

22 November 2017  
16014

The General Manager  
City of Canada Bay Council  
Locked Bay 1470  
Drummoyne NSW 1470

Attention: Mr Paul Dewar

Dear Paul

## **DRAFT RHODES EAST AFFORDABLE HOUSING PROGRAM & SECTION 94 PLAN 'GATEWAY SITE' - 13-27 BLAXLAND ROAD, RHODES EAST**

This submission has been prepared on behalf of Ecove Group Pty Ltd with respect to land at No. 13 – 27 Blaxland Road, Rhodes East (the 'site'). It is submitted to the City of Canada Bay Council (Council) in response to its exhibition of the following documents:

- draft Rhodes East Affordable Housing Program; and
- draft Canada Bay Development Contributions Plan.

We note that this submission reflects the issues raised in our submission to the NSW Department of Planning & Environment (DPE) on the draft Rhodes East Priority Precinct Plans. We look forward to working with the Council and the State Government to resolve these issues and progress with this potentially ground-breaking project.

### **1.0 Affordable housing**

Council's draft Rhodes East Affordable Housing Program proposes 5% of all residential floor space to be dedicated to Council at no cost. Ecove Group supports the principle and aim of affordable housing. However, in its current form, the draft Program put forward by Council is not viable on the site.

#### **1.1 Feasibility modelling**

No feasibility modelling has been undertaken to demonstrate that the 5% affordable housing requirement is feasible on the site under the draft controls. The 'Evidence Report' prepared by Hill PDA for Council uses a *"residual land value model based on a hypothetical building of 40 apartments on a hypothetical site with an acquisition cost of \$7m"* to demonstrate feasibility. Whilst this approach can be applied to parts of the Rhodes East, I am sure Hill PDA would agree that it is too simplistic to extrapolate this to a complex, mixed use project such as the Gateway Precinct. As such, the following matters need to be addressed in any feasibility modelling that applies specifically to the site:

- the sales rate per m<sup>2</sup> is too high and does not factor in the zero-parking position (refer to 1.2 below). We expect that this change alone would bring into question the viability of affordable housing;
- the construction cost for high rise buildings is 30-35% higher than the 6-storey typology based on the 2017 RLB construction rates (see **Attachment A**);
- the site is an amalgamation of 13 properties. The acquisition cost nominated by Hill PDA does not reflect this extent of acquisitions and the associated premiums that are required to enable such an amalgamation;
- site specific construction and authority coordination costs and delays associated with delivery of bridge and/or school need to be factored in;
- the construction period needs to be adjusted to be around 36 months vs the 16 months for the 40-unit project; and
- no consideration of GST impost on developer transferring title to Council.

The creation of housing with no parking in itself automatically creates affordable housing as their value is less and they seek a lower rental rate where no parking is provided.

## 1.2 Impact of zero parking on sales revenue

The Hill PDA feasibility that supports the draft plans and purports to claim that the proposed affordable housing provision is feasible does not take into account the reduced parking rate in terms of the projected revenue rates and construction time frames. The Rhodes East Property Market Appraisal and Development Feasibility (May 2016) prepared by Hill PDA assumes revenue rates (generally around \$11,500 per m<sup>2</sup>) based comparable sales in the locality. All of the comparables used have a parking rate of around 1 space per unit, not zero parking. This approach is misleading and inconsistent with the Department's emphasis on 'evidence based planning'. The following example illustrates the impact of the parking on sales revenue:

Address:	303/36 Shoreline Drive, Rhodes
Sale date:	17 February 2017
Parking:	Nil
Internal area:	65.8m <sup>2</sup>
Sale price:	\$568,000
Sale rate:	\$8,632 per m <sup>2</sup>

The following comparable sales are from within the same street, however all of which have 1 parking space. This illustrates that a comparable unit without parking needs to be discounted by a factor of 20-25%. To have any credibility, the modelling needs to be rerun taking this into account. In addition, the impact of zero parking is likely to mean that holding costs are higher than normal due to longer sales periods given the untested depth of the market for such as substantial number of units being sold without parking.

Address:	307/14 Shoreline Dr	304/18 Shoreline Dr	311/43 Shoreline Dr	314/9 Shoreline Dr	303/36 Shoreline Dr
Sale Date:	22/08/2016	20/01/2016	19/01/2017	21/01/2017	17/02/2017
Parking:	1	1	1	1	0.00
Internal Unit Area:	60	60	55	56	65.80
Sale Price:	\$ 685,000	\$ 645,000	\$ 638,000	\$ 605,000	\$ 568,000
Sale Rate / sqm:	\$ 11,417	\$ 10,750	\$ 11,600	\$ 10,804	\$ 8,632
Comparable Sale rate with no parking	\$ 8,632	\$ 8,632	\$ 8,632	\$ 8,632	
Discount for no parking	24%	20%	26%	20%	

### 1.3 Overall impact on affordability of dedication at no cost

Given that the requirement for affordable housing is now proposed to be introduced retrospectively - well after the announcement of the Rhodes East Priority Precinct, the ability to transfer the additional cost of the requirement onto landowners is limited. The following example illustrates the overall impact on affordability of Council's proposed approach of 'dedication at no cost'. For simplicity purposes, this example uses all the assumptions outlined in the Hill PDA 'Evidence Report' without any adjustments.

A 400-unit project with 5% (20 units) that are to be dedicated to Council at no cost. The developer is responsible for all costs associated with the creation and delivery of this 5% affordable housing – this equates to around \$720,000 per unit (see below):

	per unit
Gross revenue	967,000
Less: GST & selling costs	(112,000)
Net revenue	855,000
Less: project costs	(720,000)
Development profit	135,000
Development margin on cost	18.75%

Embedded within the cost of delivery is the SIC levy, Section 94 contributions and GST liability. The total cost to deliver the 5% equates to **\$15,840,000** being:

Project costs: 20 units x \$720,000	\$14,400,000
Non-recoverable GST (approx.)	\$1,440,000

The \$15,840,000 of cost spread across the remaining 380 (95%) of units equates to additional **\$41,684** per unit cost increase - assuming the market can absorb such a price increase. This per unit cost is net of GST and selling costs and the real impact is closer to **\$46,686** (12% for GST and selling commissions).

It is acknowledged that once the 5% requirement is common place, landowners will be forced to adjust their expectations and this cost will be absorbed into the purchase price for land. However, this process will take a number of years to take place – hence why the Greater Sydney

Commission is advocating the transition of affordable housing policies at the local level. One must question the wisdom of making 95% of housing more expensive for the benefit of the 5%.

It is clear that Council stands to benefit the most from this draft program, rather than future home buyers. Council will retain the asset value of some 150 – 180 units that it can borrow against and will retain the rental return, less standard management fees, that it may or may not spend on affordable housing within the LGA.

#### 1.4 An alternative model for affordable housing delivery

An alternative approach is outlined below. This approach would deliver the same 5% affordable housing outcome, managed by a Community Housing Provider (CHP) in perpetuity, however without the need for the remaining 95% of dwellings to carry the additional cost.

Under this approach, the 5% affordable housing units are identified on title (ie 88b instrument or similar) as being 'affordable' and required to be managed by a registered CHP. They are sold with the restriction in place thereby reducing their value. They may be sold individually or in one line to an institutional investor. In this case, the developers cost of delivery per unit is \$720,000 as illustrated below. The difference is the majority of costs are recouped by the developer and therefore do not need to be passed on to the purchases on the remaining 95% of units.

	per unit	20 units
Gross revenue (sale price reduced by 20%)	773,600	15,472,000
Less: GST & selling costs	(89,600)	(1,792,000)
Net revenue	684,000	13,680,000
Less: project costs	(720,000)	(14,400,000)
Development profit (loss)	(36,000)	(720,000)

#### 1.5 Inconsistent with Greater Sydney Commission Guidelines

The draft Affordable Housing Program is inconsistent with the Greater Sydney Commission's current guidelines for affordable housing in that it is proposed to be applied to all residential floor space. The guidelines, which are reiterated within the draft Sydney Region Plan (November 2017), state that affordable housing is to only apply to 'uplift' residential floor space. As such, any affordable housing requirement is to factor in the current 1.5:1 FSR on the site.

#### 1.6 Impact on delivery of other community infrastructure

The Gateway Site, unlike others in the precinct, is expected to do the 'heavy lifting' when it comes to the delivery of other community infrastructure for the broader Rhodes East precinct such as

- a potential primary school;
- the Concord Road land bridge;
- the Rhodes East Fire Station replacement; and
- bus passing bays on Concord Road.

We ask Council to take this into account when it is applying its Affordable Housing requirements. A 'one size fits all' approach may not deliver the best planning outcome for the precinct.

## 2.0 Local (Section 94) contributions

The local contribution rates within the draft Plan are reasonable. We do request that it is made clear within Council's draft Plan that a credit is provided for existing development on a site. This is consistent with case law and the published DPE guidelines on local contributions.

The required on-site plaza 'Gateway Arcade' has not been included within the local works schedule within the Section 94 Plan. We assume this is an oversight as a VPA may not be agreed upon. The area of the plaza equates to approximately 720m<sup>2</sup> of publicly accessible open space. The value of the imposition on the land (assumed public access ROW or stratum dedication) and the cost of embellishment needs to be incorporated within the Plan.

## 3.0 Summary

The feasibility assumptions that are relied upon to justify the draft Plan and the proposed affordable housing requirement need to be recast to better reflect the circumstances of the site, rather than a hypothetical analysis of a different development typology. Whilst Ecove Group supports the principle and aim of affordable housing, the significant impact has on the project feasibility has not been appreciated in the draft Plan.

We look forward to working with Council to resolve these issues and to progress to a scheme that is feasible, of high quality urban design and one that delivers community infrastructure in a manner yet seen in Sydney.

Should you have any questions regarding the above, please contact me as per the details below.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'BG' followed by a stylized flourish.

**Bernard Gallagher**  
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Encl. Attachment A: RLB Construction rates (2017)