

Showground Station Precinct R3 Economic Viability

A Residents' Perspective

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with support from Paul Issa, a landowner in Dawes Avenue

This document has been put together to support a submission by R3 Residents and APP



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R3 ECONOMIC VIABILITY – A RESIDENTS' VIEW

Summary

In the end, our message is very simple.

In order for there to be redevelopment, existing properties have to be demolished and new dwellings built on the land they occupy today.

That means that residents need to:

1. Sell, and then
2. Buy an equivalent property somewhere else

We realise that this could involve several permutations on that theme however the idea of an 'equivalent property' seems to be the fairest way of treating the various options different people will have or would entertain.

The difference between the Sell Price for their land and their Buy price for an equivalent property elsewhere represents the Incentive to act.

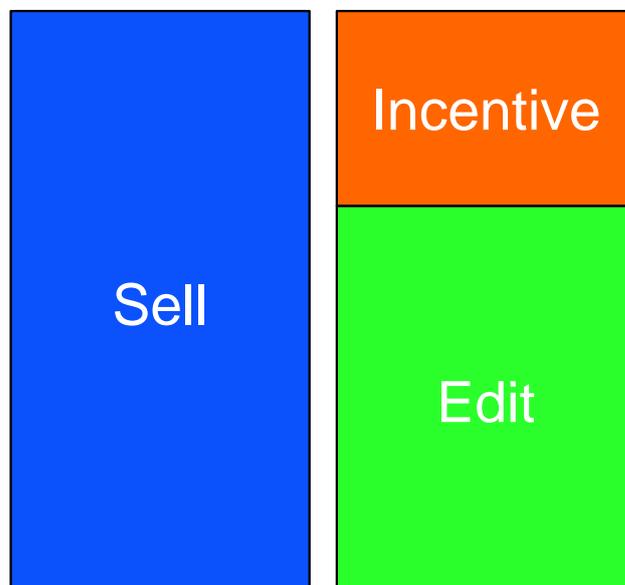
It is not a quantification of their greed level or anything similar to that which some cynical people might suggest, but it is the level of monetary gain that is needed in order for sufficient people to act together and sell in large enough lots so as to facilitate master planned development. It has to be enough.

$$\text{Sell} - \text{Buy} = \text{Incentive} > \text{enough}$$

This analysis demonstrates that not only does the equation not generate a positive incentive, it actually generates a disincentive, so that:

$$\text{Sell} - \text{Buy} \leq \text{Zero}$$

Even with very generous assumptions for townhouses and terraces (like packing a maximum number on every block), without regard to good design and other important factors, you simply cannot achieve sufficient incentive; in fact anyone who tried to participate in such an arrangement would incur a loss – therefore no one will sell, there will be no large or super lots, there will be no master planned developments and any development will fall way short of the kind of Garden Shire environment that people in the Hills value.



Current Landowners want Master Planned Development

In contrast to the way some portray them as 'greedy landowners', the existing R3 landowners actually do care very much about a good outcome.

They fully support the State Government's desire to have a master planned precinct.



More than that residents, are informed as to what represents good design and layout in other precincts.



We see it when we travel around Sydney and even beyond on our holidays (the photo with the bikes is on the Newcastle waterfront).



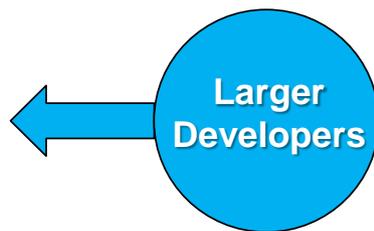
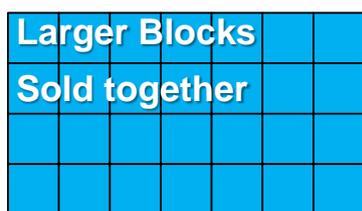
It was recognised when we made our submission via APP with 112 residents in response to the Hills Shire Council's Corridor Strategy for the North West Rail Link.



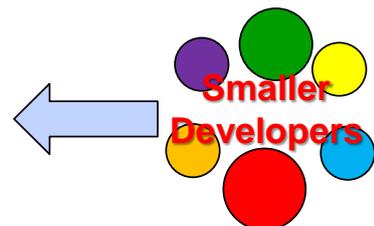
Residents also understand what they absolutely do not want to see in our area.



Residents understand also that the only way to produce good outcomes is to create large parcels of land (much bigger than the 1,500m² minimum envisaged in the current plans), and that in turn this attracts quality developers who can deliver quality results.



- Master Planned
- Resources
- Contribute to Infrastructure



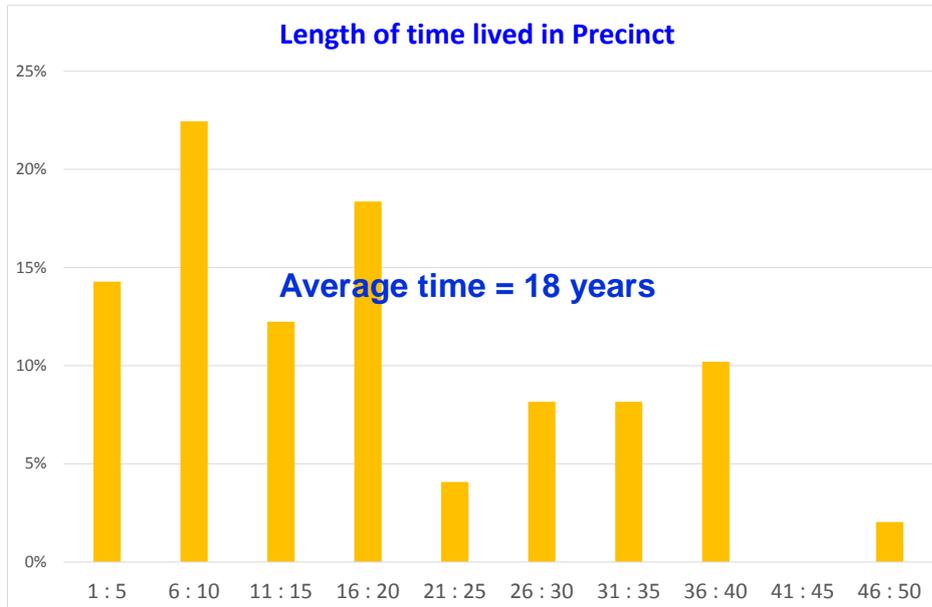
- Less equity
- ~~Bigger projects~~
- Poor design & integration

If the developments are not viable they will not deliver quality results. We will get a hodge podge of developments that will not integrate.

All the dots need to line up. There has to be something for existing landowners, developers need to make a good margin and the product has to be attractive to new residents of Castle Hill.



This is all recognised by the existing landowners who have a very strong connection to the area. On average they have lived for 18 years in the precinct.



They share a lot of views about what they value today and what they want to see in future ...



I like Castle Hill because of the close knit professional community with good schools, **lots of open space for children and middle age people to go for evening walks** in the open green space, it is an upper middle class suburb that is safe for all to live in.



It has **big blocks, gardens, access to all facilities and great schools**. The railway is a bonus ...the area has been crying out for this for decades and I remember this being talked about as a kid. **We hope it all goes ahead and it's a great place to live.**



I've lived here for 22 years. We have lots of our friends and our activities like golf in this area, people who live around us are a similar age and outlook on life. Our children are married now and are within a reasonable distance of Castle Hill and **when we do downsize we want to stay in this area, because this is where our connections are.**

The last comment is particularly interesting as the housing for young adults without kids and older people is recognised in the Hills Shire Council Housing Strategy as being poorly represented in the available housing stock. Apartments would fill that gap.

Two residents went so far as to record some videos for our submission.



<https://youtu.be/Kug5XepMEel>



<https://youtu.be/LxMleJjB46U>

Their statements represent the typical hopes of landowners, but also the fears and questions that they have.

The planning response needs to recognise that the existing landowners represent a very cohesive and committed group of people who care about their current and future community. Many would like to stay.

The trick is to have zonings and planning controls that incentivise the behaviours that will create good planning outcomes. There is a unique opportunity to do this now. It will not present itself again for decades (and even longer).

How big should the Incentive be?

The incentive needs to be enough to cover at least the following:

| | |
|--|---------------------|
| Stamp Duty (assume a \$1.5m property) | \$68,311 |
| Agents commission (assume, again a \$1.5m property and a NSW average rate of 2.11% - source State Averages for Real Estate Agents Commissions/Fees - http://www.localagentfinder.com.au/) | \$31,650 |
| Legal Fees/Conveyancing (could be 50-100% more than this) | \$1,000 |
| Moving costs (will of course depend on how far you move) – plus there are renovations, painting ... may \$10-50,000 more. | \$2,500 |
| Total | \$103,461.00 |

So before we start, the Sell value needs to exceed the Buy Value by over \$100,000.

However people will clearly not act on a net zero return.

Even valuations for forced resumptions recognise the need to have a 'hardship' compensation component of at least a couple to several hundred thousand dollars.

However let's look at what else people need to consider, even without the hassle. Putting together large blocks involves risks and issues not present in normal real estate transactions, including:

- Developer risks – they may go bankrupt or renege on any deal
- Time – it could take a year or two to finally conclude such a transaction
- Costs – there are legal and other marketing expenses well above normal real estate selling, simply because of the number of parties involved.
- The last holdout – there is always the last person to sign in any such group – group dynamics can be challenging, but as is being demonstrated in the Showground Precinct, they can be managed. Not everyone is a willing seller. Aligning everyone's time of selling raises the price somewhat.

A full due diligence would list other risks and issues but you would get some idea that it cannot be done for nothing – a fairly large incentive is needed. So how big does the incentive need to be?

At a meeting of 75+ R3 landowners on the 22nd January, we asked that question.

\$100,000 does not even cover moving.

\$2-300,000 – No

\$500,000 – might convince a few, but

\$750,000 – gets the hands up. It justifies the hassle, the risks and the expense.



As however we will demonstrate you cannot even get to an incentive of ZERO. So nothing will sell!

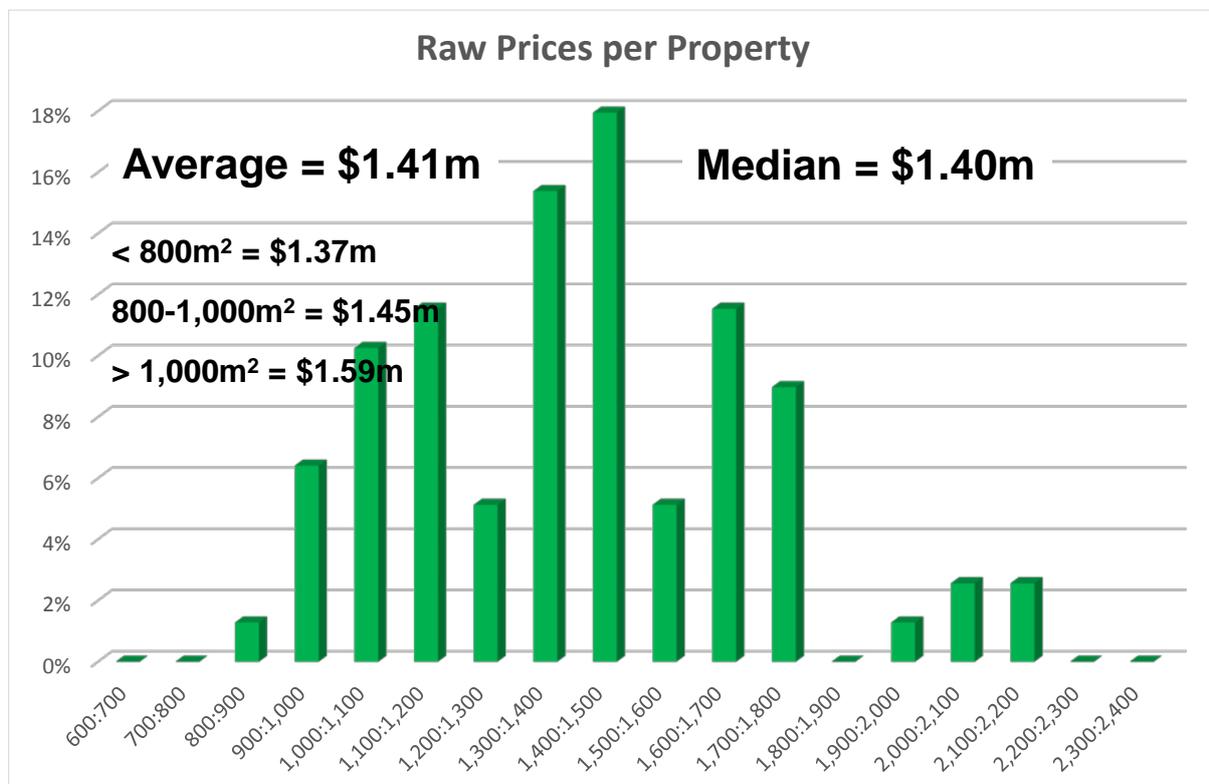
\$1.5m to Buy

The premise is that people will move for a variety of reasons but a fair way to consider this is that they will move to an equivalent property somewhere in the Hills. To be equivalent the property will need to be:

- 4 bedrooms,
- Have a 2 car garage
- And be on a similar size of land to the existing properties (so about 950m²). We looked at possible houses on 700m² to 1,100m².

So what is available with these parameters?

In Castle Hill and nearby suburbs, on 20th January, 2016, 78 ads for these sorts of properties were listed on www.realestate.com.au.

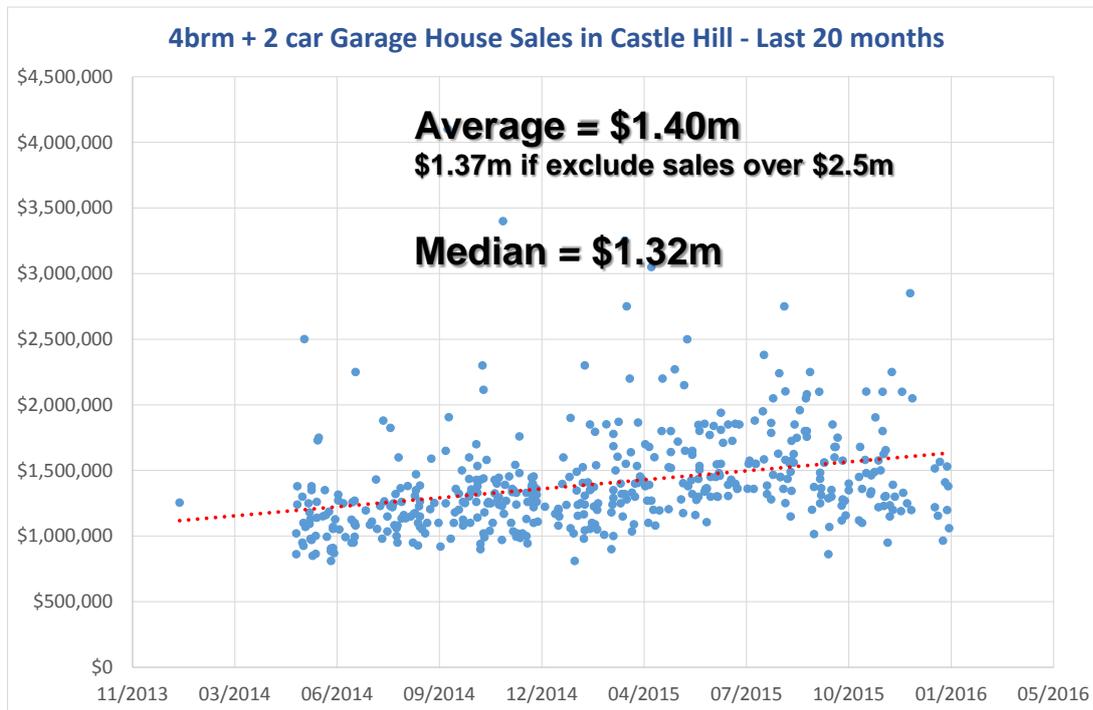


The average property examined was 840m² (smaller than the typical Showground property of 950+m²) but the average and median were about \$1.4m. However note that properties in the range 800-1,000m² averaged \$1.45m and ones over 1,000m² were asking nearly \$1.6m. So buying an 'equivalent' property for about \$1.5m seems a pretty reasonable conclusion.

In fact if you normalise all the property prices to a standard 1,000m² block, you would be tempted to put the 'buy' figure as high as \$1.75m, but let's ignore that as we want to keep the evaluation conservative.

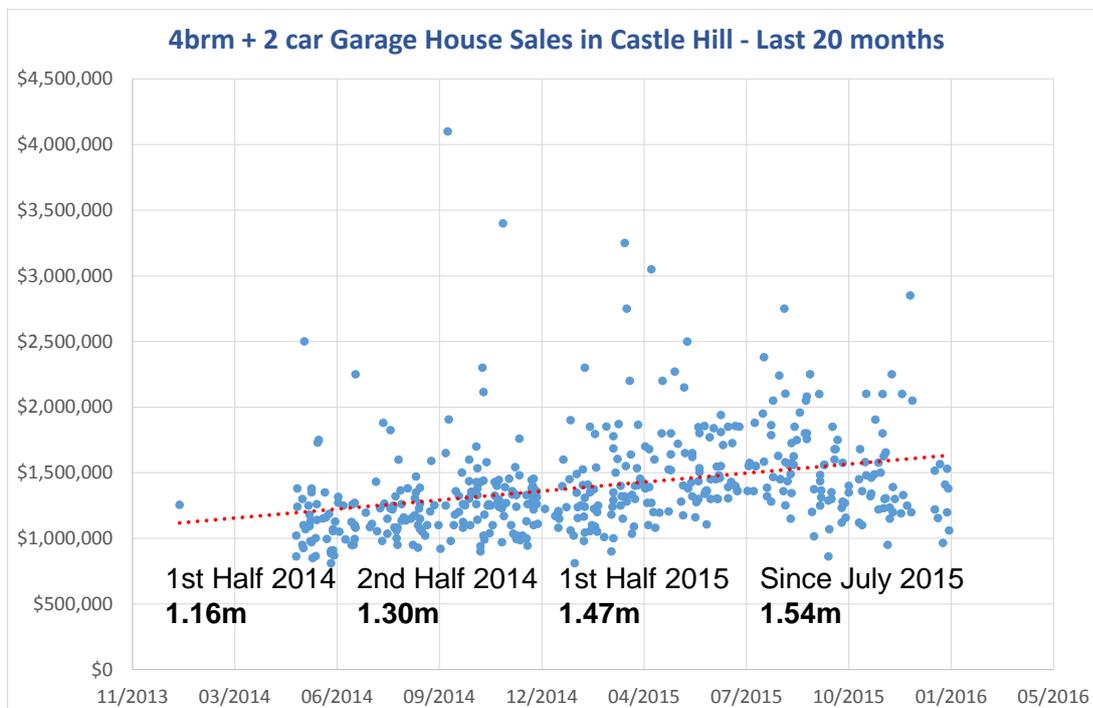
Trends in recent sales

If you look at www.realestate.com.au at the 461 house sale prices in Castle Hill over the last 20 months then you see ...



Even if you cut out some anomalies over \$2.5m then you do not reduce the average very much.

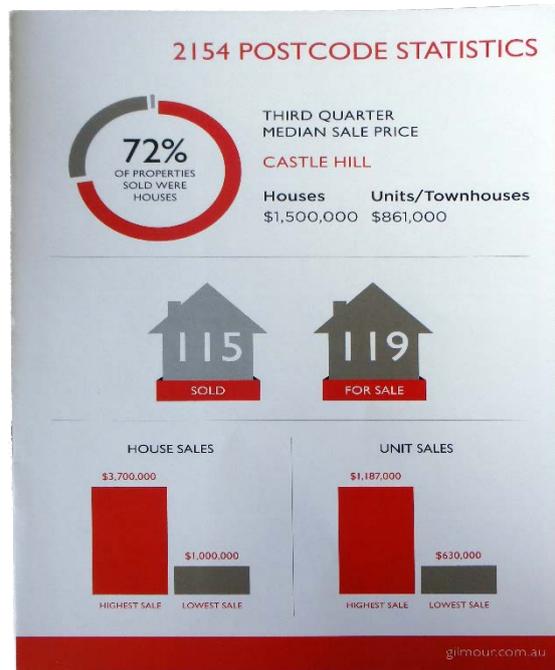
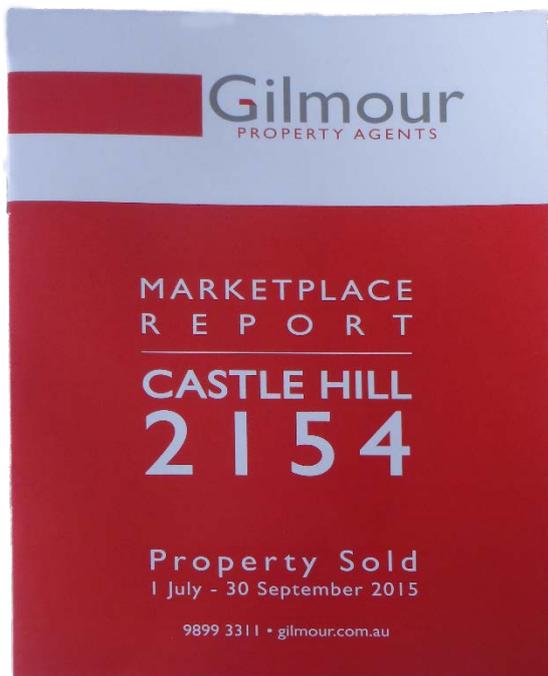
Note also the trend:



The current pricing is clearly about the \$1.5m mark. It has certainly increased since planning for the Showground Station precinct began but the higher value is a reality.

Some Anecdotal Evidence

Residents are also very aware of what real estate agents are saying ...



And even what their next door neighbour sold for ...

The screenshot shows a real estate website interface. The top navigation bar includes "Domain", "Buy", "Rent", "New Homes", "Sold", "Commercial", "News", "Advice", "Agents", and "More". The breadcrumb trail is "Home > Property Profile > 58 Fishburn Crescent, Castle Hill NSW 2154". A search bar contains the text "Full address (eg. 1/100 Bow St, Pyrmont)".

The main content area features a large photo of a two-story brick house with a garage. To the right of the photo, the text reads "Recently Sold" with a "PriceFinder" logo. The "Sold Price" is displayed as "\$1.8M". Below this, a "Recently sold" button is visible. The "SOLD DATE" is listed as "19 Aug 2015" and the "AGENT" is listed as "-".

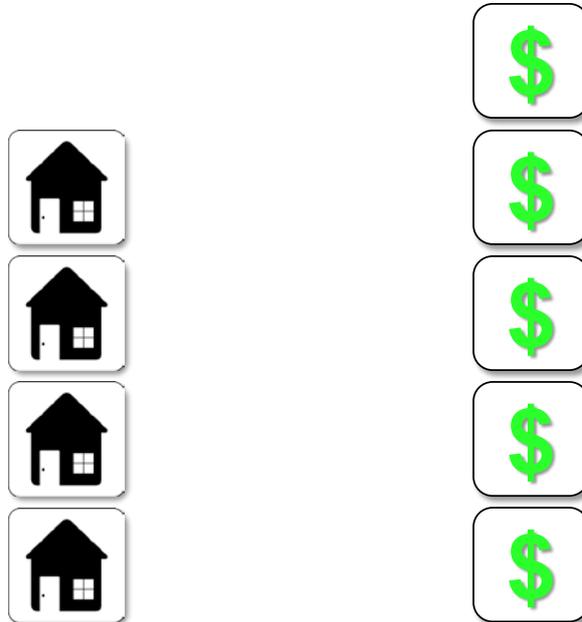
At the bottom of the page, the address "58 Fishburn Crescent, Castle Hill NSW 2154" is repeated, along with icons for "4 beds", "2 baths", and "2 Parking". A green button says "Is this your home? Track its value".

and what they bought for in a nearby suburb (we know it was well above \$1.5m).

\$1.5m has to be regarded as a fair estimate of what residents would have to pay for an 'equivalent' property in the Hills.

\$1.4m is the best you can hope for if townhouses / terraces

The amount that residents might be able to sell for can be estimated via a simple formula:



$$\text{Sell} = \text{Yield} \times \text{Unit Price}$$

The idea is that:

- We need to sell as many units as possible
- At the highest realistic price

In general we have tried to err on the side of maximising the sell price (within reason), so as to see if we can get the Sell – Buy = Incentive equation to work.

Estimating Yield – Theoretical Maximum

For the purposes of estimating yield, we have used *Table 4* and *Figure 15 Attached Dwellings on minimum 240m² Lots* of the DoPE document entitled, "*Appendix B Recommended Development Control Plan Amendments*".

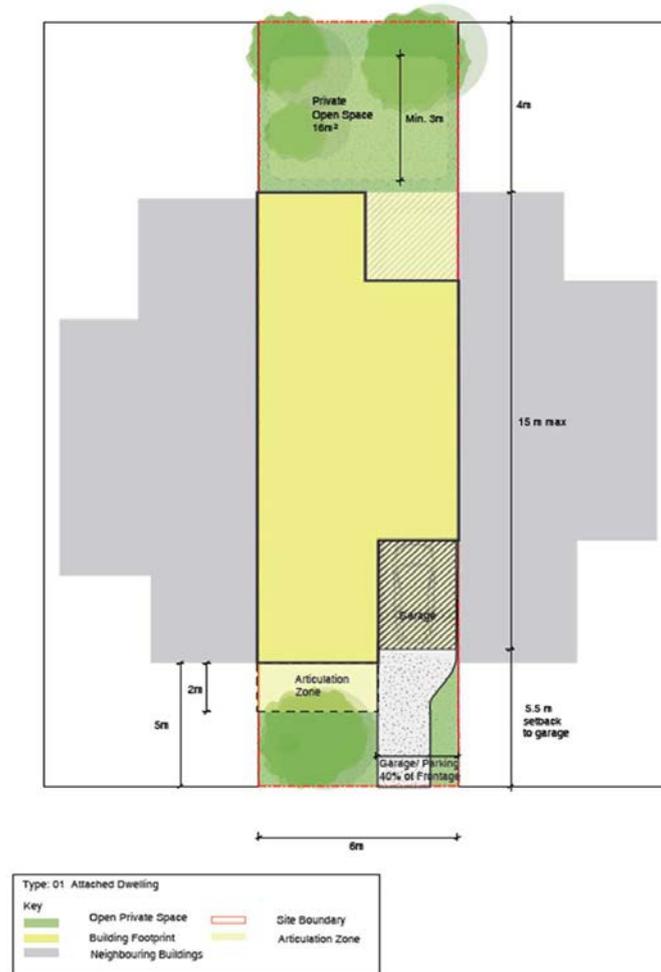


Figure 15 demonstrates the maximum townhouse / terrace density which could be placed on a block of land (if we ignore issues of aesthetics, design etc.). From this we can calculate:

- A 6m frontage and a 24m depth gives a property area of 144m² (we understand this is below the minimum for a Torrens title block, and assume that the properties would be configured in a row or terrace house arrangement). With 2-3 stories this would also equate to about 215m² of building and probably 3 bedrooms.
- If we assume half of a 6m laneway to provide access to the front or back of such a terrace house this translates to 144m² plus $0.5 \times 6m \times 6m = 162m^2$ for a notional high density block.
- In theory you can fit $1,000m^2 / 162m^2 = 6.17$ dwellings per 1,000m² block with these controls.

How many however can you really fit?

Realistic Yields

To give an idea of what can be practically done with real blocks of land, let's look at two typical blocks. Others would yield similar results.

We chose the blocks by looking at the artist's impression on page 28 of the "Showground Station Precinct Proposal".



Note the on-street car parking. The controls illustrated in Figure 15 only allow for a single car garage. With people parking across the precinct so they can then walk to the station, on-street parking could become a nightmare.

Note also the green space between the rows.

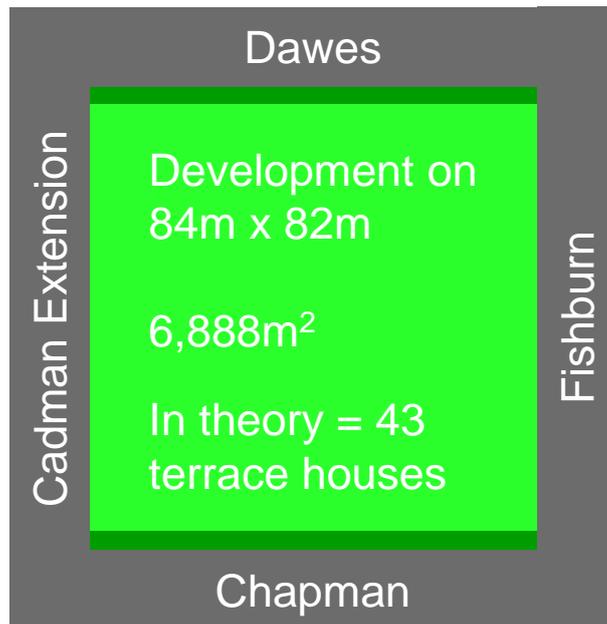
Note also the extension of Fishburn to Showground something with which we agree, but that is more a planning argument than an economic viability issue.

We also recognise that the properties illustrated immediately adjacent to Showground road are also presumably higher than the townhouses / terraces.

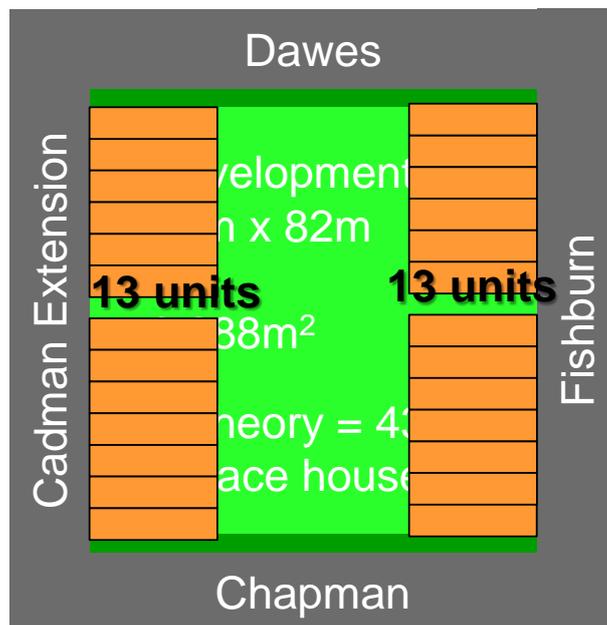
However for now let's concentrate on two blocks, a typical one in the middle and one on the Fishburn Showground edge.



If you look at the new block bounded by Fishburn, Dawes, Chapman and the proposed extension of Cadman ...



You get a block of 6,888m² which could in theory fit 43 terrace houses. However in practice you can get just 26.



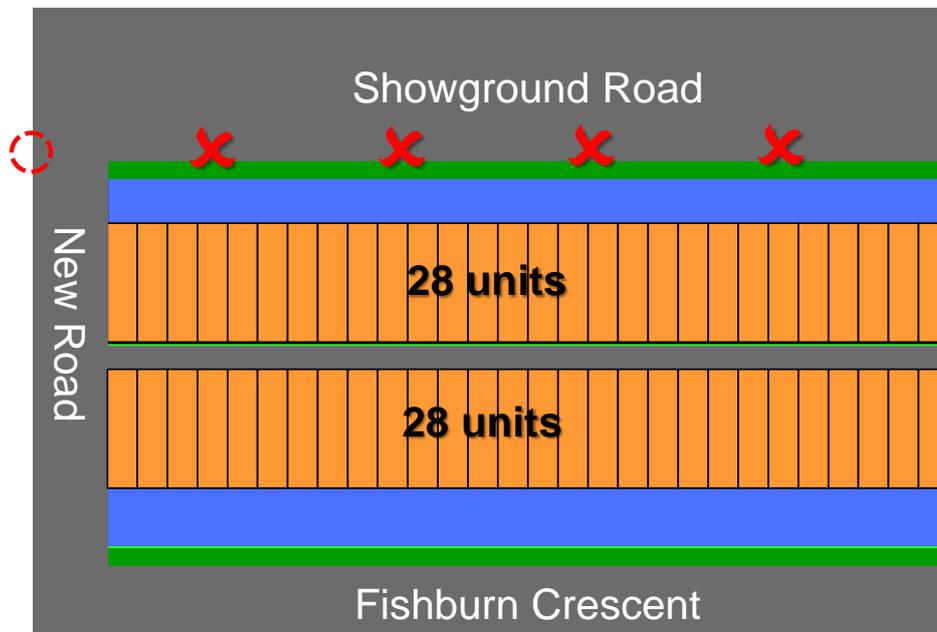
This means you only achieve 60% of the theoretical maximum, or 3.73 dwellings per 1,000m².

If you look at the Fishburn-Showground block you achieve a higher figure but no matter how you play with it, you cannot get above 5 dwellings per 1,000m².

You also have to recognise that Showground Road will effectively be a 'no-access' frontage in the future with cars going past every 4 seconds on average in the peak periods.

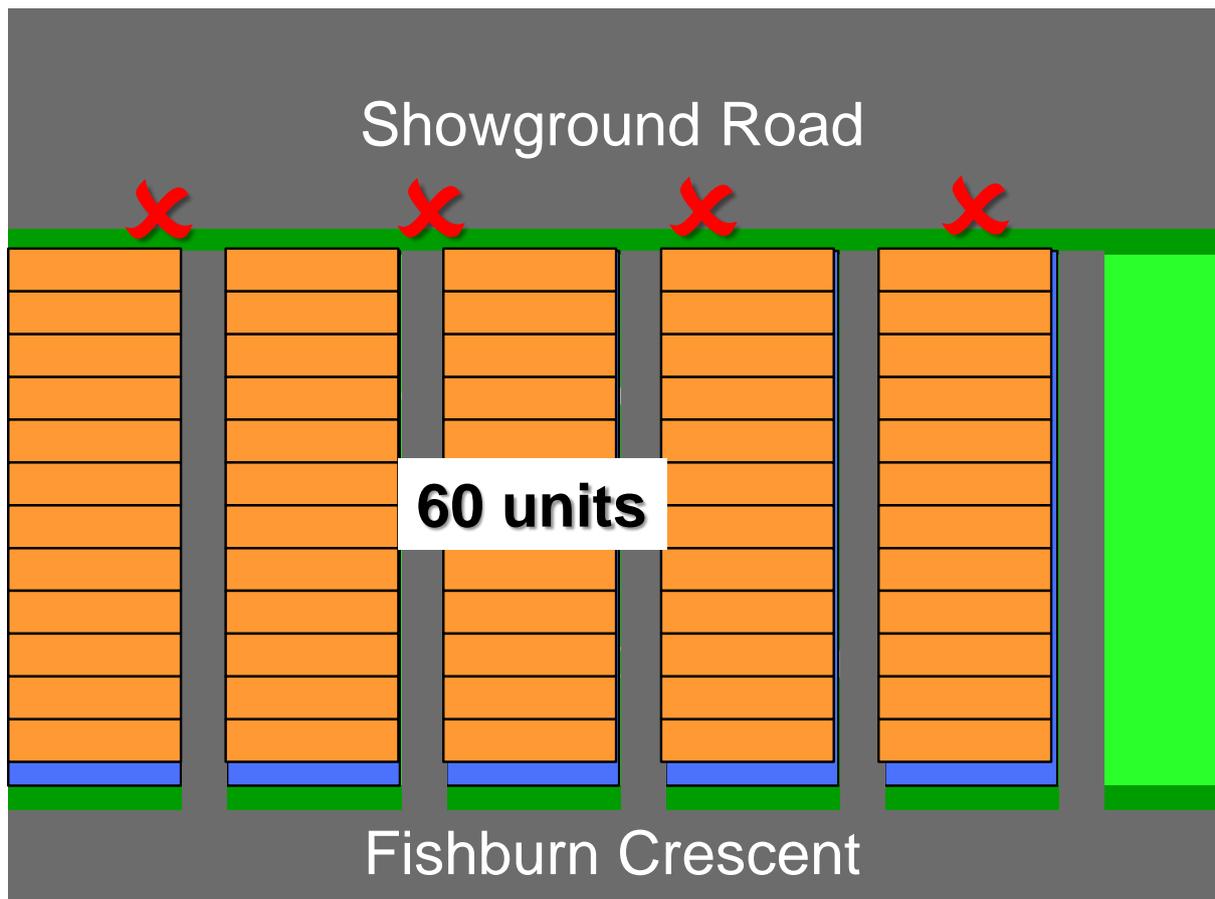


This first configuration is not really practical as it has a lane joining a fairly busy local road, which a Dept. of Transport representative has indicated would present traffic problems.



In this configuration you could achieve $56 / 78 = 72\%$ land use efficiency or 4.43 dwellings per 1,000m².

Another way to pack the terraces in would be as follows:



You would likely lose some area as the shape and size of the block would not be quite right for the developer, and even if we ignore all the solar access problems such a configuration would have, you could only achieve:

$$60 \div 78 = 77\%$$

Not 6.17 but 4.75

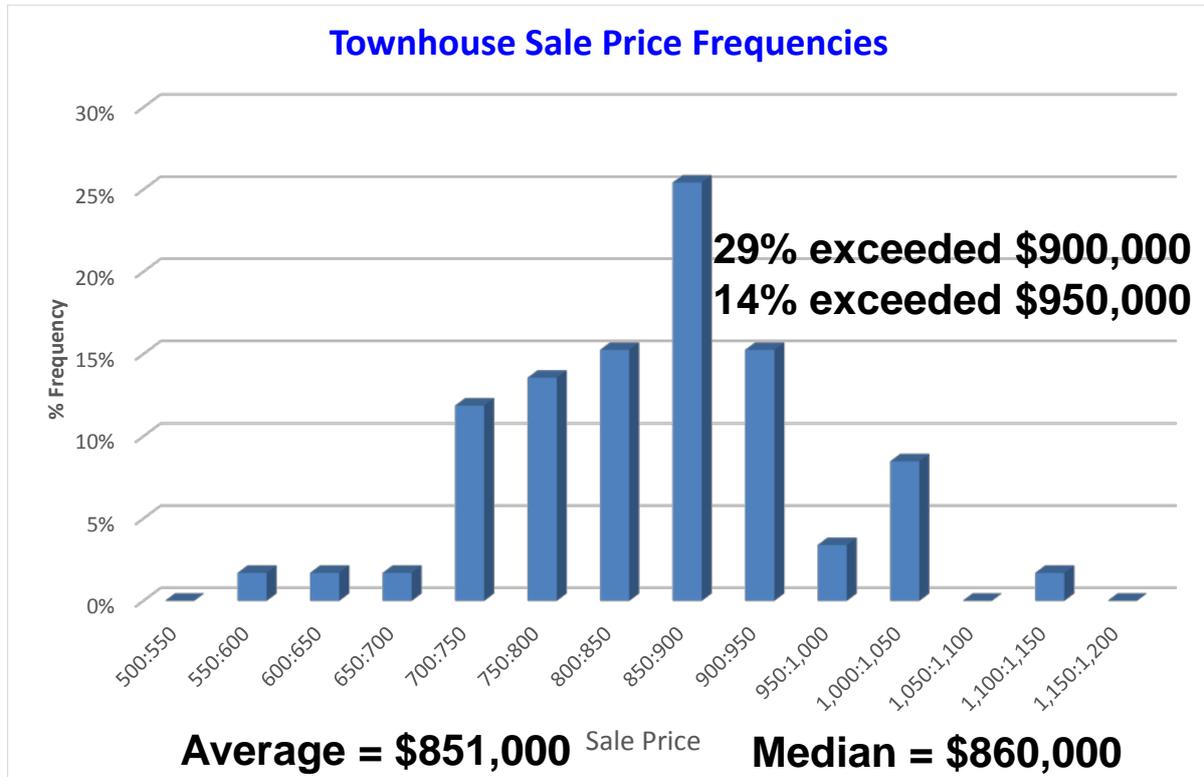
We have tried multiple different ways of packing units onto real blocks but in no way can you achieve any more than this sort of figure.

However **to be conservative, let's assume an absolute maximum yield of 5 units per 1,000m².**

\$850,000 is the likely price point for each terrace / townhouse

To estimate the likely retail value any property sold in this configuration, we have examined 59 townhouse sales in the Castle Hill suburb in the last 20 months (May 2014 to Jan 2016). www.realestate.com.au was again the source.

We found:

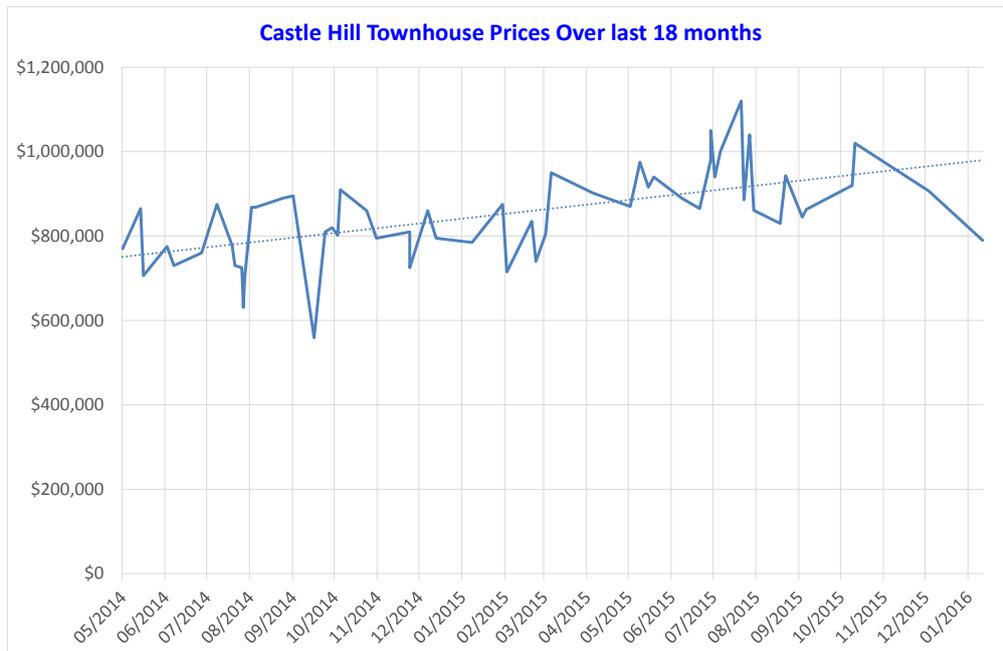


Note that the \$860,000 median in our figures is consistent with the \$861,000 in the Gilmour Real Estate brochure on page 9.

However note:

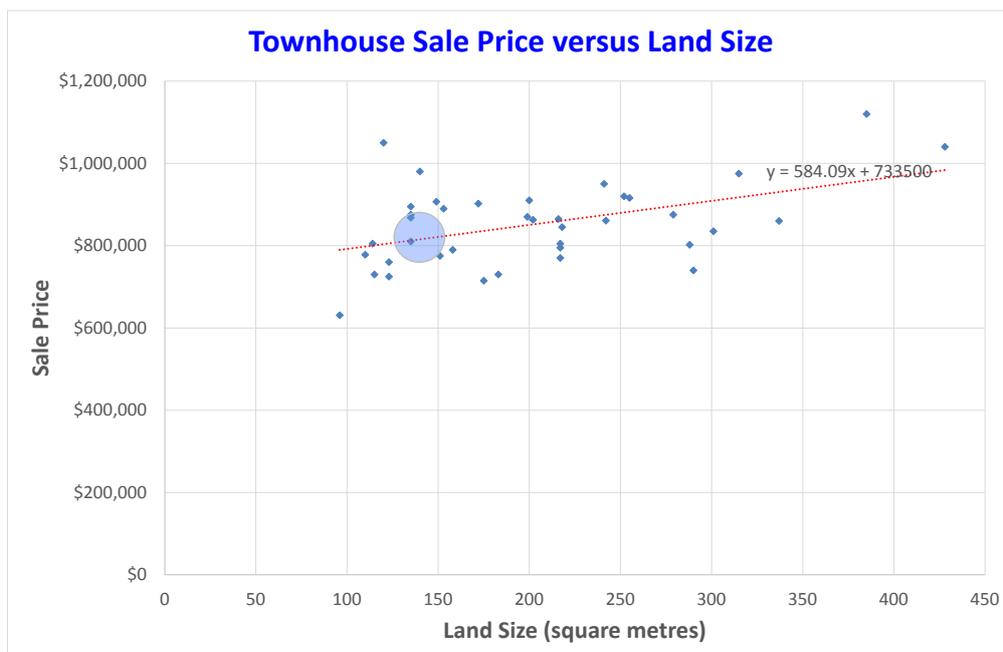
- Overall median and average around the \$850,000 mark, and
- Very few townhouses or attached dwellings above \$950,000.

If you look at over time, like the House prices illustrated on page 8, there has been an increase.



You will note that the increase is roughly \$200,000 over the 20 months, although the prices have pulled back a bit recently. In relative terms the increase in townhouse prices has not quite matched the increases in house prices over the same period, something that is consistent with long term trends.

More to the point however, if you plot the townhouse values against their land size then you see that the realistic pricing for a small 144m² for a terrace or row house is closer to \$800,000 rather than \$850,000, especially as it would have to be strata titled.



So for now let's use \$850,000 as a value that reflects on the generous way we are trying to treat the prospect of townhouses / terrace houses.

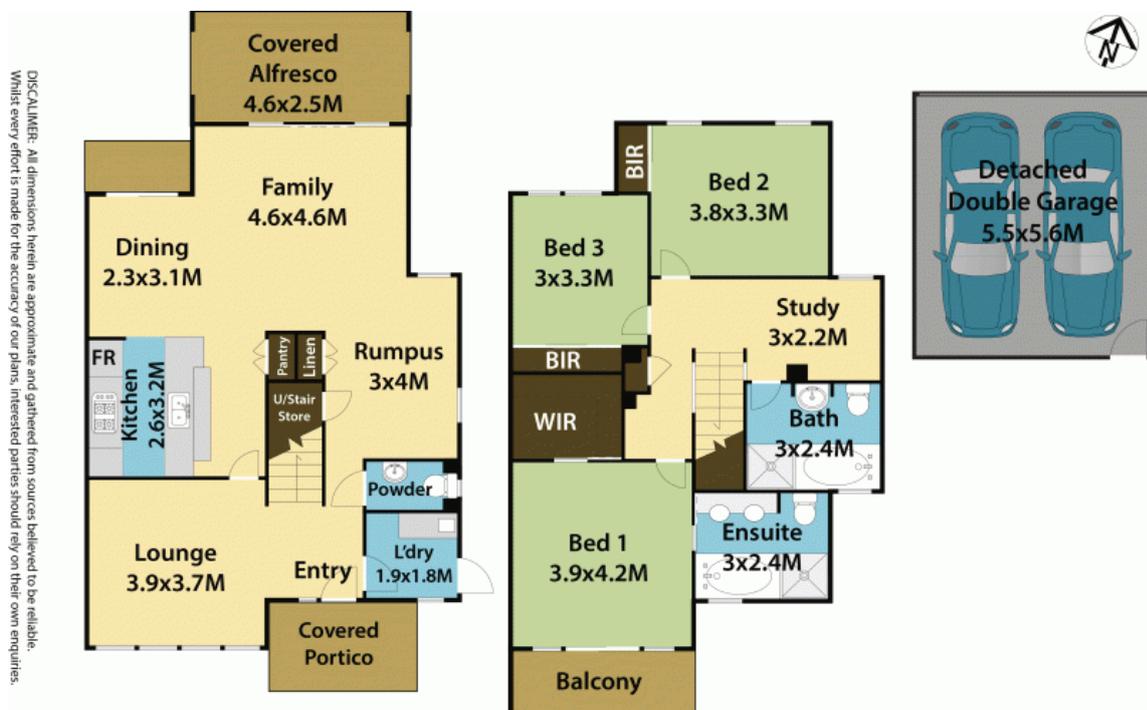
However before we accept this figure let's look at two other cases which might give a better result.

**247m² block, 250m² dwelling
3brm 2 car garage**

3brm 2 car garage

These townhouses achieved sale prices in excess of \$1.1m in nearby Bella Vista, which some might suggest is a 'premium' location relative to Castle Hill.

However note the two car detached garage for the one on the right. You cannot get five of these designs onto 1,000m²:



83 Brighton Dr, Bella Vista.



Equally for the first property, you cannot hope to achieve the same yield:



34 WATERSTONE CRESENT BELLA VISTA

DISCLAIMER
DIMENSIONS ARE APPROXIMATE AND SHOULD ONLY BE USED AS A GUIDE
THEY ARE NOT TO SCALE AND NO LIABILITY WILL BE ACCEPTED.



Land area is 247m²

247 / 144 = 71% more

Home area is 250m²

250 / 215 = 16% more

Sell pricing is:

1,125 / 850 = 32% more

**A lower rate per land sqm!
i.e. land up by 71%, price only 32%**

You would achieve a higher price, but a lower yield and a lower rate per square metre of land value.

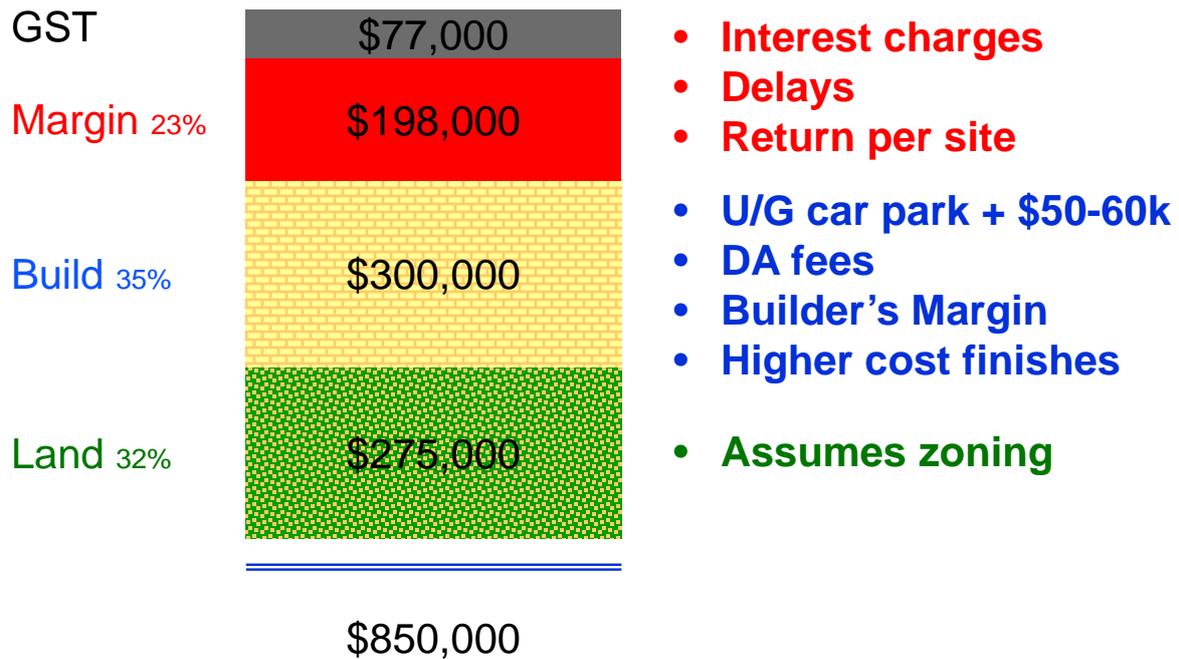
This all means that:

- The maximum reasonable price per dwelling would be \$850,000
- And the maximum yield would be 5 (being generous), and therefore that you could only hope for about 5 x \$850,000 per 1,000m², or \$4.25m – but how much would the landholder get?

\$275,000 per terrace / townhouse for the landholder

There are various ways to look at how much the landholder might achieve out of such a sale. One way is to take a third for the building cost, a third for the developer and GST and a third for the landowner.

We have tried to do a more detailed estimate based around a building cost of about \$300,000 and then half each of what is left for the developer (and GST) and the landowner.



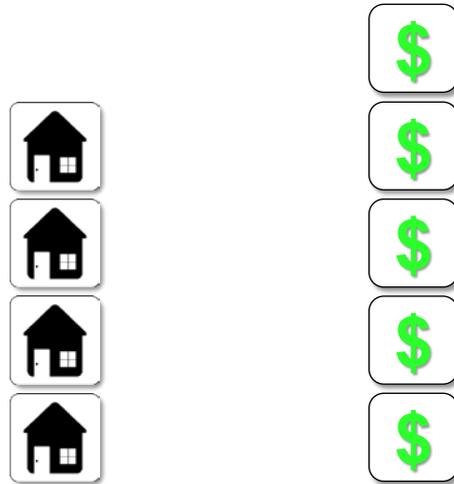
Remember also that:

- The landowner's share assumes confirmed zoning so no risk taken on that score by the developer
- The building cost could easily be increased through fees and other costs, substantially so if a double garage were included, and higher cost finishes are likely in a row house configuration.
- The developer has to also cover the risks as regards time and any delays. In the end they could be forgiven for feeling that apartment development would offer a better return.

So the landowner could expect about \$275,000 per dwelling and this is probably at the upper end of expectations.

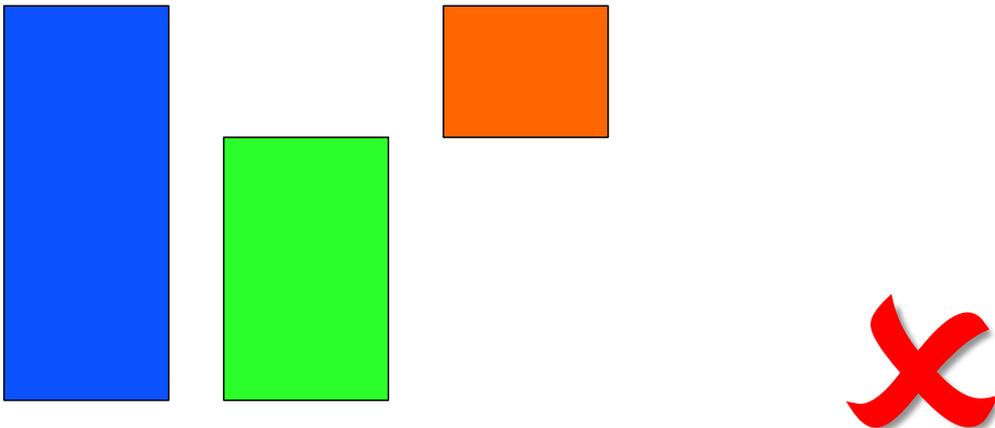
\$1,375,000 is NOT enough

So when it comes down to the final calculation, we can achieve, at best \$1,375,000 per 1,000m²:



$$\begin{array}{r} \text{Sell} = \text{Yield} \times \text{Unit Price} \\ \$1,375,000 \quad 5 \quad \$275,000 \end{array}$$

... and this means that:



$$\begin{array}{r} \text{Sell} - \text{Buy} = \text{Incentive} > \$750\text{k} \\ \$1.4\text{m} \quad \$1.5\text{m} \end{array}$$

It simply will NOT work. In fact the Sell price is less than the Buy Price!

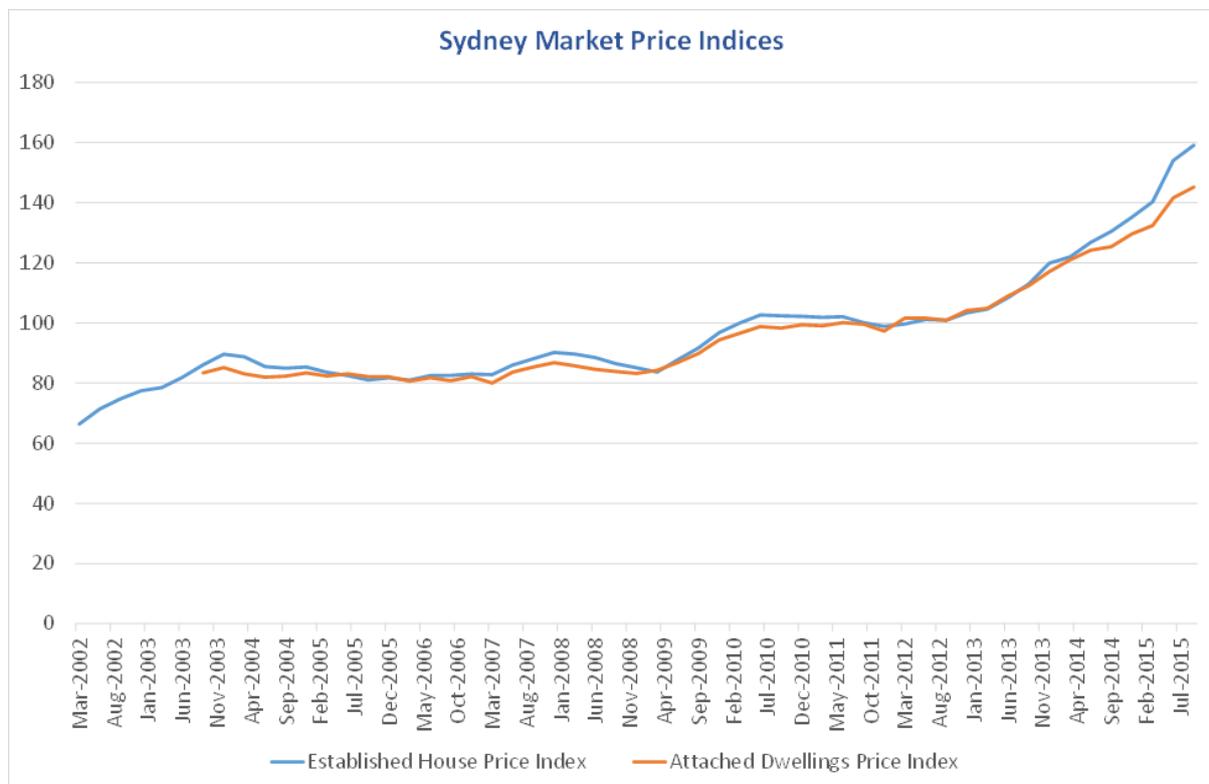
It will not work now and it won't work in the future either

It might be tempting to concede that the R3 zoning does not work in the short term, but that, "Oh well, it is a 20 year strategy and that it will sort itself out in the future."

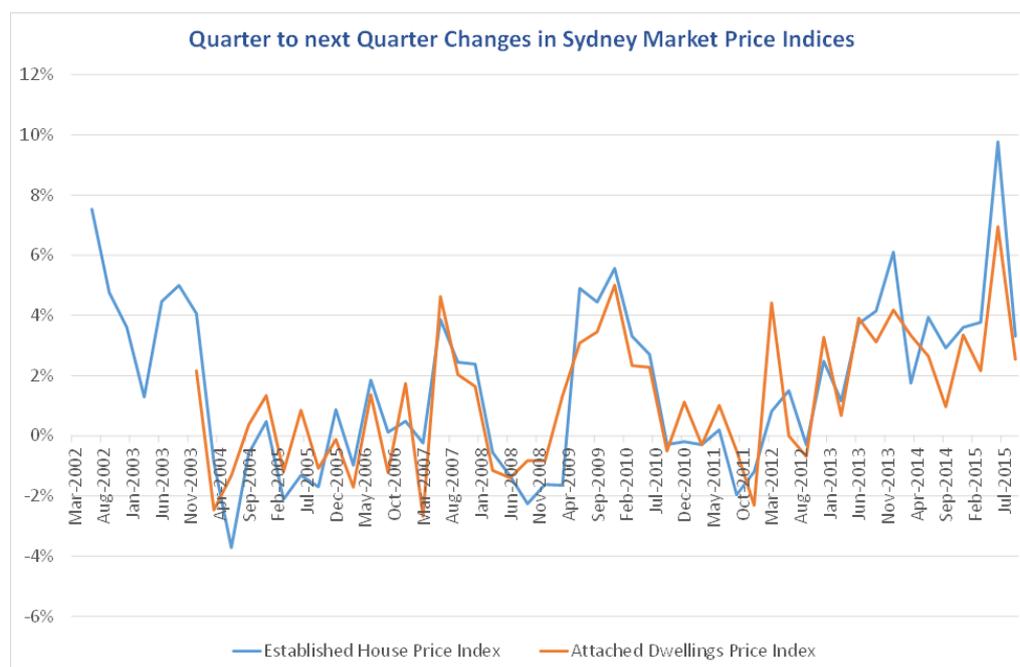
This would be particularly dangerous as:

- It flies in the face of the evidence (as we illustrate below), and
- You cannot hope to have a master plan implemented in a hodge-podge, bit by bit style of redevelopment. It needs to be master planned from the outset. There is no other way.

If you look at the ABS series for Established House Prices(HPI) versus Attached Dwelling Prices (ADPI) over the last 14 years, you will see that there have been some plateaus but there has been a general and sustained uplift over time:



If you look at the quarter to quarter increases then:



... you will see that occasionally attached dwellings might rise a little faster than established houses, but on average the annual growth for house prices over the last 14 years has been 5.3% for houses and 4.7% for attached dwellings, with attached dwellings only growing faster in slightly over a third of the quarters over the period.

If you look then at our original \$850,000 figure and its components and how they might grow (use 5.3% and 4.7% for houses and attached houses and a 3% CPI growth rate for building costs) then you see:

| | | | | | | | | | | | |
|------------------------------------|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| House price growth rate | | 5.30% | | | | | | | | | |
| Townhouse / unit price growth rate | | 4.70% | | | | | | | | | |
| CPI to apply to building cost | | 3.00% | | | | | | | | | |
| Year | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Buy Price | | 1,500,000 | 1,579,500 | 1,663,214 | 1,751,364 | 1,844,186 | 1,941,928 | 2,044,850 | 2,153,227 | 2,267,348 | 2,387,518 |
| Unit price | | 850,000 | 889,950 | 931,778 | 975,571 | 1,021,423 | 1,069,430 | 1,119,693 | 1,172,319 | 1,227,418 | 1,285,106 |
| Build cost | | 300,000 | 309,000 | 318,270 | 327,818 | 337,653 | 347,782 | 358,216 | 368,962 | 380,031 | 391,432 |
| Builder / Developer | | 275,000 | 290,475 | 306,754 | 323,877 | 341,885 | 360,824 | 380,739 | 401,678 | 423,693 | 446,837 |
| Land value | | 275,000 | 290,475 | 306,754 | 323,877 | 341,885 | 360,824 | 380,739 | 401,678 | 423,693 | 446,837 |
| Yield | | 5 | | | | | | | | | |
| Sale value | | 1,375,000 | 1,452,375 | 1,533,769 | 1,619,383 | 1,709,426 | 1,804,119 | 1,903,694 | 2,008,391 | 2,118,467 | 2,234,186 |
| Incentive | | -125,000 | -127,125 | -129,444 | -131,981 | -134,760 | -137,809 | -141,157 | -144,836 | -148,882 | -153,332 |

... the initial gap of \$125,000 only grows over the period.

If you assume that building costs stayed flat over the next 20 years, you cannot even create an incentive to fund the moving costs inside the next twelve years.

| | | | | | | | | | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| House price growth rate | | 5.30% | | | | | | | | | | |
| Townhouse / unit price growth rate | | 4.70% | | | | | | | | | | |
| CPI to apply to building cost | | 0.00% | | | | | | | | | | |
| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Buy Price | 1,500,000 | 1,579,500 | 1,663,214 | 1,751,364 | 1,844,186 | 1,941,928 | 2,044,850 | 2,153,227 | 2,267,348 | 2,387,518 | 2,514,056 | 2,647,301 |
| Unit price | 850,000 | 889,950 | 931,778 | 975,571 | 1,021,423 | 1,069,430 | 1,119,693 | 1,172,319 | 1,227,418 | 1,285,106 | 1,345,506 | 1,408,745 |
| Build cost | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Builder / Developer | 275,000 | 294,975 | 315,889 | 337,786 | 360,712 | 384,715 | 409,847 | 436,159 | 463,709 | 492,553 | 522,753 | 554,373 |
| Land value | 275,000 | 294,975 | 315,889 | 337,786 | 360,712 | 384,715 | 409,847 | 436,159 | 463,709 | 492,553 | 522,753 | 554,373 |
| Yield | 5 | | | | | | | | | | | |
| Sale value | 1,375,000 | 1,474,875 | 1,579,444 | 1,688,928 | 1,803,558 | 1,923,575 | 2,049,233 | 2,180,797 | 2,318,544 | 2,462,766 | 2,613,766 | 2,771,863 |
| Incentive | -125,000 | -104,625 | -83,769 | -62,436 | -40,628 | -18,353 | 4,383 | 27,570 | 51,196 | 75,248 | 99,710 | 124,562 |

The only way you can make the equation even partly attractive would be to hold house prices flat for 15-20 years and that is simply not going to happen.

| | | | | | | | | | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| House price growth rate | | 0.00% | | | | | | | | | | |
| Townhouse / unit price growth rate | | 4.70% | | | | | | | | | | |
| CPI to apply to building cost | | 3.00% | | | | | | | | | | |
| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Buy Price | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Unit price | 850,000 | 889,950 | 931,778 | 975,571 | 1,021,423 | 1,069,430 | 1,119,693 | 1,172,319 | 1,227,418 | 1,285,106 | 1,345,506 | 1,408,745 |
| Build cost | 300,000 | 309,000 | 318,270 | 327,818 | 337,653 | 347,782 | 358,216 | 368,962 | 380,031 | 391,432 | 403,175 | 415,270 |
| Builder / Developer | 275,000 | 290,475 | 306,754 | 323,877 | 341,885 | 360,824 | 380,739 | 401,678 | 423,693 | 446,837 | 471,166 | 496,737 |
| Land value | 275,000 | 290,475 | 306,754 | 323,877 | 341,885 | 360,824 | 380,739 | 401,678 | 423,693 | 446,837 | 471,166 | 496,737 |
| Yield | 5 | | | | | | | | | | | |
| Sale value | 1,375,000 | 1,452,375 | 1,533,769 | 1,619,383 | 1,709,426 | 1,804,119 | 1,903,694 | 2,008,391 | 2,118,467 | 2,234,186 | 2,355,829 | 2,483,687 |
| Incentive | -125,000 | -47,625 | 33,769 | 119,383 | 209,426 | 304,119 | 403,694 | 508,391 | 618,467 | 734,186 | 855,829 | 983,687 |

... and these are in future dollars which will be worth a lot less in today's dollars. You simply cannot make a case for selling now, not now and not in the next 20 years. You cannot hope to master plan or create large lots of land, with such a business case.

This is a once in a generation opportunity to get the zoning and the settings right. It won't happen again in our lifetimes. There is a golden opportunity with motivated and connected landowners, good ideas and goodwill. Please do not waste this opportunity.