21 May 2021

Felicity Lewis
Studio GL

Sent via email: flewis@studiogl.com.au

Dear Felicity

Re: Kiama Town Centre DCP Review - Economic Feasibility Testing

Studio GL is carrying out a review of the Kiama Town Centre development controls on behalf of Kiama Council (Council). The review of development controls will inform the Kiama Development Control Plan (2020).

Background

The Kiama Town Centre Study (Studio GL, 2019) was prepared to assist Council with planning for growth in the town centre that builds on Kiama's unique qualities and character. The KTC Study identified the need to ensure the architectural quality of buildings in the Town Centre are of a high calibre as they have significant impact on its overall appearance and character.

The Study focused on the Town Centre as illustrated in **Figure 1**. The majority of the Study Area is zoned B2 Local Centre under the Kiama Local Environmental Plan (2011).

Figure 1: The Study Area

Source: Kiama Council

The KTC Study was endorsed by Council as a guiding document for future strategic planning and plan-making functions within the Town Centre. The review of development controls builds on the findings and recommendations of the KTC Study and has the key objective of providing DCP controls that guide the development of new buildings.

Atlas Urban Economics ('Atlas') has been engaged to carry out an economic feasibility analysis (the Study) to support the review of planning and development controls in the Kiama Town Centre. The Study will provide input to assist Council understand sustainable and viable built form and development controls that can be implemented.

Scope and Approach

To fulfil the requirements of the brief, the Study reviewed the viability of select development typologies on sites of interest within the Study Area. The development typologies reviewed include:

- Mixed use development (with shop top housing);
- Commercial development;
- Residential development.

Atlas reviewed draft concept schemes prepared by Studio GL and carried out feasibility analysis to identify:

- If the proposed development controls and associated built form controls are feasible.
- If not viable, the key contributing factors and recommendations to improve viability of the development controls.
- Alternate controls and planning initiatives that could contribute to the objectives of appropriate and sustainable growth.

Assumptions and Limitations

The Study carried out property market and land use research at an aggregate level. Feasibility analysis was carried out on generic development typologies with findings considered to be representative for the Study Area.

While the methodology is considered appropriate for the objectives of the Study, we highlight the limitations to an aggregate study such as this. These include:

- Desktop appraisal of 'as is' property values without internal or site inspections.
- Use of site-specific feasibility analysis to infer precinct-wide implications.
- Generic feasibility analysis does not consider nuances of a site typically considered in detailed feasibility analysis.

We highlight that this Study does not carry out retail economics investigations into the trading opportunity for retail facilities (e.g. supermarket, retail specialties, etc.). Matters such as retail floorspace demand, retail impact and retail rental potential have not been considered.

Construction cost estimates relied upon are based on published cost indices and past experience. A quantity surveyor has not been engaged to provide cost advice.

Despite the adoption of various assumptions and the limitations of the Study, the analysis is considered to be instructive in understanding the context of the Study Area, and specifically the implications for development feasibility. More detailed feasibility analysis will be required on some sites, particularly where cost implications and trading potential is unknown.

Economic Feasibility Testing

The section examines the development feasibility of draft concept schemes of select sites in the Study Area.

Sites Reviewed

Table 1 provides a summary of the nominated sites and their testing objectives.

Table 1: Nominated Sites, Feasibility Testing Objectives

Site (Address)	Background and Testing Objectives
Site A - Akuna St Carpark (55-61 Shoalhaven St & 100 Terralong St)	Large site owned by Council. Council has identified need for a supermarket; the centrality of Site A's location would appear suitable for a supermarket. Development of the site presents an opportunity to activate Terralong St, replace the existing public parking spaces and create publicly accessible open space. The site is however constrained by its dimensions and can potentially accommodate some 5,244sqm lettable area - a small supermarket (1,400sqm), retail specialities (1,920sqm) and commercial space (1,664sqm). If development of the site were to proceed, Council would likely seek a development partner to deliver the commercial development and public parking spaces to Council. *Testing Objective*: The residential development yield required to enable delivery of the commercial development by a development partner.

Site (Address)	Background and Testing Objectives
Site B - Civic Precinct (24-34 Terralong St, 2-48 Manning St & 31-38 Manning St)	The Civic Precinct contains various civic assets on lands owned by Council and various state government agencies. A large Council-owned administration building is understood to no longer meet Council's requirements. Council-owned lands are in the middle portion of the Civic Precinct. *Testing Objective*: If a new commercial building (5 storeys) could be developed by Council and deliver on its financial objectives.
Site D - Kiama Shopping Village (143 Terralong St)	The shopping village accommodates a supermarket and a number of retail specialties. *Testing Objective*: If development under existing planning controls is feasible.
Site E - former aged care facility (Part 200 Terralong Rd)	Site is owned by Council, formerly the Blue Haven aged care facility. Council have progressed a planning proposal permitting development of 6-7 storeys. The site could be divested as a residential development opportunity or it could be retained by Council and developed for seniors living. *Testing Objective*: Comparison of financial outcomes if the site were divested for residential development compared to if divested for seniors living.
Site G - Kiama Surf Life Saving Club (Manning St)	Site is owned by Council. Occupied by Kiama Surf Life Saving Club, with space sub-leased to local gyms/ fitness instructors. *Testing Objective*: If potential rents in a one-level expansion of the building could justify an additional floor.
Site H - Kiama Leagues Club (109 Terralong St)	Large site owned by Kiama Leagues Club. A relocation of the main club building to the rear of the site would be desirable from an urban design perspective. *Testing Objective*: If development to mixed use (and shop top housing) that is compliant with existing planning controls could facilitate development of a new club at the rear of the site.
Site I (2 Manning St)	Privately owned corner site. *Testing Objective*: If mixed use development under proposed controls is viable. If not viable, the density controls required for feasible redevelopment.
Site K (110-112 Terralong St)	Privately owned corner site. *Testing Objective*: If mixed use development under proposed controls is viable. If not viable, the density controls required for feasible redevelopment.

Source: Studio GL, Atlas

Generic feasibility analysis is carried out to investigate the respective testing objectives which vary depending on the site.

For redevelopment to be feasible to pursue, a site's value as a development site needs to not only exceed its value in existing use but provide an incentive for a redevelopment to displace the existing uses. The analysis therefore examines the value of the sites tested in their existing use and compares them against their value as potential development sites.

Site A (Akuna Street Carpark)

Site A is at present operated as the Akuna Street car park, accommodating approximately 125 at-grade car spaces.

Figure 2: Site A, Aerial Photograph

Source: Studio GL

Council has identified need for a supermarket; the centrality of Site A's location would appear suitable for a supermarket. Development of the Akuna Street car park would present an opportunity to activate Terralong Street, replace the existing public parking spaces and create publicly accessible open space.

Table 2 summarises potential development yields that could be accommodated in a mixed use development. It incorporates 5,180sqm retail and commercial floorspace and 8,010sqm residential floorspace. This is equivalent to FSR 1.2:1, which is below the maximum permitted FSR controls of 1.5:1 and 2:1 which apply to Site A (based on a site area of 11,342sqm).

Table 2: Site A, Potential Yield

Land Use	GFA (sqm)	Dwellings	Cars (spaces)
Non-residential	5,180		226
Council Car park			125
Residential	8,010	78	141
Total	**13,190**	**78**	**492**

Source: Studio GL

Council are keen to understand if a development partner could deliver to Council a completed commercial development and Council car park in return for the opportunity to develop and sell 78 residential units (as shown in **Table 2**).

The question for the feasibility analysis is: *Could the envisaged development yields deliver to Council a completed commercial development and public car park of 125 spaces?*

To answer this question, it is necessary to consider:

- The value of the development opportunity for 78 residential units (8,010sqm GFA); and
- The cost to deliver the commercial component of the development to Council.

Analysis of development site sales (0) indicates that development sites are worth between $1,200/sqm/GFA to $1,600/sqm GFA, depending on location, views, scale of development, development consent, etc.

Assuming a site value at the upper end (reflecting the low scale residential opportunity of 8,010sqm GFA) of $1,600/sqm GFA, a residential development opportunity of 8,010sqm GFA would be worth approx. $12.8 million to a development partner.

Table 3 applies generic cost rates to arrive at a cost of $43.8 million to deliver the commercial component of the development.

Table 3: Site A, Cost of Commercial Development v Value of Residential Development Opportunity

Land Use	Units	Cost Rate	Cost	Total
Retail and Commercial				
Construction	5,700sqm*	$3,500^	19,950,000	
Car Spaces	226 spaces	$50,000	11,300,000	$31,250,000
Council Car park	125 spaces	$50,000	6,250,000	$6,250,000
Design and Professional Fees	8%		$3,000,000	
Project Management Fees	2%		$810,000	
Development Management Fees	1%		$413,100	
Contingency	5%		$2,086,155	**$43,809,255**

*GFA multiplied by 110%

^warm shell

Source: Studio GL

The cost to deliver the retail/ commercial development and Council car park of $43.8 million is well in excess of the value of the residential development opportunity (8,010sqm GFA) of $12.8 million. This would leave a $31 million shortfall to fund development of the commercial component. This shows that the envisaged residential development yields do not facilitate delivery of a completed commercial development and public car park.

If development yields on the site could be increased to their maximum permissible FSR, the value of the residential opportunity would increase, reducing the shortfall.

At an assumed site value of $1,600/sqm GFA, a total residential GFA of 27,381sqm (or 267 residential units) is required to enable payment (or delivery) of development to a cost of $43.8 million.

Residential GFA Required	= $43.8 million ÷$1,600/sqm GFA
	= 27,381sqm GFA (or 267 dwellings at 103sqm GFA average)
Additional GFA Required	= 19,581sqm GFA (27,381sqm less 8,010sqm)

Based on a site area of 11,342sqm, the additional 19,581sqm GFA is equivalent to FSR 1.7:1.

Site B (Civic Precinct)

The Civic Precinct contains various civic assets on lands owned by Council and various state government agencies.

Figure 3: Site B, Aerial Photograph

Source: Studio GL

A large Council-owned administration building is understood to no longer meet Council's requirements. As such, Council wish to understand if a new commercial building (5 storeys) could be developed by Council and deliver on its financial objectives.

Studio GL have prepared potential development yields for Council-owned lands (Site B, which measures approx. 4,175sqm) which are in the middle portion of the Civic Precinct.

Table 4: Site B, Potential Yield

Land Use	GFA (sqm)	Dwellings	Cars (spaces)
Non-residential	4,364		192
Residential	-	-	-
Total	**4,364**	**-**	**192**

Source: Studio GL

Site B within the Civic Precinct has the potential to be developed into a 5 storey commercial building. Whilst it would meet the need for contemporary office floorspace in the Town Centre, it would not represent the highest and best use for the site. The 'highest and best use' of an asset is the use that maximises its potential and that is physically possible, legally permissible and financially feasible. It is the use that results in the highest value of the asset.

For development sites in the B2 Local Centre zone that have the environmental capacity for mixed use development (with shop top housing) - their highest and best use would generally be as a mixed use development site. If Site B were developed according to the principles of highest and best use, development to shop top housing would attract the highest site value.

Accordingly, the case for a commercial development on Site B is not a financial one but an economic one. Market research indicates there is a need for modern commercial floorspace in the Town Centre, with existing office floorspace generally dated and not to contemporary expectations. Commercial sale prices range from $4,500/sqm to $6,500/sqm lettable area. It is conceivable modern, contemporary space would attract a premium over current market rates.

Assuming an all-in construction cost of $5,000/sqm, potential revenue from a new commercial development (allowing for a 20% profit and risk factor) would cover the cost of construction. It would however not cover the cost of land.

Pre-leasing commitments are unlikely to be secured in the Kiama market, which are generally a critical lending requirement. It is therefore likely that a development would not be 'bankable' (in the traditional sense) and would be speculative, i.e. funded from Council's balance sheet. A detailed feasibility analysis will be required prior to a decision on the site.

Site D (Kiama Shopping Village)

The Kiama Shopping Village is a neighbourhood centre (measuring approx. 1.5ha) owned by ISPT since 2014 when it was purchased for $38 million. There is approx. 5,200 lettable floorspace in the centre.

The centre is anchored by a Woolworths supermarket with various retail specialties co-located. The existing buildings are currently set back towards the northwest of the site away from Terralong Street.

Figure 4: Site D, Aerial Photograph

Source: Studio GL

Urban design analysis explores a potential development scenario where the shopping village is expanded towards Terralong Street, where new retail tenancies contribute to activation of the street.

The viability of a shopping centre expansion would depend on its trading performance and if there was a perceived opportunity to reposition the centre to improve its trading potential. An ALDI supermarket would be a beneficial addition to centre, contributing to increasing its share of market potential.

The Study does not undertake retail economics investigations and therefore does not comment on the viability of a retail expansion. Notwithstanding, in any retail development (including expansion), the provision of car parking is critical. Any centre expansion or reconfiguration of space would require adequate parking (generally 1 car space per 20-30sqm GFA).

Depending on the scale of reconfiguration, it is likely that a mixed use outcome (with residential land uses) would be required and sought to cross-subsidise and offset the cost of trade/ tenant disruption and cost of development.

Site E (Part 200 Terralong St)

This site measures some 1,916sqm, is owned by Council and is the former Blue Haven aged care facility. It falls in an R3 Medium Density zone and is permitted with an FSR 0.7:1 and 2.5:1.

Figure 5: Site E, Aerial Photograph

Source: Studio GL

Council is understood to have progressed a planning proposal permitting development of 6-7-storeys. Site E has the potential to be divested as a residential development site or retained by Council and developed for seniors living.

Divestment of the site as a residential development opportunity would yield a more attractive sale price than if it were sold for seniors living development. Market discounting of circa 30%-40% can be observed, depending on the development and extent of communal/ shared areas in a seniors living development.

Site G (Kiama Surf Life Saving Club)

The site is owned by Council and occupied by Kiama Surf Life Saving Club, with some of the space sub-leased to local gyms/ fitness instructors.

Figure 6: Site G, Aerial Photograph

Source: Studio GL

The urban design analysis explores if an expansion of the existing building (to the south) to accommodate café/ takeaway premises on the ground floor and restaurant/ hospitality venue on the first floor could be a viable proposition. The urban analysis shows a potential building footprint of approx. 700sqm GFA (300sqm at ground, 400sqm first floor).

An expansion to the north of the existing building (rather than to the south) would likely offer better aspect and outlook for the first floor/ rooftop venue. The ability of the structure to be enclosed/ partially enclosed would offer weather protection.

The question for the feasibility analysis is: *Could potential rents for an expanded building justify the capital expenditure associated with an envisaged expansion?*

To answer this question, it is necessary to consider:

- The potential rental revenue that could be received were the expanded building be leased to a hospitality operator; and
- The cost to deliver an expansion to the existing building to accommodate hospitality uses.

The expansion of the building on Site G into a potential hospitality venue could attract an operator to lease the space and operate a café/ hospitality venue on the site. The lease arrangement struck with the operator of Diggie's (at 1 Blowhole Point) could be explored for application to an expanded expansion on Site G. The trading potential of a hospitality venue at Site G would however likely be less than at Diggie's given the prominence of Diggie's location at the iconic blowhole.

It is unknown how much the cost of an expansion might be. If a hypothetical cost rate of $5,000/sqm were applied to the 700sqm GFA footprint, a cost of $3.5 million would be the result. At a 7% return on cost, a net annual rent of $245,000 would be required to offset the cost of the expansion. This would be equivalent to $350/sqm GFA. Comparison against the lease terms at Diggie's would shed light on likely achievability.

A detailed feasibility analysis would be required to assess trading potential from an expanded building (ground floor and first floor) and consequently the rents those hospitality uses would have the capacity to pay to lease space in an expanded building.

Site H (Kiama Leagues Club)

Site H is a large site owned by Kiama Leagues Club (measuring approx. 6,160sqm site area). A relocation of the main club building to the rear of the site would be desirable from an urban design perspective.

Figure 7: Site H, Aerial Photograph

Source: Studio GL

The question for the feasibility analysis is: *Would a development opportunity to mixed use (and shop top housing) at the front of the site (facing Terralong Street) facilitate a relocation of the club to the rear?*

To answer this question, it is necessary to consider:

- The value of the development opportunity for mixed use development; and
- The cost of the Club's relocation (i.e. construction of new club at rear of the site).

From aerial imagery, the existing Club appears to have a building area of approx. 3,000sqm. Assuming an all-in construction cost of $5,000/sqm, a construction cost of $15 million would be the result.

Analysis of development site sales (0) indicates that development sites are worth between $1,200/sqm/GFA to $1,600/sqm GFA, depending on location, views, scale of development, development consent, etc.

Assuming a site value in the middle of the range of $1,400/sqm GFA, a residential development opportunity of 10,714sqm GFA ($15m ÷ $1,400/sqm GFA) would be required to offset the $15 million cost of relocation. This does not consider any loss in trade during the construction period.

Added to the assumed building area of the Club (3,000sqm), a total of 13,714sqm GFA would result, which would be equivalent to FSR 2.2:1. This is higher than the current FSR control of 1.5:1.

Site I (2 Manning Street)

Site I is a privately owned corner site. It is currently occupied by the Commonwealth Bank and measures an area of approx. 430sqm and a building area of approx. 935sqm arranged over two storeys. The site was purchased in September 2015 for $2.6 million. The site has an FSR control of 1.5:1. The existing improvements appear to exceed the max FSR control.

Figure 8: Site I, Aerial Photograph

Source: Studio GL

Assuming a rate of $4,500/sqm of building area, the property would have an existing-use value of $4.2 million. Analysis of development site sales (0) indicates that development sites are worth between $1,200/sqm/GFA to $1,600/sqm GFA, depending on location, views, scale of development, development consent, etc.

Assuming a site value at the upper end of $1,600/sqm GFA (given the small size of the site), a mixed use development of 2,625sqm GFA ($4.2m ÷ $1,600/sqm GFA) would be required to displace the existing use. This is equivalent to an FSR of 6.1:1.

The existing buildings on Site I are more valuable than the site's value as a potential development site. The existing use (and building) represents the highest and best use, which is unsurprising given the improvements exceed current FSR control.

Site K (110-112 Terralong Street)

Site K is a privately owned corner site. It is arranged over two storeys and measures an area of approx. 336sqm. According to aerial imagery, the building area appears to measure approx. 650sqm. The site has an FSR control of 1.5:1. The existing improvements appear to exceed the max FSR control.

Assuming a rate of $4,500/sqm of building area, the property would have an existing-use value of $2,925,000. Analysis of development site sales (0) indicates that development sites are worth between $1,200/sqm/GFA to $1,600/sqm GFA, depending on location, views, scale of development, development consent, etc.

Assuming a site value at the upper end of $1,600/sqm GFA (given the small size of the site), a mixed use development of 1,828sqm GFA ($2,925,000 ÷ $1,600/sqm GFA) would be required to displace the existing use. This is equivalent to FSR 5.4:1.

Similar to Site I, the existing buildings on Site K are more valuable than the site's value as a potential development site. The existing use (and building) represents the highest and best use, which is unsurprising given the improvements exceed current FSR control.

Figure 9: Site K, Aerial Photograph

Source: Studio GL

Implications for the Review of Development Controls

In locations where there is an established market for higher density living (e.g. Chatswood, Parramatta CBDs), there is market willingness to pay higher prices for apartments in taller buildings. This enables taller buildings (and higher densities) to be viably developed. In contrast, in markets where attitudes towards high density living is immature or emerging, market willingness to pay for apartment living will be 'capped' by the cost of lower density housing formats (e.g. townhouses, detached dwellings). For example, if a detached 3-bedroom dwelling on a 700sqm block is available at $700,000, it would be challenging for a 3 bedroom apartment to achieve similar pricing.

The desirability of the Kiama Town Centre as a place to live, recreate and do business in, is a double-edged sword. While there is market demand for new and developed floorspace (whether new dwellings or new commercial space), there is also market demand for existing floorspace, which results in high existing-use values and a corresponding high cost to consolidate development sites. Consequently, where sites are valuable in their existing use, higher densities are required to displace the existing use and incentivise redevelopment.

On key sites (important to achieving the vision for the Town Centre) and where they are large, Council could consider planning incentives over and above current density controls, particularly where environmental impacts can be mitigated.

It is a reality that not all sites will be feasible in a redevelopment scenario. Properties with capital-intensive improvements could be very valuable in their existing use and not likely candidates for redevelopment. Identifying sites that are important to the Town Centre's growth objectives would assist in prioritising implementation of development standards.

Please contact the undersigned should you have any questions.

Yours sincerely

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Analysis of Development Site Sales

Table S1-1: Analysis of Residential Development Site Sales

Address	Sale Price	Sale Date	Site Area (sqm)	GFA (sqm)	No. of Units
45 Thomson St	$1,300,000	12/2020	847	593	4 potential
Kiama				($2,193/sqm GFA)	($325,000/ unit)
A regular shaped elevated corner site with a moderately sloping topography from the rear to the street front and improved at the time of sale with an older style dwelling. The site sold without development consent and is zoned R3 Medium Density Residential with a maximum FSR of 0.7:1 allowing a permissible gross floor area of 592.9sqm. After allowing for an 90% site efficiency and an average unit size of 125sqm the site has a potential to yield 4 units subject to Council approval. Located approximately 700 metres north-west from Kiama train station and within close proximity to retail amenities along Terralong Street. The site was settled in January 2021 according to RP Data records.					
Lot 2, DP 805229, Dido St	$6,500,000	12/2020	36,580	16,461	50-60 potential
Kiama	(circa)			($395/sqm GFA)	($110-$130,000/ unit)
An irregular shaped site with steeply sloping verges towards the creek dissecting the site. Zoned part R2 Low Density Residential and part E2 Environmental Conservation with a maximum FSR of 0.45:1 The site is partially within a bushfire prone area and benefits from ocean views to select elevated positions within the site. The site sold without development consent however the selling agent has advised that the purchaser intends on lodging a DA for a townhouse project consisting of 50 to 60 dwellings. For analysis purposes we have adopted the dwelling yield above although note that this is subject to Council approval. Located approximately 1 kilometre to Bombo Beach and train station and 1.5km from the Kiama Town Centre. The site sold via an Expression of Interest Campaign and is subject to a 4 month delayed settlement. The exact sale price was withheld and remains confidential. Sale details are advised and subject to settlement.					
45 Thomson St	$1,750,000	01/2018	1,511	915	12
Kiama				($1,913/sqm GFA)	($145,833/ unit)
A regular shaped elevated site with a moderately sloping topography from the rear to the street front. Improved at the time of sale with a circa 1800's built Victorian home of heritage significance by which Council placed an Interim Heritage Order over the site subsequent to purchase. A DA (10.2018.225.1) was approved for demolition of the existing building & construction of multi residential building consisting of (12) twelve units (8 x 2 bedroom and 4 x 3 bedroom) over car parking subsequent to purchase. Zoned R3 Medium Density Residential with a maximum FSR of 0.7:1. Located approximately 700 metres north-west from Kiama train station and within close proximity to retail amenities along Terralong Street. The site was sold and settled in July 2018 according to RP Data records.					
33 Collins St & 23 Meares Pl	$5,650,000	10/2019	5,580	6,559	56 seniors units
Kiama				($861/sqm GFA)	($100,893/ unit)
A large site purchased with the benefit of development consent for 56 seniors units with ancillary retail, recreational and communal areas. Arranged in a 4 storey development, the site is zoned B2 Local Centre and is centrally located within the Kiama Town Centre, offering the convenience and amenity of a central location. The approved GFA is lower than the permitted GFA of 8,370sqm GFA (equivalent to FSR 1.5:1).					

Source: Atlas

35 Manning Street (approx. 2,202sqm site area) is currently available for sale on the market at a quoting price range of $5.5 million to $6.0 million. The site falls in the B2 zone and has a maximum permitted FSR of 1.5:1. If sold at the quoted price range, it would equate to $1,600/sqm to $1,800/sqm GFA potential. It is understood that previous sales campaigns have returned market interest circa $3.8 million, which is equivalent to $1,200/sqm GFA potential.

Given the location of the Study Area and zoning controls (mostly B2), the Study assessed a likely site value rate of **$1,200/sqm GFA potential to $1,600/sqm GFA potential**. Sites in residential land use zones are generally worth more on a GFA potential basis, as development sites in the B2 zone require commercial floorspace at ground level (which is generally worth less than residential floorspace).