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OUTCOME DRIVEN

5 September 2019

Brett Daintry
Beverly Hills Owners Association

Sent via email: brett@daintry.com.au

Dear Brett,

RE: BEVERLY HILLS TOWN CENTRE - RESPONSE TO COUNCIL

AEC Group (AEC) was commissioned by the Beverly Hills Owners Association (the Association) in mid-2018 to carry out a Feasibility Analysis of the likely density (FSR) controls for feasible development of the Beverly Hills Town Centre. The Feasibility Analysis (August 2018) was prepared as part of a concept masterplan commissioned by the Association. A separate Beverly Hills Masterplan was subsequently prepared by Georges River Council.

Council exhibited a progress report on the Beverly Hills Masterplan in April 2019 detailing the findings of preliminary investigations, including an economic feasibility assessment prepared by Hill PDA (the HPDA Report). The conclusions of the HPDA Report regarding the density controls (referred to as 'FSR tipping points') required for feasible development in the Town Centre differ to those concluded in the Feasibility Analysis.

AEC has been engaged by the Association to review the approach, assumptions and conclusions of the HPDA report and examine the difference between reports. This briefing note outlines the findings of the review.

SYNOPSIS

We have reviewed HPDA report and make the following comments:

- HPDA's concluded FSRs range from:
  - The Strip (B2 Local Centre zone) - FSR 2.7:1 to 3.5:1; and
  - Residential zones (R3 and R4 zones) - FSR 1.25:1 to 1.7:1.
- It is important for any feasibility modelling exercise to cross-check its results with market evidence. This is to ensure the modelled results are grounded in market reality.
- An analysis of development site sales (2018/19) suggests a range of $950/sqm to $1,150/sqm GFA would be applicable in the Beverly Hills town centre.
- There is no analysis of development site sales presented in the HPDA report.
- The concluded FSR ranges in the HPDA report result in equivalent site values ($1,300/sqm to $1,660/sqm GFA) that are much higher than market evidence ($950/sqm to $1,050/sqm GFA).
- These ranges are **25%-30% higher** than the analysed development site sales evidence. Even at the peak of the residential boom, we are not aware of development site sales in Beverly Hills or comparable markets that achieved site values in the range of $1,470/sqm and $1,660/sqm GFA.
- The HPDA concluded FSR ranges result in equivalent site values that are much higher than the analysed market evidence, indicating the FSR ranges are too low, not reflective of market evidence.

Revitalisation of the Beverly Hills town centre will not occur unless precinct planning is reflective of commercial market realities. While economic feasibility is not the only consideration for the Masterplan, redevelopment must be more attractive than the existing uses if sites are to be redeveloped. Based on analysed market evidence, an FSR range of 3.2:1 to 4.6:1 is required to displace the existing uses and for revitalisation to occur.

SUMMARY OF PREVIOUS FINDINGS

Feasibility testing of sample sites in the Feasibility Analysis concluded that sites on the western side of King Georges Road zoned B2 Local Centre (referred to as 'the Strip') generally required density controls ranging from FSR 3.2:1 to FSR 4.6:1 in order for redevelopment to be a viable proposition. It was also observed that some highly valuable and/or constrained sites would require densities in excess of FSR 6:1 (e.g. the hotel and cinema sites).

The notably fine grain nature of lots on the eastern side of King Georges Road was identified to be challenging from a site consolidation perspective, requiring premiums paid to assemble multiple properties and therefore necessitating higher density thresholds (FSR 6:1) for financially feasible development.

In the residential precinct immediately east of the Strip (referred to as the Eastern Residential Precinct), testing concluded FSR tipping points of FSR 1.7:1 to FSR 3.7:1, with older dwellings having lower FSR tipping points for feasible development.

The Feasibility Analysis identified the importance of retaining valuable properties in the town centre. Where properties are valuable, by implication they bring value to the town centre and their continued operation is important. The cinema and hotel's continued presence in the town centre is important for vitality and future revitalisation outcomes.

As such, the Feasibility Analysis highlighted that where properties are valuable (not just from a financial perspective, but for their economic contribution to the town centre), comprehensive redevelopment may not necessarily be the most appropriate outcome. It was suggested that subject to landowner imperatives, incremental/ infill development, rather than comprehensive development, be investigated for those valuable sites.

The Feasibility Analysis suggested a change to existing density thresholds was required if there was going to be comprehensive redevelopment and revitalisation of the town centre. Council's employment lands study (2016) acknowledged this, recommending that an urban design study be commissioned to explore height and FSR increases that are appropriate.

The Feasibility Analysis recognised that financial feasibility was not the only consideration for the setting of FSR and density controls. The environmental capacity of sites to accommodate built form was equally critical to the issue of FSR and density, driven by urban design and built form considerations.

Table 1 summarises the findings of the Feasibility Analysis which identified the FSR tipping point range which properties generally fall within.

Highly valuable and constrained properties require much higher FSRs for feasible development (>FSR 6:1) and have been excluded from the summary in Table 1. This is commensurate with the Feasibility Analysis' observations that some of the sample sites tested were not necessarily candidates for redevelopment, i.e. those sites that are improved with recently constructed buildings and/ or accommodate highly valuable businesses.

Table 1: Summary of FSR Tipping Points, AEC Feasibility Analysis (August 2018)

Precinct	Zone	FSR Tipping Point	
		Low	High
The Strip	B2 Local Centre	3.2:1	4.6:1
Eastern Residential	R2 Low Density Residential	1.7:1	3.7:1

Source: AEC

The results of the feasibility testing in the Strip were found to generally align (albeit at the upper end) with previous tipping point analysis undertaken in the draft *Georges River Employment Lands Study* (JLL, 2017) where FSR tipping points were concluded to range from FSR 2.2:1 to FSR 4:1.

The difference in FSR tipping points concluded by JLL and AEC is conceivably due to structural corrections in the residential market that have occurred over the 2016-2018 period since the preparation of the JLL study.

Review of HPDA Report

Feasibility modelling undertaken in the HPDA Report concludes that sites located in the Strip would require density controls ranging from FSR 2.7:1 to FSR 3.5:1 for viable development.

Lower FSR controls are identified to be required in the R2 and R3 residential areas, that is, FSR 1.25:1 to 1.7:1.

We have reviewed the feasibility assumptions in the HPDA Report.

An area of difference between the reports is the adoption of sale revenue rates. HPDA adopt $10,000/sqm of internal area for 1 and 2 bedroom units and $8,500/sqm for 3 bedroom units. AEC's Feasibility Analysis however adopts $9,250/sqm for 1 and 2 bedroom units and $9,000/sqm for 3 bedroom units.

HPDA make reference to five projects as the basis for the adopted revenue assumptions, in particular two small RFBs in Beverly Hills along Melvin Street and Hampden Street immediately west of the town centre where sale prices are quoted to analyse to $9,400/sqm to $10,700/sqm of internal area. A review of these projects identifies that the units sold off-the-plan in late 2016/ early 2017 at the peak of the housing boom.

The other projects referenced (Roselands, Punchbowl and Peakhurst) were marketed more recently (2017-2018) and achieved rates of $7,500/sqm to $8,500/sqm, with only smaller 1 bedroom units achieving $10,000/sqm of internal area.

In our view, the adopted HPDA rates are optimistic and do not reflect the market dynamics in 2018.

RECONCILIATION WITH DEVELOPMENT SITE SALES

When carrying out financial feasibility modelling, the concluded outcomes can be sensitive to assumptions and variables. As land economists and valuers, we can make cost and revenue assumptions based on market research, advice from cost consultants and past experience.

It is critical for any feasibility modelling exercise to cross-check its results with market evidence. This is to ensure the modelled results are grounded in market reality.

AEC's Feasibility Analysis carried out an analysis of development site sales in section 3.1.4. Due to a lack of development site sales in Beverly Hills, a variety of development site sales in the general region was analysed, including in the larger centres of Hurstville and Bankstown and smaller, more local centres of Narwee, Wiley Park and Punchbowl. The analysed sites were sold between July 2015 and August 2017. The analysis observed:

- Sites in Hurstville and Bankstown were more valuable, generally selling for $1,700/sqm to $2,300/sqm GFA.
- Sites in Narwee and Punchbowl were less valuable, generally selling for $1,250/sqm to $1,350/sqm GFA.

Based on 2015-2017 sales evidence, the analysis concluded that a site value of $1,200/sqm to $1,300/sqm GFA potential would be applicable to the Study Area.

As part of this follow-up advice, we have researched development site sales that have occurred since 2016/ 2017.

Table 2: Development Site Sales (2017-2019)

Address	Site Area (GFA)	Sale Price (Date)	Analysis ($/sqm GFA)	Comments
324 Hume Hwy Bankstown	1,614sqm (3,228sqm)	Under Offer $3,100,000 (Aug 2019)	$960	DA approved site north of Bankstown CBD. Under offer from local builder-developer proposing to lodge an application for 35-40 unit mixed use development. Location inferior to sites in the Beverly Hills town centre.
18-22 Stanley St Bankstown	2,087sqm (4,695sqm)	$4,500,000 (Jan 2019)	$958	Vacant site with development consent for 6 storey RFB for 53 units. Sold after extended marketing period for about $960/sqm GFA and $85,000 per unit/site. This site is considered comparably located to sites in the Beverly Hills town centre.

Address	Site Area (GFA)	Sale Price (Date)	Analysis ($/sqm GFA)	Comments
				A number of other sites in the vicinity sold over the 2016-2017 period at prices of $1,100/sqm to $1,500/sqm GFA. This indicates a decline of 15% and upwards.
17-19 Weyland St Punchbowl	1,040sqm (2,097sqm)	$2,710,000 (June 2018)	$1,292	DA approved site for 7 storey mixed use building with 2 ground floor retail suites and 29 residential units. Comparable to Beverly Hills however downward adjustment required to reflect development consent. A 10% downward adjustment results in $1,163/sqm GFA. A site at 9-11 Weyland Street sold in February 2016 for $1,350/sqm GFA. The site did not have the benefit of development consent. With development consent, the site could arguably have attracted 10% more, selling for $1,485/sqm GFA. This would indicate a decline of 10%-15% since 2016.
454-456 Forest Rd Hurstville	1,271sqm (4,954sqm)	$8,000,000 (Apr 2018)	$1,615	DA approved site for 15 storey mixed use development and 57 residential units. Similar sized development sites in Hurstville that sold over the 2015-2016 period were at $1,800/sqm to $2,200/sqm GFA. Hurstville is a far superior location to Beverly Hills. Notwithstanding, this sale is relevant to illustrate decline of 10%-25% since 2016.

Source: AEC

The analysis of recent development site sales (2018/19) suggests a range of **$950/sqm to $1,150/sqm GFA** would be applicable in the Beverly Hills town centre.

The next section applies the analysis of market evidence in this section to sites in the Beverly Hills town centre.

APPLICATION TO THE BEVERLY HILLS TOWN CENTRE

AEC Concluded FSR Range

Table 3 summarises the findings of the Feasibility Analysis, identifying the required FSRs for sites tested. These FSR conclusions are reconciled with market evidence.

Table 3: Reconciliation of AEC FSR Tipping Points with Sales Evidence

Address	Site Area (sqm)	Assumed Land Cost		FSRs Required (Tipping Points)	
			$/sqm site area	FSR	Equivalent Site Value ($/sqm GFA)
	(a)	(b)	(c) b ÷ a	(d)	(e) c ÷ d
B2 zone (The Strip)					
407-411 King Georges Rd	2,070	$9,000,000	$4,348	4.3:1	$1,011
437-441 King Georges Rd	903	$4,000,000	$4,430	4.6:1	$963
471-475 King Georges Rd	835	$3,000,000	$3,593	3.5:1	$1,027
507-517 King Georges Rd	1,689	$6,100,000	$3,612	3.5:1	$1,032
526-530 King Georges Rd 17 Norfolk Ave	1,634	$5,400,000	$3,305	3.2:1	$1,033

Source: AEC

AEC's Feasibility Analysis concluded that a range of FSRs (3.2:1 to 4.6:1) was required for development to be feasible in the Beverly Hills town centre.

When analysed on a site value basis ($ rate per square metre of GFA), the concluded FSRs required are equivalent to site values of between $950/sqm and $1,050/sqm GFA (column e in Table 3). This range is consistent with the market evidence detailed in Table 2.

HPDA Concluded FSR Range

In the HPDA report (August 2019), adopted assumptions for Existing Use Land Values (Table 15) are as follows:

- Sites in the R2 and R3 zone land value rates range from $2,000/sqm to $2,500/sqm; and
- Sites in the B2 zone land value rates range from $3,500/sqm to $5,800/sqm.

The HPDA Report does not identify which sample sites in the Beverly Hills town centre were subject to feasibility testing. Though, based on the adopted land cost assumptions and concluded FSRs required, Table 4 reconciles the HPDA results against the analysed development site sales evidence.

The range of adopted land cost assumptions are firstly tabulated against concluded FSR ranges. These are:

- B2 zone (The Strip):
  - Adopted land cost assumptions $3,500/sqm to $5,800/sqm
  - Concluded FSR required 2.7:1 to 3.5:1
- R2 and R3 zones:
  - Adopted land cost assumptions $2,000/sqm to $2,500/sqm
  - Concluded FSR required 1.25:1 to 1.7:1

Given HPDA's recommended FSR range of 2.7:1 to 3.5:1 in the B2 zone, it is assumed that the lowest FSR of 2.7:1 was recommended for sites with the lowest assumed land value (i.e. $3,500/sqm of site area) and likewise, the highest FSR of 3.5:1 for sites with the highest assumed land cost (i.e. $5,800/sqm of site area).

Similarly in the R2 and R3 zones, given HPDA's recommended FSR range of 1.25:1 to 1.7:1, it is assumed that the lowest FSR of 1.25:1 was recommended for sites with the lowest land value (i.e. $2,000/sqm) and likewise, the highest FSR 1.7:1 for sites with the highest assumed land cost ($2,500/sqm of site area).

That being the case, the relevant equivalent site values are highlighted in red in Table 4.

Table 4: Reconciliation of HPDA FSR Tipping Points with Sales Evidence

Adopted Land Cost ($/sqm site area)	FSRs Required (Tipping Points)		Equivalent Site Value ($/sqm GFA)	
(a)	Low (b)	High (c)	(d) a ÷ b	(e) a ÷ c
B2 zone (The Strip)				
$3,500	2.7:1	3.5:1	$1,296	
$5,800	2.7:1	3.5:1		$1,657
R2 and R3 zones				
$2,000	1.25:1	1.7;1	$1,600	
$2,500	1.25:1	1.7:1		$1,470

Source: HPDA

When viewed on a $ rate per square metre of GFA, the concluded FSRs are equivalent to the following site values:

- The Strip - between $1,300/sqm and $1,660/sqm GFA.
- In residential zones - between $1,470/sqm and $1,600/sqm GFA.

These ranges are **25%-30% higher** than demonstrated by the analysed sales evidence. Even at the peak of the residential boom, we are not aware of development site sales in Beverly Hills or comparable markets that achieved site values in the range of $1,470/sqm and $1,660/sqm GFA.

We are aware of one small DA approved site (9 units) at 345 Belmore Road, Riverwood which sold for $1,912/sqm of GFA in August 2015. This higher sale price would have reflected the small scale of the development (<10 units), status as a DA-approved development site and peak market conditions in 2015.

There is no analysis of development site sales presented in the HPDA report. The analysis could have been carried out and used as a cross-check against the feasibility modelling results but they are not reported.

There is an inverse relationship between site value ($/sqm GFA) and FSR required. If the site values are high, the FSR required for feasible development will be lower. Conversely, if site values are low, the FSR required for feasible development will be higher.

The concluded FSR ranges in the HPDA report result in equivalent site values ($1,300/sqm to $1,660/sqm GFA) that are much higher than market evidence ($950/sqm to $1,050/sqm GFA). This indicates the concluded FSR ranges are too low and are not grounded in market reality.

SUMMARY AND CONCLUSION

In a market that has undergone structural change over the last 24 months, sourcing relevant and credible market evidence can be a challenge.

The feasibility modelling assumptions adopted in the Feasibility Analysis had regard to the structural change that was occurring in the market, which were ultimately reflected in the residual land value outcomes and FSR tipping point conclusions. Based on recent analysis of development site sales evidence (detailed in Table 2), our concluded FSR tipping points are demonstrated to be in line with market evidence.

It is acknowledged that strategic land use planning takes a long-term view, that is, planning not only for the immediate/ short-term but also for the longer term. It is therefore important to distinguish market cycles which result in a natural ebb and flow of prices, from structural cycles which are generally driven by exogenous factors such as shifts in the flow of capital and the availability of credit, not only for purchasers of the end product but for developers seeking construction finance.

The strength of the residential market and corresponding supply activity for much of the last decade eclipsed the supply response in other land use categories. Activity in the residential market has however slowed across Greater Sydney over the last 24 months driven by a combination of factors including tighter lending conditions, sluggish wage growth and varying degrees of retreat by property investors.

The market is adjusting to its new operating environment and a ‘new normal’ of market expectations is already emerging (evidenced by recent development site sales activity). The market has been structurally ‘re-set’ or corrected after a period of intense and frenetic price growth, which was ultimately not sustainable.

Accordingly, FSR ranges should reflect the ‘new normal’ of market expectations ($950/sqm to $1,150/sqm GFA) in an environment of re-set sale prices and lending requirements. These FSRs range from 3.2:1 to 4.6:1.

The HPDA concluded FSR ranges result in equivalent site values that are much higher than market evidence, indicating the concluded FSR ranges are too low. This is a result of the inverse relationship between site value ($/sqm GFA) and FSR required.

Revitalisation of the Beverly Hills town centre will not occur unless precinct planning is reflective of commercial market realities. While economic feasibility is not the only consideration for the Masterplan, redevelopment must be more attractive than the existing uses if sites are to be redeveloped. Based on analysed market evidence, an FSR range of 3.2:1 to 4.6:1 is required to displace the existing uses and for revitalisation to occur.

Please contact the undersigned should you require clarification.

Yours sincerely

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