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C/o - Harshane Kahagalle
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Dear Harshane

Subject: North West Priority Growth Area - Submission on Draft SEPP Changes

HillPDA have been engaged by Castle Developments to consider the impacts that the proposed changes to the State Environmental Planning Policy (Sydney Region Growth Centres) 2006 (Growth Centres SEPP) will have on landowners and housing supply, with particular reference to the Riverstone East and Area 20 Precincts in the Blacktown Local Government Area, and make the following observations.

The following sites owned by Castle Developments are located within the Riverstone East and Area 20 Precincts:

- 119 Cudgegong Road, Rouse Hill; and
- 95 Tallawong Road, Rouse Hill.

Proposed SEPP Changes

Under the Growth Centres SEPP, lots within the Area 20 and Riverstone East precincts of the North West Priority Growth Area are subject to minimum density requirements. Lots zoned R3 Medium Density Residential are required to have a minimum density of 25 dwellings per hectare, excluding some lots within approximately 500m of the forthcoming Cudgegong Road and Rouse Hill Metro stations, which are required to have a minimum density of 45 dwellings per hectare.

The proposed amendments to the SEPP would replace these controls with density ranges of 25 – 35 dwellings per hectare for R3 Medium

Density Residential zonings, excluding some lands identified around the Metro station sites where a density range of 55 – 100 dwellings per hectare would apply.

Along with reducing the potential quantum of housing that could be provided in the precincts, the proposed amendments to the SEPP would have a range of other potentially adverse impacts:

- Implications for development feasibility for landowners and developers who had paid for land on the assumption of a higher development yield than achievable under the revised SEPP;
- Restricting the ability for developments to viably incorporate significant levels of affordable housing provision;
- Discouraging housing diversity, as given the lower potential yields developers will favour the provision of larger dwellings with higher price points to maximise returns;
- Undermining affordability more generally by encouraging a shift in the typology mix towards dwellings at higher price points;
- Reducing the potential for housing delivery with good accessibility to centres and jobs; and
- Constraining the ability for developments to contribute to the cost of infrastructure provision.

Implications for Development Feasibility

Under the existing controls a typical 5 acre (2 hectare) block within walking distance of a future Metro station would have been looking to develop approximately 240 dwellings on site. The density controls proposed in the draft amendments to the Growth Centres SEPP would see this figure drop to a maximum of around 70 dwellings (35 dwellings per hectare) on the same size block.

Table 1 provides a simple illustration of the impact this would have on a project's feasibility. Under Option A, the developer builds 240 apartments and under Option B the developer builds 70 apartments. Option C demonstrates that the developer could increase their returns by providing townhouses, rather than units, at significantly higher price points.

A review of the sales history of R3 zoned sites sold since 2015 shows that R3 zoned sites have sold from as little as $125/sqm to in excess of $1,600/sqm, depending on locational attributes. For the purpose of this exercise, a value of $400/sqm has been assumed. Based on a market appraisal of recent sales of flats and townhouses in surrounding suburbs, an end sales price of $625,000 for a 2 bedroom unit and $800,000 for a 3 bedroom townhouse was assumed. Construction costs (excluding soft costs) were assumed at $350,000 per unit and $400,000 per townhouse.

For each option the development profit and margin was calculated with and without a provision for a 5% gifting of the yield as affordable housing.

Table 1: Impact of amended SEPP on Project Feasibility

Financial Feasibility Breakdown	Option A	Option B	Option C
Dwellings per 5 acre site	240	70	70
COSTS			
Land Cost @ $400/sqm	$8,000,000	$8,000,000	$8,000,000
Stamp Duty	$520,000	$520,000	$520,000
Planning & DA costs	$300,000	$200,000	$200,000
Design and Construction costs	$84,000,000	$24,500,000	$28,000,000
Contingency @ 5%	$4,200,000	$1,225,000	$1,400,000
Council Contributions @ $20,000/dwelling	$4,800,000	$1,400,000	$1,400,000
Land Holding Costs	$200,000	$200,000	$200,000
Interest and Finance Costs @ 6% p.a.	$8,821,800	$2,884,050	$3,214,800
Total Development Costs	$110,841,800	$38,929,050	$42,934,800
REVENUE			
Gross Realisations	$150,000,000	$43,750,000	$56,000,000
GST (margin method)	-$12,909,091	-$3,250,000	-$4,363,636
Commissions @ 2%	-$3,000,000	-$875,000	-$1,120,000
Marketing Costs @ 1%	-$1,500,000	-$437,500	-$560,000
Net Realisations	$132,590,909	$39,187,500	$49,956,364
RETURN WITH NO AFFORDABLE HOUSING			
Development Profit	$21,749,109	$258,450	$7,021,564
Development Margin	19.6%	0.7%	16.4%
RETURN WITH 5% AFFORDABLE HOUSING			
Development Profit @ 5% Affordable Housing	$15,155,927	-$1,664,561	$4,560,109
Development Margin	13.7%	-4.3%	10.6%

Table 1 demonstrates that for the development to be feasible at the reduced yield the developer would need to provide dwellings at higher price points than that being achieved for units.

Some sites within walking distance of a future Metro station sold for significantly higher values than $400/sqm. At $600/sqm, a developer would have been looking to provide at least 350 units under Option A for an equivalent project to achieve a 17% development margin, 150 more than allowed under the amended SEPP at the higher provision of 100 dwellings per hectare for some identified sites around the stations.

Table 1 suggests that at the proposed maximum densities there would be little scope for developers to include an affordable housing provision.

Impact on Housing Affordability

As a result of the density controls proposed in the draft amendments to the Growth Centres SEPP, which limits the number of dwellings permissible on a site, developers in the North West Priority Growth Area will seek to maximise returns on their reduced potential yields. This is likely to result in an increase in the provision of higher specification and larger dwellings which will sell for higher prices than smaller dwellings. In particular, it is likely to result in a shift in the composition of dwellings from units towards townhouses, and as such result in a reduction in the supply of 1 and 2 bedroom dwellings.

A review of sales prices for townhouses under construction or recently built in The Ponds, Kellyville Ridge, Schofields and Rouse Hill suggests that a typical 3 bedroom, 2 bathroom townhouse is currently achieving a sales value upwards of $800,000.

In contrast, units with 2 bedrooms, 1 bathroom and 1 car space are achieving sales values of around $625,000. The recent changes to the NSW Government's first home buyer's policy mean that dwellings up to $650,000 are now exempt from stamp duty. The provision of a significant number of units within the Area 20 and Riverstone East precincts could therefore provide an affordable entry point for first home buyers. Moreover, there are very few locations within the Sydney Metropolitan area where a 2 bedroom unit can be purchased that is not just affordable but is in close proximity to a major regional centre (Rouse Hill) and to a (future) rail station with good accessibility into the Sydney CBD.

While there has been a strong phase of unit construction around future Metro stations at Kellyville and Bella Vista in the Hills Shire LGA, the median price for a strata unit in the Hills Shire LGA is approximately 50% higher than in the Blacktown LGA[1] . Therefore for first home buyers wishing to enter the northwest market, including those that have grown up in the Hills Shire, the lands within walking distance of Cudgegong Road Metro Station provide the only real

[1] NSW Department of Family and Community Services: Rent and Sales Report 118

opportunity for an affordable entry point – with good access to amenities and employment – in the region.

As a consequence of the squeeze on development returns – and in some instances the undermining of the financial viability of projects – the ability of developments to incorporate affordable housing will also be constrained as a result of the proposed amendment to the SEPP.

Impact on Housing Diversity

Table 2 illustrates the percentage of stock within the Blacktown LGA as at Census 2011 that was underutilised, where an underutilised dwelling is defined by the Australian Institute of Health and Welfare as having 2 or more bedrooms surplus to the household requirements.

Table 2 shows that, as at 2011, 25% of stock in the Blacktown LGA with four or more bedrooms was underutilised and 16% of stock with three bedrooms. Table 2 shows a similar picture in the neighbouring Hill Shire LGA.

(As at 2011 units comprised just 5% of total stock within the Blacktown LGA. However, the intervening period has seen a strong phase of unit construction, including around Rouse Hill and Kellyville Ridge, suburbs adjacent to the Area 20 Precinct.)

Table 2: Underutilisation of dwellings in the Blacktown and Hills Shire LGAs

	Blacktown LGA			Hills Shire LGA		
	Total No. Dwellings	Share of Total Dwellings*	% underutilisation	Total No. Dwellings	Share of Total Dwellings*	% underutilisation
House:						
Three bedrooms	39,813	43%	17%	10,902	21%	15%
Four or more bedrooms	32,072	34%	25%	32,264	61%	29%
Semi Detached:						
Three bedrooms	6,598	7%	16%	3,449	6%	18%
Four or more bedrooms	1794	2%	21%	821	2%	37%
Flat, unit or apartment:						
Three bedrooms	325	1%	13%	735	1%	18%
Four or more bedrooms	45	0.1%	44%	45	0.1%	49%
Total*						
Three bedrooms	46,736	50%	16%	15,086	28%	16%
Four or more bedrooms	33,911	36%	25%	33,130	62%	29%

Source: ABS Census 2011; *excludes other dwellings and dwellings not specified

Looking ahead, Table 3 shows that between 2016 and 2036 there are projected to be an additional 26,800 households comprising a couple without children or a lone person in the LGA. This constitutes 43% of the total projected growth in household types over the next 20 years.

Table 3: Household Composition Projections, Blacktown LGA

HOUSEHOLD TYPE:	Household Projections			
	2016	2036	Increase 2016-2036	Contribution to Growth
Couple only	22,500	35,700	13,200	21%
Couple with children	52,450	74,850	22,400	36%
Single parent	17,250	27,450	10,200	16%
Other family households	2,000	2,900	900	1%
Multiple-family households	3,150	4,750	1,600	3%
Total family households	***97,350***	***145,700***	***48,350***	***77%***
Lone person	16,400	30,000	13,600	22%
Group	2,050	2,950	900	1%
Total non-family households	***18,500***	***32,950***	***14,450***	***23%***
Total	**115,800**	**178,650**	**62,800**	**100%**

Source: ABS Census 2011; excludes other dwellings and dwellings not specified

Source: Department of Planning and Environment: 2016 NSW population and household projections

The freeing-up of underutilised dwellings has an important role to play in tackling housing affordability. The provision of suitable 1, 2 and 3 bedroom dwellings will enable households whose adult children have moved out to downsize from their large family homes while remaining in the area; thereby, freeing up larger properties for young families. Properties with fewer bedrooms will also be attractive to professionals without children and to smaller families, including with a constrained budget.

Integrated Transport and Land Use Planning Opportunities

Major locational attributes which make unit living appealing include proximity to amenities, employment and transport. The future Cudgegong Road and Rouse Hill Metro stations provide these opportunities. However, land zoned within a walking catchment of these stations – typically defined as within 800m – will now be impacted by the proposed amendments to the SEPP. Some of these sites will be subject to a maximum density of just 35 dwellings per hectare.

Local and regional planning strategies emphasise the importance of transit oriented developments (TODs) in accommodating future population growth and in providing diverse and affordable housing options. TODs also support economic productivity by encouraging public transport use over private vehicles and thereby reducing travel times. By reducing the number of dwellings that can be provided within a walking distance of the two Metro stations, and by encouraging developers to provide larger dwellings with multiple car spaces, the amended SEPP is likely to encourage greater per capita car usage than would be provided under the existing controls.

Finally, the lower yields within a walking distance of the two Metro stations under the amended SEPP will constrain the ability for new developments to contribute to the significant cost of infrastructure provision in the North West Priority Growth Area.

Sincerely

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APPENDIX A: SALES EVIDENCE

Address	Suburb	Type	Build date	Beds	Parking	Sales Price	Sales Date
17/12 Merriville Road	Kellyville Ridge	Unit	2016	2	2	$610,000	Jun-17
20/12 Merriville Road	Kellyville Ridge	Unit	2016	3	2	$692,000	Apr-17
17/11 Kilbenny Street	Kellyville Ridge	Unit	2006	2	1	$579,000	May-17
18/18 Kilbenny Street	Kellyville Ridge	Unit	2008	3	2	$671,000	Apr-17
12/17 Kilbenny Street	Kellyville Ridge	Unit	2008	2	1	$610,000	Jan-17
42/9 Kilbenny Street	Kellyville Ridge	Unit	2004	2	1	$540,000	Oct-17
16/11 Kilbenny Street	Kellyville Ridge	Unit	2006	2	1	$610,000	Mar-17
34/17 Kilbenny Street	Kellyville Ridge	Unit	2013	3	2	$655,000	Apr-17
7/53 Waterford Street	Kellyville Ridge	Unit	2011	3	2	$675,000	Nov-17
40/16 Kilmore Street	Kellyville Ridge	Unit	2012	2	2	$655,000	Apr-17
19/16 Kilmore Street	Kellyville Ridge	Unit	2012	2	1	$606,000	Nov-16
4/16 Kilmore Street	Kellyville Ridge	Unit	2012	2	1	$603,000	Sep-16
23/6A Merriville Road	Kellyville Ridge	Unit	2017	2	1	$600,000	May-17
17/12 Merriville Road	Kellyville Ridge	Unit	2016	2	2	$610,000	Apr-17
20/12 Merriville Road	Kellyville Ridge	Unit	2015	3	2	$692,000	Mar-17
33/12 Merriville Road	Kellyville Ridge	Unit	2015	2	1	$615,000	Apr-17
21/12 Merriville Road	Kellyville Ridge	Unit	2015	2	1	$620,000	Apr-17
155 Sanctuary Drive	Rouse Hill	Unit	2013	3	2	$885,000	Jan-17
11 Diver Street	The Ponds	Townhouse	2013	2	1	$706,000	Sep-16
49 Drift Street	The Ponds	Townhouse	2012	2	1	$695,500	Dec-16
11 Glory Street	Schofields	Townhouse	2015	3	2	$760,000	May-17
7/53 Waterford Street	Kellyville Ridge	Townhouse	2017	3	2	$675,000	Nov-17
200 Bridge Street	Schofields	Townhouse	2017	3	2	From $795,000	Selling off the plan
200 Bridge Street	Schofields	Townhouse	2017	3	2	From $800,000	Selling off the plan
43 Freshwater Road	Rouse Hill	Townhouse	2017	3	1	$895,000	Selling off the plan
102-104 Burdekin Road	Schofields	Townhouse	2017	4	2	$699,990	Selling off the plan
29-33 Mile End Road	Rouse Hill	Townhouse	2017	3	2	From $885,000	Selling off the plan
Lot 18/79 Hambledon Road	Schofields	Townhouse	2017	4	1	$749,990	Selling off the plan