

Appendix B- Affordable Housing Viability Assessment

Affordable Housing Viability Assessment

Development of affordable housing contribution rates is based on various technical studies carried out in the affordable housing contribution areas. As additional land is identified for growth and added to the AHCS, further studies will be carried out. Information will be updated as the scheme and planning for renewal areas progresses.

The technical studies that informed the affordable housing contributions rates in the AHCS are:

- Hill PDA (2017) - Rhodes East, Affordable Rental Housing Evidence Report
- Hill PDA (2017) - Rhodes East, Affordable Housing Program
- AEC Consulting (2018) - Parramatta Road Corridor Urban Transformation Strategy (PRCUTS), Affordable Housing Program Background Analysis
- AEC Consulting (2019) - Parramatta Road Corridor Urban Transformation Strategy PRCUTS, Affordable Housing Program
- AEC Consulting (2019) - Bushells Redevelopment Site at 160 Burwood Road, Concord, Affordable Housing Contributions and Feasibility Testing

The studies adopted a Residual Land Value approach (with discounted cash flow) to test the impact of various affordable housing contributions on development feasibility.

The studies are collectively referred to as “the Technical Studies”.

The studies carried out the following steps:

1. Estimated the cost to purchase a strata dwelling:
 - a. In the area of investigation (relying on market evidence and research)
 - b. At median price in the Canada Bay LGA (sourced from Family and Community Services Sales and Rent reports)
2. Converted the estimated cost (in Step 1) into the contribution required in the affordable housing contribution areas to meet specified affordable housing ratios (e.g. 4%, 5%)
3. Carried out feasibility testing to examine the impact of various contribution rates in the affordable housing contribution areas
4. Concluded the tolerance of development to pay affordable housing contributions rates

Step 1 - Estimated Cost to Purchase Strata Dwelling

The technical studies were carried out over a period of years (2016 to 2019), utilising market evidence and median strata dwelling prices applicable at the time of reporting. The table below outlines the strata dwelling prices adopted and their analysis into \$/sqm GFA.

Year	Affordable Housing Contribution Area	Strata Dwelling Price	\$/sqm Gross Floor Area (GFA)
2017	Rhodes East Planned Precinct	Rhodes East ¹	\$9,775
2017	Parramatta Road Corridor (Homebush, Burwood-Concord, Kings Bay precincts)*	Canada Bay LGA ²	\$10,767
2019	Bushells Redevelopment Site	Bushells site ¹	\$11,560

¹ Market evidence and research

² Family and Community Services (FACS) Sales and Rent reports

*The LGA median strata dwelling price was considered an appropriate proxy for dwelling prices in the PRCUTS precincts

Step 2 - Conversion of Estimated Cost to Contribution Required

The strata dwelling prices were converted through multiplication of the \$/sqm GFA rate by respective affordable housing ratios (e.g. 4%, 5%). This conversion establishes a dollar value of contributions, as shown in the table below.

For example, if the Rhodes East dwelling price of \$9,775/sqm GFA is multiplied by 5%, an affordable housing contribution of \$488.75/sqm GFA results. In a development of 8,000sqm GFA in Rhodes East for example, an equivalent monetary contribution of \$3,910,000 is required.

Affordable Housing Contribution Area	\$/sqm Gross Floor Area (GFA)	AH rate	Contribution rate/sqm GFA (CR)
Rhodes East	\$9,775	5%	\$488.75
Rhodes West	\$9,775	5% on additional GFA*	\$488.75
Homebush, Burwood, Kings Bay precincts	\$10,767	4%	\$430.70
3 King St and 176 George Street in Concord West	\$10,767	5% on additional GFA [^]	\$538.35
160 Burwood Road, Concord	\$11,560	5%	\$578.00

*Additional GFA means any additional GFA granted development approval subsequent to the adoption of the AHCS and adoption of the Canada Bay LEP amendment for Affordable Housing

[^]Additional GFA references negotiated Voluntary Planning Agreements where affordable housing contributions were based on the difference between proposed GFA and GFA permitted under the LEP

Step 3 - Feasibility Testing

The feasibility testing adopted the Residual Land Value method through an aggregated approach, testing sample sites and making observations across the Affordable Housing Contribution Areas.

The objectives of the feasibility testing were two-fold:

1. To test if proposed rezoning/ change to planning controls resulted in feasible redevelopment.

2. If feasible under amended planning controls, the viability of affordable housing contributions.

The second part of the feasibility testing additionally examined different scenarios for affordable housing contributions (dwellings in-kind contributions and equivalent monetary contributions). These scenarios were tested for their impact on development feasibility:

- On-site provision of affordable housing dwellings, i.e. dwellings that are gifted to Council. This implies a portion of sales revenue is foregone by the development.
- Equivalent monetary contribution paid upfront to Council. This implies additional project financing and interest is incurred by the development.

A key assumption to the feasibility testing was the cost of land¹. Market evidence of property values were analysed in the studies to assess the highest and best use of sample sites. A premium to incentivise site consolidation was included to the assumed cost of land. In some Affordable Housing Contribution Areas (i.e. Rhodes East and Parramatta Road Corridor Homebush precincts) where precinct planning had been progressed for some years prior to release of the draft district plans, the assumed cost of land sought to account for the adjustment of land values in response to precinct planning controls.

Statutory developer contributions were assumed in the feasibility testing, including s7.11 contributions at scheduled rates and a notional SIC at \$20,000 per dwelling in the Rhodes East and Parramatta Road Corridor Homebush precincts.

After testing the feasibility of proposed rezoning/ change to planning controls, the impact of affordable housing contributions on development feasibility was tested. In some cases development was found not to be viable, leaving limited opportunity for affordable housing contributions.

The ability to defer the contribution requirement was found to assist with development feasibility, with on-site provision having a comparatively lower impact than if a monetary contribution was required upfront, that is, paid prior to issuance of construction certificate.

The feasibility testing made observations where tested affordable housing ratios were not viable. Equally, the feasibility testing observed where development had the capacity to contribute more than the tested affordable housing ratios.

Step 4 - Tolerance of Development to Affordable Housing Contribution Rates

After carrying out Step 3 the technical studies drew conclusions on the viability of requiring affordable housing contributions as part of new development. The table below summarises the recommended affordable housing contribution rates.

Affordable Housing Contribution Area	Affordable Housing Contributions
Rhodes East Planned Precinct	5% of Residential GFA
Parramatta Road Corridor Homebush Precinct	4% of Residential GFA (except at 3 King St and 176 George St, West Concord where 5% of additional GFA would apply in line with negotiated VPAs)
Parramatta Road Corridor Burwood-	4% of Residential GFA

¹ Referred to as “base development value” in *Guideline for Developing an Affordable Housing Contribution Scheme* (DPIE, February 2019)

Concord Precinct	
Parramatta Road Corridor Kings Bay Precinct	4% of Residential GFA
Bushells Redevelopment Site	5% of Residential GFA

The viability assessment of recommended affordable housing contribution rates was premised on the equivalent monetary contribution of affordable housing. Should contributions be made as dwellings in-kind, development would benefit from a deferral of the contribution to completion of the dwellings.

The technical studies highlighted some practical considerations of requiring contributions of dwellings in-kind. Potentially high strata title fees, management requirements and economies of scale for CHPs who manage the affordable housing dwellings were some of the issues identified for consideration when evaluating a proposal for affordable housing contributions.

Assumptions and Data Sources

The viability assessment in the technical studies adopted a Residual Land Value approach (with discounted cash flow) which utilised assumptions that were researched. The technical studies were carried out at different periods, adopting assumptions that were current at the time.

Revenue

Average sale price rates were adopted (summarised in the table below) based on market analysis and research of comparable property markets in the Technical Studies.

Affordable Housing Contribution Area	Residential Sale Price (\$/sqm net saleable area)	Non-residential Sale Price (\$/sqm net saleable area)
Rhodes East	\$10,900 to \$13,300	
PRCUTS Homebush precinct	\$11,000-\$12,500	\$4,500-\$6,000
PRCUTS Burwood-Concord precinct	\$12,000-\$12,500	
PRCUTS Kings Bay precinct	\$11,500-\$12,500	
Bushells Redevelopment Area	\$13,500-\$14,000	

Source: Technical Studies Market Research

Pre-sales assumed at 67% (two-thirds) to 75% of apartments prior to construction commencement.

Other revenue assumptions are:

- Escalations at 3% per annum
- GST on residential sales calculated using the general tax rule
- Cost on sales (commission and legal costs) at 2.5%
- Marketing costs at 1% of gross sales revenue

Cost

Land cost was assumed based on a desktop analysis of development site values (Rhodes East) and 'existing use' values (PRCUTS and Bushells Redevelopment Area).

Affordable Housing Contribution Area	Aggregate Land Cost	Basis
Rhodes East	\$175,000 per unit/site	Development potential under Masterplan

Affordable Housing Contribution Area	Aggregate Land Cost	Basis
PRCUTS Homebush precinct	\$2,800/sqm to \$3,200/sqm of site area	Existing planning controls and existing uses/ buildings. The range of planning controls and existing buildings are divergent even within the same precinct. There will invariably be 'outliers', properties whose values fall outside of the assumed range. The adopted cost of land ranges is intended to be representative of properties in same locations, inclusive of a premium to incentivize landowners and assist with site consolidation.
PRCUTS Burwood-Concord precinct	\$4,000/sqm to \$6,200/sqm of site area	
PRCUTS Kings Bay precinct	\$4,500/sqm to \$6,200/sqm of site area	
Bushells Redevelopment Area	\$1,300/sqm of site area	Existing planning controls

Source: Technical Studies Market Research

Building construction costs were based on Rawlinsons Construction Cost Handbook, project and industry experience.

Hard Costs	Rhodes East	PRCUTS Precincts	Bushells Redevelopment Area
Residential building construction*	\$2,800	\$2,700-\$2,800	\$3,000
Residential balconies	\$1,100	\$800	\$800
Retail/commercial building construction		\$2,000	\$2,000
Basement parking	\$45,000	\$45,000	\$45,000
Demolition and clearing	\$40,000	\$60/sqm	\$100/sqm site area
Site works and external works	4%	2%	2%
Landscaping		\$400/sqm	\$400/sqm
Contingency	5%	5%	5%

*applied to gross building area (GBA)

Soft Costs	Rhodes East	PRCUTS Precincts	Bushells Redevelopment Area
Pre-design professional fees	5%	4.5%	5.5%
Professional fees during construction	4%	3.5%	4.5%
Section 7.11 (s94)	\$14,000/unit	Canada Bay Council Contributions Plan	
SIC levy	\$20,000/unit	\$20,000/unit in Homebush	-
Application fees (DA, CC, LSL)	1%	Statutory rates	
Landholding	Assumed statutory unimproved land values		
Project contingency/ Development management	2%	1%	1%

Other cost assumptions include:

- Escalations at 3% per annum
- Debt funding at 6.5%-7.0% per annum
- Upfront finance establishment costs

Hurdle rates assumptions include:

- Target project IRR - 18%-20% per annum
- Target profit risk margin - 18%-20%

The various technical studies are available separately for review.