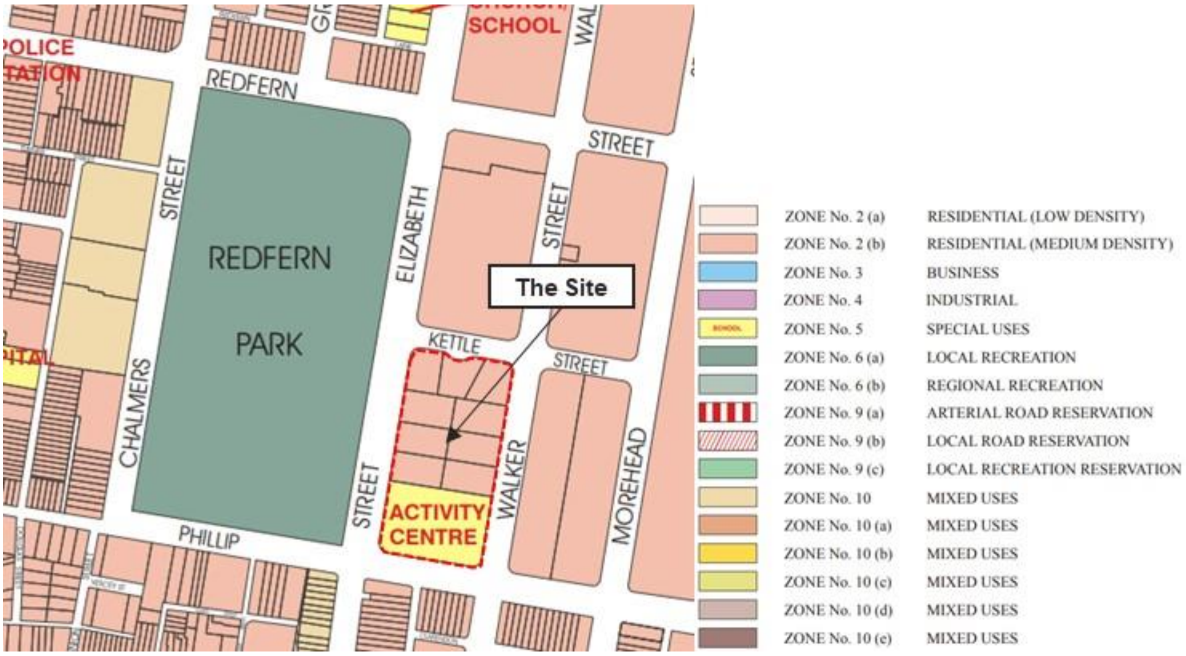
The northern portion of the Site previously accommodated 18 social housing dwellings that were demolished in 2013. The Site forms part of the Redfern Social Housing Estate and is located on the southernmost block of the Estate.

3. PLANNING CONSIDERATIONS

3.1 SYDNEY LOCAL ENVIRONMENTAL PLAN 2012

The Site is classified as a 'deferred matter' under the Sydney Local Environmental Plan 2012, and as such the South Sydney Local Environmental Plan 1988 (SSLEP) currently applies. Under the SSLEP, the Site is currently zoned No. 2(b) Residential (Medium Density) and No. 5 Special Uses (Activity Centre), as illustrated in Figure 3.1.

Figure 3.1. Extract from South Sydney LEP 1988



Source: South Sydney LEP (1988).

The current planning controls which apply to the Site are summarised in Table 3.1 below.

Table 3.1: Existing Planning Controls, South Sydney DCP 1998

Item	No. 2(b) Residential (Medium Density)	No. 5 Special Uses (Activity Centre)
Permitted uses without consent	Exempt development referred to in clause 10A.	Exempt development referred to in clause 10A.
Permitted uses with consent	Bed and breakfasts; boarding houses; childcare centres; community centres; dwelling houses; educational establishments; home industries; hospitals; local businesses; local shops; multiple dwellings; places of public worship; professional consulting rooms; public buildings; roads; temporary buildings.	The particular land use indicated by red lettering on the map, or land uses which are ancillary or incidental to that land use; development that may be carried out (with or without consent) on adjoining or adjacent land in the same or a different zone; roads; temporary buildings.
Prohibited uses	Any development not specified above.	Any development not specified above.
Maximum Floor Space Ratio	1.5:1	None
Maximum Building Height	6 metres	None

Source: South Sydney DCP (1998).

3.2 THE CITY OF SYDNEY AFFORDABLE HOUSING PROGRAM

The City of Sydney Affordable Housing Program (the Program) was formally adopted by the City on 24 August 2020 and aims to provide the background, requirements and operational detail for various affordable contribution provisions in local environmental plans (LEPs) that operate within the City of Sydney. The Program includes land within central Sydney, Green Square, Southern Employment Lands, Residual Land and Planning Proposal Land. The Program includes the following variations of the definition of affordable housing:

Affordable Housing

Affordable housing is defined by the Environmental Planning and Assessment Act 1979 as:

"Housing for very low-income households, low-income households or moderate-income households, being such households as are prescribed by the regulations or as are provided for in an environmental planning instrument".

Affordable Rental Housing

Under this Program, Affordable rental housing or Affordable rental dwelling is affordable housing that is owned and managed by government, a recommended community housing provider, or an eligible community housing provider and rented to very low to moderate income households.

It is understood that any proposed affordable housing within the project forming the basis of this report, shall be dedicated as such for use as affordable rental housing.

For Central Sydney and Residual Lands, the following contribution rates apply:

Table 3.2: Contribution Rates

Date of lodgement of development application	Non- residential rate	Residential rate
1 July 2021 to 30 June 2022	0.5%	1.5%
1 July 2022 onwards	1.0%	3.0%

Source: Affordable Housing Program (2020).

Should a Proponent wish to provide an Equivalent Monetary Contribution as opposed to other forms i.e., in-kind dedication or dedication of land, an amount of $10,588/m² (current rate) of equivalent affordable housing GFA is to apply.

Further, the Program states that where multiple affordable rental dwellings are provided in the development, the apartment design benchmarks as established by the Apartment Design Guideline (or any subsequent Guideline that may apply from time to time) are to be generally achieved.

3.3 PLANNING PROPOSALS

3.3.1 LAHC's Planning Proposal

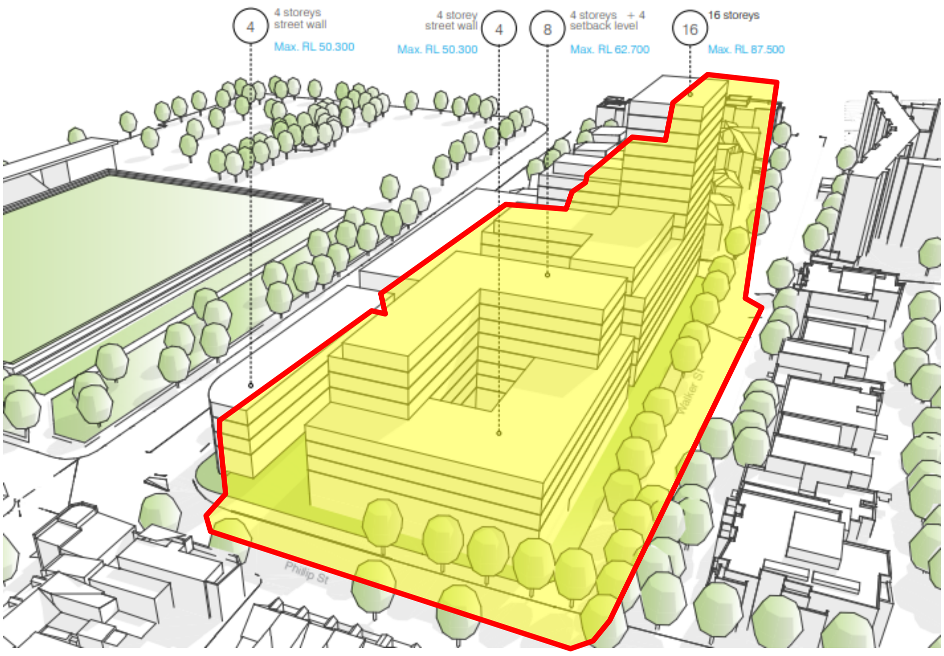
LAHC submitted a planning proposal to the City in March 2020 for the Site, which seeks to amend the Sydney LEP 2012 to:

- Rezone the Site to "R1 - General Residential".
- Introduce a maximum FSR of 2.75:1.
- Introduce a maximum height of buildings of RL 50.3 metres and RL 87.5 metres.
- Allocation of social/affordable rental housing of 30% of residential floor space.
- Introduce Category B maximum car parking rates.
- Insert a site-specific clause within Division 5 'Site specific provisions' relating to the amount of affordable rental housing to be provided on the site and the provision of 1,500 square metres of space for a community facility either onsite or in the locality.

An illustrative reference scheme was also prepared as part of LAHC's proposal, illustrated in Figure 3.2, which outlines the following key features:

- An indicative yield of 351 apartments that demonstrate compliance with the requirements of the Apartment Design Guide (ADG).
- Buildings ranging from 6 to 14 storeys, with a single tower located on the corner on Kettle and Walker Street marking an important east-west connection.
- Up to 1,500 sqm of non-residential floor space to provide opportunities for street activation, with cafés, retail spaces, childcare and community uses, on key corners.
- Three large communal spaces and landscaped setbacks that demonstrate the site can achieve 25% tree canopy cover.

Figure 3.2. Illustrative Reference Scheme



Source: Architectus (2020).

3.3.2 City of Sydney's Revised Version of the Planning Proposal

Whilst the City were largely supportive of the proposal, the allocation towards social and affordable rental housing was deemed to be 10% lower than that determined by the City and that the proportions were not properly defined. In response, the City prepared a revised reference scheme which was informed by the City's Design Advisory Panel (DAP), summarised as follows:

- Rezone the Site R1 - General Residential.
- Introduce a maximum FSR of 2.75:1.
- The revised scheme to provide an equivalent amount of GFA and achieve a similar number of apartments to the landowner's reference scheme.
- Allocation of social/affordable rental housing of 40% of residential floor space.
- Introduce a maximum height of buildings of RL 50.3 metres and RL 87.5 metres.
- Introduce Category B maximum car parking rates.
- 3,500m² of contiguous on-site land being used for community facilities.

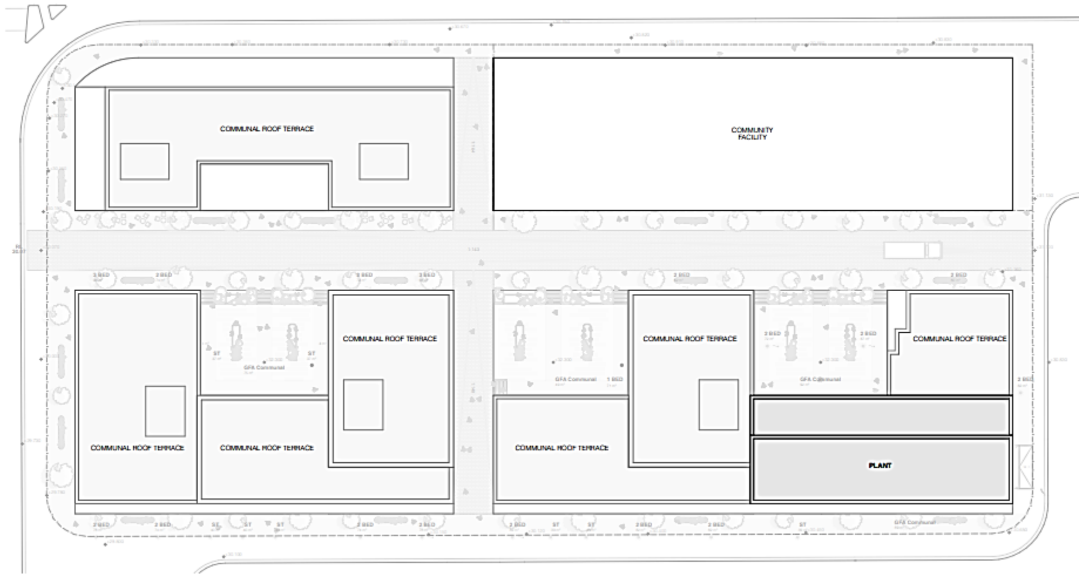
4. URBAN DESIGN ANALYSIS

We have been provided with an Urban Design Analysis (UDA) which was prepared in April 2021 for LAHC, Silvester Fuller, Tyrell Studio and Architectus. The UDA proposes two concept designs over the Site whilst in both instances achieving:

- 2.75:1 FSR.
- Exceedance of ADG Solar.
- Exceedance of ADG Cross-Vent.
- No shadowing over Redfern Park.
- 70% solar access to the east.
- 15% deep soil.

Of the two concept designs, AEC have been advised by the City to undertake our modelling based on the "Alternate Mapping" scenario which allows for a flexible grid configuration of buildings across the Site that can be modified further to allow for redesign and/or design excellence process. The indicative building layout follows in Figure 4.1

Figure 4.1: Indicative Building Configuration (Alternate Mapping Scenario)



Source: Urban Design Analysis (2021).

The indicative Gross Floor Area under the Alternate Mapping Scenario equates to 27,612m² (with a Net Saleable Area of 23,517m² exclusive of communal floor area). The apartment (and retail) composition under this scenario follows:

- 942m² of retail floor space.
- Studios – 58.
- 1-bedroom apartments – 49.
- 2-bedroom apartments – 163.
- 3-bedroom apartments – 31.

The total number of apartments under this scenario equates to 301. The three buildings (excluding the proposed community facility) range in height between 4-14 storeys. Other provisions are to include 239 basement car spaces over two levels (including 23 accessible car spaces) and 345 bikes stores.

5. PROPERTY MARKET ANALYSIS

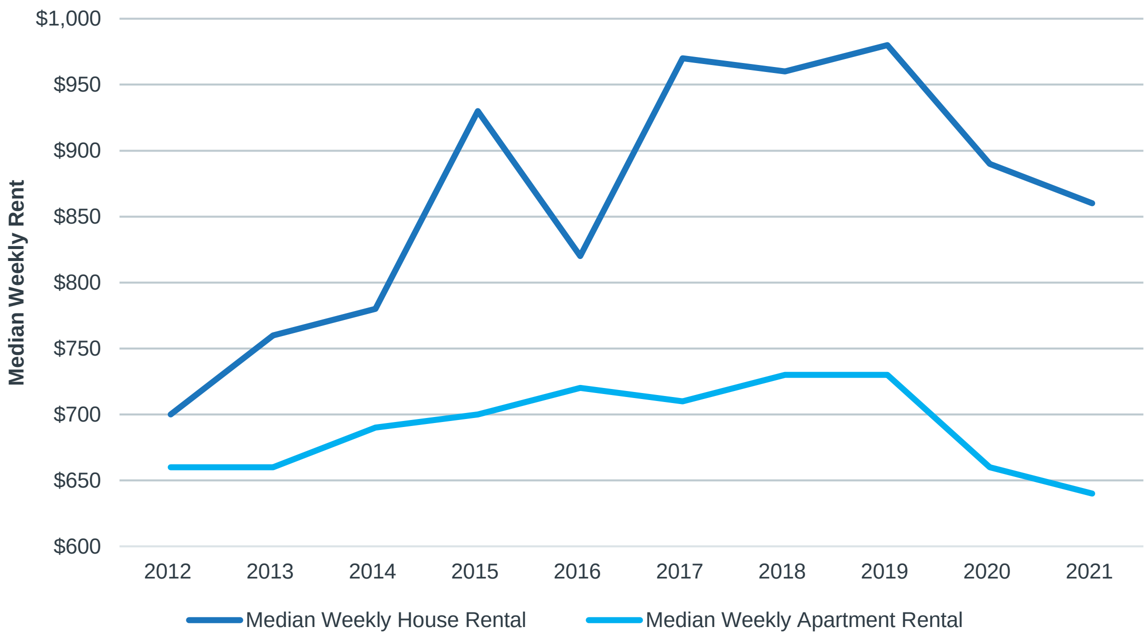
5.1 GENERAL MARKET COMMENTARY

Housing markets rebounded far more rapidly out of the COVID-19 led economic contraction than was initially expected (noting major banks were anticipating a fall in falls of 20-40%). Buyer demand led the property market surge fuelled by historically low interest rates and government assistance for certain buyer groups. Conversely, over the same period, the apartment market (and more particularly, high density projects across pockets of Sydney) has lagged the housing recovery, attributable to the following factors:

- Subdued foreign/local investor appetite.
- Withdrawal of international students (due to pandemic).
- The desire for larger forms of accommodation (due to pandemic).
- The work from home movement (exacerbated by the pandemic) which has led to increased demand for coastal/ lifestyle dwellings (which has lessened demand for inner city apartments).
- Stigma revolving around new and off the plan apartments given notable building defects in recent years.

It has been observed across the Sydney new and off the plan apartment markets, developers are also still in strong competition with residual unsold apartment stock from the previous property cycle and the prevalence of incentives provided by developers has also increased. The inner-city apartment rental market had been particularly impacted, with weekly rents declining ~10-25% as result of COVID-19, still relatively strong supply of apartments and closed borders. Furthermore, stock that had previously been used as short-term accommodation (i.e., Air BNB) had then entered the long-term rental market. Figure 5.1 below highlights the softening in rentals for both houses and apartments in the suburb of Redfern which peaked circa mid-late 2019.

Figure 5.1: Median House and Apartment Rents in Redfern

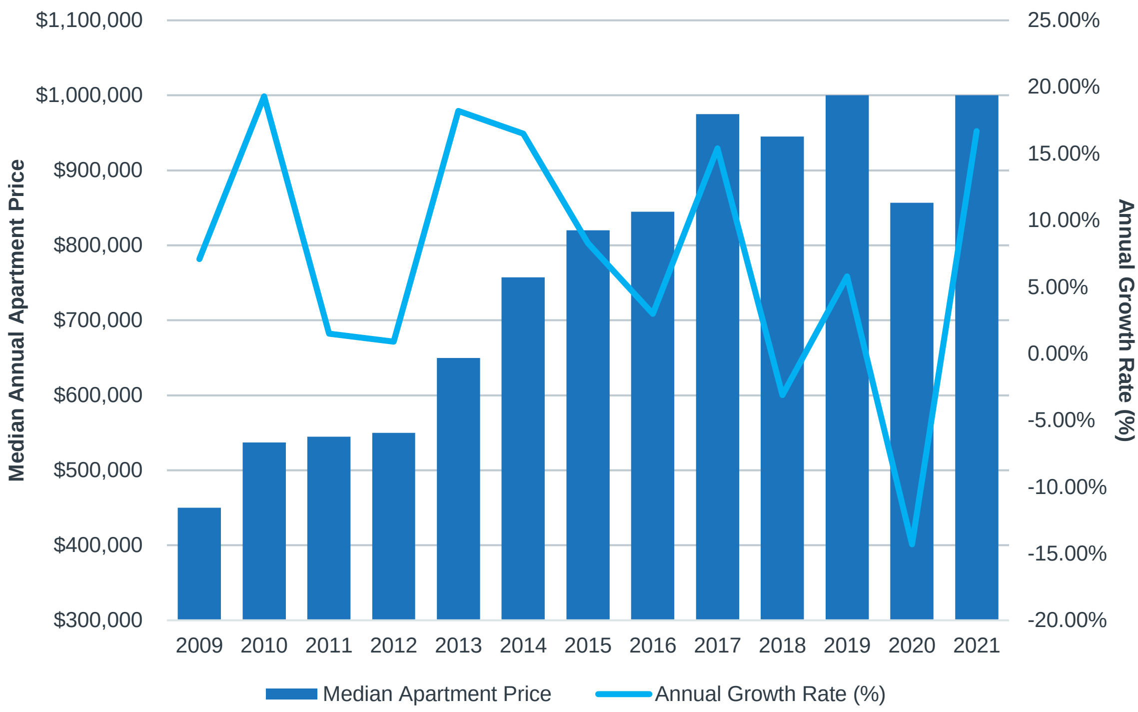


Source: Residex (2021).

Anecdotal evidence suggests the inner-city apartment market has stabilised over the last 6-month period as the reduced rents have attracted renters back into the marketplace. Further, market commentators have indicated that once the majority of the population are fully vaccinated and economy opens up with restrictions easing, rents are anticipated to commence rising once again.

2020 saw median values across the Redfern apartment decline in the order of ~15% however prices have recovered over 2021 to pre-covid levels as shown in Figure 5.2.

Figure 5.2: Median Apartment Prices and Annual Growth Rates in Redfern



Source: Pricefinder(2021).

5.2 AFFORDABLE HOUSING

In Sydney as of August 2021, the median house price was $1,293,450 whilst the median apartment price was $825,514 according to Corelogic. This level of pricing further solidifies Sydney's position as Australia's least affordable city. This high cost of housing is a well-recognised economic and social issue for Sydney, particularly within and around Sydney CBD where housing prices are amongst the highest in metropolitan Sydney.

The Eastern City District Plan (District Plan) which was implemented in March 2018 includes a target when planning proposals are being prepared for urban infill or land release areas, that 5-10% of new floor area be provided as affordable rental housing, subject to development feasibility being established at the precinct scale. In addition, the City's Sustainable Sydney 2030 Vision establishes an affordable housing target that by 2030, 7.5% of housing will consist of social housing and a further 7.5% will consist of affordable housing.

As a general rule, housing is generally considered affordable if it costs less than 30% of gross household income. The implementation of affordable rental housing is to assist those households on very low, low and moderate-income households to be able to reside in areas close to amenities, transport, education and employment options within regions that are characterised by higher housing costs.

In order to create better housing outcomes for people on lower wages and to assist CHPs with more favourable funding arrangements for providing social and affordable housing, the National Housing Finance and Investment Corporation (NHFIC) was formed in 2018. NHFIC act as a housing bond aggregator for the sector raising funds from Australian debt capital markets through the issuance of bonds and then lending that money to CHPs. This includes the Affordable Housing Bond Aggregator (AHBA) which was implemented to provide low cost, long-term loans to registered CHPs to support the provision of more social and affordable housing.

CHPs can either partner with a developer or another government body in order to provide affordable and/or social housing. In considering the appropriate housing typologies for the intended users, socio-demographic analysis is compiled for the respective region in which the CHP is seeking to provide said housing in order to better serve the needs and requirements for very low, low and moderate-income households.

5.3 DEVELOPMENT ACTIVITY

According to research compiled by Jones Lang LaSalle (JLL), apartment construction levels across Sydney had fallen 12% year on year and is now 64% below its 2Q-2018 peak. The lull in construction activity has had a flow-on effect and according to JLL the apartments being marketing now is around 68% below its 2Q-2018 peak. JLL further note that within the inner Sydney market, more than 1,500 apartments were completed in 1Q-2021. With a further 2,500 units under construction and expected to be completed in the second half of 2021, notwithstanding delays, 2021 completions are anticipated to slightly exceed the level of completions in 2020[1]. A snapshot of the inner Sydney apartment supply follows in Table 5.1.

Table 5.1: Inner Sydney Apartment Supply (by Stage and Precinct)

Stage	Sydney City	Inner South	Inner East	Inner North	Inner West	Total
Completed 2021	778	782	-	-	-	1,560
Under Construction	874	1,885	90	1,780	1,491	6,120
Currently Marketing	297	614	197	-	270	1,378
Plans Approved	589	2,476	512	1,058	2,728	7,363
Plans Submitted	1,078	870	2,441	483	399	5,271
Total	**3,616**	**6,627**	**3,240**	**3,321**	**4,888**	**21,692**

Source: JLL (2021).

Whilst apartment construction activity remains relatively subdued, other sectors of the housing market (primarily low density/detached dwellings) have seen activity increase materially over the last 10-12 month period. This has been buoyed by Government grants and incentives such as Homebuilder, First Home-Owner Grant and the First Home Buyer Assistance Scheme in addition to the aforementioned historic low finance rates available (owner occupiers typically achieving ~2.0% under prevailing condition).

Not dissimilar to the aftermath of the Global Financial Crisis (GFC), Australia and international economies are undergoing an infrastructure boom which combined with strong activity in the housing construction sector, has put pressure on sourcing tradesmen and materials creating an inflationary environment resulting in increased costs.

Although development activity of apartments remains relatively subdued, market commentators are becoming increasingly bullish on the apartment market with the view the market has bottomed and is now entering a recovery phase. This is further highlighted by the increasing affordability gap faced by many aspirational Sydney homeowners. According to Domain (as of April 2021) the gap between the median house price and median apartment price in Sydney was 66% which could suggest interest is likely to skew in favour of apartments in coming months/years, perhaps not by choice but out of necessity.

5.4 BUYER PROFILE

Enquiries with selling and marketing agents operating in Redfern and surrounding areas suggest an increasing presence of owner occupier purchasers active within the off-the-plan apartment market. These buyers are typically middle aged, established professional working couples with no children or a small family, many upgrading from existing homes in the Inner or Eastern suburbs. Downsizers are active albeit a smaller segment of the owner occupier market and typically target larger sized apartments to transition into a high-rise lifestyle. Furthermore, local agents have witnessed strong declines in both domestic and international investor activity across many projects since mid-2016 as both tougher lending requirements and capital restrictions for offshore purchasers took place.

[1] JLL – Apartment Market Overview Q1 2021

6. SALES EVIDENCE

6.1 NEW AND OFF THE PLAN APARTMENTS SALES

The following development projects analysed in Table 6.1 are currently being marketed off-the-plan or have recently sold. These developments/locations are broadly considered comparable to that proposed for the Site.

Table 6.1: Off the Plan/Newly Constructed Apartment Sales

Address	Type	Internal Area (sqm)		Sale Price		
		Low	High	Low	High	Analysis ($/sqm)
1A Lawson Square, Redfern	Studio	40	50	$780,000	$815,000	$16,300-$19,500
	1BR	51	61	$790,000	$850,000	$13,934-$15,490
	2BR	76	94	$1,100,000	$1,500,000	$14,476-$15,957
	3BR	105	113	$1,600,000	$1,950,000	$15,238-$17,257
"Surry Hills Village" 6-8 Baptist Street Redfern	1BR	56	60	$1,000,000	$1,200,000	$17,857-$20,000
	2BR	81	94	$1,550,000	$2,300,000	$19,136-$24,468
	3BR	123	132	$2,650,000	$2,900,000	$21,545-$21,970
"Waterfall" 21 Dunkerley Place, Waterloo	Studio	40	49	$650,000	$700,000	$14,286-$16,250
	1BR	50	62	$800,000	$900,000	$14,516-$16,000
	2BR	77	82	$1,200,000	$1,500,000	$15,584-$18,293
	3BR	94	114	$1,500,000	$1,800,000	$15,789-$15,957
"Eminence" 811 Elizabeth Street Zetland	1BR	50	59	$740,000	$780,000	$13,220-$14,800
	2BR	71	101	$1,150,000	$1,250,000	$12,376-$16,197
	3BR	96	136	$1,550,000	$1,650,000	$12,132-$16,146
"Portman House" 77-99 Portman Street Zetland	1BR	51	70	$760,000	$930,000	$13,286-$14,902
	2BR	73	87	$980,000	$1,300,000	$13,425-$14,943
	3BR	108	125	$1,500,000	$1,960,000	$13,889-$15,680
"Allegra" 94 Epsom Road, Zetland	1BR	50	56	$740,000	$848,000	$14,800-$15,143
	2BR	73	103	$985,000	$1,446,000	$13,493-$14,039
	3BR	104	116	$1,480,000	$2,003,000	$14,132-$17,267

Source: Cordell Connect/AEC

Informal discussions with local market agents identify the following observations.

1A Lawson Square, Redfern

This project comprises the partial demolition of the existing commercial building and shall comprise an 18-storey tower providing a GFA of approximately 7,346m² comprising 6 storeys of commercial floorspace and ground floor retail, 12 storeys of residential apartments, totalling approximately 70 units. We advised by the selling agent, there are approximately 12 remaining apartments within the complex. studio apartments typically sell for between $780,000 to $810,000, 1-bedroom apartments typically sell on average at $850,000 (without parking) and the 2-bedroom apartments typically sell for around $1,200,000. The addition of parking we are advised is around $100,000 per space.

“Surry Hills Village”, 397-399A Cleveland Street & 2-38 Baptist Street, Redfern

This project has commenced construction in July 2021 and is anticipated to be completed mid-2023. Upon completion, it shall comprise 8 buildings in total which will include lower ground and first floor commercial (retail and supermarket) uses (7 commercial premises) to Marriott, Baptist and Cleveland Streets, commercial office uses in levels 2-6 of Building G (Cleveland Street) & 154 residential apartments across Buildings A to F. Basement car parking shall be provided over 3 levels for 345 vehicles. Surry Hills Village is marketed as a luxurious development with more premium quality finishes and given its proximity to Crown Street, Surry Hills restaurants, cafes and bars, appeals more to the Surry Hills marketplace. To date, we are advised approximately 50% of stock within the project has sold.

“Waterfall”, 21 Dunkerley Place, Waterloo

A multi-stage project that consists of the construction of a mixed-use development of 4 buildings, ranging in height from 7 to 21 storeys, 331 residential apartments, 16 x studio, 135 x 1, 139 x 2 and 40 x 3-bedroom, 2 x ground floor retail/commercial suites fronting O’Dea Ave and The Rope Walk, communal facilities (including gym, pool and rooftop garden). Building A shall be built to height of 7/8 storeys, Building B 7/8 storeys, Building C 21 storey and Building D 7/8 storeys. Basement carparking shall be provided over 3 levels for 307 vehicles, 18 motorbikes & 337 bicycles. We are advised by the selling agent approximately 280 of the apartments have sold to date.

“Eminence”, 811 Elizabeth Street, Zetland

Construction of this project was completed in June 2021. Project comprises three towers ranging in height between 3-15 levels accommodating 250 apartments in total. Parking is provided over two basement levels with car parking for 206 vehicles and 5 motorcycle spaces. The marketing agent advises 137 apartments have sold to date.

“Portman House”, 77-99 Portman Street, Zetland

Portman House joins Portman on the Park in being Australia's first residential buildings to seek WELL v2 Certification, a globally recognised organisation leading the movement to improve the relationship between people and the built environment. Portman House, as part of The Portman Collection is forecasted to be complete by mid-2023. The site shall comprise four buildings (Buildings A, B, C and D) and incorporate 323 residential apartments and 2,389m² of retail tenancies at ground level, plus car parking for residents, commercial/retail, service vehicles, car share, car wash and motorbike spaces.

“Allegra”, 94 Epsom Road, Zetland

A four-building complex to be delivered by Meriton and designed by SJB Architects. The buildings shall range in height between 6-13 levels with a total of 260 single and dual level apartments, a collection of three and four storey terrace homes and rooftop penthouses. The project backs onto the proposed Gunyama Park Aquatic and Recreational Precinct. Located within 500m to Woolworths Rosebery, a 10-minute walk to East Village shopping centre and 900m to Green Square train station. The anticipated timing of delivery follows:

- Building A & B – June 2022.
- Building C & D – December 2022.
- Building E – October 2022.

6.2 POTENTIAL PRICE POINTS FOR THE SITE

At present, there are limited new apartments projects being marketed in Redfern (some of which include 1A Lawson Street – 12 remaining apartments and "Surry Hills Village", Cleveland Street – 50% of the 154 apartments having sold to date). The majority of surrounding development activity remains in areas such as Zetland, Waterloo and the Green Square precinct. This lack of potential competition in the immediately surrounding location should assist with marketability and pricing levels achievable. Further, parking is observed to add $60,000-$100,000 per apartment (where provided) and has been reflected in our adopted potential price points. Accordingly, we consider potential price points expected to be achieved for new residential apartments in accordance with the Alternate Mapping Scenario in the UDA as follows:

- Studio units (avg 44sqm): $640,000 - $695,000 ($14,545/sqm - $15,795/sqm of internal area).
- 1-bedroom units (avg 54sqm): $740,000 - $795,000 ($13,704/sqm - $14,722/sqm of internal area).
- 2-bedroom units (avg 83sqm): $1,100,000 - $1,200,000 ($13,253/sqm - $14,458sqm of internal area).
- 3-bedroom units (avg 123sqm): $1,700,000 - $1,900,000 ($13,821/sqm - $15,447/sqm of internal area).

The above revenue ranges are considered appropriate for the market dwellings under the Alternate Mapping Scenario. No revenue has been attributed to the social and affordable rental housing within the proposed project.

6.3 DEVELOPMENT SITE SALES

Development site sales greater than 10,000m² within Redfern and surrounding regions have been scarce throughout the 2019-21 period. Whilst increased transactional activity has been observed within the Green Square precinct, particularly along Botany Road and Bourke Street as developers target redevelopment of ageing commercial and industrial buildings. This is a trend being observed throughout much of the broader South Sydney and Inner West regions, particularly in markets with existing train stations.

A divergent range of prices has been paid for development sites, reflective of:

- **Varying Scale of Development** - as a general rule of thumb, smaller sites sell for a higher rate per unit, all things being equal.
- **Proportion of Residential v Non-residential Floorspace** - development sites are more valuable the greater the proportion of residential floorspace that can be achieved.
- **Unit Mix and Size** - all things being equal, development sites which propose a greater number of smaller units (for example studio and 1-bedroom units) sell for a lower rate per unit/site than development sites which contain a greater proportion of larger units (for example 2 and 3-bedroom units).
- **Planning Status** - sites with the benefit of development consent typically sell for a premium as compared with sites without consent even though appropriately zoned as planning risk is arguably at a minimum with the developer only having to manage market and financial risk. Sites that require a rezoning or planning proposal to vary planning controls are even more risky, the market accordingly prices the risk into price paid for the site.
- **Date of Sale** - prices paid for development sites over the 2018-2020 period weakened commensurate with decreases in end sale values for completed apartments.
- **Settlement Terms** – where delayed settlement terms are agreed upon, slightly higher prices have been observed to be paid for development sites, as they result in obvious cash flow benefit and opportunity for existing supply pipeline to be absorbed. Details of transactions and settlement terms is information that is generally 'commercial in confidence' and can be difficult to obtain. The only settlement terms AEC can confirm is the exchange and settlement date and amounts as per land title information obtained through Pricefinder and only after the sale has settled.

Recent development site sales in the inner eastern and southern Sydney suburbs analysed indicate a broad range of $3,435/m² to $5,303/m² of GFA for sites greater than 1,000m² in site area whilst the most recent site sale (greater than 10,000m² in land area) at 2-5 Halifax Street, Macquarie Park sold for ~$2,489/m² of GFA.

A summary of the development site transactions considered within our assessment are detailed in Table 6.2.

Table 6.2: Development Site Sales Evidence

Address	Sale Price	Site Area	Zoning	Analysis	Comment
2-5 Halifax Street, Macquarie Park	$135,000,000 (Aug-21)	~18,509 sqm	R4 – High Density Residential	$2,489/m² of GFA $142,105 per unit site	A large site of approximately 1.8 hectares within the Lachlan's Line precinct at Macquarie Park. Acquired by Landmark Group from Landcom, the site is anticipated to deliver up to 950 apartments across 9 buildings. Current zoning controls allow an FSR range of 1.39 - 3.5:1 and building height range 33-99 metres across the site. Overall, the approximate permissible GFA equates to 54,248m².
177-197 Anzac Parade, Kensington	$80,367,664 (Aug-20)	~4,000 sqm	B2 – Local Centres	$3,588/m² of GFA $316,408 per unit site	An infill redevelopment site extending to approximately 4,000m² situated on the western side of Anzac Parade some 200 metres north of UNSW. The site comprised the sale (in one line basis) of 24 adjoining properties (a mix of freestanding commercial buildings and older style apartment buildings). The site was purchased by Cedar Pacific who are currently in the process of lodging a DA for student accommodation for the site. Permissible building heigh is 25 metres (circa 8 floors) however there are no FSR controls. Assuming a site cover of 70% we have calculated an approximate GFA of 22,400m² and 254 apartments (at 85% efficiency).
12-24 Rothschild Avenue, Rosebery	$65,000,000 (Dec-19)	8,411 sqm	B4 – Mixed Uses	$3,435/m² of GFA $303,738 per unit site	A rectangular shaped redevelopment site situated within Sydney's inner southern suburbs. Permissible FSR is 1.75:1 with additional 0.5:1 available as bonus FSR in accordance with Clause 6.14 of the Sydney Local Environmental Plan 2012. Total permissible GFA equates to approximately 18,925m² and 214 apartments (at 85% efficiency).
104-116 Regent Street, Redfern	$50,710,000 (Nov-20)	1,366 sqm	E-Business Zone (Commercial Core)	$5,303/m² of GFA $469,537 per unit site	A former service station site extending to 1,366m² situated on the corner of Regent Street, Margaret Street and William Lane within Redfern (approx. 150 metres from Redfern Train Station). Per current planning controls a maximum building height of 18 metres and FSR of 7:1 (GFA of 9,562m²) is permissible and 108 apartments (at 85% efficiency).

Address	Sale Price	Site Area	Zoning	Analysis	Comment
14-26 Wattle Street, Pyrmont	~$200,000,000 (Jan-19)	12,100 sqm	B4 – Mixed Uses	$4,132/m² of GFA $364,964 per unit site	A substantial infill (former depot) site situated at the junction of Wattle Street, Fig Street and Jones Street, Pyrmont. The site was purchased by Landream, a Melbourne based developer. Per current planning controls a maximum building height of 27 metres and FSR of 4:1 (GFA of 48,400m²) is permissible and 548 apartments (at 85% efficiency).

Source: realcommercial.com.au (2021)

7. FEASIBILITY ASSESSMENT

7.1 FEASIBILITY ASSUMPTIONS

Key assumptions adopted in our feasibility modelling methodology include:

I. LAHC enters into a form of joint venture arrangement with a developer and contributes land (no transfer of land occurs attracting no transfer duty). In return, a developer builds market housing for sale and builds social housing to be dedicated to LAHC upon completion.
II. The developer also constructs affordable rental housing which is then dedicated to Council or directly to a Council approved CHP to manage whilst noting that should a CHP potentially partner/form a joint venture with a developer, the CHP would contribute equity into the project (for the affordable and/or social housing component) potentially improving the feasibility return parameters.
III. Standard GST rule has been adopted for the modelling (i.e., no GST Margin Scheme).
IV. Take up rates for our sales revenue varies between 7-15 apartments per month depending on the time of transaction (i.e., pre-construction, during construction or post construction).
V. Project financing based on standard development finance rates (5.25% adopted) with 100% debt funding.
VI. No CHP financial input into the project including use of the Affordable Housing Bond Aggregator (AHBA).
VII. The standard and quality of apartments across the project has been assumed to be consistent between the market, social and affordable rental dwellings.
VIII. The construction of the community facility has not been incorporated into our modelling (assumed payable or provided by PCYC).
IX. The Site has known contamination present and given it is very difficult to provide a cost estimate to remediate the Site without formal costs prepared by an appropriate professional, for the purpose of our modelling, we have increased the construction contingency from 5.0% to 7.5%.
X. S7.11 contributions for the market dwellings payable at issuance of Occupation Certificate (in accordance with Planning Circular PS20-003 issued 3 July 2020).
XI. No land holding costs comprising Land Tax, Council Rates and Water Rates applicable (Site owned by a not-for-profit organisation).
XII. As instructed, we have not included any potential value discounting to the private market revenues associated with being in close proximity to large concentrations of social housing.
XIII. Project to be undertaken on the basis, the market housing is predominantly situated at the north-eastern corner building on the Site with remaining affordable rental housing and social housing to be primarily positioned at the southern periphery of the Site.
XIV. Construction has been staged for the market dwellings to commence first followed by the demolition of the existing PCYC and erection of new community facility and the social and affordable rental housing.
XV. The modelling has been undertaken on the basis of no financial input from a prospective CHP and that in accordance with the City of Sydney Affordable Housing Program, the affordable rental housing dwellings are delivered in-kind free of cost. Should a CHP potentially contribute to the financing of construction etc. this would likely increase the tipping point for affordable rental housing beyond the assessed parameters herein.

7.2 RESIDUAL LAND VALUE APPROACH

The Residual Land Value (RLV) approach is a method of valuation that involves assessment of the value of the end product of the development, allowing for development costs and making a further deduction for the profit and risk that a developer would require to take on the project. For the purpose of this assessment, we have adopted finance assumptions of 100% senior debt funding at 5.25%.

The Residual Land Value is the remainder that is available to pay for the land. In the absence of detailed design schemes, engineering and cost inputs, the RLV method necessitates the adoption of a range of assumptions (development mix and staging, cost and revenue, etc.) to approximate a hypothetical development and the likely price a prospective purchaser could afford to pay for the land and pursue such a development.

7.3 AFFORDABLE RENTAL HOUSING SCENARIOS TESTED

As instructed by the City, AEC have undertaken our modelling on the basis 30% of the apartments are to be allocated towards social housing (same typology/apportionment as the private and affordable dwellings) with the incremental addition of affordable rental housing to be iteratively modelled to reflect where the 'tipping point' lies to ascertain the maximum number of affordable rental housing dwellings that could be incorporated whilst maintaining social housing at 30% before the project is no longer deemed feasible.

AEC consider the most appropriate variations of affordable rental housing to be tested are 5%, 7.5% and 10% (resulting in 65%, 62.5% and 60% private dwellings respectively).

Summaries of the assessed approximate apportionments follow. We note the percentages have been applied to the floor space. The unit numbers displayed in the table are representative of the equivalent number of units (rounded) for each floor space percentage scenario allocated towards ARH.

Table 7.1: Apportionment of Dwellings (5% Affordable In-Kind Dedication)

Apartments	30% Social Housing	5% Affordable Rental Housing	65% Private Dwellings
Studio	17	3	38
1 Bed	15	2	32
2 Bed	49	8	106
3 Bed	9	2	20
Total	**90**	**15**	**196**

Source: Urban Design Analysis (2021), AEC.

Table 7.2: Apportionment of Dwellings (7.5% Affordable In-Kind Dedication)

Apartments	30% Social Housing	7.5% Affordable Rental Housing	62.5% Private Dwellings
Studio	17	4	37
1 Bed	15	4	31
2 Bed	49	12	102
3 Bed	9	2	19
Total	**90**	**23**	**189**

Source: Urban Design Analysis (2021), AEC.

Table 7.3: Apportionment of Dwellings (10% Affordable In-Kind Dedication)

Apartments	30% Social Housing	10% Affordable Rental Housing	60% Private Dwellings
Studio	17	6	35
1 Bed	15	5	29
2 Bed	49	16	98
3 Bed	9	3	19
Total	**90**	**30**	**181**

Source: Urban Design Analysis (2021), AEC.

Furthermore, as an alternate method of comparison, we have also undertaken modelling on the basis, an equivalent monetary contribution is provided as opposed to dedication of in-kind affordable rental housing. City of Sydney currently has an equivalent monetary contribution amount (effective from 1 March 2021 to 28 February 2022) of \$10,588/m² of GFA which has been utilised in our assessment.

7.4 PARKING ALLOCATIONS ADOPTED

In accordance with the UDA provided, the car parking totals 239 car spaces (broadly aligning with the City's Category B parking rates for residential flat buildings under 7.5.B of the Sydney Local Environmental Plan 2012). As instructed and for the purpose of this assessment, we have ascribed parking to the market, affordable and social dwellings in accordance with the parking ratios as delineated under Category B whilst also conforming with the Alternate Scheme in the UDA as follows.

Table 7.4: Adopted Parking Allocations within the Project

Unit Typology		Number of Units	Car Spaces	Number of Units	Car Spaces	Number of Units	Car Spaces	Number of Units	Car Spaces
		30% SH, 70% MKT		30% SH, 5% AH, 65% MKT		30% SH, 7.5% AH, 62.5% MKT		30% SH, 10% AH, 60% MKT	
Market	Studio	41	8	38	8	37	7	35	7
	1 Bed	34	14	32	13	31	12	29	12
	2 Bed	114	91	106	84	102	83	98	78
	3 Bed	22	24	20	22	19	21	19	21
	Total	**211**	**137**	**196**	**127**	**189**	**123**	**181**	**118**
Affordable Rental Housing	Studio	-	-	3	1	4	1	6	1
	1 Bed	-	-	2	1	4	2	5	2
	2 Bed	-	-	8	6	12	9	16	13
	3 Bed	-	-	2	2	2	2	3	3
	Total	**0**	**0**	**15**	**10**	**22**	**14**	**30**	**19**
Social Housing	Studio	17	3	17	3	17	3	17	3
	1 Bed	15	6	15	6	15	6	15	6
	2 Bed	49	39	49	39	49	39	49	39
	3 Bed	9	10	9	10	9	10	9	10
	Total	**90**	**58**	**90**	**58**	**90**	**58**	**90**	**58**
Other	Visitor	-	16	-	16	-	16	-	16
	Accessible	-	23	-	23	-	23	-	23
	Wash Bays	-	2	-	2	-	2	-	2
	Service Vehicles	-	3	-	3	-	3	-	3
Grand Total		**301**	**239**	**301**	**239**	**301**	**239**	**301**	**239**

Source: AEC, Urban Design Analysis, City of Sydney Category B Parking Rates (2021).

7.5 TAKE UP RATES

Take up rates were materially impacted during the initial onset of COVID-19 in early 2020 and throughout the lock-down period experienced in the latter half of the same year. Demand for apartments within the inner-city regions including Redfern appears to have bottomed circa late 2020 and has been gradually improving since early 2021 with stabilisation in market rents and vacancy rates tightening. Discussions with local agents reveals take-up rates have been mixed across various projects albeit with slower sales generated in the Green Square and Zetland precincts due to higher levels of competition. Informal discussions with marketing agents reveal take up rates vary from 4-9 apartments a month under prevailing market conditions.

It is worth highlighting the general market consensus is that pricing/rents for the apartment market have now passed a cyclical bottoming and demand is likely to improve over the medium term. Historically, it has been observed during stronger market conditions, inner city regions have experienced off the plan take up rates of 14-16 sales per month.

For the purpose of this assessment, we consider an appropriate range of take up rates to apply is between 7-15 sales per month (dependant on whether pre, during or post construction) given the uncertain economic and market conditions that still may result from the ongoing pandemic.

7.6 PROXIMITY TO SOCIAL HOUSING CONCENTRATIONS

Market acceptance/resistance of residential product in close proximity to social housing is an important consideration for development in any market. The overall presentation of a social housing estate can have adverse implications for the marketability and desirability of an area. While certain social housing estates can be relatively well presented, there are estates that suffer from poor visual amenity which detract from overall desirability of an area despite proximity to rail connections and retail facilities.

Given the subject proposal incorporates an amount of social housing which has been assessed at 30% of the residential floorspace (also noting there is an existing high concentration of social housing to the north and east of the Site), we consider there is potential for some reduction in pricing as a result. However, for the purpose of this assessment, we have not applied any discounting in terms of the gross revenues adopted.

7.7 DEVELOPMENT COSTS

AEC have not been provided with any specific development cost estimates for the project. The adopted development costs are 'generic' in nature, based on inhouse construction data, construction cost industry publications, QS reports provided to us by the City for other projects and past industry experience. Stage 1 and 2 environmental reports have been undertaken on the Site which indicate there is contamination present (including traces of lead, asbestos and infill materials).

Without the benefit of any formal costs to remediate the Site, we have increased our construction contingency from 5.0% to 7.5% to provision for the potential remediation works required and associated remediation action plan.

In addition, a Stormwater Strategy Report prepared by AECOM concluded the southern section of the Site is affected by 100-year Average Recurrence Interval (ARI) flooding and the whole of the Site is situated within the Probable Maximum Flood (PMF). In accordance with UDA, the proposed plans indicate a basement level flood storage component of 1,142m². For the purpose of our modelling, we have included a cost to incorporate this element within the construction costs.

No costs have been attributed for the construction of the replacement PCYC/community facility as it is understood this is to be funded by the PCYC. We have however incorporated the demolition costs of the existing facility within our modelling.

To assist with the application of appropriate construction costs for the Site, we have reviewed a number of DAs and QS reports obtained from the City of Sydney and provide a summary of the costs in Table 7.5.

Table 7.5: Comparison Construction Costs

Address	No. of Units	Construction Cost (ex GST)	Rate per Unit	Date
25-27 Lachlan Street & 1-5 Amelia Street, Waterloo	50	$13,457,273	$269,145	Dec-20
17-21 Dunning Avenue, Rosebery	34	$10,202,704	$300,080	May-21
219-231 Botany Road, Waterloo	131	$37,165,455	$283,706	Dec-20
357 Glebe Point Road, Glebe	65	$29,150,000	$448,462	Jun-21
634 Botany Road and 45-47 Ralph Street, Alexandria	102	$49,048,373	$480,866	Jun-19
The Site (adopted)	**301**	**$125,861,731**	**$418,145**	**N/A**

Source: City of Sydney (2021), AEC.

Important considerations in relation to construction costs and the Site include:

- Construction costs have increased materially over the last 9-12 month period.
- The flood storage component per the UDA adds approximate cost of $2.6 million (or $8,640 per apartment) to the project.
- The average apartment sizes determined from the UDA are comparatively large for inner city stock and therefore is reflected in increased costs to build.

The adopted construction costs (exclusive of GST and adjusted for inflation – July quarter) are as follows:

- Legal arrangements preparation between LAHC and prospective developer and/or CHP of $200,000.
- Additional due diligence of $20,000.
- Demolition costs of existing improvements at $140/sqm.
- Construction of residential building assumed at:
  - Average build cost for the apartments of $2,850/sqm of GBA (quality and standard is to be consistent between the affordable, social and market dwellings with a Tier 2 developer undertaking the delivery of the project). Reflects ~$418,145 per apartment.
  - Balconies at $673/sqm.
  - Basement level parking between $40,000 (Level 1) and $63,135 (Level 2) per space.
  - Retail warm shell construction costs of $932/sqm.
  - Landscaping at $350/sqm.
- Project contingency of 7.50% (inclusive of remediation works).
- Professional fees 6.00% of construction cost.
- Development management fee of 1.00% of project cost (excluding land and finance).
- Site works and infrastructure:
  - Services infrastructure works at 2.00% of construction costs.
  - Basement level flood storage detention basin of $2,600,334 ($2,277/sqm).
  - Single electricity substation at $250,000.
- Landholding costs at $338,000 per annum.
- Statutory fees:
  - S7.11 contributions at $13,212 for studios and 1-bedroom apartments, $19,309 for 2-bedroom apartments and $20,000 for 3-bedroom apartments (applicable to market housing only).

  - Redfern-Waterloo Authority contributions at 2.00% of construction costs.
  - Long service levy at 0.35% of construction costs.
  - Strata Building Bond at 2.00% of construction costs.
- CC and DA fees as per scheduled rates.
- Other cost assumptions include 100% debt funding with interest capitalised monthly (nominal 5.25% per annum).
- Loan establishment fee of 0.5% of peak debt.

7.8 PERFORMANCE HURDLES

Target hurdle rates are dependent on perceived risk associated with a project, which includes planning, market conditions, financial and construction risk. For the purpose of this assessment, AEC has adopted target internal rate of return and development margin parameters of 17.50% and 20.00% respectively as follows in Table 7.6.

Table 7.6: Hurdle Target Rates Applied

Hurdle Rates	Percentage	Definition
Development Margin	20.00%	Is used as a reflection of profitability and is the percentage return of net profit over total development cost calculated in the following way: Development Margin = Net Profit * 100% / Total Development Cost (inc. selling costs)
Internal Rate of Return	17.50%	Is the discount rate at which the sum of the discounted negative cash flows equals the discounted positive cash flows, i.e. the discount rate at which the NPV equals zero. Simplistically the IRR represents the actual return on funds invested. Interest on borrowings is ignored since this is incorporated in the discount rate.

Source: Estate Master (2021), AEC

7.9 FEASIBILITY MODELLING RESULTS

To assist the City with their understanding of the relevant feasibility parameters for inclusion of affordable rental housing on the Site, we have undertaken an initial feasibility based on the hypothetical scenario of 30% social dwellings and 70% market dwellings, this could be considered the 'Base Case'.

We have then undertaken modelling to determine the project's capacity to deliver affordable rental housing (in addition to 30% social housing) at increments of 5%, 7.5% and 10% (coupled with proportionate reduction in market dwellings) without impacting the feasibility and/or viability of the proposal (essentially determining what the tipping point is to understand how much affordable rental housing can be delivered as part of the project before the project becomes no longer feasible).

A summary of the modelling outputs follows.

Table 7.7: Feasibility Modelling Results (AH Delivered In-Kind)

	30% Social 0% Affordable 70% Market	30% Social 5% Affordable 65% Market	30% Social 7.5% Affordable 62.5% Market	30% Social 10% Affordable 60% Market
Revenues				
Gross Sales Revenue	$245,776,050	$228,547,768	$219,580,161	$212,433,649
Less Selling Costs	-$5,947,780	-$5,530,856	-$5,313,840	-$5,140,894
Total Revenue (before GST paid)	$239,828,270	$223,016,912	$214,266,321	$207,292,755
Less GST paid on all Revenue	-$22,343,277	-$20,777,070	-$19,961,833	-$19,344,516
Total	$217,484,992	$202,239,842	$194,304,489	$187,980,605
Costs				
Land Acquisition Costs	$242,000	$242,000	$242,000	$242,000
Construction (inc. Construct. Contingency)	$142,815,870	$142,865,091	$142,889,702	$142,914,312

Professional Fees	$10,235,880	$10,235,752	$10,235,590	$10,235,728
Statutory Fees	$10,032,104	$9,754,711	$9,608,981	$9,484,546
Site Works	$3,219,254	$3,221,226	$3,221,249	$3,221,753
Pre-Sale Commissions	$812,061	$754,208	$725,831	$701,031
Finance Charges (inc. Fees)	$789,800	$778,800	$773,300	$770,000
Interest Expense	$7,827,387	$7,690,745	$7,624,774	$7,559,006
Total Costs (before GST reclaimed)	$175,973,353	$175,542,533	$175,319,811	$175,128,377
Less GST reclaimed	-$14,914,695	-$14,875,267	-$14,854,572	-$14,838,702
Total	$175,973,353	$160,667,267	$160,465,238	$160,289,675
Gross Development Profit	$56,462,334	$41,572,575	$34,164,812	$27,690,960
Development Margin (Profit/Risk Margin)	**33.79%**	**25.01%**	**20.41%**	**16.74%**
Residual Land Value (Target Margin)	$15,120,173	$5,506,117	$460,000	-$3,930,142
Project Internal Rate of Return (IRR)	**34.59%**	**28.32%**	**24.71%**	**21.68%**
Residual Land Value (NPV)	$19,093,357	$11,363,525	$7,331,963	$4,147,466
			Tipping Point Scenario	

1 - Development Margin: profit divided by total costs (incl. selling costs)
2 - Project Internal Rate of Return: discount rate where the NPV equals zero
* We note minor discrepancies can occur with rounding applied to certain areas/costs within our feasibility
Source: AEC

What can be determined from the above findings, is that an amount of affordable rental housing (delivered in-kind) of up to 7.5% could potentially be delivered in addition with 30% social housing and the balance being market housing, representing the 'tipping point' (i.e., the amount of GFA that can be ascribed to affordable rental housing in addition to social and market dwellings whilst achieving desired hurdle rates and maintaining project profitability and viability).

A basic summary of this follows in the below tabulation.

Scenario	Feasible	Comment
Base case (30% SH, 70% market)	✓	Target hurdle parameters achieved or exceeded.
Scenario 1 (30% SH, 5% AH, 65% market)	✓	Target hurdle parameters achieved or exceeded.
Scenario 2 (30% SH, 7.5% AH, 62.5% market)	✓	Target hurdle parameters achieved or exceeded. Considered to be the tipping point before feasibility of project no longer viable.
Scenario 3 (30% SH, 10% AH, 60% market)	X	Whilst the resultant IRR is met under this scenario, the Development Margin has not been met and results in a negative RLV on this basis of assessment.

Source: AEC
* Hurdle parameters have been set at 17.50% for IRR and 20% development margin.

Whilst affordable housing contributions can be made through several methods including land dedication, in-kind dedication of completed dwellings (per the previous findings overleaf) and by way of monetary contribution. The City of Sydney currently has an equivalent monetary contribution amount (effective from 1 March 2021 to 28 February 2022) of $10,588/m² of GFA.

As an alternate method of assessment to determine the City's position should they potentially elect to receive a monetary contribution as opposed to in-kind dedicated dwellings, we conclude the following results.

Table 7.8: Feasibility Modelling Results (Equivalent Monetary Contribution for AH)

	30% Social, 0% Affordable 70% Market	30% Social, 2.5% Affordable 67.5% Market	30% Social, 3.5% Affordable 66.5% Market	30% Social, 4.0% Affordable 66% Market	30% Social, 5% Affordable 65% Market	30% Social, 7.5% Affordable 62.5% Market
Project Profit	$56,015,590	$44,409,950	$38,618,676	$35,648,114	$31,535,932	$18,809,545
Development Margin (Profit/Risk Margin)	**33.54%**	**25.90%**	**22.30%**	**20.47%**	**17.89%**	**10.40%**
Residual Land Value (Target Margin)	**$14,845,827**	**$6,671,568**	**$2,654,000**	**$551,429**	**-$2,679,200**	**-$12,869,887**
Project Internal Rate of Return (IRR)	**34.42%**	**27.63%**	**24.55%**	**23.00%**	**20.75%**	**14.29%**
Residual Land Value (NPV)	**$18,874,434**	**$11,732,818**	**$8,260,453**	**$6,484,606**	**$3,910,559**	**-$4,165,578**

1 - Development Margin: profit divided by total costs (incl. selling costs)
2 - Project Internal Rate of Return: discount rate where the NPV equals zero
Source: AEC

Tipping Point Scenario

What can be determined from the above findings, is that an equivalent monetary contribution towards affordable rental housing of up to 4.0% could potentially be delivered in addition with 30% social housing and the balance being market housing, representing the 'tipping point' in which the project is deemed feasible (i.e., achieving desired hurdle rates).

A basic summary of this follows in the below tabulation.

Scenario	Feasible	Comment
Base case (30% SH, 70% market)	✓	Target hurdle parameters achieved or exceeded.
Scenario 1 (30% SH, 2.5% AH, 67.5% market)	✓	Target hurdle parameters achieved or exceeded.
Scenario 2 (30% SH, 3.5% AH, 66.5% market)	✓	Target hurdle parameters achieved or exceeded. Considered to be the tipping point before feasibility of project no longer viable.
Scenario 3 (30% SH, 4% AH, 66% market)	✓	Target hurdle parameters achieved or exceeded. Considered to be the tipping point before feasibility of project no longer viable.
Scenario 4 (30% SH, 5% AH, 65% market)	X	Whilst the resultant IRR is met under this scenario, the Development Margin has not been met and results in a negative RLV on this basis of assessment.
Scenario 5 (30% SH, 7.5% AH, 62.5% market)	X	Both hurdle rate parameters not achieved under this scenario.

Source: AEC
* Hurdle parameters have been set at 17.50% for IRR and 20% development margin.

7.10 FACTORS THAT CAN IMPACT DEVELOPMENT FEASIBILITY

The results/outputs derived from development feasibility modelling is very sensitive to the inputs and assumptions that are used. What can further impact a project includes multiple factors working in unison which can compound the unprofitability or profitability of a project i.e., should construction costs rise during the construction period, coupled with delays and slowing sales, will then lead to more interest payable and adversely impact the project profitability and vice versa should the opposite happen for each of the aforementioned items.

A summary outlining the components of development that present varying degrees of risk of impacting project profitability and therefore the tipping point results have been noted as follows.

Table 7.9: Factors Impacting Development Feasibility

Item	Comment	Level of Risk
Land Acquisition Costs	Whilst we have not included land acquisition costs in this instance (LAHC Communities Plus model), the cost to acquire the site needs to be modelled based on relevant inputs to determine an appropriate price to pay for the Site. Ideally, the developer will always try to pay less for a Site.	**Medium**
Construction Costs	Construction costs is a significant factor to profitability and any reduction or increase in costs will materially alter the projects returns.	**High**
End Sale Prices	Variation of sale prices of the apartments can materially impact the profitability of a project and comparable sales evidence needs to be subject to detailed examination to determine appropriate pricing for the project that is modelled.	**High**
Sales Span Period	The time taken to sell down the apartments will impact the timeline of the project, ideally the shorter the project the more profitable it will be.	**Medium**
Loan Interest Rates	Cost of debt is a critical component and can compound the unprofitability of a project when considering other factors such as delays, and slow sales take up etc.	**Medium - High**
Developers Target Profit Margins	Prior to undertaking a project, a developer will undertake a feasibility to understand the potential profitability of the project. Should the project meet or exceed the desired target margins, the project will be profitable to the developer.	**Medium - High**

Source: AEC.

7.11 SUMMARY

There are many potential scenarios including construction delays, cost increases, archaeological findings whilst excavating etc that can impact project profitability. An added element of complexity occurs with the application of affordable rental housing and the many potential funding arrangements/structures that exist which may depend on whether the CHP is providing a cost offset to the project, is dedicated a portion of the land themselves to construct affordable rental housing or whether a monetary contribution is provided as opposed to dedication of completed dwellings etc. Based on the Critical Assumptions adopted within Section 7.1, we have concluded the following feasibility results.

In-Kind Dedication of Affordable rental housing

Based on AECs analysis of the Alternate Mapping Scheme as identified within the UDA, the project can potentially accommodate 30% social housing, up to 7.5% affordable rental housing and 62.5% market housing before development margins start being negatively impacted.

Equivalent Monetary Contribution

As an alternate measure, should the City elect to receive an equivalent monetary contribution for affordable rental housing, the project could potentially accommodate **30%** social housing, **4%** equivalent monetary contribution and **65%** market housing before development margins start being negatively impacted.

The above approximate potential allocations towards affordable rental housing in-kind (and monetary contribution) are based on feasibility modelling which makes multiple assumptions in the absence of known feasibility inputs. These feasibility inputs are 'not exact' but are intended to represent a researched estimate based on the available market and in-house knowledge at the time. Whilst every endeavour has been undertaken by AEC to ensure these feasibility inputs and outputs have been checked for accuracy, the feasibility modelling exercise remains a 'hypothetical' exercise. Key factors which may influence a different feasibility outcome include construction costs (including latent ground conditions and unquantifiable remediation costs), market shifts influencing revenues, (potential value discounting to the private market revenues associated with being in close proximity to large concentrations of social housing) and multiple other factors.

Therefore, in recognition of the unverifiable feasibility inputs impacting feasibility sensitivity, we recommend the City acknowledge that a **feasibility tipping point tolerance attributable to the ARH contribution of between 1.50% - 2.00%** could be considered reasonable which results in a **Tipping Point sensitivity range of 5.5%/6.0%**

as the lower bound to 9.0%/9.5% as the upper bound attributable towards Affordable Rental Housing floor space in the project.

Furthermore, our modelling has been undertaken on the basis of no financial contribution to the development costs from a prospective CHP. It is assumed the affordable rental housing dwellings are delivered in-kind 'free of cost' to the City in accordance with the City of Sydney Affordable Housing Program,. Should a CHP potentially contribute to the financing of development costs (in the form of equity or other type of financial contribution), this may potentially improve feasibility performance, subject to any terms and conditions associated with such a contribution.

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