Rhodes East
Property Market Appraisal and Development Feasibility

Prepared for NSW Planning and Environment

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QUALITY ASSURANCE

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This document is for discussion purposes only unless signed and dated by a Principal of HillPDA.

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EXECUTIVE SUMMARY

Market Appraisal

The residential market in Sydney has been very strong over the past three years fuelled by population growth, overseas investments and sustained long term low interest rates.

Rhodes in particular is attractive due to a combination of factors being in the middle of the metropolitan area, on a rail line with regular trains to the city and surrounded by the Parramatta River to the north, west and east. The suburb west of the railway line has been transformed from heavy waterfront industry to new high density urban living which has attracted buyers, investors and renters – particularly from East Asia.

The strong market in recent times has seen apartment prices rise from $8,000 to $9,000/sqm three years ago to $10,000 to $13,000/sqm today making residential the most viable land use option.

The rise in end sale prices has translated to a more significant rise in development site sales from around $100,000/unit three years ago to above $250,000 today further improving the feasibility of redevelopment. Much of this has also come from an improvement in the availability of capital and stronger interest from Chinese developers and investors.

Ground floor retail space in prime locations will achieve similar, if not higher, value than residential with net rents of specialty shops above $1,000/sqm and yields as low as 6%. Demand for retail space however is limited to population and workforce growth.

Net facing rents for new A-grade office space in the locality is no more than $400/sqm. With around 7% yield this translates to end value of no more than half residential value yet the costs to deliver are similar.

Industrial rents and values are too low to be viable in prime locations in the Sydney metropolitan, near the CBD, at major centres and along Parramatta River. Where sales of industrial sites have shown exceptionally low yields this has been a reflection of redevelopment potential.
Feasibility of the Structure Plan

The feasibility of developing the waterfront sites is very marginal. The high land costs are the main contributing factor to its difficulty. It’s considered that all dwellings must have at least one car space as the market risks are too high with apartments or terraces without onsite parking.

Concord Road and Blaxland Road sites are more viable to redevelop largely due to the high apartment yields that can be achieved in built forms up to 15 storeys high.

Residual land value (RLV) is around $190,000 to $200,000 per apartment. A house on a small lot (500sqm) without the ability to subdivide into two lots has an opportunity cost of say $1.5m. Allowing for some incentive to further amalgamate (say $1.9m to $2.0m) this means 10 apartments is required to replace the cottage. This does not allow for any affordable housing or infrastructure spending over and above Section 94.

A house on a big lot (1,000sqm) could be subdivided into 2 small lots each with an end sale value of around $1.5m. Hence $2.5m to $2.8m represents a fair opportunity cost. This means around 15 apartments per cottage.

This is the “threshold level” that will make redevelopment viable.

To deliver affordable housing at no cost to Council and/or to meet additional costs of internal roads, open spaces and the like, densities need to be increased. For every four apartments allowed over and above the threshold level one equivalent sized apartment could be dedicated for affordable housing.

The waterfront sites are likely to be viable to redevelop to the densities proposed with the inclusion of 5% affordable housing in say 8 to 10 years from now during the next upturn in the market. Number 23 Leeds Street however needs to amalgamate with the lots in front (immediately facing Leeds Street) to be viable.
1 INTRODUCTION

Hill PDA was engaged by NSW Department of Planning and Environment under project management by Roberts Day to provide property economics intelligence into the planning of Rhodes East Priority Investigation Area (hereafter related to as the Study Area).

Rhodes East presents a unique opportunity for revitalisation, growth and economic development. Inherent in the proposed study is a need for an effective integration of expertise in planning, urban design and economics to ensure the outcome of the project is both practical and achievable.

Methodology

In order to independently assess the current Study Area market and undertake a feasibility assessment. HillPDA undertook:

- A site appraisal and information review;
- Market appraisal on retail, commercial and industrial property, residential apartments and residential and mixed use development sites;
- Preliminary feasibility testing to determine the likely yield required to achieve redevelopment;
- Feasibility testing of typologies prepared by the urban design team;
- Feasibility testing of inclusionary zoning for affordable housing.

Location

The Study Area is located in the Rhodes East. The current land uses comprises of light industrial with low density housing.

Rhodes East Precinct currently comprises of a mix of land uses such as residential, office, retail, community and educational uses.
2 THE RESIDENTIAL MARKET

This Chapter undertakes an assessment of the residential apartment market including demand, prices and market absorption rates. In order to understand the current residential market supply and demand in the local area information was obtained by various property data sources and discussions with local agents.

Residential Apartment Market Overview

The Inner West has become increasingly a destination for young adult professionals owing to its proximity to the Sydney CBD and lifestyle opportunities on offer. The residential property market has performed well in recent years, recording growth in median values and outperforming many other regions in Sydney. The presence of educational institutions like University of Sydney and Macquarie University has contributed to a large number of students living amongst a vibrant mix of young families, professionals and migrants.

The Inner West has been the subject of much commentary and analysis with its relatively steady demand for dwellings as purchasers take advantage of close proximity to the Sydney CBD and good access to rail and transport networks. The ongoing gentrification of many of the suburbs within the Inner West has also contributed to its overall attractiveness.

The Suburb of Rhodes is located 15km west of the Sydney CBD, in the local government area of Canada Bay. The suburb of Rhodes is a well-established area that was predominately zoned industrial and low residential. Over the past decade the area has been transforming from heavy industrial to high density residential, retail and business park precinct around the recently upgraded train station.

Households within the Suburb of Rhodes are predominately couples with no children. 56% of the residents rent their dwelling, 29% are purchasing with mortgages and 13% fully own their homes.

Discussions with agents identified that there is limited supply of new residential apartment developments in Rhodes. However there are many resales of apartments within the area.

The median price for apartments in Rhodes was $680,000 in January 2016, compared to $892,500 in the Canada Bay Local Government Area.1

1 Residex State Market Report dated September 2016
Residential Apartment Sales

There is a limited supply of off-the-plan residential apartment sales in Rhodes. For that reason we broadened our search to surrounding suburbs such as Wentworth Point, Meadowbank, Breakfast Point and Sydney Olympic Park to gain an understanding of sale values.

A number of residential apartment developments with off the plan sales during the months of January and February 2016 were analysed. The developments are as follows:

Table 1: Shepherds Bay, Bowden, Belmore, Church & Waterview Streets;

<table>
<thead>
<tr>
<th>Shepherds Bay, Bowden, Belmore, Church &amp; Waterview Streets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-staged development in Meadowbank comprising 5 to 10 storey buildings. Stage 1 of development is complete. Stage 2 is now selling 162 apartments of which 5 by 1-bed and 20 by 2-bed units are left. The Kingston Quarter building is currently pre-selling.</td>
</tr>
</tbody>
</table>

Sales Rate: Since November 2015 CBRE have sold 137 units. This equates to a sales rate of 34 units/month

Completion: Project is scheduled to compete in December 2018

Sold Prices

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Internals</th>
<th>Sale Price Range</th>
<th>$/sqm Range (Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>$610,000-$745,000</td>
<td>45-63</td>
<td>$11,800-$13,500</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>$830,000-$1,225,000</td>
<td>80-114</td>
<td>$10,125-$10,745</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>$1,150,000-$1,520,000</td>
<td>95-103</td>
<td>$12,105-$14,758</td>
</tr>
<tr>
<td>3 bedroom Penthouse</td>
<td>$1,750,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comments from the selling Agent

- 1-bedroom apartments’ internal areas range from 45-63sqm, some with study. All one bedroom apartments have a single car space. Current sale price is between $11,800 and $13,500/sqm.
- 2-bedroom apartments internal areas range from 80sqm (single bathroom) to 114sqm (dual level having a 6m high ceiling in the living area with the master bedroom and ensuite on a mezzanine level).
- There are 5 one bedrooms left, 20 two bedrooms left and no 3-bedrooms remaining.
- 85% of the buyers are owner occupiers.
- Prices for the 3-bedrooms ranged from $1.15m for a 95sqm first floor apartment to $1.52m for 103sqm on Level 8 with water views. A couple of dual level penthouse apartments on the top sold for $1.75m. All three bedroom apartments include 2 car spaces. Prices ranged from $12,000/sqm to $14,000/sqm.

Table 2: Marina Square, 4 Waterways, Wentworth Point

<table>
<thead>
<tr>
<th>Marina Square, 4 Waterways, Wentworth Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Marina Square project comprises of 407 apartments, with 1, 2 and 3 bedroom units. It is advised by the marketing agent the project will be completed in mid-2018. This is the multi-staged development currently under construction by Billbergia which will include a 2 level shopping centre with a full line Coles supermarket.</td>
</tr>
<tr>
<td>Sales Rate:</td>
</tr>
<tr>
<td>The selling agent released the first stage in May 2015 and to date sold 95% of the apartments off the plan. This reflects a sale of approximately 135 apartments per month.</td>
</tr>
<tr>
<td>Completion:</td>
</tr>
<tr>
<td>Mid 2018</td>
</tr>
<tr>
<td>Sold Prices</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Internals with enclosed balcony</th>
<th>Sale Price Range</th>
<th>$/sqm Range (Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>68</td>
<td>$685,000-$792,000</td>
<td>$10,000 - $11,500</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>74-83</td>
<td>$830,000-$1,000,000</td>
<td>$11,500 - $12,400</td>
</tr>
<tr>
<td>3 Bedroom with views</td>
<td>88-96</td>
<td>$1,125,000-$1,300,000</td>
<td>$12,784 - $14,772</td>
</tr>
</tbody>
</table>

Comments from the selling Agent

- The selling agent identified that 70% of buyers were owner occupiers and 30%
were investors.

- Total of 20% investor market was foreign buyers.
- A portion of the owner occupiers consists of first home buyers. This is because the threshold for a $15,000 grant is offered with a purchase of a brand new apartment that is less than $750,000.


**Table 3: Tagia, Wentworth Point NSW 2127**

<table>
<thead>
<tr>
<th>41-45 Hill Rd Wentworth Point Stage 4 release</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Tagia Building" /></td>
</tr>
</tbody>
</table>

- 25 storey building containing 383 apartments. Within the building 84 x 1br, 180 x 2br and 12 x 3br.
- Only east facing apartments have water views which explains the selling price disparity of $630,000-$1,670,000. Carparking over 2 sub-surface basement levels for 433 vehicles & 9 on street spaces. All apartments have one car space.

**Sales Rate:**

- The first release was in September 2014. Sales rate unable to attain.

**Completion:**

- September 2017

**Sold Prices**

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Internals</th>
<th>Sale Price Range</th>
<th>$/sqm Range (Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>54</td>
<td>$630,000 - $665,000</td>
<td>$11,666 - $12,314</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>74-88</td>
<td>$905,000 - $965,000 (with views)</td>
<td>$10,965 - $12,229</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>127</td>
<td>$1,550,000 - $1,675,000</td>
<td>$12,204 - $13,188</td>
</tr>
</tbody>
</table>

**Comments from the selling Agent**

- Most of the two bedrooms sold off the plan in 2 days. The remaining few were sold in the following two weeks.
- 70% of buyers intend to live in the property either at completion or after the first tenant. The majority of 2 bedrooms were sold to young families and young professionals.
- The local amenities and future connecting bridge with additional transport are
attracting first home buyers.

- There are only 2 3 bedroom units available. Both are located in the 21st floor with easy access to the rooftop terrace. The agents suggested the last units will be sold in the next two weeks.


Table 4: Jewel 1 Burroway Road Wentworth Point

<table>
<thead>
<tr>
<th>Jewel 1 Burroway Road Wentworth Point NSW 2127</th>
</tr>
</thead>
<tbody>
<tr>
<td>The building consists of 249 apartments. 71x 1br, 164x 2br and 14x 3 br.</td>
</tr>
</tbody>
</table>

Sales Rate: The first release was in August 2015. 75% of the sales occurred in the first two weeks to Chinese investors. The rest of the units were sold over 6 months. This equates to a sales rate of 42 units/month

Completion: July 2017

Sold Prices

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Internals</th>
<th>Sale Price Range</th>
<th>$/sqm Range (Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>56</td>
<td>$630,000 - $665,000</td>
<td>$11,250 - $11,875</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>81</td>
<td>$710,000 - $830,000 ($1,100,000 with views &amp; larger sqm)</td>
<td>$8,765 - $10,246</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>105-121</td>
<td>$1,100,000 - $1,350,000</td>
<td>~ $11,000</td>
</tr>
</tbody>
</table>

Comments from the selling Agent

- Sales prices varied due to waterfront and parkland view. It’s worth noting those apartments located at the rear of the property sold quickly due to price but the agent suggest it will be hard to sell after completion due to the availability of other similar priced units in nearby buildings
- Over 75% was sold to Chinese investors. On the day of sale 2 buses of investors were present.
- In the agents opinion the properties were overpriced compared to completed.
Rhodes East Property Market Appraisal and Development Feasibility

It’s likely the new public school and Coles will increase market prices after 2018. The area is becoming more desirable due to the bridge to Rhodes and planned 200 space marina.


Pre-sales in 2015

The tables below provide several developments pre-selling apartments in early 2015. Most of these developments are currently under construction and expect to be completed this year.

Table 5: The Address Hill Road, Wentworth Point

<table>
<thead>
<tr>
<th>The Address – Hill Road, Wentworth Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Address Project is a multi-stage development comprising of nine residential towers. The latest release of this project is Savannah which was released in January 2015.</td>
</tr>
</tbody>
</table>

Sales Rate: It was advised by the selling agent the project release approximately 149 apartments and sold all within 6.5 weeks, reflecting a sales rate of approximately 96 units per month.

Completion: 2016

Sold prices for Savannah Stage 2 Levels 9-21 (Released Jan 2015)

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Internals</th>
<th>Price Range</th>
<th>$/sqm Range (Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>50 - 67</td>
<td>$635,000 - $720,000</td>
<td>$10,746 - $12,700</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>74 - 93</td>
<td>$710,000 - $980,000</td>
<td>$9,595 - $10,538</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>103 - 111</td>
<td>$1,250,000 - $1,675,000</td>
<td>$12,136 - $15,090</td>
</tr>
<tr>
<td>4 Bedroom</td>
<td>145</td>
<td>$1,950,000</td>
<td>$13,448</td>
</tr>
</tbody>
</table>

Asking Prices for Taiga Stage (final stage)

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Internals</th>
<th>Sale Price Range</th>
<th>$/sqm Range (Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>56 - 57</td>
<td>$640,000 - $685,000</td>
<td>$11,429 - $12,232</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>112 - 113</td>
<td>$1,150,000 - $1,675,000</td>
<td>$10,268 - $14,823</td>
</tr>
</tbody>
</table>

Comments from the selling Agent
- The selling agent revealed the latest release (Taiga Stage) is generating sale values of up to $16,000/sqm for some of the apartments with water views. Apartments with views in the Savannah Stage 2 (remaining units for sale achieved sales rates of up to $14,000/sqm.

- The selling agent indicated that buyers comprised of both owner occupiers and investors. There was a wide mix of locals from the area, elsewhere in Sydney and foreign buyers. Further, there was a wide mix of empty nesters, young couples and small families.

- The selling agent indicated an apartment with water views or north aspect could expect to sell for an extra $80,000 to $100,000 per unit.


### Table 6: Wentworth Point Marina, 11 Wentworth Place, Wentworth Point

<table>
<thead>
<tr>
<th>Wentworth Point Marina, 11 Wentworth Place, Wentworth Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Wentworth Point Marina project comprises 300 units across four buildings. The project is located at Wentworth Point and is expected to be completed at the end of 2019.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales Rate:</th>
<th>The Wentworth Point Marina project will be released in August 2015. It was advised by the marketing agent all units would be sold within 1 month.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completion:</td>
<td>End of 2019</td>
</tr>
</tbody>
</table>

### Expected asking prices for August 2015 release.

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Internals</th>
<th>Sale Price Range</th>
<th>$/sqm Range (Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>60-70</td>
<td>$600,000-$700,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>70-90</td>
<td>$750,000-$950,000</td>
<td>$10,555 - $10,714</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>90-110</td>
<td>$950,000-$1,270,000</td>
<td>$10,555 - $11,545</td>
</tr>
</tbody>
</table>

### Comments from the selling Agent

- The selling agent revealed that a two bedroom unit with an internal area of 80sqm with water views or north aspect would expect to sell from $780,000 to $800,000 ($9,750/sqm-$10,000/sqm). The apartments located on higher levels with water views may sell from $950,000.
Table 7: Spring Homebush: 22-24 Smallwood Avenue, Homebush

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Internals</th>
<th>Sale Price Range</th>
<th>$/sqm Range (Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>55</td>
<td>$550,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>70-80</td>
<td>$700,000</td>
<td>$8,750 - $10,000</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>90</td>
<td>$1,000,000</td>
<td>$11,111</td>
</tr>
</tbody>
</table>

Comments from the selling Agent

- It was advised by the marketing agent, buyer profiles mostly comprised owner occupiers being locals from the region. The agent indicated there was a wide mix of couples, young families and empty nesters.


Table 8: Breakfast Point - 19-21 Tennyson Road, Breakfast Point

<table>
<thead>
<tr>
<th>Nantucket Release: Breakfast Point - 19-21 Tennyson Road, Breakfast Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Nantucket release comprises 101 units, consisting of 61x1br, 31x2br and 9x3br units. Construction has commenced and completion is expected in late 2017.</td>
</tr>
</tbody>
</table>
Sales Rate: The first release was in November 2014, with approximately 91 units sold over this period, reflecting a sales rate of approximately 10 per month.

Completion: Late 2017

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Internals</th>
<th>Sale Price Range</th>
<th>$/sqm Range (Internal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bedroom</td>
<td>52-80</td>
<td>$680,000 - $1,000,000</td>
<td>$12,500 - $13,077 (with views)</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>80 - 110</td>
<td>$950,000 - $1,500,000</td>
<td>$11,875 - $13,636</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>134 - 195</td>
<td>$1,725,000 - $3,900,000</td>
<td>$12,873 - $20,000 (penthouse)</td>
</tr>
</tbody>
</table>

Comments from the selling Agent

- It was advised by the marketing agent, buyer profiles comprised mostly owner occupiers from the local area and in particular the inner west region. There was a strong portion of empty nesters.
- The two bedroom units priced at $1,500,000 comprises two storey apartments with views.
- Based on this evidence, it is expected apartments offering water views could expect to achieve around $13,000/sqm.


Market Take-up

Rhodes has been one of the fastest growing suburbs in Sydney in terms of dwelling completions. ABS dwelling completion statistics show an average of 452 new dwellings every year from 2008 to 2013. This made it the fastest growing suburb in new strata dwellings over that five year period.

As Rhodes west of the railway nears completion demand will shift to Rhodes East.

Given the need to amalgamate sites and assuming a rate of dwelling completion peaking at around 400-450 per annum it could take 15 years from rezoning for Rhodes East to reach close to full development.
Our research has revealed that there have been limited development site transactions over the last 12 months. Sale transactions over the previous 12 months include 28 Cavell Avenue, Rhodes in November 2014, which sold for $1,905,000 (804sqm). The development comprised of a two storey boarding house with 15 studio rooms.

We note that a large number of sales occurred in 2012 with one large parcel (12.1 hectares) being rezoned. There are few developments in the pipeline with the exception of the Billbergia site in the Station Precinct.

**Sydney Development Site Sales**

HillPDA have analysed development site sales in the wider area to demonstrate more recent achievable prices. These development site sales vary in prices ($/unit) due to various conditions relating the each sale (e.g. development approval, existing tenancy, extended settlement etc). Proposed unit yields were determined from existing approvals, proposed units or estimated unit yield that is applicable under the current planning controls.

**Table 9 - Development Site Sales**

<table>
<thead>
<tr>
<th>Address</th>
<th>Suburb</th>
<th>Date</th>
<th>Sale Price (million)</th>
<th>Site Area (sqm)</th>
<th>$/sqm</th>
<th>Zoning</th>
<th>Planning Approval</th>
<th>Proposed Unit Yield</th>
<th>Unit Site Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-8 Smallwood Avenue</td>
<td>Homebush</td>
<td>Dec-15</td>
<td>$14.75</td>
<td>2,056</td>
<td>$7,174</td>
<td>R4</td>
<td>Yes</td>
<td>66</td>
<td>$223,485</td>
</tr>
<tr>
<td>23 Bennelong Parkway</td>
<td>Wentworth Pt</td>
<td>Dec-15</td>
<td>$97.65</td>
<td>26,670</td>
<td>$3,661</td>
<td></td>
<td>Submitted</td>
<td>273</td>
<td>$357,692</td>
</tr>
<tr>
<td>2-4 Culworth Avenue</td>
<td>Killara</td>
<td>Dec-14</td>
<td>$12.5m</td>
<td>2,986</td>
<td>$4,186</td>
<td>R4</td>
<td>Yes</td>
<td>44</td>
<td>$284,091</td>
</tr>
<tr>
<td>54 Burwood Road</td>
<td>Burwood</td>
<td>Aug-14</td>
<td>$4.0m</td>
<td>409</td>
<td>$9,780</td>
<td>X</td>
<td>X</td>
<td>14</td>
<td>$285,714</td>
</tr>
<tr>
<td>34 Belmore Road</td>
<td>Burwood</td>
<td>Sep-13</td>
<td>$4.3m</td>
<td>787</td>
<td>$5,464</td>
<td>X</td>
<td>X</td>
<td>18</td>
<td>$238,333</td>
</tr>
<tr>
<td>12-16 Boundary Street &amp; 13-17 Grosvenor Street</td>
<td>Croydon</td>
<td>Nov-14</td>
<td>$17.5m</td>
<td>2,259</td>
<td>$7,747</td>
<td>X</td>
<td>X</td>
<td>76</td>
<td>$230,263</td>
</tr>
<tr>
<td>23-27 Lindfield Ave</td>
<td>Lindfield</td>
<td>Oct-14</td>
<td>$27.0m</td>
<td>3,399</td>
<td>$7,944</td>
<td>B2</td>
<td>Yes</td>
<td>112</td>
<td>$241,071</td>
</tr>
<tr>
<td>659-661 Victoria Road &amp; 4-6 Wharf Road</td>
<td>Melrose Park</td>
<td>Aug-14</td>
<td>$135.0m</td>
<td>45,552</td>
<td>$2,964</td>
<td>B4</td>
<td>No</td>
<td>1150</td>
<td>$117,391</td>
</tr>
<tr>
<td>115 Bowden Street</td>
<td>Meadowbank</td>
<td>May-14</td>
<td>$3.6m</td>
<td>1,075</td>
<td>$3,349</td>
<td>B4</td>
<td>No</td>
<td>25</td>
<td>$144,000</td>
</tr>
<tr>
<td>1-17 Delhi Road</td>
<td>North Ryde</td>
<td>May-14</td>
<td>$46.5m</td>
<td>13,000</td>
<td>$3,577</td>
<td>B4</td>
<td>No</td>
<td>337</td>
<td>$137,982</td>
</tr>
<tr>
<td>120-124A Victoria Road</td>
<td>Gladesville</td>
<td>Mar-14</td>
<td>$7.1m</td>
<td>1,391</td>
<td>$5,104</td>
<td>B4</td>
<td>No</td>
<td>46</td>
<td>$154,457</td>
</tr>
<tr>
<td>5 Whiteside Street</td>
<td>Macquarie Park</td>
<td>Feb-14</td>
<td>$25.2m</td>
<td>13,973</td>
<td>$1,802</td>
<td>Mixed use</td>
<td>Yes</td>
<td>135</td>
<td>$186,496</td>
</tr>
</tbody>
</table>
As shown in the above table sales of development sites ranged from $118,000/unit to $357,000/unit and the average was $216,500/unit. The site at 1-17 Delhi Road, North Ryde is considered a little inferior to Rhodes being near the intersection of the M2 and Delhi Road and facing the cemetery. Melrose Park is a little inferior and the low price per dwelling reflects the large scale of development which is likely to take many years to complete. Gladesville and Bowden Street, Meadowbank are close comparisons but the sales are getting quite dated.

Given the location of Rhodes, in the middle of the metropolitan area on the Parramatta River with a regular train service into the city, we expect good prices for development sites — in the order of $220,000 to $300,000 per apartment.

**Rhodes Development Pipeline**

According to Cordell Connect database only four developments are proposed to be completed over a four year period (2016-2020). The developments include two boarding houses and two mixed use developments. A total of 682 residential apartments are proposed in Rhodes.

**Table 10: Rhodes Development Pipeline 2016-2019**

<table>
<thead>
<tr>
<th>Address</th>
<th>Completion Date</th>
<th>Site Area (sqm)</th>
<th>Planning Approval</th>
<th>Proposed Unit Yield</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Cavell Avenue</td>
<td>Nov-16</td>
<td>804</td>
<td>Site sold with DA</td>
<td>15</td>
<td>This development comprises of 15 studio one bedrooms.</td>
</tr>
<tr>
<td>424 Concord Road</td>
<td>May-17</td>
<td>494</td>
<td>Yes</td>
<td>27</td>
<td>This development comprises of a mixed use development over four storeys with a ground floor retail and</td>
</tr>
<tr>
<td>16 Walker Street</td>
<td>Sept-19</td>
<td>679</td>
<td>Submitted</td>
<td>14</td>
<td>This development comprises of a mixed development over seven storeys. Ground floor commercial space and apartment on the upper floors.</td>
</tr>
<tr>
<td>6-14 Walker St &amp; 11-25 Marquet St</td>
<td>Jan-20</td>
<td>11,121</td>
<td>Submitted</td>
<td>668</td>
<td>This development comprises of four level podium providing three levels of retail tenancies (lower ground level Â– level 2); serviced apartments (level 3). Also proposed is two residential towers containing 668 units over 28 – 39 storeys.</td>
</tr>
</tbody>
</table>

**Total Residential Apartments**

682

Source: Cordell Connect 2016
4 THE RETAIL MARKET

The retail market in the Rhodes is dominated by small to medium retail shops. These spaces are well suited for restaurants, cafes, and takeaway, personal services, cultural and medical centres.

The mix of pedestrian traffic is predominately Asian 60% (approx). One agent mentioned an increase in American residents around the Walker Street development.

Retail Sales and Leases

The table below provides the net rents achieved in the area. Two of these at $1,000/sqm and $1,630/sqm are less than $1,500/sqm - $5,000/sqm generally achieved for Sydney CBD locations.

<table>
<thead>
<tr>
<th>Address</th>
<th>Rental pa</th>
<th>Building Area (sqm)</th>
<th>Analysis $/sqm</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/2 Walker Street, Rhodes</td>
<td>$148,000</td>
<td>91</td>
<td>$1,626</td>
<td>Prime retail location with high pedestrian traffic. Currently used for a takeaway shop. Tenant was going to move out however the local market didn’t have any larger retail spaces. This resulted in the tenant renewing their lease at market price for five years. Agent in charge of lease is has little stock available.</td>
</tr>
<tr>
<td>42 - 46 Walker Street</td>
<td>$55,000</td>
<td>50</td>
<td>$1,100</td>
<td>Located in a mixed-use building there were eight (8) retail spaces available ranging from 50sqm to 163sqm. Due to high demand the Agent has applications for all spaces (total 25). The commercial space above the retail shops is being offered as storage space for the retail tenants.</td>
</tr>
</tbody>
</table>

Source: Real Commercial

Vacancy rate estimates in Rhodes range from 0.1 to 1.5%, this suggests a lack of retail stock and is consistent with our market research. Retail premises in Rhodes located in close proximity to residential are on the market for 7 Days (approx.). A number of agents confirmed with each lease they are receiving at least three (3) application and up to ten (10) in some instances. Due to scarcity one agent has a number of clients seeking to lease ground floor commercial for retail purposes.
With the smaller retail shops there has been a high turnover of tenants. These shops are small takeaway shops and gift stores. It's important to note while there has been a high turnover of smaller retail spaces, one agent advocated it was the tenant's lack of area knowledge and business suitability that resulted in premature vacancies.

Raywhite Commercial, AZ Invest and LJ Hooker Commercial all suggested the retail will remain strong due to the residential proximity and local population declining to drive to the bigger outlets.

A review of Cordells Connect revealed no retail developments in the pipeline. In the last 5 years the majority of the available retail is part of mixed use development (part commercial/retail and residential uses).

We are aware of the current development proposal by Billbergia on the Station Precinct site which is likely to accommodate around 15,000sqm of retail space including a full line supermarket and an Asian grocery.

**Demand for Shop Front Space**

Demand for shop front space in Rhodes East will be primarily driven by the expected population. When fully developed the precinct is expected to house 8,500 residents.

These residents are expected to be a little more affluent than average Sydney residents spending around $14,700 each on retail goods and services every year.

Assuming retailers capture 22% of total retail expenditure from Rhodes East and an additional 15% of trade from visitors outside Rhodes East then around 6,000sqm of shop front space could be supported in Rhodes East. The suggested mix is as follows:

- Supermarket ~1,500 to 2,000sqm
- Specialty Food including liquor & Asian Grocery ~600sqm
- Fast foods and restaurants ~1,000 to 1,500sqm
- Other specialties and personal services ~1,500sqm
- Non-retail services ~500-1,000sqm

Further commercial space could also be provided in the form of professional suites, medical centre, etc.
5 OTHER MARKETS

The Commercial Office Market

The Inner West commercial market has traditionally offered smaller scale commercial accommodation, often in conjunction with warehouse/industrial space. The market has varying complexities, suburbs like Silverwater and Auburn experience higher vacancy rates, however suburbs like Rhodes and Wentworth Point are desirable due to water views and transport options.

Notwithstanding the demand for office space in some markets, the development supply pipeline remains constrained. This is due to poor development viability and justified by limited transactions of commercial development sites in the Inner West and indeed in wider Sydney in recent years. As a consequence, new supply of commercial floor space observed to have entered the market in recent times has comprised primarily of refurbishments and adaptive reuse projects.

Rhodes and its Surrounds

The Rhodes office market is approximately 150,000sqm and is a mature market with little development capacity. Commercial occupiers are diverse, from logistics and transport operators to local businesses. Warehouse conversions have facilitated tenant flexibility at competitive rates.

Current tenant drivers are the local amenities that cater to work-life balance businesses such as gyms, childcare and retail. Since June 2015, there has been little to no capital investment which has placed downward pressure on yields. An agent indicated Rhodes current tenancy have been exercising options, one key deal in 2015 was the expansion of Link Marketing Services.

Table 12: Rhodes Commercial Market (2015)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Average Net Face Rents (pa)</th>
<th>Incentives</th>
<th>Vacancy</th>
<th>Average Market Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Grade</td>
<td>380</td>
<td>28%</td>
<td>5%</td>
<td>6.5%-8%</td>
</tr>
</tbody>
</table>

Source: Colliers International

Discussions with local Rhodes agents confirmed that there is demand for new high quality commercial office space in Rhodes, particularly small to medium office space between 50-250sqm with car parking located in walking distance of retail shops.
Discussions with agents identified that there has been limited sale transactions within the suburb of Rhodes for commercial space due to the limited supply.

Table 13 outlines the asked and achieved rents for commercial properties over the last 12 months (2015) in Rhodes. The evidence suggests that net rents for A grade stock being achieved range from $390-$410/sqm depending on size, location and age of stock. Floor spaces above 6 storeys are very desirable. Our market research suggests that recent rents achieved in Silverwater and its surrounds range between $230-$400/sqm depending on quality and proximity to amenities.

### Table 13: Rhodes Rent Transactions (2015)

<table>
<thead>
<tr>
<th>Address</th>
<th>Building Area (sqm)</th>
<th>Analysis $/sqm</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Rider Boulevard, Rhodes</td>
<td>723-3189</td>
<td>$390-410/sqm</td>
<td>Located 200 meters from the train station and available for short and long term lease. Current tenants are pharmaceuticals, consulting, finance and developers. The agent noted he did not have any legal tenants.</td>
</tr>
<tr>
<td>Building F, Rhodes Corporate Park, 1 Homebush Drive</td>
<td>607-5,700</td>
<td>$370-390/sqm</td>
<td>Blue chip occupiers Australand, Nestle, NAB, Citigroup, Hewlett Packard, Link Market Services, DHL and Macquarie Bank. Building was completed in 2012. Internal areas range from 607-5,700sqm. Building has direct access to Waterside shopping centre.</td>
</tr>
<tr>
<td>Building C, Rhodes Corporate Park, 1 Homebush Drive</td>
<td>450-2278</td>
<td>$360-390/sqm</td>
<td>As above</td>
</tr>
</tbody>
</table>

Source: PIMS & Hill PDA Research, 2016

---

**The Industrial Market**

**Industrial Trends**

Industrial floorspace used primarily for transport and storage, particularly those with low inventory turnover, are gravitating to inexpensive land and low cost buildings – most recently to the Western Sydney Employment Area.

Large-scale transport, storage and warehousing sector (or logistics) have locational needs that are determined by efficient supply chains, access to customers and suppliers, land availability and main road access. This describes firms that have specific land and infrastructure needs and potentially buffer distance requirements from residential or other sensitive land uses.
These activities, which were traditionally focused in now established parts of Sydney, near the port and airport and along Parramatta River, are increasingly concentrating in outer metropolitan areas where they can access large tracts of competitively priced land with good access to transport infrastructure such as the M4 and M7. Only industries with high value inventory are willing to meet the high cost of proximity to markets and major activity nodes like the airport.

Industrial locations next to city and major centres and along Parramatta River are being replaced over time by higher valued land uses, including residential and other employment uses. Low employment generating transport and storage uses are increasingly unnecessary in these locations reflecting an increasingly underutilisation of resources with low economic performance. Improving the economic performance of a city or metropolitan like Sydney requires the evolution of industry enabling higher and better uses to occupy the higher valued locations.

**Industrial Values**

The demand for industrial space is influenced by domestic and international markets. There are a number of changes occurring with the industrial markets due to a change from passive property type to growth in eCommerce based businesses that require high quality fitouts with a heavy reliance on technology. However this trend is fundamentally based on the intricacies of each business. Across the market business are becoming more efficient which equates to savings in labour costs and the demand for floor space.

The Sydney market has seen strengthening economic conditions due to limited land supply, but the market has seen a downward pressure on yields with some agents suggesting similar levels to the GFC. Prime levels are 7.08% and secondary yields at 8.25%.

**Inner West and Rhodes**

The Inner West industrial market generally comprises the suburbs of Homebush, Parramatta, Silverwater, Ryde, Strathfield, Granville and Auburn. In this market, land values are generally found to increase and rents have remained static generally between $150/sqm and $370/sqm. The following key indicators provide a snapshot of this sub-market of Sydney's broader industrial property market.
Table 14: Key Indicators of Sydney’s Inner West Industrial Market (2015)

<table>
<thead>
<tr>
<th>Grade</th>
<th>Average Net Face Rents (pa)</th>
<th>Average Market Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>$123/sqm</td>
<td>7.08% - 8.25%</td>
</tr>
</tbody>
</table>


Our discussions with local industry agents and market research found that:

- There is a demand for small to medium size spaces due to main arterial road way and proximity to Sydney’s satellite cities;
- Within Rhodes there is a limited supply of available stock this has resulted in agents achieving higher yields. A number of agents indicated stock around Rhodes, Lidcombe and Silverwater is tightly held;
- Current uses have been for car manufactures (Kia Motors), postal services (DHL), high tech medical, small technology companies and cold storage facilities;
- Business that require larger spaces are moving further west due to letting rates. The current leasing marketing is achieving $140-$150/sqm net;
- Sales prices in the area have been increasing around Lidcombe. A 600sqm site achieved $2552/sqm.
- There has been little to no industrial development since the GCF, due to an oversupply in the area with a large majority of builds occurring around 2001. Consequently now there is little stock for sale in the area. In the last 6 months industrial properties for sale are only on the market for 7-14 days with investors achieving 6-7% net yields;
- There would be a demand for mix-used property in the area however given current market conditions new build might struggle to obtain off the plan investors;
- 1-3 month rent free incentives being offered on small units with only 1 option period.

There was limited industrial sale evidence in the area due to properties being tightly held. Of the available data we were able to establish an average of $3200/sqm yielding 9.6%. This is inconsistent with the Colliers market report and its likely scarcity and future (potential) rezoning has increased the yield.
Recent discussions with local agents indicated that older industrial stock remain on the market on average for 9 months while modern small stock remain on the market between 3-6 months.

The table below outlines the rents that industrial properties have achieved over the last 12 months (2015) in Rhodes. The research suggests that net rents in the Rhodes range between $157-$370/sqm. Further discussions with local agents suggested that recent net rents achieved in in surrounding suburbs would range between $125-$130/sqm.

### Table 15: Industrial Sale Transactions for Rhodes (Jan 2015 – Jan 2016)

<table>
<thead>
<tr>
<th>Address</th>
<th>Sold Date</th>
<th>Second hand Price</th>
<th>Building Area (sqm)</th>
<th>Analysis $/sqm</th>
<th>Lease Price p.a. Gross ex GST</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>41/11-21 Underwood Road, Homebush</td>
<td>12/12/2015</td>
<td>$900,000</td>
<td>308</td>
<td>$3,214</td>
<td>$182,310</td>
<td>Sold to investors in 7 Days Built in 2001 and has struggle to be leased Currently Advertised for lease with in Unit 42 (below)</td>
</tr>
<tr>
<td>42/11-21 Underwood Road, Homebush</td>
<td>12/12/2015</td>
<td>$1,000,000</td>
<td>310</td>
<td>$3,225</td>
<td>As above</td>
<td>As above</td>
</tr>
</tbody>
</table>

Source: Source: PIMS & Hill PDA Research, 2016

### Table 16: Industrial Rent Transactions Rhodes based on Building Area (2015)

<table>
<thead>
<tr>
<th>Address</th>
<th>Date</th>
<th>Rental pa</th>
<th>Building Area sqm</th>
<th>Analysis $/sqm</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>6a Leeds Street Rhodes</td>
<td>12/12/2015</td>
<td>$130,000</td>
<td>$830</td>
<td>$157</td>
<td></td>
</tr>
<tr>
<td>6-10 Walker Street, Rhodes</td>
<td>30 Jan 2015</td>
<td>$1,200</td>
<td>1607</td>
<td>0.75</td>
<td>Property is old / Second hand</td>
</tr>
<tr>
<td>42 Shoreline Drive, Rhodes</td>
<td>17 Jan 2015</td>
<td>$45,000</td>
<td>255</td>
<td>$176</td>
<td>Modern office space</td>
</tr>
<tr>
<td>5 Rider Boulevard, Rhodes</td>
<td>12 Apr 2014</td>
<td>$620,860</td>
<td>1678</td>
<td>$370</td>
<td>Modern office space</td>
</tr>
</tbody>
</table>

Source: PIMS & Hill PDA Research, 2016
6 FEASIBILITY TESTING OF WATERFRONT SITES

This chapter provides the methodology, assumptions and results of the feasibility testing of replacing 1 existing cottage with 6 new terraces.

To undertake this analysis, HillPDA used the Estate Master Development Feasibility model using discounted cash flow method. Assumptions in the modelling are as follows:

**Project Timing**

- The DCF model adopts monthly rest periods;
- Construction begins in Month 12 following development approvals and a pre-selling period;
- Construction timing is 12 months.
- All dwellings are settled within 3 months following building completion.

**Project Costs**

All costs are expressed net of GST;

All costs escalate at 3% per annum. Construction costs escalate to construction start date

**Land**

- Land is assumed at $5m per cottage site;
- The land is exchanged in Month Zero with a 10% deposit and settled in Month 3;

**Construction**

- Building construction costs were based on rates from Rawlinsons Construction Handbook 2015, RLB Digest 2015, Napier and Blakely Datacard 2015 and from recent comparable Q.S. reports and feasibility studies.
- Demolition and site clearing = $30,000 per cottage;
- Average size apartment = 67-74sqm for 2-bedroom and 140sqm for the 3-bedroom terraces on the waterfront (GSA);
- Construction = $2,200/sqm for terraces and $2,500/sqm to $2,800/sqm (GBA) for the apartments depending upon building height;
- Balconies (averaging 10sqm per apartment) = $1,100/sqm;
- Basement car parking = $45,000 per space;
- Parking is provided at 1 space per apartment for waterfront sites;
- Site costs and external works = 4% to 7% of above construction costs;
- Contingency = 5% of above costs;
- Construction follows a S curve drawdown as per Rawlinsons.

**Soft Costs**

- Pre-construction design costs 5% of above construction costs;
- Professional fees during construction = 4% of construction costs pro-rata with construction;
- Application fees (DA, CC and long service levy) = 1% of above construction costs;
- Section 94 = $14,000 per apartment and $20,000 per terrace (Council website);
- $20,000 SIC levy per terrace was assumed;
- Application fees (DA, CC and LSL) = 1% of construction costs;
- Marketing and advertising = 1% of gross end sale value;
- Land Holding costs is based on the statutory unimproved land value;

**Finance Costs**

- Equity = half the land costs plus pre-construction design and application fees. Thereafter project costs are paid by debt with a capitalised interest at 6% per annum charged monthly in arrears.
- Upfront establishment fees = 1.1% of construction costs

**Hurdle Rates**

- Target project IRR = 20% annualised (effective or monthly compounded)
- Target profit risk margin = 18% of total project cost.

**Revenue Assumptions**

- Gross revenue = $14,000/sqm for waterfront terraces and $16,500/sqm for waterfront apartments;
- Commercial space = $5,000/sqm net of GST on the ground floor and $4,000/sqm for above ground floor;
- Costs on sales were deducted at a rate of 2.5% for sales commission and legal costs;
- GST on residential sales was calculated using the “consideration method” which is one eleventh of the added value (that is gross sales less the land acquisition price);
- All revenues escalate to exchanged dates at 3% per annum;
- Around two thirds of apartments are assumed to be pre-sold prior to construction.
Feasibility Results

Two options were tested being development with and without a financial contribution towards affordable housing at a rate of $325/sqm paid at construction certificate. The feasibility results are shown in the table below.

Table 17 Feasibility Results of the Waterfront Options

<table>
<thead>
<tr>
<th>Estate Master - Development Feasibility</th>
<th>1</th>
<th>2</th>
<th>All Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waterfront Option 1</td>
<td>Waterfront Option 1 + All Levy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Units</td>
<td>6 Units</td>
<td></td>
<td></td>
</tr>
<tr>
<td>942 GFA</td>
<td>942 GFA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>775 SqM</td>
<td>775 SqM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>Miscellaneous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under Review</td>
<td>Under Review</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Sales Revenue</td>
</tr>
<tr>
<td>Less Selling Costs</td>
</tr>
<tr>
<td>TOTAL REVENUE (before GST paid)</td>
</tr>
<tr>
<td>Less GST paid on all Revenue</td>
</tr>
<tr>
<td>TOTAL REVENUE (after GST paid)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Purchase Cost</td>
</tr>
<tr>
<td>Land Acquisition Costs</td>
</tr>
<tr>
<td>Construction (incl. Construct. Contingency)</td>
</tr>
<tr>
<td>Professional Fees</td>
</tr>
<tr>
<td>Application Fees</td>
</tr>
<tr>
<td>Developer Contributions</td>
</tr>
<tr>
<td>Miscellaneous Costs</td>
</tr>
<tr>
<td>Marketing and Advertising</td>
</tr>
<tr>
<td>Project Contingency (Reserve)</td>
</tr>
<tr>
<td>Land Holding Costs</td>
</tr>
<tr>
<td>Finance Charges (incl. Line Fees)</td>
</tr>
<tr>
<td>Interest Expense</td>
</tr>
<tr>
<td>TOTAL COSTS (after GST reclaimed)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>Gross Development Profit</td>
</tr>
<tr>
<td>Development Margin (Profit/Risk Margin)</td>
</tr>
<tr>
<td>Target Development Margin</td>
</tr>
<tr>
<td>Residual Land Value (Target Margin)</td>
</tr>
<tr>
<td>Breakeven Date for Cumulative Cash Flow</td>
</tr>
<tr>
<td>Discount Rate (Target IRR)</td>
</tr>
<tr>
<td>Net Present Value</td>
</tr>
<tr>
<td>Project Internal Rate of Return (IRR)</td>
</tr>
<tr>
<td>Residual Land Value (NPV)</td>
</tr>
</tbody>
</table>

As shown above development for 6 terraces on a single lot is just feasible or marginally feasible showing a development margin of almost 19% without the affordable housing contribution. Adding in the cost of the affordable housing levy at $325/sqm results in lower margin of 15% and a project IRR of 14%. This is considered too low to make redevelopment viable. The difficulty with the waterfront lots is the high land value. The apartments are marginally viable on lots

---

2 The rate of $325/sqm is considered to be, from the developer’s point of view, an equivalent cost to directly dedicating 5% of apartments to affordable housing. It was calculated in the Estate Master model using a “back solving” or “goal seeking” approach such that either method of delivery (direct dedication of 5% of apartments or monetary payment at construction certificate) yields a similar residual land value and development margin (profit divided by total project cost).
with an average acquisition cost of around $4m each. The feasibility of redevelopment is likely to improve in the future as land becomes increasingly scarce. At the next upturn in the market – say 8 to 10 years it may be viable to redevelop these sites with an affordable housing levy.
7 FEASIBILITY TESTING OF CONCORD ROAD EAST

This chapter provides the methodology, assumptions and results of the feasibility testing of typologies drawn by Roberts Day representing redevelopment three cottage sites on Concord Road for four terraces and 26 apartments in a six storey building.

To undertake this analysis, HillPDA used the Estate Master Development Feasibility model using discounted cash flow method. Assumptions in the modelling are as follows:

**Project Timing**

- The DCF model adopts monthly rest periods;
- Construction begins in Month 12 following development approvals and a pre-selling period;
Construction 15 months.
All apartments are settled within 3 months following building completion.

Project Costs

All costs are expressed net of GST;
All costs escalate at 3% per annum. Construction costs escalate to construction start date

Land
- Land is assumed at $1.6m per cottage on Concord Road.
- The land is exchanged in Month Zero with a 10% deposit and settled in Month 3;

Construction
- Building construction costs were based on rates from Rawlinsons Construction Handbook 2015, RLB Digest 2015, Napier and Blakely Datacard 2015 and from recent comparable Q.S. reports and feasibility studies.
- Demolition and site clearing = $30,000 per cottage;
- Average size apartment = 67-74sqm for 2-bedroom and 115sqm for 3-bedroom terraces (GSA);
- Construction = $2,200/sqm for terraces and $2,700/sqm (GBA);
- Balconies (averaging 10sqm per apartment) = $1,100/sqm;
- Basement car parking = $45,000 per space;
- Parking is provided at 1 space per 2 apartments and no on-site visitor spaces;
- Site costs and external works = 5% of above construction costs;
- Contingency = 5% of above costs;
- Construction follows a S curve drawdown as per Rawlinsons.

Soft Costs
- Pre-construction design costs 5% of above construction costs;
- Professional fees during construction = 4% of construction costs pro-rata with construction;
- Application fees (DA, CC and long service levy) = 1% of above construction costs;
Section 94 = $14,000 per apartment and $20,000 per terrace (Council website) paid at CC;
$20,000 SIC levy per apartment was assumed paid at CC;
Application fees (DA, CC and LSL) = 1% of construction costs;
Marketing and advertising = 1% of gross end sale value;
Land Holding costs is based on the statutory unimproved land value;

Finance Costs

Equity = land costs plus pre-construction design and application fees. Thereafter project costs are paid by debt with a capitalised interest at 6% per annum charged monthly in arrears.
Upfront establishment fees = 1.1% of construction costs

Hurdle Rates

Target project IRR = 20% annualised (effective or monthly compounded)
Target profit risk margin = 18% of total project cost.

Revenue Assumptions

Gross revenue = $10,500 to $11,000/sqm;
Costs on sales were deducted at a rate of 2.5% for sales commission and legal costs;
GST on residential sales was calculated using the “consideration method” which is one eleventh of the added value (that is gross sales less the land acquisition price);
All revenues escalate to exchanged dates at 3% per annum;
Around two thirds of apartments are assumed to be pre-sold prior to construction.

Feasibility Results

The feasibility was tested with varying rates of affordable housing from 0% to 10%. The Results are shown in the tables below
Development is just viable with a 5% contribution towards affordable housing. Alternatively a monetary payment of $325/sqm GFA could be made which is shown in Option 4 above. This provides a similar residual land value to Option 3 (direct dedication of 5% of apartments to affordable housing).
8 FINANCIAL TESTING OF BLAXLAND ROAD AND CAVELL AVENUE SITES

This chapter provides the methodology, assumptions and results of the feasibility testing of typologies drawn by Roberts Day representing the redevelopment at Blaxland Road and Cavell Avenue for residential uses including high rise apartments, walk-up apartments and terraces.

Methodology

To undertake this analysis, HillPDA used the Estate Master Development Feasibility model using discounted cash flow method. Assumptions in the modelling are as follows:
**Project Timing**

- The DCF model adopts monthly rest periods;
- Construction begins in Month 12 following development approvals and a pre-selling period;
- The site is developed over 2 stages.
- Construction timing range is 19 months per stage.
- All apartments are settled within 4 months following building completion.

**Project Costs**

All costs are expressed net of GST;

All costs escalate at 3% per annum. Construction costs escalate to construction start date.

**Land**

- Land is assumed at $2.5m per cottage site. This reflects the opportunity cost of the cottages (around $1.5m for an old house) plus a premium to provide an incentive for amalgamation. Note that a couple of recent sales have been over $3m per cottage but this reflects a sunk cost resulting from speculation.
- The land is exchanged in Month Zero with a 10% deposit and settled in Month 3;

**Construction**

- Building construction costs were based on rates from Rawlinsons Construction Handbook 2015, RLB Digest 2015, Napier and Blakely Datacard 2015 and from recent comparable Q.S. reports and feasibility studies. This includes:
  - Demolition and site clearing = $30,000 per cottage;
  - $45,000 per car space in a single basement level at a rate of 1 car space per terrace dwelling and one space per two apartments;
  - $3,000/sqm GBA for the apartments;
  - $2,150/sqm for the walk up apartments;
  - $2,600/sqm for the terraces;
  - Balconies (averaging 10sqm per apartment) at $1,100/sqm;
  - Site costs and external works = 4.5% of above construction costs;
  - Contingency = 5% of above costs;
Construction follows a S curve drawdown as per Rawlinsons.

**Soft Costs**

- Pre-construction design costs 5% of above construction costs;
- Professional fees during construction = 4% of construction costs pro-rata with construction;
- Application fees (DA, CC and long service levy) = 1% of above construction costs;
- Section 94 = $14,000 per apartment and $20,000 per terrace (Council website);
- SIC levy was assumed at $20,000/dwelling;
- Marketing and advertising = 1.1% of gross end sale value;
- Land Holding costs is based on the statutory unimproved land value;
- Project contingency = 2.5% of total project cost (net of land and finance costs)

**Finance Costs**

- Equity = land costs plus pre-construction design and application fees. Thereafter project costs are paid by debt with a capitalised interest at 6% per annum charged monthly in arrears.
- Upfront establishment fees = 1.1% of construction costs

**Hurdle Rates**

- Target project IRR = 20% annualised (effective or monthly compounded)
- Target profit risk margin = 22% of total project cost.

**Revenue**

- Average price dwelling is $1.05m;
- Costs on sales were deducted at a rate of 2.5% for sales commission and legal costs;
- GST on residential sales was calculated using the “consideration method” which is one eleventh of the added value (that is gross sales less the land acquisition price);
- All revenues escalate to exchanged dates at 3% per annum;
- Around two thirds of apartments are assumed to be pre-sold prior to construction.
- Affordable housing is provided at 5% of the saleable floor area.

# Results

Results are shown in the table below:

**Table 19 Feasibility Results of the Blaxland Road Option**

<table>
<thead>
<tr>
<th></th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Sales Revenue</td>
<td>167,122,680</td>
<td>197,915,183</td>
</tr>
<tr>
<td>Less Selling Costs</td>
<td>(2,205,539)</td>
<td>(2,237,919)</td>
</tr>
<tr>
<td><strong>NET SALES REVENUE</strong></td>
<td>164,917,147</td>
<td>195,677,264</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>(before GST paid)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>180,315,276</td>
<td>180,684,069</td>
</tr>
<tr>
<td><strong>Less GST paid on all Revenue</strong></td>
<td>(14,602,081)</td>
<td>(15,563,198)</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>(after GST paid)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>165,713,195</td>
<td>165,120,871</td>
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<tr>
<td><strong>Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Purchase Cost</td>
<td>26,509,000</td>
<td>26,509,000</td>
</tr>
<tr>
<td>Land Acquisition Costs</td>
<td>1,722,500</td>
<td>1,722,500</td>
</tr>
<tr>
<td>Construction (inc. Construct. Contingency)</td>
<td>81,848,608</td>
<td>81,848,608</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>7,396,375</td>
<td>7,366,375</td>
</tr>
<tr>
<td>Application Fees</td>
<td>811,160</td>
<td>811,160</td>
</tr>
<tr>
<td>Developer Contributions</td>
<td>6,486,000</td>
<td>13,423,808</td>
</tr>
<tr>
<td>Marketing and Advertising</td>
<td>2,056,352</td>
<td>2,177,067</td>
</tr>
<tr>
<td>Project Contingency (Reserve)</td>
<td>2,464,261</td>
<td>2,640,674</td>
</tr>
<tr>
<td>Land Holding Costs</td>
<td>1,049,531</td>
<td>1,048,984</td>
</tr>
<tr>
<td>Finance Charges (inc. Line Fees)</td>
<td>874,137</td>
<td>874,137</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>5,641,358</td>
<td>6,529,252</td>
</tr>
<tr>
<td><strong>TOTAL COSTS</strong></td>
<td>(after GST reclaimed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>136,822,221</td>
<td>144,939,484</td>
</tr>
<tr>
<td><strong>Performance Indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Development Profit</td>
<td>33,493,055</td>
<td>39,154,585</td>
</tr>
<tr>
<td>Development Margin (Profit/Risk Margin)</td>
<td>24.48%</td>
<td>24.25%</td>
</tr>
<tr>
<td>Target Development Margin</td>
<td>22.00%</td>
<td>22.00%</td>
</tr>
<tr>
<td>Residual Land Value (Target Margin)</td>
<td>28,878,786</td>
<td>28,789,341</td>
</tr>
<tr>
<td>Discount Rate (Target IRR)</td>
<td>20.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>Net Present Value</td>
<td>236,942</td>
<td>87,341</td>
</tr>
<tr>
<td>Project Internal Rate of Return (IRR)</td>
<td>20.19%</td>
<td>20.06%</td>
</tr>
<tr>
<td>Residual Land Value (NPV)</td>
<td>26,736,964</td>
<td>26,587,353</td>
</tr>
</tbody>
</table>

As shown in the above table the returns are just sufficient with either 5% direct dedication of apartments for affordable housing or with a levy at $325/sqm.
9  FINANCIAL TESTING OF LEEDS STREET SITE

This chapter provides the methodology, assumptions and results of the feasibility testing of typologies drawn by Roberts Day representing the redevelopment 15-25 Leeds Street for mixed uses including 225 apartments and 10,400sqm of retail and commercial space.

Methodology

To undertake this analysis, HillPDA used the Estate Master Development Feasibility model using discounted cash flow method. Assumptions in the modelling are as follows:
**Project Timing**

- The DCF model adopts monthly rest periods;
- Construction begins in Month 12 following development approvals and a pre-selling period;
- Construction timing is 20 months in a single stage.
- All apartments are settled within 4 months following building completion.
- Commercial and retail spaces are assumed to be sold within 6 months of building completion.

**Project Costs**

All costs are expressed net of GST;

All costs escalate at 3% per annum. Construction costs escalate to construction start date

**Land**

- Land is assumed at $200,000 per apartment. Note that 23 Leeds Street sold last year for $23m which is in line with that assumption.
- The land is exchanged in Month Zero with a 10% deposit and settled in Month 3;

**Construction**

- Building construction costs were based on rates from Rawlinsons Construction Handbook 2015, RLB Digest 2015, Napier and Blakely Datacard 2015 and from recent comparable Q.S. reports and feasibility studies. This includes:
- Demolition and site clearing = $100/sqm of existing building space;
- $45,000 per car space in a single basement level at a rate of 1 car space per two apartments + 96 spaces for the commercial uses;
- $3,000/sqm GBA for the residential space;
- $2,400/sqm GBA for retail and commercial space (excluding fitout);
- Balconies (averaging 10sqm per apartment) at $1,100/sqm;
- Site costs, embellishment of the foreshore area and external works = 6.0% of above construction costs;
• Contingency = 5% of above costs;
• Construction follows a S curve drawdown as per Rawlinsons.

**Soft Costs**

• Pre-construction design costs 5% of above construction costs;
• Professional fees during construction = 4% of construction costs pro-rata with construction;
• Application fees (DA, CC and long service levy) = 1% of above construction costs;
• Section 94 = $14,000 per apartment and $20,000 per terrace (Council website) paid at CC;
• $20,000 SIC levy per apartment was assumed paid at CC;
• Application fees (DA, CC and LSL) = 1% of construction costs;
• Marketing and advertising = 1.2% of gross end sale value;
• Land Holding costs is based on the statutory unimproved land value;
• Project contingency = 2.5% of total project cost (net of land and finance costs)

**Finance Costs**

• Equity = land costs plus pre-construction design and application fees. Thereafter project costs are paid by debt with a capitalised interest at 6% per annum charged monthly in arrears.
• Upfront establishment fees = 1.1% of construction costs

**Hurdle Rates**

• Target project IRR = 20% annualised (effective or monthly compounded)
• Target profit risk margin = 22% of total project cost.

**Revenue Assumptions**

• Gross revenue = $11,500/sqm NSA for residential apartments with no water views and no car space to $15,500/sqm NSA for residential apartments with water views and a car space. Average assumed at $13,500/sqm.
• Revenue on retail space = $7,500/sqm net of GST.
• Revenue on above ground commercial space = $5,000/sqm net of GST;
• Incentives are included at a rate of $350 per square metre;
• Costs on sales were deducted at a rate of 2.5% for sales commission and legal costs;
• GST on residential sales was calculated using the “consideration method” which is one eleventh of the added value (that is gross sales less the land acquisition price);
• All revenues escalate to exchanged dates at 3% per annum;
• Around two thirds of apartments are assumed to be pre-sold prior to construction.

Feasibility Results

Results are shown in the table below

Table 20 Feasibility Results of the Leeds Street Site

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Affordable Housing</td>
<td>278,683,046</td>
<td>273,722,728</td>
<td>268,762,410</td>
<td>293,499,051</td>
<td>304,496,652</td>
</tr>
<tr>
<td>5% Affordable Housing</td>
<td>(6,046,095)</td>
<td>(6,724,088)</td>
<td>(6,060,080)</td>
<td>(7,217,066)</td>
<td>(7,494,236)</td>
</tr>
<tr>
<td>Total Revenue (before GST paid)</td>
<td>268,667,111</td>
<td>266,705,803</td>
<td>258,702,400</td>
<td>286,292,500</td>
<td>297,500,460</td>
</tr>
<tr>
<td>Less GST paid on all Revenue</td>
<td>(15,739,477)</td>
<td>(16,303,258)</td>
<td>(15,689,619)</td>
<td>(18,034,740)</td>
<td>(19,012,637)</td>
</tr>
<tr>
<td>Total Revenue (after GST paid)</td>
<td>251,927,634</td>
<td>244,402,542</td>
<td>243,012,781</td>
<td>268,257,760</td>
<td>278,787,823</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Purchase Cost</td>
<td>45,000,000</td>
<td>45,000,000</td>
<td>45,000,000</td>
<td>45,000,000</td>
<td>45,000,000</td>
</tr>
<tr>
<td>Land Acquisition Costs</td>
<td>2,925,000</td>
<td>2,925,000</td>
<td>2,925,000</td>
<td>2,925,000</td>
<td>2,925,000</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>10,383,710</td>
<td>10,383,710</td>
<td>10,383,710</td>
<td>11,186,878</td>
<td>11,186,878</td>
</tr>
<tr>
<td>Application Fees</td>
<td>1,144,526</td>
<td>1,144,526</td>
<td>1,144,526</td>
<td>1,231,858</td>
<td>1,231,858</td>
</tr>
<tr>
<td>Developer Contributions</td>
<td>7,550,000</td>
<td>7,550,000</td>
<td>7,550,000</td>
<td>8,650,000</td>
<td>14,512,025</td>
</tr>
<tr>
<td>Marketing and Advertising</td>
<td>2,766,830</td>
<td>2,737,227</td>
<td>2,687,264</td>
<td>2,934,099</td>
<td>3,044,967</td>
</tr>
<tr>
<td>Project Contingency (Reserve)</td>
<td>3,454,018</td>
<td>3,432,778</td>
<td>3,431,538</td>
<td>3,692,537</td>
<td>3,885,860</td>
</tr>
<tr>
<td>Land Holding Costs</td>
<td>628,344</td>
<td>628,344</td>
<td>628,344</td>
<td>628,344</td>
<td>628,344</td>
</tr>
<tr>
<td>Finance Charges (incl. Line Fees)</td>
<td>1,233,476</td>
<td>1,233,476</td>
<td>1,233,476</td>
<td>1,233,476</td>
<td>1,233,476</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>11,459,083</td>
<td>11,501,542</td>
<td>11,547,899</td>
<td>12,083,154</td>
<td>12,845,624</td>
</tr>
<tr>
<td>TOTAL COSTS (after GST reclaimd)</td>
<td>262,541,556</td>
<td>262,032,415</td>
<td>262,032,415</td>
<td>262,032,415</td>
<td>262,032,415</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance Indicators</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Margin (Profit/Return Margin)</td>
<td>24.66%</td>
<td>22.49%</td>
<td>20.31%</td>
<td>24.19%</td>
<td>24.40%</td>
</tr>
<tr>
<td>Target Development Margin</td>
<td>22.00%</td>
<td>22.00%</td>
<td>22.00%</td>
<td>22.00%</td>
<td>22.00%</td>
</tr>
<tr>
<td>Residual Land Value (Target Margin)</td>
<td>40,667,033</td>
<td>40,705,030</td>
<td>42,406,000</td>
<td>48,480,276</td>
<td>48,909,051</td>
</tr>
<tr>
<td>Discount Rate (Target IRR)</td>
<td>20.00%</td>
<td>20.00%</td>
<td>20.00%</td>
<td>20.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>Net Present Value</td>
<td>225,129</td>
<td>225,128</td>
<td>225,128</td>
<td>225,128</td>
<td>225,128</td>
</tr>
<tr>
<td>Benefit Cost Ratio</td>
<td>1.002</td>
<td>0.984</td>
<td>0.966</td>
<td>1.001</td>
<td>1.003</td>
</tr>
<tr>
<td>Project Internal Rate of Return (IRR)</td>
<td>20.12%</td>
<td>18.77%</td>
<td>17.41%</td>
<td>20.09%</td>
<td>20.25%</td>
</tr>
<tr>
<td>Residual Land Value (NPV)</td>
<td>45,240,131</td>
<td>42,519,432</td>
<td>39,796,660</td>
<td>45,183,207</td>
<td>45,539,325</td>
</tr>
</tbody>
</table>

As shown in the above table the returns are satisfactory with a very modest level of affordable housing – no more than say 2.5%. At 5% or more feasibility is undermined.
In Option 4 an additional 25 apartments is provided and a total of 12-13 units (5%) are directly dedicated for affordable housing. This achieves an adequate margin of 24% and a project IRR of 20%. A similar return can be achieved in Option 5 with a monetary payment of $325/sqm GFA instead of direct dedication of apartments.
10 FINANCIAL TESTING OF INTERNAL STREETS

The Structure Plan proposes 5 new streets – three between Blaxland Road and Cavell Avenue and two east of Concord Road. In order to lessen the cost to the public purse, NSW DP&E are keen to have these proposed streets delivered by the adjoining developers through a bonus system.

The approach to the provision of the proposed streets through developer bonuses has been two fold.

We applied the gross FSR of the designated land parcel (that includes the proposed street) to the developable site (that then excludes the street) thereby increasing the development potential of the balance of the land.

We considered a further incentive to the delivery of the proposed streets by providing additional yield to the adjoining development.

Methodology

To undertake this analysis, HillPDA used the Estate Master Development Feasibility model using discounted cash flow method. Estate Master DF calculates key investment performance indicators (Profit Margin, Residual Land Value, NPV and IRR), performing detailed risk assessments and allowing users to compare multiple options.

Development Options

We have assumed that to deliver a street would require the amalgamation of at least 5 if not 6 residential lots. A 15m wide street will remove two residential lots positioned back to back. The floor space will need to be transferred from the street lots to the balance of the site.

The feasibility of two options were tested:

- Option 1 (or base case) assumes the amalgamation of six residential lots and the construction of apartments across the entire site. The purpose of this option is to test the required density that will make development feasible. Building height is generally up to 5 or 6 storeys and the FSR around 1.6:1.
- Option 2 assumes the dedication of two lots and construction of the street, the transfer of floor space to the balance of the site plus additional density to meet the costs of the street and to
further incentivise the amalgamation of the lots and street dedication.

Feasibility of Base Case

The model is provided as Appendix 1. Assumptions in the modelling include the following:

Project Timing
- The DCF model adopts monthly rest periods;
- Construction begins in Month 12 following development approvals and a pre-selling period;
- Construction is 15 months for buildings up to 6 storeys to 18 months for buildings up to 9-10 storeys.
- All apartments are settled within 3 months following building completion.

Project Costs
- All costs are expressed net of GST;
- All costs escalate at 3% per annum. Construction costs escalate to construction start date

Land
- Land is assumed at the following: - $1.6m per 700sqm cottage site on Concord Road; - $2.7m per 700sqm dry cottage lot on Llewellyn Street; - $2.75m per 1,000sqm cottage lot on Blaxland Road and
- The land is exchanged in Month Zero with a 10% deposit and settled in Month 3;

Construction
- Average size apartment = 75 to 80sqm internal saleable area, 90sqm GFA and 100sqm GBA (gross building area which includes the vertical transport areas);
- Building construction costs were based on rates from Rawlinsons Construction Handbook 2015, RLB Digest 2015, Napier and Blakely Datacard 2015 and from recent comparable Q.S. reports and feasibility studies.
- GBA = $2,800/sqm up to 6 storeys to $2,900/sqm up to 9-10 storeys which includes builders preliminaries and margin;
- Demolition and site clearing = $25,000 per cottage;
- Balconies (averaging 12sqm per apartment) = $1,100/sqm;
Basement car parking = $45,000 per space;
Parking is provided at 1 space per 2 apartments and no on-site visitor spaces;
Site costs and external works = 4% of above construction costs;
Contingency = 5% of above costs;
Construction follows a S curve drawdown as per Rawlinsons Construction Handbook.

New Road
Cost of the new road – around 100m long by 15m wide was costed by MBM at $604,000.

Soft Costs
Pre-construction design costs 5% of above construction costs;
Professional fees during construction = 4% of construction costs pro-rata with construction;
Application fees (DA, CC and long service levy) = 1% of above construction costs;
Section 94 = $14,000 per apartment (Council website) paid at CC;
$20,000 SIC levy per apartment was assumed paid at CC;
an affordable housing levy at $325/sqm of GFA is paid at CC;
Marketing and advertising = 1% of gross end sale value;
Land Holding costs is based on the statutory unimproved land value;

Finance Costs
Equity = land costs plus pre-construction design and application fees. Thereafter project costs are paid by debt with a capitalised interest at 6% per annum charged monthly in arrears.
Upfront establishment fees = 1.1% of construction costs

Hurdle Rates
Target project IRR = 19% annualised (effective or monthly compounded)
Target profit risk margin = 20% of total project cost.

Revenue Assumptions
The price of 2-bedroom apartments vary from around $800,000 on the lower levels facing Concord Road without a car space to around $1.1m on the upper levels facing Llewellyn Street with a
car space. Blaxland Road apartments are priced from $830,000 to $1.02m;
- Costs on sales were deducted at a rate of 2.2% for sales commission and 0.3% for legal costs;
- GST on residential sales was calculated using general tax rule which is one eleventh of the end sale prices of the apartments;
- All revenues escalate to exchanged dates at 3% per annum;
- 60% of the apartments are assumed to be pre-sold prior to construction.

Hypothetical Development Sites

The hypothetical scenario includes the amalgamation of six cottage sites. The Concord Road site includes three cottage sites fronting Concord Road and three fronting Llewellyn Street creating a development site of around 45m wide and around 93m deep (4,200sqm).

The Blaxland Road site includes three cottages fronting Blaxland Road and three fronting Cavell Avenue creating a development site approximately 60m wide and 100 deep (6,000sqm). Development Options

Concord Road Site

For the Concord Road development site four development options were tested being:

Option 1: 72 apartments with no road
Redevelopment of the site at an FSR of 1.55:1 with buildings up to 6 storeys spread across the site. Yield is 72 apartments and no road is provided;

Option 2: 72 apartments with a new road
Option 2 includes redevelopment of the same number of apartments as Option 1 but on two thirds of the site. The balance of the site is used for the construction of the road (paid by the developer) and dedicated to Council at project completion. The FSR on the built proportion of the site is 2.3. Building height is assumed at 7 storeys.

Option 3: 88 apartments with a new road
Option 3 is the same as Option 2 except an additional 15% premium is added to the land value and the yield is increased to 88 apartments. FSR is increased to 1.9 across the entire site or 2.8 on
the balance of the site after dedication of the road. Building height is assumed at 8 storeys.

**Option 4: 96 apartments with a new road**

Option 4 is the same as Option 2 except an additional 25% premium is added to the land value and the yield is increased to 96 apartments. FSR is increased to 2.1 across the gross site and 3.1 on the net site. Building height is assumed at 9-10 storeys.

**Blaxland Road Site**

For the Blaxland Road Site four development options were tested being:

**Option 1: 100 apartments with no road**

Redevelopment of the site at an FSR of 1.5:1 with buildings up to 5-6 storeys spread across the site. Yield is 100 apartments and no road is provided;

**Option 2: 100 apartments with a new road**

Option 2 includes redevelopment of the same number of apartments as Option 1 but on two thirds of the site. The balance of the site is used for the construction of the road (paid by the developer) and dedicated to Council at project completion. The FSR on the built proportion of the site is 2.2. Building height is assumed at 6 storeys.

**Option 3: 120 apartments with a new road**

Option 3 is the same as Option 2 except an additional 15% premium is added to the land value and the yield is increased to 120 apartments. FSR is increased to 1.8 across the entire site or 2.6 on the balance of the site after dedication of the road. Building height is assumed at 8 storeys.

**Option 4: 140 apartments with a new road**

Option 4 is the same as Option 2 except an additional 30% premium is added to the land value and the yield is increased to 140 apartments. FSR is increased to 2.1 across the gross site and 3.0 on the net site. Building height is assumed at 9-10 storeys.

**Financial Feasibility Results**

The feasibility results are summarised in the tables below.
### Table 21: Feasibility of Concord Road Site

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparisons of Options</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Concord Road East Option 2a</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>72 Apartments &amp; new road</strong></td>
<td>69,450.178</td>
<td>70,391.738</td>
<td>86,446.024</td>
<td>94,304.754</td>
</tr>
<tr>
<td><strong>72 Apartments &amp; 9 storeys</strong></td>
<td>(1,726,254)</td>
<td>(1,759,531)</td>
<td>(2,161,151)</td>
<td>(2,357,819)</td>
</tr>
<tr>
<td><strong>88 Apartments &amp; new road</strong></td>
<td>67,713,924</td>
<td>68,621,707</td>
<td>84,284,974</td>
<td>91,947,135</td>
</tr>
<tr>
<td><strong>88 Apartments &amp; 10 storeys</strong></td>
<td>67,713,924</td>
<td>68,621,707</td>
<td>84,284,974</td>
<td>91,947,135</td>
</tr>
<tr>
<td><strong>88 Apartments &amp; 15 storeys</strong></td>
<td>(6,313,693)</td>
<td>(6,399,294)</td>
<td>(7,858,729)</td>
<td>(8,573,159)</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE (after GST paid)</strong></td>
<td>61,400,271</td>
<td>62,223,412</td>
<td>76,426,144</td>
<td>83,373,976</td>
</tr>
</tbody>
</table>

#### Revenues
- Gross Sales Revenue
- Less Selling Costs
- NET SALES REVENUE
- TOTAL REVENUE (before GST paid)
- Less GST paid on all Revenue
- TOTAL REVENUE (after GST paid)

#### Costs
- Land Purchase Cost
- Land Acquisition Costs
- Construction (incl. Construct. Contingency)
- Professional Fees
- Appliance Fees
- Developer Contributions
- Infrastructure
- Marketing and Advertising
- Project Contingency (Reserve)
- Land Holding Costs
- Finance Charges (incl. Line Fees)
- Interest Expense
- TOTAL COSTS (after GST reclaimed)

#### Performance Indicators
1. Gross Development Profit
2. Development Margin (Profit/Risk Margin)
3. Residual Land Value (Target Margin)
4. Break-even Date for Cumulative Cash Flow
5. Net Present Value
6. Project Internal Rate of Return (IRR)
7. Residual Land Value (NPV)

---

Ref: C17258

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The conclusions from the above analysis are as follows:

- **Existing cottages are viable to be redeveloped generally for 5-6 storey apartments at an FSR of 1.6:1. This is equivalent to 12 apartments replacing a cottage on a 700sqm lot and 17 apartments replacing a cottage on a 1,000sqm lot;**

- **The practicality of constructing and dedicating a road means that at least 5, if not 6, adjoining properties require to be amalgamated;**

- **The allowable floor space needs to be transferred to the balance of the site. This means that the FSR would increase to 2.3:1 on the balance of the site;**

- **The cost of road construction undermines the viability of development without additional floor space bonuses to compensate. The developer needs to be granted a bonus floor**

---

### Table 22 Feasibility of Blaxland Road Site

<table>
<thead>
<tr>
<th>EstateMaster Development Feasibility</th>
<th>COMPARISON OF OPTIONS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concord Road East Option 2a</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>120 Apartments up to 6 storeys</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>129 Apartments up to 6 storeys</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>120 Apartments up to 6 storeys</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>140 Apartments up to 6 storeys</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Revenues

<table>
<thead>
<tr>
<th>Gross Sales Revenue</th>
<th>Less Selling Costs</th>
<th>TOTAL REVENUE (before GST paid)</th>
<th>Less GST paid on all Revenue</th>
<th>TOTAL REVENUE (after GST paid)</th>
</tr>
</thead>
<tbody>
<tr>
<td>95,505.42</td>
<td>(2,387,635)</td>
<td>93,117.77</td>
<td>(6,682,319)</td>
<td>86,435.46</td>
</tr>
</tbody>
</table>

### Costs

<table>
<thead>
<tr>
<th>Land Purchase Cost</th>
<th>Land Acquisition Costs</th>
<th>Construction (Inc. Construct. Contingency)</th>
<th>Professional Fees</th>
<th>Application Fees</th>
<th>Developer Contributions</th>
<th>Road Infrastructure</th>
<th>Marketing and Advertising</th>
<th>Project Contingency (Reserve)</th>
<th>Land Holding Costs</th>
<th>Finance Charges (Inc. Line Fees)</th>
<th>Interest Expense</th>
<th>TOTAL COSTS (after GST reclaimed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>16,500.00</td>
<td>1,072,500</td>
<td>35,822,543</td>
<td>3,206,011</td>
<td>352,420</td>
<td>6,241,009</td>
<td>836,066</td>
<td>955,054</td>
<td>1,159,421</td>
<td>464,106</td>
<td>377,657</td>
<td>3,393,229</td>
<td>69,243,940</td>
</tr>
</tbody>
</table>

### Performance Indicators

<table>
<thead>
<tr>
<th>Gross Development Profit</th>
<th>Development Margin (Profit/Risk Margin)</th>
<th>Residual Land Value (Target Margin)</th>
<th>Breakerken Date for Cumulative Cash Flow</th>
<th>Net Present Value</th>
<th>Project Internal Rate of Return (IRR)</th>
<th>Residual Land Value (NPV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,191,726</td>
<td>21.94%</td>
<td>17,430,000</td>
<td>Nov-2019</td>
<td>(289,449)</td>
<td>19.53%</td>
<td>16,212,573</td>
</tr>
</tbody>
</table>

Ref: C17258

HillPDA Page 50 | 54
space equivalent to around 3 additional apartments to meet the cost of constructing the road at $604,000;

- Without further floor space bonuses there is no incentive for a developer to amalgamate the lots (unless it was made mandatory say under a planning instrument);
- A further incentive of say 20% bonus floor space would increase the residual land value by a further 15%. A 33% to 40% bonus would increase the residual land value by a further 25% to 30% respectively.

To improve the probability of lot amalgamations and delivery of the road a bonus incentive of around 30% to 40% is suggested. This means allowing an FSR of around 3.1:1 on the developable area of the site. The built form would be at 9 to 10 storey buildings.
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   This valuation is prepared on the assumption that the lender or addressee as referred to in this valuation report (and no other) may rely on the valuation for mortgage finance purposes and the lender has complied with its own lending guidelines as well as prudent finance industry lending practices, and has considered all prudent aspects of credit risk for any potential borrower, including the borrower’s ability to service and repay any mortgage loan. Further, the valuation is prepared on the assumption that the lender is providing mortgage financing at a conservative and prudent loan to value ratio.
Rhodes East Property Market Appraisal and Development Feasibility

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APPENDIX A: TESTED BUILDING TYPOLOGIES
Waterfront Lots, Option 1

Terraces front Llewllyn Street and The River, sharing an underground carpark. This typology explores a higher value proposition to that of an apartment unit at a much lower scale.

Total of 6 terraces over 1 lot.

---

**Building Stats**

- **Height, max**: 12.4 m
- **Storeys (habitable), max**: 3 to 4
- **Height, max**: 12.4 m
- **Storeys (habitable), max**: 3 to 4
- **Carparking**: 1 level basement carpark

---

**FSR - FLOOR SPACE RATIO**

<table>
<thead>
<tr>
<th>Site Area (m²)</th>
<th>672 m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boardwalk Area (m²)</td>
<td>184 m²</td>
</tr>
<tr>
<td>FSR allowed n:1</td>
<td>1.25</td>
</tr>
<tr>
<td>FSR achieved n:1</td>
<td>1.25</td>
</tr>
</tbody>
</table>

---

**WALL-TO-FLOOR RATIO**

| Wall Area (m²) | 672 m² |
| Wall-to-floor ratio | 8.24 |

---

**3D birds eye view from Llewllyn Street**

---

**NSA (Net Saleable Area)** includes indoor and outdoor private space and excludes communal open space. It is effectively GBA minus plant rooms, lift towers, and carparking to meet any requirements of the consent authority plus terraces and balconies with outer walls less than 1.4 m high.

---

**Communal Open Space** includes all shared amenities like roof top gardens, gyms, swimming pools, BBQ areas, etc.

**The Floor Space Ratio** is the ratio of floor area of new development to the land area. State Planning Instruments and Councils set out permissible FSRS for each development zone under their control and the definition of floor space to use in the calculation.

**Building height** includes plant rooms and lift overruns (assumed to be equivalent to one storey).

---

Note: For mixed use projects or premium product, increase ground floor to 4.5 m (at a minimum). Also, consider other levels, eg. penthouse.

---

Waterfront typologies/ lots will have a maximum building envelope control, FSR, Height and a dedicated public foreshore component.

---

Draft and confidential. Prepared for the purpose of internal project team circulation only.
# Blaxland Road Cavell Ave
## Diversity Option

### FLOOR AREA

<table>
<thead>
<tr>
<th></th>
<th>GBA</th>
<th>Efficiency</th>
<th>NSA</th>
<th>GFA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>16,389</td>
<td>82</td>
<td>13,931</td>
<td>12,312</td>
</tr>
<tr>
<td>Walk Up</td>
<td>3,380</td>
<td>82</td>
<td>2,755</td>
<td>2,755</td>
</tr>
<tr>
<td>Terrace</td>
<td>7,544</td>
<td>82</td>
<td>6,186</td>
<td>6,186</td>
</tr>
<tr>
<td><strong>Total (m²)</strong></td>
<td>27,293</td>
<td></td>
<td>22,872</td>
<td>21,253</td>
</tr>
</tbody>
</table>

### Dwelling mix (generally consistent with planning proposal)

<table>
<thead>
<tr>
<th></th>
<th>1B</th>
<th>2B</th>
<th>3B</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td># of WalkUp</td>
<td>30</td>
<td>50</td>
<td>60</td>
<td>140</td>
</tr>
<tr>
<td># of Terraces</td>
<td>10</td>
<td>100</td>
<td>24</td>
<td>134</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>150</td>
<td>164</td>
<td>414</td>
</tr>
</tbody>
</table>

### Height and carparking

- **Height**, max: 47.1 m
- **Carparking**: 1 level basement carpark
- **Heritage**: 2,837 sqm

### FSR - FLOOR SPACE RATIO

<table>
<thead>
<tr>
<th></th>
<th>Site Area (m²)</th>
<th>FSR allowed n:1</th>
<th>FSR achieved n:1</th>
<th>Deep Soil Min. Required (7%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9,252 m</td>
<td>2.30</td>
<td>2.30</td>
<td>647.64 sqm</td>
</tr>
</tbody>
</table>

### PARKING

<table>
<thead>
<tr>
<th></th>
<th>Required</th>
<th>Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential spaces</td>
<td>84 m²</td>
<td>2,530 m²</td>
</tr>
<tr>
<td># of Terraces/ Walkup Ap.</td>
<td>24 m²</td>
<td>720 m²</td>
</tr>
<tr>
<td>Total (m²)</td>
<td>100</td>
<td>3,250</td>
</tr>
</tbody>
</table>

### WALL-TO-FLOOR RATIO

- **Wall Area (m²)**: 0
- **Wall-to-floor ratio**: 0.00

### BUILDING STATS

- **Height**, max: 47.1 m
- **Storeys (habitabile)**, max: 3 to 15
- **Balcony depth**, max: 2.4 m

### Notes:
- **Floor Space Ratio** is the ratio of floor area of new development to the land area. State Planning instruments and Councils set out permissible FSRs for each development zone under their control and the definition of ‘floor space’ to GBA (Gross Building Area) is the built external mass, compliant with SEPP65, LEP and DCP controls. It includes all volumes whether internal or external, habitable or non-habitable, but excludes parking (same as Building Envelope).
- Efficiency is the percentage factor of the GBA to determine NSA, effectively subtracting everything that does not count towards saleable space.
- **GFA (Gross Floor Area)** is the sum of the floor area of each floor of a building measured from the internal face of external walls.
- **NSA (Net Saleable Area)** includes indoor and outdoor private space and excludes communal open space. It is effectively GFA excluding private open space (eg. balconies, terraces, private court yards, etc)
- **Deep Soil Min. Required** is calculated as 7% of site area, taking into account heritage and other areas.

---

These blocks will have maximum building envelope control, FSR, Height.
Blaxland Road Cavell Ave
Diversity Option

Integrated apartments and terraces

Mid-rise apartments

Terraces

Walk-Up Apartment/ Terraces (3 storey)

Walk-Up Apartment/ Terraces as podium of apartment development
Concord Road East _Option

2C This typology provides a 2 storey ‘terrace’ podium with a half basement onto Concord Road and units behind. This creates an active, fine grain frontage to Concord Road whilst providing residents with elevation and separation from Concord Road.

Total of 30 units over 3 lots (10 units/lot).

<table>
<thead>
<tr>
<th>FLOOR AREA</th>
<th>GBA</th>
<th>Efficiency</th>
<th>NSA</th>
<th>GFA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>2,510</td>
<td>80</td>
<td>2,016</td>
<td>1,986</td>
</tr>
<tr>
<td>Terraces</td>
<td>744</td>
<td>75</td>
<td>558</td>
<td>558</td>
</tr>
<tr>
<td>Total (m²)</td>
<td>3,254</td>
<td>2,092</td>
<td>2,444</td>
<td></td>
</tr>
</tbody>
</table>

Dwelling mix (generally consistent with planning proposal)

<table>
<thead>
<tr>
<th>Type</th>
<th>1B</th>
<th>2B</th>
<th>3B</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1B</td>
<td>30</td>
<td>35</td>
<td>5</td>
<td>70</td>
</tr>
<tr>
<td>2B</td>
<td>60</td>
<td>40</td>
<td>10</td>
<td>110</td>
</tr>
<tr>
<td>3B</td>
<td>10</td>
<td>100</td>
<td>12</td>
<td>122</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>185</td>
<td>27</td>
<td>312</td>
</tr>
</tbody>
</table>

Height and carparking

<table>
<thead>
<tr>
<th>Height, max</th>
<th>Terraces</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.6 m</td>
<td>4</td>
</tr>
</tbody>
</table>

WALL-TO-FLOOR RATIO

| Wall Area (m²) | 0 |
| Wall-to-floor ratio | 0.00 |

BUILDING STATS

| Height, max | 19.6 m |
| Storeys (habitable), max | 2 to 6 storeys |
| Balcony depth, max | 2.4 m |

GBA (Gross Building Area) is the built external mass, compliant with SERPPS, LEP and DCP controls. It includes all volumes whether internal or external, habitable or non-habitable, but excludes parking (same as Building Envelope).

Efficiency is the percentage factor of the GBA to determine NSA, effectively subtracting everything that does not count towards saleable space.

NSA (Net Saleable Area) includes indoor and outdoor private space and excludes communal open space. It is effectively GFA excluding private open space (eg. balconies, terraces, private court yards, etc).

GFA (Gross Floor Area) is 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, and includes the areas of a mezzanine, habitable rooms in a basement, attic, any shop, auditorium, cinema and the like. It excludes any area for common vertical circulation, basement, plant room, lift towers and car parking to meet any requirements of the consent authority plus terraces and balconies with outer walls less than 1.4 high.

Communal Open Space includes all shared amenities like roof top gardens, gym, swimming pools, BBQ areas, etc.

The Floor Space Ratio is the ratio of floor area of new development to the land area. State Planning Instruments and Councils set out permissible FSRs for each development zone under their control and the definition of ‘floor space’ to use in the calculation.

Building height includes plant rooms and lift overruns (assumed to be equivalent to one storey).

Notes: For mixed use projects or premium product, increase ground floor to 4.5m (at a minimum) Also, consider other levels, eg. penthouse.

Concord Road typologies/ lots will have a maximum building envelope control, FSR, Height and a dedicated public foreshore component.

Elevation view from Concord Road

Draft and confidential. Prepared for the purpose of internal project team circulation only.
Leed Street Wharf Site 01

This option demonstrates redevelopment of an already amalgamated parcel and requires a large public benefit contribution in the form of a foreshore promenade and public open space.

<table>
<thead>
<tr>
<th>FLOOR AREA</th>
<th>GBA</th>
<th>Efficiency</th>
<th>NSA</th>
<th>GFA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>21,858</td>
<td>85</td>
<td>18,579</td>
<td>16,426</td>
</tr>
<tr>
<td>Retail</td>
<td>4,572</td>
<td>90</td>
<td>4,115</td>
<td>4,115</td>
</tr>
<tr>
<td>Commercial</td>
<td>6,971</td>
<td>90</td>
<td>6,274</td>
<td>6,274</td>
</tr>
<tr>
<td>Total (m²)</td>
<td>33,401</td>
<td></td>
<td>30,968</td>
<td>28,809</td>
</tr>
</tbody>
</table>

Building mix (generally consistent with planning proposal)

- 1B: 30 m² 30 m² 8 m² 67%
- 2B: 60 m² 80 m² 10 m² 135%
- 3B: 10 m² 100 m² 12 m² 22%
- Total: 225 m²

Height and carparking

| Height, max | 47.4 m |
| Storystories (habitable), max | 4 to 15 stories |
| Carparking | 2 level basement carpark |
| Public Open Space | 5,316 m² |

FSR - FLOOR SPACE RATIO

- Site Area (m²): 11,383
- Boardwalk Area (m²): 11,383
- FSR allowed: 1
- FSR achieved: 1
- 2.36
- Deep Soil Min. Required (7%): 797 m²

PARKING

- Required spaces
- Provided spaces
- Residential: 225
- Retail/Commercial: 312
- Total (m²): 537

GFA (Gross Floor Area) is 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, and includes the area of a mezzanine, habitable rooms in a basement or attic, any shop, auditorium, cinema and the like. It excludes any area for common vertical circulation, basement, plant rooms, lift towers and car parking to meet any requirements of the consent authority plus terraces and balconies with outer walls less than 1.4 m high.

Communal Open Space includes all shared amenities like roof top gardens, gyms, swimming pools, BBQ areas, etc.

The FLOOR SPACE RATIO is the ratio of floor area of new development to the land area. Side Planning Instruments and Councills set out permissible FSRs for each development zone under their control and the definition of "floor space" to use in the calculation.

Building height includes plant rooms and lift overruns (assumed to be equivalent to one storey)

These blocks will have maximum building envelope control, FSR, Height. Draft and confidential. Prepared for the purpose of internal project team circulation only.