Market and Feasibility Analysis - Parramatta

Prepared for City of Parramatta Council

August 2019

MEMORANDUM

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1 Executive Summary

1.1 Background

Parramatta CBD sits at the heart of Sydney's Central City and is undergoing major revitalisation. To fully realise its potential, the Parramatta CBD must stimulate significant job and dwelling growth to increase its social and economic prosperity.

To manage the significant growth and changes in the CBD, the City of Parramatta Council has prepared the draft Parramatta CBD Planning Proposal to amend the planning controls for the Parramatta CBD contained in the Parramatta Local Environmental Plan 2011.

To better understand the planning controls required to facilitate urban renewal from an economic perspective, Council has engaged JLL to undertake a development feasibility analysis of the nominated blocks in the Parramatta CBD, and consider the economic viability of redevelopment and urban renewal in these nominated blocks.

1.2 Scope

The primary output from our research has been to derive the required FSRs for the subject precincts in order to enable redevelopment and urban renewal for the area.

1.3 Key Findings

The results of our indicative tipping point test for the all the lots in the precinct is summarised below, with the properties grouped into categories of likelihood based upon the proposed draft FSR controls in the Parramatta CBD Planning Proposal.

Redevelopment Probability	Number of Properties	Percentage at Tipping Point
Unlikely	50	59%
Possible	11	13%
Likely	6	7%
Very Likely	18	21%
Total	85	100%

2 Preliminary "Tipping Point" Analysis

2.1 Definitions

'As Is' Value

The 'as is' value relates to the value of the properties current use or allowable use – it does not account for development upside that is outside of the current planning controls. This value has generally been derived by the direct comparison approach – where primary reference has been transactions that have occurred without an apparent development premium.

Premium to 'As Is' Value to Enable Amalgamation

As applicable the 'as is' value needs to make an assumption about the premium that a developer may have to pay to amalgamate a site from its current owners.

For the amalgamation of properties to occur, theoretically if a sum $1 more of 'as is' plus all relevant transaction costs (i.e. buying, selling and moving costs) is offered it would be accepted. In practice much greater premium can be required – with the premium being impacted by vendor motivations and intentions amongst other factors.

Development Value

The 'Development' value of the landholdings assuming up-zoning has been undertaken using the Direct Comparison methods ($/sqm of GFA).

Viability ('Tipping Point') Assessment

We have assessed the viability of each site by comparing the 'Development' value (from the Direct Comparison Approach) to the site value 'as is'. To be viable the development value must be equal or be greater than the 'as is' value (including an acquisition premium that incentivises the land owner to divest the asset). This is the 'tipping point' where development becomes viable.

Our feasibility scale is as follows:

Acquisition Premium to As Is Value	<50%	≥50% - <75%	≥75% - <100%	≥100%
Tipping Point Probability	Unlikely	Possible	Likely	Very Likely

Using this scale we have also derived the indicative required FSR in order to achieve the tipping point under each Premium sensitivity scenario.

2.2 Methodology

1) Undertake a desktop and precinct inspection to create a database of current building stock
2) Undertake research to derive indicative As Is values for the existing building stock
3) Analyse developer apartment amalgamated purchases to gain an appreciation of the range of premiums being paid by developers and accepted by owners
4) Research development site transactions in Parramatta to provide an overview of the market and rates per sqm of GFA being paid by developers
5) Utilising direct comparison evidence of development site transactions adopt indicative development site values ($/m^2 GFA) to apply to all lots
6) Provide an indicative likelihood of each lots probability of being redeveloped based upon the Proposed FSR controls

3 As Is Indicative Analysis

3.1 Methodology

We have undertaken an As Is Indicative Analysis for all the properties within the subject area. We have achieved this through deriving sales evidence on different types of units (e.g. studio) and the age of the units by decade built (e.g. 2010s). Largely, while we have had reference to sales in close proximity to the subject properties, our sales have been adopted on a high-level basis and may not reflect completely accurate sales values for particular units. The purpose of this exercise is to derive an indicative As Is value for the properties. We have also performed a high level assessment of values for other property uses (houses, retail, commercial and industrial) based on recent sales of similar properties.

3.2 Summary of As Is stock

The following table summarises the existing types of properties within the study area, along with the total number of the corresponding property types. This summary has been compiled as a result of a subject area desktop analysis using three sources of information (Council records, SIXMaps, and RP Data), with confirmation of site uses from a site visit and investigation, to derive a corresponding amount of property use.

Table 1: Summary of As Is Stock

Property Type	Number of Type
Strata Unit Blocks	58
Deposited Plan Unit Blocks	17
Motel	1 (Across 3 Lots)
Residential Houses	2
Heritage Houses	1
Substation	1 (Across 2 Lots)
Vacant Land	1
Commercial	3
TOTAL	84 (87 Total Lots)

4 Developer Acquisition Premiums

4.1 Introduction

The underlying premise for redevelopment of existing apartment blocks, is the current owners will need to be enticed by a sales price that is significantly higher than the existing value of the current apartments. In order to ascertain what premium is required we had regard to the premiums paid by developers for individual units and entire apartment block collective sales.

4.2 Summary of developer acquisitions and approximate premiums

JLL looked at apartment sales in 10 apartment buildings purchased by developers at premiums to their market value. The buildings are located in Chatswood, Macquarie Park and Parramatta and indicated approximate premium ranging from 20% to 190% above market value As Is, with majority of sales occurring above the 50% premium threshold.

Those with a lower premium amount may not have premiums attached to all or any of the sales as they are mostly similar to the market price for units in the suburb. Those properties with a large amount of sales within a short time frame, e.g. within the same month, are more likely to have all properties acquired with a premium.

We note there is a high degree of variance for premiums paid between for apartments dependent upon when the unit was purchased during the acquisition period. Developers at times are able to purchase units on market for close to market values, whilst at other times needing to pay large premiums to entice the last remaining 'hold out' owners.

Apartments in areas with higher median values typically require a smaller premium, as the quantum of the premium is significantly greater for those more valuable areas. The lower value areas have a greater proportion of the acquisition premium consumed by relocation costs, stamp duty and other taxes.

4.3 8-12 Sorrell Street, Parramatta Case study

JLL was the exclusive selling agents for 100% of the owners of 8-12 Sorrell Street, Parramatta, a 4,012 m^2 site of 42 strata units across three residential apartment buildings. The total purchase price for the site was $44,500,000, with all 42 units sold at an average sale price of $1,059,524 per unit. This equates to an estimated average premium of approximately 80% - 90% per unit. This sale reflects a rate of $1,849/$m^2$ of GFA based upon the proposed FSR of 6.0:1. The above sale has a delayed settlement and is subject to gazettal of the proposed planning controls.

In conversation with the selling agents, they are of the opinion that a 100% premium to the apartment's As Is values is required to entice all buyers to sell in one line in a short term collective manner.

4.4 Premium Sensitivity

Based on evidence derived in 4.2 and from the required premium advised by the agents of 8-12 Sorrell Street, we have conducted a premium sensitivity (to the As Is value) on three options of 50%, 75% and 100%. This range gives an appreciation for likeliness of tipping point for each individual development, used to inform the Tipping Point analysis.

Premium	<50%	≥50% - <75%	≥75% - <100%	≥100%
Tipping Point Probability	Unlikely	Possible	Likely	Very Likely

A development that has a development site value less than a 50% premium would be unlikely to turnover in a short to medium term period for redevelopment and, on the other hand, a development with a site value greater than or equal to 100% would be very likely to turnover for redevelopment based on our findings.

Importantly sites may still be able to be redeveloped with FSRs that create site values below a 50% premium to the As Is value, although these may take far longer for these sites to be amalgamated. Under these scenarios it would be difficult for a strata committee to achieve a 75% vote in favour of strata renewal.

5 Development Site Indicative Analysis

Provided within this section are detail on the approach and inputs used in our feasibility analysis, as well as, the results of this analysis.

The following table is a summary of development site sales within the Parramatta region. When analysing the proposed FSR scenarios we have disregarded the potential bonus FSR for design excellence.

Map ID	Property Address	Sale Date	Site Area	Development Status	Sale Price	$ / GFA (current FSR)	$ / GFA (proposed FSR)
A	107 George Street, Parramatta	June-19	631 m^2	Raw – No DA	$9,050,000	$2,390	$1,434
Comments: Existing 3 storey commercial building (1,321m^2 NLA) with lease to PCYC. Property has a 20m frontage and is currently zoned B4 Mixed Use, with a 6:1 FSR (3,786m^2 GFA) and 54m Height Limit. Draft planning controls would allow for a max incentive FSR of 10:1 (6,310m^2 GFA).							
B	8-12 Sorrell Street, Parramatta	Jul-19	4,012 m^2	Raw – No DA	$44,500,000	$2,773	$1,849
Comments: Dated low rise apartment complex with 42 strata units across 3 residential flat buildings. Property was a collective sale of all unit owners, with a structured transaction with a delayed settlement to allow sufficient time for rezoning and planning proposals. Property has dual street frontage and is currently zoned B4 Mixed Use, with a 6:1 FSR (16,048 m^2 GFA) and 24m Height Limit. Draft planning controls would allow for a max incentive FSR of 6:1 (24,072m^2 GFA).							
C	7 Macquarie Street, Parramatta	Jun-19	1,874 m^2	Raw – No DA	Undisclosed	-	-
Comments: Currently a freestanding car park offered for sale with a 3 year delayed settlement from Parramatta RSL Club. Sold on market via an EOI campaign through CBRE. Property has a single street frontage and is currently zoned B4 Mixed Use, with a 6:1 FSR (11,244 m^2 GFA) and 54m Height Limit. Not included in the draft planning controls area.							
D	21A-23 George Street, Parramatta	Jul-19	717 m^2	Raw – No DA	$8,800,000	$3,068	$1,227
Comments: Vacant lot currently used for at grade parking. Property has a 15m street frontage and is currently zoned B4 Mixed Use, with a 4:1 FSR (2,868 m^2 GFA) and 36m Height Limit. Draft planning controls would allow for a max incentive FSR of 10:1 (7,170 m^2 GFA).							
E	14 -20 Parkes Street, Harris Park	Dec-17	2,830 m^2	DA Approved	$40,000,000	$1,537	-
Comments: At the time of sale, improved with a five storey commercial office building on the corner of Wigram Street, a two storey commercial building occupied by Anglicare, and a two storey brick commercial building occupied by Allworth Homes. Sold with planning approval by the NSW Department of Planning and Environment for a 36 level mixed commercial/residential building with a gross floor area of 26,030 square metres. Shows a rate per unit of $133,333. Sold to Sydney residential developer Aland after being on the market for almost 2 years. Sold with a 12 month delayed settlement.							
F	26-30 Parkes Street, Harris Park	Sep-17	1,493 m^2	DA Lodged	$22,000,000	$1,207	-
Comments: Three contiguous allotments forming a regular shaped allotment of some 1,493 square metres on the corner of Parkes Street and Harris Street. Not noted as being flood prone. Sold cleared and ready to build on. A planning proposal was submitted to Parramatta City Council in May 2016 for the erection of a 35 storey residential tower constructed over a three storey commercial podium. The proposal, based on an FSR of 12.07:1 is to comprise a total GFA of 18,223 square metres with a total of 218 residential units above 1,800 square metres of commercial space. The proposed mix is 59 x 1-bedroom, 144 x 2-bedroom and 15 x 3-bedroom accommodation. This is based on an FSR of 12.07:1 comprising the proposed FSR under the Draft Planning Proposal for the Parramatta CBD of 10:1, a 15% design excellence bonus, and a 5% high performance building bonus.							

<table>
<tr><th>Map ID</th><th>Property Address</th><th>Sale Date</th><th>Site Area</th><th>Development Status</th><th>Sale Price</th><th>$ / GFA (current FSR)</th><th>$ / GFA (proposed FSR)</th></tr>
<tr><td>G</td><td>57, 63, 83 Church Street and 44 Early Street, Parramatta</td><td>Dec-15 / Oct-16</td><td>14,287 m²</td><td>DA Lodged</td><td>$150,000,000</td><td>$1,534</td><td>-</td></tr>
<tr><td colspan="8">Comments: Parramatta's Auto Alley precinct, comprising 3 separate city block corners, with a total site area of 14,287m². At the time of sale a DA was pending for 779 apartments (58,664m² residential GFA) and 39,099m² of commercial, retail and hotel GFA (40% non-residential uses). The site was acquired by Dyldam in an on market EOI campaign. The deal was negotiated late 2015 as a structured transaction with the lots exchanging between December 2015 and October 2016 with settlements ranging from April 2016 to May 2017.

At the time of sale, improved with a five storey commercial office building on the corner of Wigram Street, a two storey commercial building occupied by Anglicare, and a two storey brick commercial building occupied by Allworth Homes. Sold with planning approval by the NSW Department of Planning and Environment for a 36 level mixed commercial/residential building with a gross floor area of 26,030 square metres. Shows a rate per unit of $133,333. Sold to Sydney residential developer Aland after being on the market for almost 2 years. Sold with a 12 month delayed settlement.</td></tr>
<tr><td>H</td><td>8 Great Western Highway, Parramatta</td><td>Circa April-19</td><td>602 m²</td><td>Raw – No DA</td><td>Undisclosed</td><td>-</td><td>-</td></tr>
<tr><td colspan="8">Comments: Parcel of vacant land situated at "The Junction" near the corner of Great Western Highway, Church Street and Park Street. Property has a 12m street frontage and is currently zoned B4 Mixed Use, with a 3.5:1 FSR (2,107 m² GFA) and 28m height limit. Draft planning controls would allow for a max incentive FSR of 10:1 (6,020m² GFA) The property was sold to a private buyer in April-19 after being on the market for 6 months. Sold with a 6-month delayed settlement.</td></tr>
<tr><td>I</td><td>55 Aird Street, Parramatta</td><td>Circa August-19</td><td>563 m²</td><td>DA Approved</td><td>Circa $7,500,000</td><td>Circa $3,171</td><td>Circa $1,332</td></tr>
<tr><td colspan="8">Comments: At the time of sale, a 2 storey commercial building with frontage to a passageway joining Aird Street with Parramatta Westfield. The building is occupied by ACEE Karaoke. Property is currently zoned B4 Mixed Use, with a 4.2:1 FSR (2,365 m² GFA) and 36m height limit. Sold with planning approval by the NSW Department of Planning and Environment for the demolition of the existing structure; excavation for basement car parking and the construction of commercial and residential building. Draft planning controls would allow for a max incentive FSR of 10:1 (5,630m² GFA).</td></tr>
</table>

JLL have had regard to development site transactions within the Parramatta Area, we have analysed these sales based upon their proposed future base FSR, with the evidence ranging from $1,207/m² to $1,849/m² per square metre of GFA. We have had primary consideration to the future [planning controls as many of the above sales were conditional upon the proposed planning controls being gazetted.

In addition we also ran some hypothetical residual land value feasibilities to provide support for our adopted indicative development site rates ($/m² of potential GFA). These hypothetical feasibilities took into consideration the potential Gross Realisations (Residential, Retail & Office), Construction Costs, Parking, Statutory Costs, Timing Assumptions, Holding Income, Financing and Value Capture contributions required by council as part of the proposed Incentive FSR controls.

In deriving indicative development site value rates, we have had consideration to the sizes of the minimum amalgamated sites, the quantum of units in the potential projects and the economies of scale associated with those projects, the mixed use nature and requirements for minimum non-residential FSRs and the amount of potential future competing supply from the precinct and greater Parramatta area.

We have adopted a higher rate for the R4 – High Density Residential sites (and B4 sites with no minimum non-residential requirements), as they are 'unburdened' by a less valuable non-residential minimum FSR.

6 Conclusion

6.1 Indicative Tipping Point Summary

The results of our indicative tipping point analysis under the proposed FSRs are summarised below for all the lots in the precinct.

All Precincts Overview

Redevelopment Probability	Number of Properties	Percentage at Tipping Point
Unlikely	50	59%
Possible	11	13%
Likely	6	7%
Very Likely	18	21%
Total	85	100%

Block C

Redevelopment Probability	Number of Properties	Percentage at Tipping Point
Unlikely	15	56%
Possible	7	26%
Likely	1	4%
Very Likely	4	15%
Total	27	100%

Block A

Redevelopment Probability	Number of Properties	Percentage at Tipping Point
Unlikely	5	50%
Possible	1	10%
Likely	1	10%
Very Likely	3	30%
Total	10	100%

Block D

Redevelopment Probability	Number of Properties	Percentage at Tipping Point
Unlikely	20	74%
Possible	2	7%
Likely	2	7%
Very Likely	3	11%
Total	27	100%

Block B

Redevelopment Probability	Number of Properties	Percentage at Tipping Point
Unlikely	1	25%
Possible	-	-
Likely	1	25%
Very Likely	2	50%
Total	4	100%

Block E

Redevelopment Probability	Number of Properties	Percentage at Tipping Point
Unlikely	9	53%
Possible	1	6%
Likely	1	6%
Very Likely	6	35%
Total	17	100%

Given the high level nature of the overall precinct study we have also provided an additional sensitivity with 10% increased development values on a $/m² of GFA basis.

The table below shows the percentage of properties in each precinct that are likely to be redeveloped under the proposed FSR controls (this excludes properties in the 'unlikely' category, which has a development site value below the 50% As Is premium).

	Scenario A (Baseline Analysis)		Scenario B (+10% increase to development site rates $/m² of GFA)	
Block	Number of Tipping Point	Percentage	Number of Tipping Point	Percentage
A	5	50%	5	50%
B	3	75%	3	75%
C	12	44%	18	67%
D	7	26%	12	44%
E	8	47%	10	59%
Total	35	41%	48	56%

It is also worth noting that the minimum non-residential FSR of 1:1 for the mixed use sites is a significant encumbrance on the viability of sites redevelopment potential, with developers being able to pay a lower rate per sqm of developable GFA for these sites.

6.2 Key Assumptions, Limitations and Risks

We have provided below details on a selection of critical assumptions used within our analysis. Variance from the assumptions will provide different outcomes than those provided in this report. In addition, we note, even a slight adjustment – which may not appear significant – to a number of variables could have a significant cumulative effective on feasibility.

Market Conditions

We note real estate markets are dynamic, with the current market conditions being softer than 18 to 24 months prior. As such, we note our assessment is at the dates stated within this report. These dates reflect when relevant market evidence was gathered and analysed and forms the basis of many of the assumptions used in the feasibility / financial analysis.

'As Is' Values

Our process of assessing the 'as is' values is based on reference to the principals of highest and best use which necessarily accounts for 'legally permissible'. Frequently this will align with the use the property is currently being used for. Exception may exist where land has been rezoned with higher controls and the development values are higher than the current use of the property, however, this has not occurred within the subject precinct. This process therefore does not account for speculative land purchases.

Acquisition Premium

Within our build-up of the acquisition we have had regard to a potential acquisition premium. This is a cost associated with the assembly of the landholdings to create a development parcel. We note significant variance exists in the evidence informing this premium.

Additional Limitations and Risks

Other potential limitations and risks to this analysis include:

- This analysis has, at times, assumed the sum of a number of landholdings, in order to have an estimated yield. The site might not get developed in this way which will have implications to feasibility
- Any site specific limitations to development and/or cost additions, including; heritage, remediation, etc.
- The potential for particular property owners to not be willing to take part in the redevelopment of their site, this could include a non-financial overlay and as such, adjustments in the market over-time may not resolve this issue
- Sensitivity to 'as is' values identified, requires valuation of each asset. It is often difficult to distinguish assets that have been purchased for development intent versus those that have been purchased for current use
- Sites purchased / optioned well in excess of a "reasonable" premium beyond the "as is" value, resulting in:
  - Delayed redevelopment of the sites, as options will need to expire and over time sites are developed when pricing meets owner's expectations
  - Financial loss to investors / developers
- In addition to the above, other general variance from feasibility inputs will impact viability e.g. assumptions on gross realisations, discount for slightly reduced car parking, unit mix assumptions, unit size assumptions, etc.
- Strata renewal under the Strata Schemes Development Act 2015, remains relatively unproven with few precedence of court forced collective sales in line with the 75% minimum owner agreement. As such there is potential for delays and increased costs due to court proceedings which could further drive down the profitability and therefore land values able to be paid by acquiring developers.