



Nelson Bay Town Centre

Feasibility Testing of Residential Development Sites

Prepared for Port Stephens Council

Final – September 2016

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EXECUTIVE SUMMARY

This Study has been commissioned by Port Stephens Council (Council) to independently consider the development viability of five (5) nominated development sites (Test Sites) located in proximity to the Nelson Bay Town Centre (Study Area).

Background

Port Stephens Council has been in the process of reviewing the Nelson Bay Town Centre and Foreshore Strategy (the Strategy). This process has identified that limited residential re-development has taken place over the past ten years.

Council engaged HillPDA to gain a further understanding as to why there has been limited re-development given our recognised expertise in this field of property advice.

The findings of this report are intended to inform a discussion paper on the progress of the Strategy.

Specifically, we have tested the economic feasibility of varying building heights for residential development to reveal whether there are any town planning (building height) impediments contributing to the lack of construction activity.

Framework

The framework for this property feasibility testing has been nominated by Council as five (5) test sites in the Nelson Bay Town Centre with five (5) target building heights associated with each. Our development feasibility testing examines the economic returns and ascertains whether the projects would be unviable, marginal or feasible for each height level.

For each scenario, we have added a variation of "below ground" (ie. fully excavated) or "above ground" parking as a further parameter to test the feasibility of each site given "above ground" parking costs significantly less.

We have undertaken research into unit sales and development sites in Nelson Bay, in addition to our market soundings research to combine this with benchmark returns in our feasibility testing models described below.

1 INTRODUCTION

Specifically, Council seeks the optimal development guidelines that encourage residential and mixed use development activity whilst ensuring building design merits are achieved such as:

- Sufficiently wide front elevations of residential buildings with shops that allow street activation for pedestrian interaction in the core precincts where zoning permits;
- Improved building forms with high levels of natural light and ventilation;
- Varying (tapering) building heights across the Town Centre increasing from the foreshore to a maximum height around the southern periphery near Dowling Street; and
- Illustrate the varying economic return potential for these Test Sites in order to understand the potential for re-development opportunities.

Feasibility Site Testing

This Study contains detailed feasibility testing based on market research and industry accepted development benchmarks (returns) in Port Stephens.

As it is not realistic to test the viability of redeveloping every lot or combination of lots within the Study area, Council has identified Test Sites with prescribed densities stated below:

- Test Sites 1, 2 & 4 - Residential flat buildings comprising residential units only with a density profile of 5 storeys (17.5m); 8 storeys (25m); 11 storeys (32.5m); 14 storeys (40m) and 17 storeys(47.5m); and
- Test Sites 3 & 5 - Mixed use development with ground level retail suites and residential units above depicting a similar density variation of 5 storeys (17.5m); 8 storeys (25m); 11 storeys (34.5m); 14 storeys (40m) and 17 storeys(47.5m).

Car-parking below ground achieves a better building appearance and higher unit sales pricing but may be cost prohibitive in some cases so the alternative of constructing parking above ground has also been tested.

This review has regard to the following:

- Nelson Bay Town Centre & Foreshore Strategy;
- A visit to the Study Area and five (5) test sites;
- Market research into unit sales, development site sales and direct enquiry with local agents and developers to better understand existing and potential market dynamics;
- Feasibility testing to illustrate trends for development feasibility (economic viability); and
- Market soundings given our direct enquiry and discussions with local developers and consultants (agents and architects).

The report structure is as follows:

- Site Description for each Test Site;
- Market Commentary: analysis of market sales and a description of supply and demand for new units and development sites;
- Re-development Options: Purpose for choosing each Test Site and the range of heights (densities) tested for each;
- Feasibility Appraisal: Returns shown by our Feasibility Testing and trends emerging from the range of results; and
- Conclusions and Recommendations.

Study Area

The Study area incorporates the Nelson Bay Town Centre as depicted in Figure 2 below. All sites (except Test Site 1) reflect:

Table 1: Existing LEP Controls

Zoning	Height
B2 Local Centre	15 metres – existing
	Proposed
	17.5 metres (5 storeys) with incentive to 22.5 metres (7 storeys)

Source: Port Stephens LEP

Test Site 1 has a zoning of R2 Low Density Residential.

Council has selected five (5) test sites described in detail below being either dormant development sites or land owned by Council with development feasibility thresholds of interest to Council.

2 SITE DESCRIPTION

Table 2: 49, 51, 51A & 51B Stockton Street, Nelson Bay

49, 51, 51A & 51B Stockton Street, Nelson Bay

This property is formed by five lots located on Stockton Street just outside of the central township area near a major intersection that forms a gateway for the entering traffic to the Town Centre. It is positioned close to the Nelson Bay Bowling & Recreation Club and opposite the Nelson Bay cemetery. There is access off Stockton Street via a separate (slip) lane in addition to access from Talleen Road (off Stockton Street) and a rear lane (Talmora Lane).



The irregular shape allows for two (2) buildings facing each street frontage (Stockton and Talleen Streets).

Site Particulars	Lot Details:	Lot: B,343,342,336 &337 in DP DP411630 & DP 9165
	Site Area:	4,226.9sqm (combined site area)
	Frontage:	45 metre frontage to Stockton Street

Existing improvements Abandoned building footings are visible on site with overgrown natural vegetation. Historic photos reveal it was operated as a hardware store with a compact Bunnings outlet in previous years.

Site Photo



Planning Controls	Zoning:	R2 Low Density Residential
	Height limit:	9metres
	FSR:	N/A (not specified in the Port Stephens LEP)
	Minimum Lot size:	500sqm

Source: HillPDA & Google Maps

Table 3: 11, 13 & 15 Church Street, Nelson Bay

11, 13 & 15 Church Street, Nelson Bay

These three (3) properties are located on Church Street between Donald Street and Tomaree Street being rectangular with front boundary access only from Church Street.

This Test Site is located at a high contour over-looking the central retail hub and Nelson Bay with views from lower levels impeded by surrounding medium density residential buildings.



Site Particulars	Lot Details:	Lot: 17,18 & 156 DP: DP 8611 & DP1094233
	Site Area:	4,621.8sqm (combined site area)
	Frontage:	81.1m total frontages to Church street

Existing improvements Similar to Test Site 1 (Stockton Street) this site contains abandoned building footings just above ground level in an overgrown state.

Site Photo




Planning Controls	Zoning:	B2 Local Centre
	Height limit:	15metres
	FSR:	N/A (not in LEP)
	Minimum Lot size:	N/A

Source: HillPDA & Google Maps

Table 4: 36A to 36F Donald Street, Nelson Bay

36A to 36F Donald Street, Nelson Bay

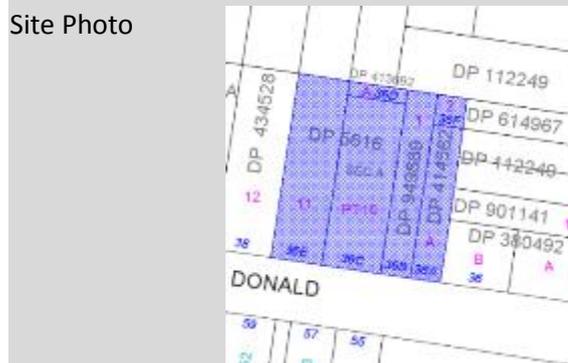
Located on Donald Street in a section forming the major thoroughfare for the hub of the shopping district around Stockton, Magnus and Donald Streets. This Test Site has high exposure to local foot traffic and provides central public parking that would need to be preserved in any development of the site.



It forms a rectangular shape with a gently sloping contour. It is positioned with proximity to the foreshore so that mid to upper levels on the northern and eastern sides will gain water views.

Site Particulars	Lot Details:	Lot A in DP414562; Lot 2 in DP614967; Lot 1 in DP949889; Lot 10, SecA in DP5616 and Lot A in DP413692
	Site Area:	3,413.1sqm (combined site area)
	Frontages:	90.19m total frontages to Donald St

Existing improvements Bitumen sealed line marked carpark with signage (parking conditions).



Planning Controls	Zoning:	B2 Local Centre
	Height limit:	15metres
	FSR:	N/A
	Minimum Lot size:	N/A

Source: HillPDA & Google Maps

Table 5: 15, 17, 19 & 19A Tomaree Street, Nelson Bay

15, 17, 19 & 19A Tomaree Street, Nelson Bay

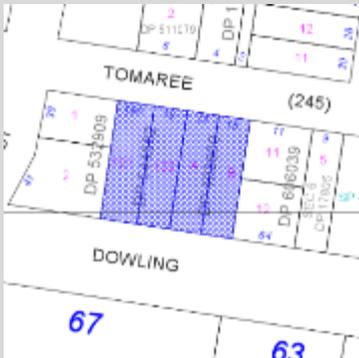
This Test Site comprises four (4) lots located just outside of the main shopping precinct, zoned “R3 Medium Density Residential”. The land is improved by detached dwellings (all circa 1985) with the main access from Tomaree St, and rear access available from Dowling Street. The blocks are uniform in shape with a slope downhill from Dowling to Tomaree Street.



The properties are located opposite the Nelson Bay Bowling & Recreation Club.

Site Particulars	Lot Details:	Lot: 121/122 & A/B DP/SP: DP 544552 & 403600
	Site Area:	2,396.0sqm (combined site area)
	Frontages:	51.83m total frontages to Tomaree St

Existing improvements	Each lot contains a detached residence (circa 1985) that appears to be in a state of reasonable renovation.
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Site Photo		
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Planning Controls	Zoning:	B2 Local Centre
	Height limit:	15metres (as for B2)
	FSR:	N/A
	Minimum Lot size	500m ²

Source: HillPDA & Google Maps

Table 6: 16, 18 & 20 Donald St and 61, 63 & 65 Magnus St, Nelson Bay

16, 18 & 20 Donald St and 61, 63 & 65 Magnus St, Nelson Bay

This Test Site comprises seven (7) adjacent lots located between Donald and Magnus Streets on the eastern periphery of the central township hub. The eastern half of the property is vacant and the western half contains a multi deck concrete (public) car-park with capacity for around 160 cars on each of three (3) levels including the ground level at grade with each street frontage. The upper levels have been “locked off” to vehicles due to the structural degradation of the concrete.



Site Particulars	Lot Details:	Lot: 121/122 & A/B DP/SP: DP 544552 & 403600
	Site Area:	3,636.2sqm (combined site area)
	Frontages:	76metres to Donald Street and 50metres to Magnus Street.

Existing improvements See above. A Council carpark occupies around 40% of the site with the remainder unimproved with a cleared gravel surface.

Site Photo



Planning Controls	Zoning:	R3 Medium Density Residential
	Height limit:	15metres (as for B2)
	FSR:	N/A
	Minimum Lot size:	500m ²

Source: HillPDA & Google Maps

3 MARKET COMMENTARY

The following section provides commentary about the “re-sales” of existing residential strata units given the absence of data for pre-sales of new stock as a higher density (multi-storey) residential building has not been commenced for many years in the Town Centre of Nelson Bay.

An exception is noted as The Shoal Apartments at 8 Bullecourt Street, Shoal Bay containing 53 apartments most with two (2) bedrooms facing north with water views of Nelson Bay from the upper levels. The ground level provides “garden apartments” (four with two bedrooms) and “penthouses” (also two bedrooms) on the upper levels. Details of pricing achieved is noted below under the respective heading “The Shoal Apartments”.

Furthermore, commentary is provided for development sites and developer sentiment still languishing at a low level given the number of unenacted (DA approved) development sites and abandoned projects where overgrown concrete footings are visible.

Price growth and demand for the residential units have been static in recent years (ie. negligible growth). Nelson Bay provides detached low density housing beyond the Town Centre with a higher density within comprising townhouses and strata unit buildings from three (3) storey walk-ups to large scale resort style buildings of 7 - 10 floors such as the Landmark apartments (see sales table herein).

Typical Buyer Profile Type

Discussions with local agents indicated that the owner- occupier market comprises of a mix of buyers mostly from Sydney being downsizers, empty nesters and retirees mainly.

Some investors from Sydney and the Hunter region seek holiday houses in Nelson Bay mostly in the form of strata apartments in contrast to (detached) housing due to higher holiday letting demand.

Some mature aged investors have a view of purchasing to rent in the short term (say five years) and then occupy a unit after retiring in Nelson Bay.

The buyer profile is consistent with various coastal cities such as Port Macquarie and Coffs Harbour where retirees seek dwellings across a wide price range from budget unit stock to prestige homes near the water.

Coffs Harbour and Port Macquarie

In Coffs Harbour high rise residential development (over 5 storeys) has occurred in three (3) buildings in a beachside location known as Park Beach (Ocean Parade) where a high proportion of units reach an ocean view with higher average pricing achieved.

Similarly, in Port Macquarie limited high rise residential development has occurred where expansive water views are available to a high proportion of units in a building near the beach.

For both Coffs Harbour and Port Macquarie, the residential tower buildings are located near beaches with broad sandy sections and convenient public access in contrast to the limited sandy stretches around the marina at Nelson Bay. Development sites in Nelson Bay are mostly available on the retail hub fringes that are even further from the foreshore.

Residential unit buyers are aware of the less favourable conditions that exist in Nelson Bay compared to Port Macquarie and Coffs Harbour such as the smaller population and a more volatile local economy dependent upon tourism (seasonal fluctuations) resulting in more volatile unit pricing and less long term capital appreciation, however, in contrast it lies significantly closer to Sydney being a key advantage.

In the past developer funding of some unit projects in Nelson Bay such as the Landmark Apartments caused prices for new stock to be supported by rental guarantees resulting in price declines once the guarantees ceased and led to poor sentiment toward investment in Nelson Bay by unit purchasers and developers.

The number of abandoned development sites betrays a number of lending defaults and led to anecdotal indications in our market soundings that the major banks are not advancing funds for property development in Nelson Bay.

The Shoal Apartments – Shoal Bay

As noted above under the heading “Market Commentary” there are 53 apartments contained in this project scheduled for completion in 6 months. Pre-sales have resulted in escalating prices given the gradual release of stock (floor by floor) in the building since the campaign commenced in September 2014.

There are 12 units (2 bedrooms) left with pre-selling prices varying from \$390,000 to \$540,000 depending on the level and living area in the building according to the appointed project marketing agent. Penthouse pricing is pitched at \$875,000 for the remaining stock with a preference to complete the building before closing the sales for these dwellings that have upgraded finishes and ducted air-conditioning.

The sales agent also revealed that initial marketing of the penthouses (initially configured as three to four bedrooms) indicated negligible demand for large apartments with a price range of \$1.4 to \$1.8 million. Consequently it was decided to provide as many two bedroom units as possible throughout the building.

In summary, pre-selling of two bedroom units has achieved rates of \$6,500 - \$7,500/m² of living area in recent sales although lower rates were shown for initial pre-sales. The living areas range from 75 to 103m² with the latter applying to penthouses where the asking price of \$875,000 for 103m² units shows \$8,500/m² (rounded). The agent stated offers have been received as “deposits paid” around \$850,000 whereupon the developer has ceased selling until completion to achieve optimal pricing.

Local advertising of units in the project through other agents (not appointed to the project marketing) reveal “re-sale” asking prices at \$900,000 for upper level units.

Development Sites

The tables below provide a sample of development sites that show rates based on the area and approved dwellings as support for the results achieved in the feasibility testing. Detached housing is included for reference to the Test Site at 15-19A Tomaree Street that comprises four (4) dwellings.

Unit Sales Evidence

The further evidence below for strata units provides an overview of prices achieved with greater detail provided in an Annexure.

All the unit sales identified are acknowledged to be dated stock (albeit modern) as the only project to sell in recent years is The Shoal at Shoal Bay described above.

Table 7: Development Site Sales Summary

Photo	Address	Sold Date	Sold Price	Internals	Size	\$/m ²	Configuration
	51A Stockton Street Test Site 1	Sep-2012	\$642,000	Prior Bunnings warehouse (compact dated building)	4,217m ²	\$152/m ² (land) \$49,385/dwelling (potential)	Sold as a development site with potential for 13 dwellings or land sub-division.
	11-13 Church Street Test Site	Jul-2015	\$1,650,000	Vacant Urban Land (abandoned residential project)	2,454m ²	\$50,000/unit and \$672/m ² (land)	DA approved for 33 apartments, with zoning advertised as Res 2(c) at the time of sale.
	15 Church Street	Dec-2014	\$825,000	Vacant Urban land	2,195m ²	\$39,286/unit and \$376/m ² (land)	DA approval for 21 apartments over 5 stories with 2 towers
	90 Magnus Street	Oct-2015	\$1,595,000	Vacant Urban Land	968m ²	\$265,833/unit and \$1,647/m ²	DA approved for 6 prestige units all with ocean views.

Table 8: Existing Freestanding Dwelling Sales

Photo	Address	Sold Date	Sold Price	Internals	Size	\$/Sqm	Configuration
	19A Tomaree Street	Aug-2015	\$350,000	4 bedroom, single car garage.	664sqm	\$527/m ²	Circa 1980 double storey red brick house.
	24 Yacaaba Street	Oct-2014	\$420,000	2 bedroom, 1 bathroom and 2 car garage	500sqm	\$840/m ²	Circa 1950 fibro cottage with a large backyard and garage.
	14 Church Street	Jun-2015	\$409,000	3 bedroom, 1 bathroom	601sqm	\$681/m ²	Circa 1980 brick veneer house with extensive landscaping

Table 9: Existing Unit Sales

Photo	Address	Sold Date	Sold Price	Internals	Size	\$/m ²	Comments
	Unit 1/9 Church Street	Sep-2015	\$465,000	3 bedroom, 2 bathroom and 2 car spaces	123sqm (total floor area)	\$3,780/m ²	Circa 2000 apartment building. Unit located on the ground floor with large balcony.
	Unit 5/9 Church Street	Jul-2014	\$575,000	3 bedroom, 2 bathroom and 2 car spaces	189sqm (total floor area)	\$3,042/m ²	Penthouse apartment with balcony and views
	Unit 4/9 Church Street	Mar-2014	\$550,000	3 bedroom, 2 bathroom and 2 car spaces	169sqm (total floor area)	\$3,254/m ²	Open plan with one unit per floor. Large balcony with water views
	Unit 53/61 Donald street	Jul-2016	\$980,000	4 bedroom, 2 bathroom and 2 car spaces	371sqm (total floor area)	\$2,641/m ²	Penthouse apartment with water views and north facing aspect.
	Unit 52/61 Donald Street	Feb-2016	\$570,000	3 bedroom, 2 bathroom and 2 car spaces	128sqm (total floor area)	\$4,453/m ²	Refurbished apartment with balcony and water views
	Unit 23/61 Donald Street	Feb-2016	\$500,000	2 bedroom, 2 bathroom and 2 car spaces	119sqm (total floor area)	\$4,201/m ²	Refurbished apartment with balcony and water views

Modern unit stock depicted above has been found to show a large difference in sale rate (ie. \$ /m² of living area) to new stock sold by pre-sale (prior to completion). Only one example of a residential tower under construction provides pre-sales evidence presently being **The Shoal Apartments** at Shoal Bay where pre-selling results are described above under the heading for this section Market Appraisal.

4 REDEVELOPMENT OPTIONS

For each of the Test Sites described above under the heading “Site Appraisal” the purpose for selecting each is indicated below.

Site 1: 49, 51, 51A & 51B Stockton St, Nelson Bay –4,226.9m²



Located around 200 metres south of the Town Centre.

Existing Improvements: Concrete block building foundations rising around a metre above ground for an apparently abandoned project.

History: This property has been observed in historic images to be a dated and compact Bunnings Hardware store.

Purpose: The location was selected on the basis of its greater distance from the Town Centre compared to the other Test Sites to examine the development feasibility of a greater building height considered by Council for outer lying sectors of the Study Area (reflecting a planning objective of heights tapering up from the Foreshore) whilst being aware of the "Gateway" position at the main round-about access route to the Town Centre.

Given the irregular shape of the site and frontages to two (2) streets, the optimal development is likely to be two (2) buildings with shared landscaping and internal access roads.

Site 2: 11, 13 & 15 Church St, Nelson Bay – 4,621.8m²



Located on the western fringe of the Town Centre at a high contour with views from the middle to upper levels to the north east over the (lower) Town Centre and Nelson Bay.

Existing Improvements: Reinforced concrete building foundations for an above ground car-park rising around a metre above ground for an apparently abandoned project.

History: Understood to have been sold twice by developers that have not commenced a project with the current owner recently submitting another DA to Council for an altered scheme with a building envelope above 15 metres (permitted height in the LEP).

Purpose: The location was selected on the basis of its greater altitude to other Test Sites granting district and Bay views in close proximity of the Town Centre to examine the development feasibility of below ground parking and varying building heights.

Site 3: 36A to 36F Donald St, Nelson Bay – 3,413.1m²



Located near the centre of the retail hub of Nelson Bay being a Council car-park surrounded by retail shops and offices suites above. The recently built Woolworths based neighbourhood centre lies around 50 metres to the east at a major central corner of the Town Centre.

Existing Improvements: Bitumen sealed car-park surface.

History: Owned by Council that seeks to explore development opportunities for the site whilst maintaining the important existing public amenity as a car-park within the retail hub.

Purpose: . The location was selected on the basis of its central location within the Town Centre within walking distance of all central retail and daily service amenities conducive to a mixed use project with retail suites on the ground floor.

The results will illustrate the economic returns for a mixed use project with and without basement parking over varying heights with water views from the mid-rise to upper levels.

Site 4: 15, 17, 19 & 19A Tomaree St, Nelson Bay – 2,396.0m²



Located at the southern fringe of the Town Centre comprising four (4) residential lots with detached housing that have a two (2) street frontages (to Tomaree and Dowling Streets). The site enjoys an elevated position with potential water views from the mid-rise to upper levels facing north.

Existing Improvements: Four (4) dated detached residences that appear modest although well maintained.

Purpose: The location was selected to test the feasibility of amalgamating existing residences for a higher density project to check whether the highest and best use for detached housing surrounding to the retail hub has yet reached the price level for a unit development site.

Site 5: 16, 18 & 20 Donald St, Nelson Bay – 2,898.7m²



This site is located toward the east of the Town Centre comprising various un-developed lots (unimproved) on the eastern half and a Council car-park being a three (3) storey structure with ground level parking permitted only given some concrete degradation of the upper levels.

Existing Improvements: Multi-level public car-park where the upper levels have been closed. Parking is currently permitted on the ground floor. The remainder of the site is open gravel, mostly level.

Purpose: The property was selected given its unsightly appearance close to the retail hub whereby an enhancement may be achieved by a residential unit development that activates the site with retail on the ground and preserves the public parking capacity in a separate stratum within or beside a unit tower building. Resulting residential units will be close to the foreshore precinct. Water views would be available from the mid-rise and upper levels.

Figure 1: Study Area Boundary and Test Sites



Source: Map Info 12.5 and HillPDA Market Research

5 FEASIBILITY APPRAISAL

This chapter summarises the methodology and criteria used to assess the financial viability of each selected Test Site at varying development densities and the subsequent modelling results. A more detailed summary of the models and their results have also been included in Appendix B.

The chapter provides detail on the financial analysis of the Test Sites and reveals the risks and issues for returns on each of the Sites below.

Financial Modelling Methodology

To undertake the feasibility modelling we have used our proprietary software, Estate Master which is an industry benchmark used by developers, financiers and property valuers alike.

The analysis follows the approach of a hypothetical development feasibility adopting an acquisition land value and all the costs associated with the nominated hypothetical development including:

- Site acquisition (stamp duty and legals);
- Professional fees (design and management);
- Demolition and construction (including car parking and balconies);
- Property holding costs and statutory fees;
- Equity, finance charges and interest on debt;
- Marketing and selling costs; and
- Revenue from sales, rentals and other income.

The hypothetical development cash flow is calculated and discounted to determine the internal rate of return before interest costs on an annual effective basis. Such an approach is commonly applied by developers and funders to determine if a project is viable to proceed or whether an alternative land purchase price is required.

Site Cover

Our modelling reflects a site cover for the building (tower) footprint or gross floor area of around 30% to 40% of the site area to show an optimal floor area with minimal common areas of 600m² to 700m².

The car park foot print covers around 70% to 75% of the site area.

Financial Feasibility Criteria

We have regarded the project Internal Rate of Return (IRR) as the primary indicator of performance (feasibility) and also considered the following performance criteria:

- Development Margin: the profit (defined above) divided by total development costs.
- Residual Land Value: The land purchase price a developer can afford to pay to achieve a feasible project;
- Development Profit: the total revenue less total cost including selling costs (agent’s commissions) and interest.

A summary of our property development performance ranking is provided in the table below for the potential range for the Project IRR and Development Margin. This is drawn from wide experience in analysing the returns expected by long term property developers and corporate developers in addition to margins as interpreted by the major lending banks.

Table 10: Performance Criteria

Performance Result	Project IRR	Development Margin
Viable	>18%	>20%-25%
Marginally Viable	16%-18%	18%-20%
Not Viable	<16%	<18%

Source: HillPDAResearch

In light of the criteria established above, the various sites were assessed against an 18% Project IRR and 20% Development Margin.

Common Variables Across the Feasibility Models

The following table shows the commonly adopted variables across the nominated sites tested.

Table 11: Common Variables Included in each Feasibility Model

Header Row	Low Rise	Medium Rise	High Rise
Construction Costs	\$2,200/m ²	\$2,500/m ²	\$2,600/m ²
Balconies	9% of construction costs for Design and Consultants		
External Works	4% of construction costs for landscaping & driveways.		

Source: HillPDA Research

The gross realisations (unit sale prices) differ for each Test Site, however, they resemble a pricing trend level shown below.

Table 12: Core Gross Realisations in each Feasibility Model

Gross Realisations	Low Rise	Medium Rise	High Rise * - With Views (* no water views)
One Bedroom	\$400,000	\$450,000	\$500,000 - \$550,000
Two Bedrooms	\$450,000	\$500,000	\$600,000 - \$700,000
Three Bedrooms	\$525,000	\$575,000	\$750,000 - \$825,000

Source: HillPDA Research

This pricing shows unit rates based on the living area of each strata \$5,500/m² to \$9,000/m² from the low rise to uppermost level with water views.

For retail suites on the ground floor of mixed use projects (16-20 Donald Street & 36A-36F Donald Street) we have adopted a strata rate of \$5,500/m² (of strata area) based on our sales research.

Parking costs (construction costs) comprise a major portion of the project costs particularly for the below ground (basement) options given the following rates adopted by the standard cost guides. The following rates have been adopted in our feasibility testing.

Table 13: Construction Costs for Parking

Parking Costs	Below Ground	Above Ground
(incl. excavation)	\$50,000/ bay	\$20,000/ bay

Source: HillPDA Research

The following building mix has been reflected for the Test Sites.

Table 14: Unit Configuration (Bedroom) Mix

No of Units	Mix% Adopted	Mix Example
One Bedroom	15%	9
Two Bedrooms	75%	46
Three Bedrooms	10%	6
Total	100%	61 units

Source: HillPDA Research

Building Heights

Our property development feasibility review at Nelson Bay testing has been based on stated building heights expressed as a varying number of storeys for various options tested at specific addresses stated in the report. The number of building storeys stated for each option refers to the saleable area of the building containing strata units (dwellings) and excludes the parking component.

The number of storeys containing saleable strata dwellings does not vary depending on the parking position below or above ground.

Therefore, a specific building option with a stated number of storeys will achieve a greater building height when the parking is altered from below ground to above ground.

Our observations around Nelson Bay reveal many examples where parking is not simply either above or below ground depending upon slope and building configuration as exemplified below. This typically reflects building design striving to minimise (excavation) cost and visible bulk of any above ground structure.



Parking above and below ground at:

Cnr Government Rd & Church St

Mantra Acqua apartments



Tomaree Street (cnr Stockton)



Magnus Apartments

Parking above and below ground

Parking above ground but not visible at street level due to slope.

Site 1 - 49, 51 51A & 51B Stockton Street, Nelson Bay

This Test Site forms a vacant (abandoned) development site given the visible overgrown footings and a “For Sale” sign indicating it was marketed for sale some years ago as a development site for “multi residential development or land sub-division”.

The key influences resulting in modest pricing for the units at this site are the lack of water views from 5, 8 and 11 storeys given the distance of 1.5 km from the foreshore, the distance from the town centre (1 km perceived as beyond a comfortable walking distance for many purchasers) and the rising cost of construction as building height increases to 14 and 17 storeys to gain distant water views.

Table 15: 49, 51, 51A & 51B Stockton Street Nelson Bay – Unit Pricing Estimates

49, 51 51A & B Stockton St	Low Rise	Mid Rise	High Rise 11 storeys	Water Views 14 & 17 storeys
One Bedroom	\$400,000	\$450,000	\$475,000	\$500,000
Two Bedrooms	\$450,000	\$500,000	\$550,000	\$600,000
Three Bedrooms	\$525,000	\$575,000	\$650,000	\$750,000

Source: HillPDA Research

Feasibility Testing Results for 3 and 5 storeys

The current planning controls allow a building height of 9 metres or 2 to 3 storeys for this zoning of “R2” compared to all other test sites of 15 metres or up to five storeys for “B2 Local Centre” and “R3”.

For other test sites, building heights at the current limit of 5 storeys and above have been tested whereas for this test site (Test Site 1) a lower height of three (3) storeys was also tested with results shown below for 3 and 5 storeys based on “low rise” and “mid rise” pricing.

Table 16: 49, 51, 51A & 51B Stockton Street Nelson Bay – Feasibility Testing Results

49, 51 51A & B Stockton St. Land Purch Price :\$1.08m.	3 Storeys – 24 Units Below Grnd	3 Storeys – 24 Units Above Grnd	5 Storeys - 42 Units Below Grnd	5 Storeys – 42 Units Above Grnd
Development Profit	(\$115,940)	\$921,831	\$2,328,611	\$4,026,073
Development Margin	(1.02%)	9.01%	12.79%	24.39%
IRR	1.68%	12.0%	14.66%	21.70%
Performance Ranking	Unviable	Unviable	Unviable	Viable
Residual Land Value	(\$231,046)	\$668,185	\$646,130	\$1,588,727

Source: HillPDA Research

The Residual Land Value (RLV) shown above depicts the “purchase price” that achieves the target returns (IRR and Development Margin) for viability and reveals only 5 storeys with parking above ground to be viable for the low rise heights tested.

A summary of the feasibility results follows given the adopted land purchase price equates to \$45,000/unit site x density of the lowest height tested being 24 units. (\$45,000 x 24 = \$1.080million).

Table 17: 49, 51, 51A & 51B Stockton Street Nelson Bay – Feasibility Testing Results

49, 51 51A & B Stockton St. Land Purch. Price :\$1.08m. or \$45,000/unit (24 units)	8 Storeys – 67 Units Parking Below Ground	8 Storeys – 67 Units Parking Above Ground	11 Storeys - 94 Units Parking Above	14 Storeys – 120 Units Parking Above
Development Profit	\$4,362,372	\$7,323,781	\$6,139,086	\$10,606,092
Development Margin	15.37%	28.90%	15.34%	20.22%
IRR	17.64%	31.35%	15.47%	16.53%
Performance Ranking	Marginal	Viable	Unviable	Marginal
Residual Land Value	\$1,011,083	\$3,317,418	\$300,676	\$399,757

Historic Sales Pricing

Our enquiry into the last sale of this site shows \$642,000 transacted in August 2012 with an obsolete (warehouse style) building that has since been demolished. The prior sale shows \$735,000 in 1988.

The testing above for various heights has been completed with a land purchase price of \$1.08million in each case being the lowest tested density of 24 units applied to the prevailing site rate in Nelson Bay (\$45,000 /unit). Only a slight variation in the feasibility returns is shown if the site purchase price is adjusted from \$1.08million to \$642,000.

Likely Outcome for Development of this Site

Although our testing shows 5 storeys (parking above) to be feasible, the site’s history reveals a stigma and low calibre compared to alternative development sites in Nelson Bay that is likely to deter any developer incurring building construction risk leaving a land sub-division (lesser risk) alternative as more probable.

Sub-division into detached housing blocks (being 3 on each of two street frontages without internal roads) is likely to show a profitable return on the last sale price in August 2012 with a suitably low rate of return compared to a higher density building project.

Site 2 - 11, 13 & 15 Church Street, Nelson Bay

This Test Site is located in Church Street where a “T” intersection is formed with Dalton Street and also forms a vacant (abandoned) development site given the visible concrete footings. The feasibility results depict a residential flat building project with parking either below or above ground.

The results show viable returns for building heights at 8 storeys and above (parking below and above ground).

Water views can be obtained from mid-rise to upper levels units on two (2) building faces, although most of the direct north aspect is obscured by the existing residential tower building at 9 Church Street for lower to mid-rise levels.

Table 18: 11, 13, & 15 Church Street Nelson Bay – Unit Pricing Estimates

11, 13 & 15 Church Street	Low Rise	Mid Rise	High Rise	Water Views
One Bedroom	\$400,000	\$450,000	\$500,000	\$550,000
Two Bedrooms	\$450,000	\$500,000	\$600,000	\$700,000
Three Bedrooms	\$525,000	\$575,000	\$750,000	\$825,000

Source: HillPDA Research

A summary of the feasibility results follows for the various heights tested at 11, 13 & 15 Church Street. The adopted land purchase price equates to \$45,000/unit site x density of the lowest height tested being 31 units. $\$45,000 \times 31 = \1.395million .

Feasibility Testing Results for 5 and 8 storeys

The following summarises the testing results for a building heights at and above 15 metres (at and above five storeys) for “B2 Local Centre”.

The table below shows for the lowest height (5 storeys) unviable profitability results as insufficient sales revenue is achieved for the lack of district and water views in this building envelope.

In contrast eight (8) storeys achieves better views and unit pricing with viable results shown for both parking above and below ground.

This height of 8 storeys reaches an optimal point of achieving some water views from the mid rise and upper levels within the least cost building construction rate that increases over 10 storeys.

Table 19: 11, 13, & 15 Church Street Nelson Bay – Feasibility Testing Results

11, 13 & 15 Church Street. Land Purch Price :\$1.4m.	5 Storeys – 31 Units Below Grnd	5 Storeys – 31 Units Above Grnd	8 Storeys - 51 Units Below	8 Storeys – 51 Units – Above
Development Profit	(\$213,089)	\$923,661	\$4,238,281	\$6,100,694
Development Margin	(1.49%)	7.01%	19.21%	30.30%
IRR	1.35%	9.79%	23.15%	35.59%
Performance Ranking	Unviable	Unviable	Viable	Viable
Residual Land Value	(\$272,899)	\$655,955	\$2,116,257	\$3,608,561

Source: HillPDA Research

Further testing for 11, 14 and 17 storeys is summarised in the table below. Eleven storeys shows viable results for parking above and below ground however, the below ground options for higher buildings are not feasible so the above ground alternatives only are depicted in the table following.

Table 20: 11, 13 & 15 Church Street Nelson Bay – Feasibility Testing Results

11, 13 & 15 Church Street. Land Purch Price :\$1.4m.	11 Storeys – 71 Units Parking Below Ground	11 Storeys – 71 Units Parking Above Ground	14 Storeys - 90 Units Parking Above	17 Storeys – 110 Units Parking Above
Development Profit	\$5.396mill.	\$7.470mill	\$8.711mill.	\$11.045mill.
Development Margin	16.37%	24.25%	21.74%	22.59%
IRR	18.52%	26.69%	22.52%	21.49%
Performance Ranking	Viable	Viable	Viable	Viable
RLV	\$1.511mil	\$3.171mill	\$2.665mill	\$2.666mill
(Land Value at Target IRR)	\$21,281/unit site	\$44,662/unit site	\$29,661/unit site	\$24,236/unit site

Significant water views are achieved for a larger proportion of units at these taller heights however, the higher unit pricing does not cancel the impost of substantial basement parking costs (\$50,000 /bay) for 14 and 17 storeys given IRR's of 14.43% 15.13% (unviable).

Sales Sensitivity

If the gross realisations (unit pricing) are increased by 5% (for all units) at 14 and 17 storeys then the below ground parking options become marginal (14 & 17 storeys show an IRR of 16%) which is likely to reflect a developer's feasibility where future escalations of unit pricing above current market levels is often contained in their feasibility calculations.

Site 3 - 36A-36F Donald Street, Nelson Bay

This Test Site is formed by an open public car-park near the central hub of the retail precinct close to the Rivers store in Donald Street.

The feasibility results below depict a (residential flat building project with parking either below or above ground) as noted in the tables below for buildings of varying height all with a retail component on the ground floor.

The feasibility results are expected to reveal lower returns for the retail component given the strata rate adopted for the shops of \$5,500/m² of lettable area inclusive of associated parking to be considerably less than the residential equivalent (over \$6,500/m² up to \$9,000/m²). Water views can be obtained from the mid rise and upper level units on the northern and eastern sides.

This feasibility testing is done before considering a public parking preserved element that would render all options unviable given the cost of \$25,000/bay (above ground) and \$50,000/bay (below ground) as found for the Test Site at 16-20 Donald Street (existing decked public car-park) explained below.

Table 21: 36A – 36F Donald Street – Unit Pricing Estimates

36A – 36F Donald Street	Low Rise	Mid Rise	High Rise	Water Views
One Bedroom	\$400,000	\$450,000	\$500,000	\$550,000
Two Bedrooms	\$450,000	\$500,000	\$600,000	\$700,000
Three Bedrooms	\$525,000	\$575,000	\$750,000	\$825,000

Source: HillPDA Research

The feasibility results reveal unviable returns as shown below for 5 storeys and varied results for 8 storeys.

Table 22: Feasibility Testing Results for 5 & 8 storeys : 36A – 36F Donald St.

36A – 36F Donald Street Land Purch Price :\$900,000	5 Storeys – 20 Units Park below grnd	5 Storeys – 20 Units Park above grnd	8 Storeys - 42 Units Park below	8 Storeys – 42 Units – Above
Development Profit	(\$1,906,406)	(\$435,567)	\$2,435,508	\$5,046,720
Development Margin	(13.31%)	(3.39%)	10.60%	24.79%
IRR	(11.48%)	(0.45%)	15.28%	30.64%
Performance Ranking	Unviable	Unviable	Marginal	Viable
Residual Land Value	(\$1,624,831)	(\$543,317)	\$548,918	\$2,335,009

Source: HillPDA Research

A similar trend is found here as for Church Street whereby the lowest level does not generate sufficient “water views” pricing to show profitable returns impeded further in this case by low value retail strata units compared to the residential equivalent.

In contrast, 8 storeys reach “mid-rise” pricing for some units with water views sufficient to achieve marginal returns for parking below ground and viable returns for parking above ground depicted above.

Further testing for 11, 14 and 17 storeys is summarised in the table below. Eleven storeys shows viable results for parking above ground whilst marginal results are shown for 14 and 17 storeys (above ground parking). The parking below ground options for these taller building heights are not feasible so the above ground alternatives only are depicted.

Table 23: Further Feasibility Testing Results – 11, 14 & 17 storeys (36A – 36F Donald Street)

36A - 36F Donald Street	11 Storeys – 42 Units Parking Below	11 Storeys – 42 Units Parking Above	14 Storeys – 86 units Parking Above	17 Storeys – 108 units Parking above
Development Profit	\$2,508,436	\$6,349,199	\$8,843,414	\$11,833,131
Development Margin	7.16%	20.36%	21.45%	23.42%
IRR	10.00%	21.81%	19.06%	19.59%
Performance Ranking	Unviable	Viable	Viable	Viable
RLV	(\$969,751)	\$1.663mill	\$1,226,060	\$1,520,915
(Land Value at Target IRR)		\$39,595/unit site	\$14,256/unit	\$14,083/unit

Source: HillPDA Research

In the case of a 7.5% increase in gross realisations (unit pricing) the parking below ground options for 14 and 17 storeys will reveal “Marginal” returns with a 10% increase in GR’s required for “viability”.

Conclusions

This testing shows a similar trend of outcomes as for Church Street impeded by the retail strata lots on the ground floor with lower sale rates (\$/m²) than the residential equivalent. Parking below ground is viable (marginal) for 8 storeys and reaches marginal results for 11 storeys if the GR’s are increased by 7.5%. A 10% increase in GR’s is required for greater heights as explained above for viability with parking below ground.

Site 4 - 15, 17, 19 & 19A Tomaree Street, Nelson Bay

This Test Site is formed by four (4) existing detached dwellings of modest presentation (circa 1975) with an assessed market value of \$350,000 each with two (2) street frontages upon Tomaree and Dowling Streets.

The total development site acquisition price is assessed with an amalgamation premium of 30% to acquire all dwellings as typically encountered. Total site acquisition price adopted = \$350,000 x 4 x 1.3 (\$1.82mill.)

The feasibility results below depicts a residential flat building project with parking either below or above ground. The pricing below reflects the views available from the upper levels at a distance from the water given a location on the southern fringe of the retail hub.

Table 24: 15, 17, 19 & 19A Tomaree Street Nelson Bay – Unit Pricing Estimates

15 - 19A Tomaree Street	Low Rise	Mid Rise	High Rise	Water Views
One Bedroom	\$400,000	\$450,000	\$500,000	\$500,000
Two Bedrooms	\$450,000	\$500,000	\$600,000	\$650,000
Three Bedrooms	\$525,000	\$575,000	\$750,000	\$775,000

Source: HillPDA Research

The feasibility results reveal mixed returns as shown below for 5 and 8 storeys.

Table 25: Feasibility Testing Results for 5 & 8 storeys : Tomaree Street.

15 – 19A Tomaree Street Land Purch Price :\$1.82mill.	5 Storeys – 36 Units Park below grnd	5 Storeys – 36 Units Park above grnd	8 Storeys - 60 Units Park below	8 Storeys – 60 Units – Above
Development Profit	(\$797,674)	\$617,477	\$4,633,193	\$7,029,483
Development Margin	(4.66%)	3.94%	17.67%	29.50%
IRR	(1.58%)	6.79%	21.97%	33.57%
Performance Ranking	Unviable	Unviable	Viable	Viable
Residual Land Value	(\$343,572)	\$673,589	\$2,426,177	\$4,044,163

Source: HillPDA Research

The trend found for Church and Donald Streets whereby the lowest level does not generate sufficient “water views” pricing to show profitable returns is also found for Tomaree Street, evident in the results above. In contrast 8 storeys reveals viable results for both options (parking above and below ground).

The RLV (Residual Land value) above shows the corresponding purchase price payable with the target IRR of 18% being \$2.2mill. for parking below ground (\$36,666/unit) and \$3.8mill for parking above ground (\$63,333/unit) each for 8 storeys.

Lower returns are shown for 11, 14 and 17 storeys reflecting the lower pricing for “high rise” and “water views” units given the distance from the water front and low contour depicted by the results in the table below.

Table 26: 15, 17, 19 & 19A Tomaree Street Nelson Bay – Feasibility Testing Results

15 – 19A Tomaree Street Land Purch Price :\$1.82mill.	11 Storeys – 82 Units Parking Below	11 Storeys Parking Above	14 Storeys - 103 Units Parking Above	17 Storeys – 127 Units Parking Above
Development Profit	\$1,589,490	\$4,700,762	\$5,577,374	\$4,313,502
Development Margin	3.81%	12.19%	11.29%	6.77%
IRR	7.26%	16.04%	13.07%	8.88%
Performance Ranking	Unviable	Marginal	Unviable	Unviable
RLV (Land Value at Target IRR)	(\$971,529)	\$1,378,552 \$16,812/unit	\$177,691	(\$2.35mill.)

Site Amalgamation “Expensive” in this Case

In addition to the effect of the lower unit pricing indicated above, the site acquisition price is relatively high reflecting the cost of amalgamating four (4) dwellings, effectively paying for the improvements (ie. houses) and an amalgamation premium to achieve acquisition of all simultaneously as typically found by developers.

The site acquisition price of \$1.82 million equates to \$50,525/unit for the lowest density (5 storeys – 36 units) being above the analysed market rate for Nelson Bay of \$45,000/unit. This site is considered inferior to the average residential development site in Nelson Bay given its greater distance from the foreshore, therefore a site rate of \$50,525/unit (ie. above market) is not expected to be widely feasible for a range of building heights.

Conclusion

These results show in the current market it is unlikely a site will be amalgamated with existing housing at this distance from the foreshore given the (added) cost of obtaining control of multiple dwelling sites and the lower unit pricing for less water views.

Site 5 - 16, 18 & 20 Donald Street, Nelson Bay

This Test Site comprises the existing Council car-park around 75 metres east of the corner of Donald and Stockton Streets considered to be on the fringe of the established retail hub that intensifies on the opposite side of this intersection where Woolworths lies.

Mixed Use

The feasibility results below depict a mixed use project with retail strata units on the ground floor and parking either below or above ground as noted in the table below for various height scenarios.

Given the fringe location from the retail hub, the value (GR's) apportioned to ground floor retail suites (\$5,500/m² of strata area) is substantially lower than the residential sales rate as found for 36A – 36F Donald Street reflecting an impediment to the development feasibility by the inclusion of shops at this location.

Existing Public Parking

The existing carpark presently provides parking for around 232 cars over three levels however, this is restricted to 90 cars only on the ground level (including an uncovered section) as the upper levels are closed due to concrete degradation.

Our modelling reflects preserved public parking for 140 cars (as instructed) and demolition costs of the existing structure. This reflects Council transferring the property to a developer (at no cost) conditional upon a stratum with capacity for public parking being transferred into Council's ownership prior to the Occupancy Certificate being granted. The public parking with 140 bays is included as an above ground (concrete deck) structure over 2 levels beside the residential building.

This effectively requires a developer to acquire the site for the cost of the public parking structure to be built that equates to \$3.5million (140 bays x \$25,000 /bay). This amount equates to an equivalent site price of \$134,615/unit (per 26 units over 5 storeys) that is well in excess of the prevailing site value rate observed of \$45,000/unit.

The below ground parking options tested for 11 and 14 storeys are not included in the table below as they are even less economic than the unviable outcomes for the above ground parking options shown.

Water views can be obtained from units on three (3) building faces from the upper levels with our unit pricing indicated below.

Table 27: 16, 18 & 20 Donald Street Nelson Bay – Unit Pricing Estimates

16, 18 & 20 Donald Street	Low Rise	Mid Rise	High Rise	Water Views
One Bedroom	\$400,000	\$450,000	\$500,000	\$550,000
Two Bedrooms	\$450,000	\$500,000	\$600,000	\$650,000
Three Bedrooms	\$525,000	\$575,000	\$750,000	\$750,000

Source: HillPDA Research

All the feasibility returns for various heights are unviable given the high cost of preserving the public parking a sample is depicted below with an exception for 17 storeys (parking above ground) that shows “Marginal returns”.

Table 28: 16, 18 & 20 Donald Street Nelson Bay – Feasibility Testing Results

16, 18 & 20 Donald Street	5 Storeys – 26 Units Parking Above Ground	8 Storeys – 53 units Parking Above Ground	11 Storeys – 81 Units Parking Above Ground	17 Storeys – 136 Units Parking Above Ground
Development Profit	(\$6.016mill.)	\$1.125mill.	\$2,187,037	\$12,057,891
Development Margin	(27.94%)	3.64%	4.76%	18.12%
IRR	(30.54%)	7.87%	8.05%	16.42%
Performance Ranking	Unviable	Unviable	Unviable	Marginal

Source: HillPDA Research

Sensitivities

It is evident the impost of public parking (140 bays @ \$25,000/bay) and a retail component with strata pricing substantially less than residential unit rates results in all scenarios being unviable except the tallest building with all parking (public and residents) above ground. This marginal result is achieved with a land acquisition price equivalent to \$3.5mill being the public parking stratum cost. If the public parking is deleted (\$3.5m less cost) this scenario (17 storeys resident parking above ground) shows an RLV (threshold land value) of \$1.662million (\$63,923 /unit or 66 parking bays) at an IRR of 18%.

Conclusion

A developer will be concerned about the impact upon unit pricing of an above ground public parking structure that is not reflected in the GR’s or returns shown above. An even greater cost impediment occurs for public parking in a basement configuration (less impact upon GR’s) that is only found to be feasible in capital city CBD’s or major inner metropolitan centres.

6 CONCLUSIONS

It is evident in the commentary above that the feasibility testing of the nominated sites reveals mixed feasibility results with a trend of viability for the lowest level (8 storeys – parking above and below ground) and viability for parking above ground at 11, 14 storeys and 17 storeys.

The following factors have a significant influence upon the economic feasibility of a residential development:

- Costs of an excavated basement carpark (\$50,000/single car bay);
- Increasing construction cost of each apartment in a higher density building in proportion to height for the added structure and services required;
- Modest unit pricing (gross realisations) achieved in the current market in Nelson Bay; and
- A lack of foreshore (frontage) development sites where a high ratio of units have an ocean view and generate the highest prices, capital rates (\$/m² of living area) and profit margin.

Viable Development Sites

The mixed viability results are shown in the tables above for each Test Site.

As explained above, this viability is based on conventional project returns for developers with a target of sustainable profits reflecting a business model that permits a developer to remain operational in the long term.

In contrast, there are many cases where developments occur for marginally viable development projects where the returns equate to profits below conventional levels but satisfactory to a developer for private reasons.

Some projects also return negative results (ie loss making) although not the intent of the developer at the commencement. Ultimately, it is difficult for an observer unassociated with a project to know at its completion whether it was viable or not although an indication is found in comparing the sale price rates (expressed as \$/m²) to a project cost average rate.

A possible example of an unviable project is revealed in our description of the Magnus Apartments where the sales rates (\$/m² of living area) equate to the likely construction cost (\$/m²).

Market Soundings

We have spoken with various local developers and design consultants about the state of the market and the building features of the next multi-level residential building that would be the first in Nelson Bay for many years.

The following observations below typify the comments and sentiment encountered:

- The residential development site market in Nelson Bay has been static to declining regarding pricing in recent years due to a number of defaults and abandoned development sites stalling development activity and causing poor developer sentiment;
- Unit sale pricing has been static for many years given only moderate demand reflecting a seasonal market underpinned by retirees (typically Sydney residents) with many on a moderate budget;
- Some developers consider the lack of development activity has created pent-up demand for higher priced stock (over \$750,000 with water views) for which the choice of existing modern stock with views is low;
- The major banks have reportedly refused to finance (any) large projects in Nelson Bay given the history of defaults, therefore, it is likely the next major development will be funded by a consortium of joint venture partners all contributing equity or relying upon alternative finance sources;
- There remains a tendency amongst developers that land value is proportional to building height given the belief that higher development profits are associated with units enjoying a water views. This is a sound observation for unit selling rates over \$7,000/m² of living area for all stock in a building. This may be achieved (or exceeded) for the best units with water views but remains less certain for the remainder of stock in the project with less appealing vistas with a possible lower average GR's rate ; and
- Many retirees re-locating to Nelson Bay that seek to live in a residence over \$1.0million will select a detached dwelling in preference to a strata unit with water views given a perception of better long term property investment fundamentals (ie. less price volatility) and avoidance of strata levies (ie. ongoing costs with little control per individual owner) and Body Corporate issues.

Our Market Soundings reveal comments suggesting the next high rise residential project will be characterised by:

- Speculative pricing for units with water views priced around \$10,000/m² of living area (illustrated by price expectations of \$1.5mill for three (3) bedroom apartments of 150m² and proportionally large balconies with below ground parking);
- Innovative design features to attract Sydney buyers to a coastal location exemplified by dual key units; open living areas expanding onto large balconies, high ceilings created by a sloping roof line on the uppermost floor and relatively large unit areas such as 110m² for two (2) bedroom dwellings and over 150m² for three (3) bedrooms; and
- Developers are likely to seek a configuration with as many two bedroom units as possible with some regard for three bedroom units and little regard for one bedroom units except on the ground floor reflecting the purchaser preferences advised by local agents.

Developers May Commence a Project Even If Unviable

It is possible that a developer may commence a project that this testing concludes to be unviable if:

- Their internal return (profit) hurdle is less than conventional rates for private (internal) reasons;
- Their project is self-funded (no debt) with a lower than benchmark return on equity required; and
- Their construction costs are known to be significantly less than that in standard construction cost guides or the land cost is low if acquired many years ago.

These adjustments are likely to result in a marginally viable project being undertaken.

Nelson Bay Property Development Market Characteristics

The Market Commentary above revealed the Nelson Bay property development market is characterised by:

- Many dormant residential development sites some with multiple sales over time at declining prices;

- Residential unit market divided between holiday lettings and owner occupier units (investors participate in each product type). An historic trend reveals the pricing of holiday units to be static or declining given an abundant supply and scepticism about returns performance from agent run letting pools. Many were sold with rental guarantees for a short term by the developers that supported prices above a market level;
- Moderate unit prices at present resulting in limited project viability for various heights depicted in our testing and evident in restricted building commencements in recent years; and
- Negligibly few residential development sites occur next to the foreshore that could provide a high proportion of units with water views and returns feasibility for taller building heights not achievable upon moving inland to the south of Magnus Street.

Property Development Density Ramifications

The development feasibility testing has revealed the following:

- Property development profit does not always increase with density unless lower level unit prices both lie above a threshold (ie. around \$6,500 - \$7,500/m² of living area) and increase with added building height (see Note 1 below); and
- There exists a tipping point for unit pricing levels at which a project becomes viable which is higher for parking below ground than above. There also exists an optimal building density for profits and returns to be maximised that does not always correlate to Council LEP densities and heights(See Note 2 below).

Note 1

Constructions costs (expressed as \$ /m² of gross floor area) increase with height therefore unit pricing must increase across the entire building to at least maintain profits. At Nelson Bay unit pricing shows an affordability ceiling around \$850,000 (\$9,000 to \$10,000/m² of living area) restricting profitability for taller buildings.

Note 2

Our feasibility testing has shown for various tested sites the projected market pricing reflects viability in some cases but not all. Greater building height and parking below ground level with greater costs reduces viability. For the tallest height tested (17 storeys) an example of the price tipping point at 11-15 Church Street is shown in the table below.

Table 29: Unit Pricing – Existing Levels & Tipping Point for Project Viability

11-15 Church Street 17 Storeys Parking Below Ground		Existing Price Ceiling	Price Tipping Point for Project Viability
Low Rise -	One Bedroom	\$400,000	\$400,000
	Two Bedrooms	\$450,000	\$450,000
	Three Bedrooms	\$525,000	\$525,000
Mid Rise -	One Bedroom	\$450,000	\$450,000
	Two Bedrooms	\$500,000	\$500,000
	Three Bedrooms	\$575,000	\$575,000
High Rise - Without & with Water Views			
One Bedroom		\$500,000 - \$550,000 \$8,333 - \$9,167/m ² living	\$500,000 - \$550,000 \$8,333 - \$9,167/m ² living
Two Bedrooms		\$600,000 - \$700,000 \$7,500 - \$8,750/m ² living	\$650,000 - \$750,000 \$8,125 - \$9,375/m ² living
Three Bedrooms		\$750,000 - \$825,000 \$7,895 - \$8,684/m² living	\$800,000 - \$850,000 \$8,421 - \$8,947/m² living

Source: HillPDA Sales Research and Feasibility Testing

From the table above and observations the current property market in Nelson Bay reveals unit pricing for new stock to be generally below that required for higher density projects to be viable with underground parking and building heights above 11 storeys.

Added density to the existing building height controls will not (of itself alone) create project viability if it did not exist beforehand given the unit price ceiling around \$850,000.

Unit pricing changes over time by following a cycle. Therefore a site assessed as unviable now may become viable later when unit pricing levels recover.

The relatively high number of unenacted DA approved development sites in the Nelson Bay Town Centre will eventually reduce after a successful high rise project is completed being an indication of:

- Unit pricing recovery sufficient to result in project viability for currently marginal higher density schemes;
- Development sites fall in price sufficiently for viable returns to be achieved; and

Developer sentiment change from cautious to positive.

APPENDIX A: UNIT SALES EVIDENCE



1A Tomaree Street – Mantra	Sold Date	Sold Price	Internals	\$/sqm	Configuration
<p>The Mantra apartments building is known as "Mantra Aqua Resort" located at the eastern end of Tomaree Street with a second street frontage to Dowling Street. It lies around 200 metres from the retail hub of Nelson Bay and 300 metres from the foreshore.</p> <p>The complex comprises three (3) main buildings containing 110 units formed as four (4) storeys above ground and basement parking beneath.</p> <p>Completion of construction occurred in early 2006 with a design suited for holiday units without internal laundries. Our enquiries indicate occupation comprises mostly casual lettings (short stay patrons) and tenants with fixed terms and only a few owner occupiers.</p> <p>The complex provides water views for units on the upper level of Building A with other unit's sight lines upon the internal pool area and landscaped surrounds or the immediate surrounding district.</p> <p>The sample of recent sales below depicts modest rates (\$/m²) reflecting the limited market demand for ownership of holiday letting units that are mostly included in an agent's letting pool.</p>					
Unit 17	August -2016	\$395,000	114m ²	\$3,465	
3 bedrooms, 2 bathrooms and 2 Car spaces. Located at the rear of the building on Level 1.					
Unit 13	July -2016	\$360,000	90m ²	\$4,000	
2 bedrooms, 2 bathrooms and 1 car space. Located at the front of the building on level 2.					
Unit 92	May -2016	\$405,000	116m ²	\$3,491	
3 bedrooms, 2 bathrooms and 2 Car spaces. Located at the front of the building on Level 1.					
Unit 25	April -2016	\$367,000	80m ²	\$4,588	
2 bedrooms, 2 bathrooms and 1 Car space. Located at the front of the building on Level 3.					
Unit 27	April -2016	\$355,000	79m ²	\$4,494	
2 bedrooms, 2 bathrooms and 1 Car space. Located at the front of the building on Level 3.					

1A Tomaree Street Mantra - continued	Sold Date	Sold Price	Internals	\$/sqm	Configuration
Unit 109	March -2016	\$335,000	80m ²	\$4,188	
2 bedrooms, 2 bathrooms and 1 Car space. Located at the rear of the building on Level 2.					
Unit 102	March -2016	\$427,000	118m ²	\$3,619	
3 bedrooms, 2 bathrooms and 2 Car spaces. Located at the front & side of the building on Level 2.					
Unit 4	January -2016	\$355,000	95m ²	\$3,737	
2 bedrooms, 2 bathrooms and 1 Car space. Located at the rear of the building with a large courtyard attached.					
Unit 88	December - 2015	\$322,000	79m ²	\$4,076	
2 bedrooms, 2 bathrooms and 1 Car space. Located at the rear of the building on Level 1.					
Unit 70	December - 2015	\$345,000	79m ²	\$4,367	
2 bedrooms, 2 bathrooms and 1 Car space. Located at the rear of the building on Level 2.					
Unit 55	November - 2015	\$345,000	79m ²	\$4,367	
2 bedrooms, 2 bathrooms and 1 Car space. Located at the rear of the building on Level 1 with extensive terrace attached.					
Unit 69	November 2015	\$350,000	79m ²	\$4,430	
2 bedrooms, 2 bathrooms and 1 Car space. Located at the rear of the building on Level 2 (1 above ground).					
Unit 77	November - 2015	\$285,000	60m ²	\$4,750	
1 bedroom, 1 bathroom and 1 Car space. Located at the rear of the building on Level 2.					

1A Tomaree Street. Mantra - continued	Sold Date	Sold Price	Internals	\$/sqm	Configuration
Unit 45	October -2015	\$630,000	110m ²	\$5,727	
3 bedrooms, 2 bathrooms and 2 Car spaces. Located at the front of the building on Level 4					
Unit 2	August -2015	\$305,000	79m ²	\$3,861	
2 bedrooms, 2 bathrooms and 1 Car space. Located on the ground floor at the front of the building.					
Unit 58	July 2015	\$323,000	76m ²	\$4,250	
2 bedrooms, 2 bathrooms and 1 Car space. Located on the ground floor at the rear of the building.					

LandMark Resort

Another building with holiday letting units contained is the Landmark Resort at 61B Dowling Street Nelson Bay.

This large complex contains 123 units mostly with a two (2) bedroom configuration constructed for holiday lettings like the Mantra Apartments (above). Recent sales show modest rates of \$3,000/m² to \$4,600/m², the latter applying to compact units of 72m² (living area) achieving a typical sale price of \$335,000 to \$350,000.

Its status as holiday apartments is evident in:

- Extensive common areas on the ground floor both enclosed and open (with extensive landscaped grounds including a pool);
- Extensive visitor parking (at grade) at the rear of the property;
- All units face north with a narrow, elongated shape interconnected by a long corridor at the rear of each floor; and
- Our enquiry confirms investors are the majority owners restricted to a single letting pool operated by a particular local agent letting given reluctance from other agents to undertake “one off” holiday lettings in the building.

“The Shoal Apartments”

See commentary within the report under the heading “3 The Shoal Apartments” for the only known case of current unit pre-sales occurring within proximity to Nelson Bay.

42 Stockton Street. Bayview Apartments	Sold Date	Sold Price	Internals	\$/sqm	Configuration
<p>The Bayview building is located at the corner with Tomaree Street around 150 metres from the retail hub of Nelson Bay that contains a recently opened Woolworths supermarket with parking beneath.</p> <p>The complex contains 12 units with a north facing aspect for each over three (3) storeys above basement parking for 18 vehicles and a passenger lift servicing all levels. Construction completion occurred in mid 2003. Our enquiries indicate occupation by owner occupiers and long term tenants (6-12 months) mostly. The sales rates shown reflect an appealing well maintained block with some age (16 years) effect.</p>					
Unit 3	June -2016	\$415,000	100m ²	\$4,150	
<p>2 bedrooms, 2 bathrooms and 1 car space. Located on the ground floor. Bedroom advertised as divisible into two (2) as confirmed by the published floor plan.</p>					
Unit 2	March -2016	\$420,000	105m ²	\$4,000	
<p>3 bedrooms, 2 bathrooms and 2 car spaces. Located on the ground floor court yard and garden.</p>					
Unit 10	June -2014	\$440,000	105m ²	\$4,190	
<p>3 bedrooms, 2 bathrooms and 2 lock up garages. Located on the front, side and rear of the building.</p>					

2 Government Road. Dolphin Cove	Sold Date	Sold Price	Internals	\$/sqm	Configuration
<p>Known as Dolphin Cove, this building is located at a relatively high altitude close to the retail hub of Nelson Bay and hotel near the foreshore.</p> <p>The complex contains 16 units over five (5) storeys including six (6) south facing only units given the street frontage has a southerly aspect. There is basement parking for 28 vehicles and a passenger lift servicing all levels.</p> <p>Construction completion occurred in late 2005. The strata plan indicates occupation by owner occupiers and long term tenants (6-12 months) given the upper two (2) floors are divided into only four (4) large units all facing north (opposite the street).</p> <p>The moderate sales rates shown below reflect lower level units with modest views in a modern well maintained building.</p>					
Unit 8	Feb -2016	\$385,000	116m ²	\$3,319	
3 bedrooms, 2 bathrooms and 2 car spaces. Located on the first floor in the middle-front of the building with a single aspect to the south.					
Unit 5	Feb -2016	\$415,000	133m ²	\$3,120	
3 bedrooms, 2 bathrooms and 1 car space. Also located on the first floor at the front of the building with views to the west and south.					
Unit 3	June - 2014	\$405,000	117m ²	\$3,462	
3 bedrooms, 2 bathrooms and 1 car space. Located on the ground floor at the rear of the building with views to the north and east.					
Unit 10	Dec -2012	\$386,000	102m ²	\$3,784	
3 bedrooms, 2 bathrooms and 2 car spaces. Located at the rear of the building on level 2 with views toward the water facing north and west.					

5 Laman Street. Oasis	Sold Date	Sold Price	Internal (Living) Area	\$/sqm	Configuration
<p>The Oasis building has a prominent location at the corner of Laman Street and Government Road around 100 metres from the retail hub of Nelson Bay.</p>				<p>It contains 12 units with all except two (2) providing north facing aspects. It is formed over five (5) storeys above basement parking for 20 vehicles and a passenger lift servicing all levels.</p>	
<p>Construction completion occurred in late 2006. Our enquiries indicate occupation by owner occupiers and long term tenants (6-12 months) mostly. The relatively high sales rate shown for unit 6 reflects a broad frontage facing north and water views given the elevated position and proximity to the foreshore (100 metres).</p>					
Unit 6	February -2016	\$730,000	110m ²	\$6,636	
<p>3 bedrooms, 2 bathrooms and 2 car space. Located on the second floor with water views of the marina and Nelson Bay.</p>					
Unit 1	February -2016	\$605,000	133m ²	\$4,548	
<p>3 bedrooms, 2 bathrooms and 1 car space. Located on the ground floor.</p>					
Unit 2	December - 2013	\$425,000	100m ²	\$4,250	
<p>3 bedrooms, 2 bathrooms and 1 car space. Located on the ground floor with north facing aspect.</p>					

21 Tomaree Street. Scirocco Apartments	Sold Date	Sold Price	Internal (Living) Area	\$/sqm	Configuration
<p>The Scirocco apartments building is located in Tomaree Street toward the top of the steep rise from Stockton Street with a rear alignment upon Dowling Street around 200 metres from the retail hub of Nelson Bay and 400 metres from the foreshore.</p> <p>The complex contains 18 units all shaped as narrow and elongated to achieve a north facing aspect for all over six (6) storeys above basement parking for 35 vehicles and a passenger lift servicing all levels.</p> <p>Construction completion occurred in late 2004. It is likely that owner occupiers and long term tenants (6-12 months) characterise the occupancy. The sales rates shown reflect an appealing well maintained block at a high altitude although dated stock (12 years).</p>					
Unit 13	June -2016	\$550,000	126m ²	\$4,365	
3 bedrooms, 2 bathrooms and 2 car spaces. Located on the third floor with a north facing aspect. Currently has water views that may be eventually be built out.					
Unit 4	June -2016	\$590,000	150m ²	\$3,933	
3 bedrooms, 2 bathrooms and 2 car spaces. Located on the first floor with north facing aspect and water glimpses.					
Unit 16	Jan -2016	\$600,000	120m ²	\$5,000	
3 bedrooms, 2 bathrooms and 2 car spaces. Located on the fourth floor with views to the north and west.					
Unit 18	Dec-2014	\$377,000	123m ²	\$3,065	
2 bedrooms, 2 bathrooms and 1 car space. Located on the ground floor with a large court yard.					

55 Magnus Street. The Magnus	Sold Date	Sold Price	Internal (Living) Area	\$/sqm	Configuration
<p>This building known as the Magnus Apartments is located on the southern side of a street parallel (and close) to the foreshore. It provides large units with expensive finishes such as floor to ceiling windows and broad sweeping (curved) balconies.</p>					
<p>It is widely regarded as one of the most notable apartment buildings in Nelson Bay.</p>					
<p>The units enclose a large living area being (arguably) oversized for the price range applicable to Nelson Bay resulting in a lengthy selling time of around three (3) years after completion in 2009 and low sales rates for the relatively high pricing given the large internal (living) areas as shown below.</p>					
<p>Discussions with a long term residential sales agent confirmed the expected outcome of this project being a significant loss given the sales rates equivalent to the building construction cost, completed by a well-resourced developer with little external funding reliance.</p>					
Unit 1	June -2016	\$800,000	287m ²	\$2,787	
<p>4 bedrooms, 2 bathrooms and 2 car spaces.</p>					
Unit 6	June -2016	\$940,000	300m ²	\$3,133	
<p>5 bedrooms, 3 bathrooms and 2 lock up garages. Located on the first floor with north facing aspect.</p>					
Unit 10	April -2015	\$1,600,000	360m ²	\$4,444	
<p>5 bedrooms, 5 bathrooms and 3 car spaces. Located on the fourth floor with views north/west.</p>					
Unit 2	April - 2015	\$700,000	172m ²	\$4,070	
<p>3 bedrooms, 2 bathrooms and 2 car space. Located on the first level with north aspect.</p>					

25 Tomaree Street.	Sold Date	Sold Price	Internal (Living) Area	\$/sqm	Configuration
<p>This older style building (circa 2005) is located (almost) at one of the highest points of the Nelson Bay urban hub near the top of the steep rise of Tomaree Street around 200 metres from the retail centre of Nelson Bay.</p> <p>The complex contains six (6) units all with north facing aspects over three (3) storeys above parking for 18 vehicles at ground level without a passenger lift.</p> <p>The units on Level 3 have a second level above with the balance of the rooftop dedicated to common area (aspect to the south).</p> <p>The modest sales rate below provides an indication of the price ceiling for three (3) bedroom stock in older buildings without views.</p>					
Unit 1	February -2015	\$580,000	150m ²	\$3,867	
<p>3 bedrooms, 2 bathrooms and 2 car spaces. Located on the ground floor.</p>					



APPENDIX B: GLOSSARY



Capitalisation Rate - Expression of risk and return expressed as a percentage that is used to convert the net income in perpetuity from an investment into value at a given time. The capitalisation rate or yield is derived from the analysis of confirmed sales evidence of comparable properties, calculated by dividing the net income or net market rental value of the sale property by its sale price. The sales evidence used will usually indicate a range of yields in which points of difference are adjusted for. (Alternative names: Yield, Cap Rate)

Development Margin - Net profit as a percentage of total development costs. (Alternative name: Profit and Risk Factor)

Discount Rate - The interest rate used to convert future cash flows (both income and outgoings) to their present value (what it is worth today). The term “discount” does not refer to the meaning of the word, but to the requirement of discounting future cash flows by a particular rate of interest to determine the present value.

Effective Rent - Effective rent is the face rent adjusted and annualised for the impact of lease incentives. The two common lease incentives are initial rent free periods and the provision of fit out or other tenancy expenses associated with taking up a lease.

Englobo Land - An undeveloped lot, group of lots or parcel of land that is zoned to allow for, and capable of significant subdivision into smaller parcels under existing land use provisions.

Equivalent Yield - The ‘weighted’ average rate of return on stepped incomes without specific allowance for future income growth. This yield acknowledges reversionary income (based on current market conditions) but ignores future changes in incomes or values due to inflationary or ‘real value’ changes.

Face Rent - The nominal quoted rental obligation expressed in dollars as specified in a lease agreement at commencement, without taking out the effect of rent-free periods, rebates or other incentives, if any.

Floor Space Ratio (FSR) - Gross floor space over all levels divided by the site area. (Alternative names: Floor Area Ratio, Floor Space Index (India), Plot Ratio)

Gross Building Area (GBA) - The sum of areas at all floor levels, including the basement, mezzanine, and penthouses included in the principal outside faces of the exterior walls without allowing for architectural setbacks or projections. (Alternative name: Gross Floor Area - GFA)

Gross Lettable Area Retail (GLAR) - The total floor space measuring from the internal finished surface of external walls or from the centre line of inter-tenancy walls, whichever is deemed appropriate. Shop fronts outside, on, or inside the mall line are measured from the mall line or from the external finished surface, whichever is deemed appropriate.

GLAR is used for calculating tenancy areas in shopping centres, commercial buildings and strip shops, free standing shops, semi-detached or terrace shops in suburban streets.

Highest and Best Use - Valuation concept meaning the possible use of a property that would produce the highest market value. The use must be legally allowable, physically possible and financially feasible.

Initial Yield - Is the yield (net passing income / purchase price) shown upon purchase. The purchase price is based upon the passing income capitalised value. No allowance is made for future rent growth.

Internal Rate of Return (IRR) - A measure, expressed as a percentage return on the capital outlay, of the average annual return from the projected cash flows of an investment, or the actual return generated by the cash flows over the investment period where the net present value is equal to zero.

Net Lettable Area (NLA) - Total floor space measuring from the internal finished surfaces of permanent internal walls and permanent outer building walls, the centre line of inter-tenancy walls and partitions or the public area wall faces where walls and partitions adjoin public areas, whichever is deemed appropriate. (Alternative name: Net Rentable Area)

Net Present Value (NPV) - Net Present Value measures the excess or shortfall of cash flows, in present value terms, of all the expected future cash flows from an investment and the amount of the initial investment at cash flow zero (present time). A NPV of zero means the project will repay the original investment plus the required rate of return. A positive NPV means the project will repay in excess of the original investment plus the required rate of return while a negative NPV means a project will not deliver the required rate of return to make a project feasible.

Net Saleable Area (NSA) - Usually used for residential property and is very similar to Gross Internal Area (GIA). It includes all floor area including internal walls, mezzanines, hallways, bathrooms but excludes common spaces, patios, balconies.

Residual Land Value - The sum of money available for the purchase of land, calculated from the value of the completed development minus the costs of development (including profit). (Alternative name: Residual Value)

Reversionary Yield - Is the yield the property would show if all rents were current market rents.

Unimproved Land - Raw land in its natural state void of merged improvements. (Alternative names: Undeveloped Land, Vacant Land)

Weighted Average Cost of Capital (WACC) - The minimum return on capital that a firm must expect to earn on its investments to attract new capital and to maintain its current value. Weighted Average Cost of Capital (WACC) is an expression of this cost and is used to see if certain intended investments or strategies or projects or purchases are worthwhile to undertake.

Weighted Average Lease Expiry (WALE) - A property risk consideration, being the analysis of the length of time until tenancies expire, generally weighted by area or income. (Alternative name: Weighted Average Lease Duration - WALD)

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