

High Wycombe South

Development Contribution Plan & Feasibility Analysis

Prepared by **macroplan**
For **City of Kalamunda**

24 March 2023



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Version	Author(s)	Date	Review
Preliminary	GL, EZ, SM	29-09-2022	BH
Working Draft	GL	05-10-2022	BH
Final Draft	GL, EZ	11-11-2022	BH
Final	GL, EZ	16-12-2022	BH
Final Review	City of Kalamunda	24-03-2023	KAL

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Executive Summary

Study Context

This report was prepared by Macroplan for City of Kalamunda (The City).

The City has recently prepared a preliminary Development Contributions Plan (DCP) for the High Wycombe South (HWS) Study Area.

The preliminary DCP has been prepared in consultation with Development WA, the Department of Planning, Lands and Heritage and other agencies, having regard to the METRONET East Redevelopment Scheme and new High Wycombe Station, which will connect Perth City by rail to the eastern foothills and the wider metropolitan area.

These initiatives will introduce catalytic infrastructure with the potential to unlock the development potential of the HWS Study Area, specifically.

- **A Transit Orientated Development (TOD) Activity Centre Structure Plan (ACSP) area** comprising approx. 30 hectares (ha); and
- **A Residential Precinct Local Structure Plan area** totalling approx. 60ha.

The purpose this study is to investigate and test the viability of the preliminary DCP applicable to these areas in consultation with local property developers and landowners; and identify options for consideration by The City in further refining and formalising the DCP.

In preparing this assessment, Macroplan undertook:

- a review of several supplementary studies prepared by others supporting the development of the preliminary DCP, including the costs and apportionment included within the DCP (including but not limited to):
 - Dwelling and commercial yields analysis;
 - Traffic modelling, concept designs and associated cost estimates;
 - Community infrastructure needs assessment, concept designs and cost estimates;
 - Public Open Space (POS) designs and associated cost estimates;
 - Drainage concept designs and associated cost estimates; and
 - land valuations.
- targeted discussions with several top-tier and second-tier developers and landowners operating within Western Australia and the local area;
- financial modelling considering the implications of the 30-year DCP involving different development scenarios; and
- a detailed sensitivity analysis, considering several factors influencing development feasibility in the area including land prices and increasing construction costs.

Our investigations highlight several options, important considerations and risks for The City in positioning the case for a DCP applicable to developments within HWS.

Based on the assessment undertaken, we have outlined several recommendations and actions for further consideration by The City.

Background Literature Review

An important aspect of this study involved considering the findings of several research papers prepared by others supporting the preparation of the DCP, including The City's DCP methodology and internal briefing materials. A high-level interpretation of several relevant studies and supporting research is presented below.

Key observations

- The TOD and Residential Precinct LSP within the HWS Study Area currently comprise a mix of relatively low density residential and industrial uses, some of which may remain in this form for many years, potentially decades, in the absence of major civil and urban infrastructure investment.
- The City has prepared a preliminary infrastructure cost plan for HWS Study Area considering several items, including major civil works, public open space and community infrastructure totalling approx. **\$132 million**. Approx **\$94.5 million** is allocated to two precincts:
 - Approx **\$28.27 million** (around 21%) is allocated to the TOD precinct; and
 - Approx **\$66.25 million** (around 50%) is allocated to the Residential Precinct LSP
- The balance is to be derived from other grants or government sources.
- Approx. **\$73.18 million** (around 55%) of the total has been allocated for intersections and roads – of which a significant portion has been allocated to the residential precinct (\$34.9 million or 48%), which may highlight a requirement for State Government co-funding, including potentially funding the TOD connector road south of Milner road. It is suggested The City undertake scenario testing considering the potential for cost savings within LSP infrastructure (roads and intersections); and test traffic volume assumptions (by changing development yields) and their implications for road and intersection requirements across the HWS Study Area.
- Approx. **\$34.21 million** (around 26%) for public open space – of which a significant portion relates to land acquisition supporting a green link as part of a major conservation and ecological commitment within the HWS area. It is suggested The City explore alternative funding sources for local open space surrounding Environmental Conservation areas.
- The preliminary DCP rate applicable to the TOD and residential areas of \$90/m2 and \$110/m2 respectively, is almost twice the DCP rate applicable in some greenfield contexts and this is likely to present a challenge for the viability of infill development in the HWS context. This is because existing land prices are within the high end of an acceptable range, whilst construction and civil works costs have increased significantly.
- According to Savills (January 2022), existing industrial land prices are in the range \$250/m2-\$300/m2. According to land purchasers, residential land prices should be lower than industrial land prices; while existing residential landowners are reportedly seeking anywhere between \$250-\$500/m2. Anecdotally, residential land is currently transacting at around \$130/m2-\$150/m2. According to several developers approached through this study, higher land prices may be unrealistic, especially given recent significant increases in development costs. The timing and amount of the DCP is significant, given the DCP amount is considered when negotiating a land price.
- The anticipated sequencing of developments within the HWS area, especially high-density developments within the TOD is expected in the mid-late 2030s and early 2040s, reflecting research presented by Urbis (various reports). Whilst we generally agree with the views presented, the suggested market timing for future development will present challenges for the timing of cost recovery for major infrastructure works that will be required early in the 30-year DCP lifecycle.
- This may be addressed in part by allowing individual developers to fund early works infrastructure on a precinct/project basis, without waiting on the implementation of the DCP, which may come later. Examples include Works in Kind (WIK) and/or Voluntary Developer Agreement arrangements.

- This could unlock enabling infrastructure and generate a degree of critical mass within key locations that may stimulate development elsewhere and overcome current developer uncertainty and hold-out.
- Overall, the preliminary DCP requirement is almost twice the rate applicable in a Perth Greenfields context and the assumed timing of developments is much later than would be required to seed early infrastructure works. This presents a challenge that may be addressed by early movers, if able to negotiate infrastructure works outside a formal DCP process (e.g. WIK/Voluntary Contributions), especially during the next 1-5 years.
- The City should weigh up the costs of deferred development within HWS under the preliminary DCP, against the potential economic, social and overall affordability benefits that may arise through the application of a 'feasible' district level DCP and the option for developers and/or landowners to negotiate infrastructure contributions on a precinct-level. This would most likely involve State Government funding major infrastructure and The City identifying possible alternative sources of funding for some infrastructure items currently contained within in the DCP.
- An alternative scenario may involve reverting to industrial development across the Residential Precinct, with a new Structure Plan and DCP being prepared to support that form of development, which would meet the demands of the current market, generate economic and employment benefits for the region.

Targeted Stakeholder Feedback

Macroplan received feedback from five (5) groups selected as part of the stakeholder engagement process - [REDACTED], [REDACTED], [REDACTED], [REDACTED] and [REDACTED]. A summary of the key themes arising from discussions with the named groups above is presented here.

Common themes

- Land values of between **\$100-\$150/m²** appear to the absolute threshold for development viability, which is probably unrealistic.
- Fragmented land ownership and land price expectations are the biggest constraints to development in the area.
- Overcoming fragmented land will only take place once major trunk infrastructure works are undertaken and say 1-2 aggregators fund project specific civil works and get underway.
- [REDACTED] and potentially [REDACTED] the only groups with sites large enough to commence discrete projects of scale.
- All groups indicated **construction costs** have increased significantly (up to 40%) impacting development feasibility.
- Civil infrastructure costs have also increased significantly (up to 30%) but civil works are needed to switch on large discrete projects of say 5-10 ha comprising 200-250 lots.
- Unfortunately, the timing of civil infrastructure appears to be a constraint due to a perceived lack of critical mass in the area among civil authorities. Discussions with key authorities is suggested.
- Most groups indicated a DCP in the **\$25-\$75/m²** range would be acceptable. Some indicated capacity to deal with **\$50-\$75/m²**, subject to early infrastructure timing and stable land costs.
- Many considered the local road network was too complex and suggested this could be reduced by up to 50%.
- Public open space and conservation assets also appeared to be a concern and most considered this should fall outside the DCP altogether.
- Most were open to negotiating a DCP on a project-by-project basis with a fixed 'district level' component to create equity and a flexible 'precinct level' component, that could involve WIK.
- There were mixed views about density. Some groups prefer 300sqm+ whilst others prefer 200-250sqm lots. No one is building apartments in Perth into the foreseeable future. The City may wish to review the forecast yields given this was used to inform traffic modelling. This may have subsequent implications for roads/intersection across the HWS Study Area.

- Everyone expressed a willingness to undertake development in the short-term, subject to certainty about land values, the DCP and the Structure Plan.
- No one liked the idea of incentives for density i.e. a minimum requirement or a cap on density within the DCP.

Our interpretation of feedback received

- Consider the potential for a **district level** rate and/or a **precinct level** rate on a project/precinct basis and enable individual developers to make infrastructure contributions reflecting an agreed precinct plan.
- Alternatively, consider allowing individual developers to **negotiate infrastructure contributions** on a project-by-project basis for the next 1-5 years, before implementing a DCP. This could be an effective means of triggering development activity and creating critical mass required to bring forward civil works that otherwise may not be delivered for many years. After an agreed sunset, a DCP rate may then apply.
- This might provide a clear signal to interested developers who want to be early movers and take the initiative to fund early works and benefit from a relatively low land prices, before land prices and construction costs increase over time. This idea was favoured by many of the stakeholders, particularly the local developers with land under offer / contract.

- Both of these arrangements may help **address delays in infrastructure funding** that will occur based on the anticipated development sequencing outlined in the HWS Study Area.
- Importantly, these arrangements will require a dedicated City-led **Administration function** involving dedicated resources to manage and oversee. This would be a non-standard approach outside SPP3.6 guidelines and require a separate process to be defined. It will also require further investment in the development of precinct plans for infrastructure identification.

Financial Modelling & Sensitivity Analysis

Scenarios

Macroplan defined two development scenarios for analysis purposes:

1. A **HWS Local Structure Plan** scenario addressing the TOD and Residential Precinct in accordance with The City's land use sizing and timing assumptions;
2. An **individual developer** scenario involving a discrete residential project (e.g. approx. 250 lots at say 300sqm per lot) commencing as early as 2023 and running for three years to completion.

These scenarios were defined to test the case for the DCP in line with the intent of the HWS Study Area and supporting studies; and to test feedback received from several development-ready parties with project opportunities in the area.

The Structure Plan Scenario provides an overall review and assessment of the **31** ha TOD Precinct and the **60** ha Residential Precinct, totalling over 90 ha of net developable area (NDA) within the Structure Plan Precinct. The City's assumed land use mix and yield indicates a total of approximately **11,310** sqm GFA of commercial floorspace and **743** dwellings within the TOD Precinct plus **2,417** dwellings within the Residential Precinct. The current timing also indicates that the earliest development will not occur until around 2031 with full build out expected in 2050+.

The Indicative Developer Scenario provides a specific review and assessment on a typical standalone residential development which may occur within the Residential Precinct. This scenario reflect the feedback received from the targeted stakeholder engagement and their likely development intent. This scenario assumes a standalone residential development totalling **250** lots at 300 sqm/lot on average located on a hypothetical parcel of **10** hectares gross in the Residential Precinct. It also assumes site works and pre-sales commence in 2023 followed by construction, with the first settlement in 2025 and fully build out well before 2030.

It is noted the assessment assumes a developer acquires zoned land which has been assembled as part of an approved masterplan for development, i.e. developer acquires the net developable area with an assumed development yield as per the HWS Study Area.

The net developable area excludes non-developable areas such as public roads, open space, walkways, reserves and other non-developable areas.

Further information relating to the assumptions adopted in assessing each of these scenarios are presented in Section 4.3. Some of the assumptions have been tested in consultation with stakeholders identified in this study, where appropriate.

Financial Sensitivity Analysis

For each of the above scenarios, Macroplan prepared a 30-year discounted cashflow model (DCF) to test the viability of development under various DCP rates and different land price ranges, allowing for a significant one-off increase in construction costs.

The sensitivity analysis tests the likely impacts of the following main variables under both scenarios:

- **Baseline:** test various land values as indicated in the Savills valuation report ranging from \$130/sqm to up to \$750/sqm and various DCP rates ranging from \$25/sqm to \$110; other assumptions remain unchanged.
- **Construction cost shock:** building onto the baseline, increase construction costs by 10% as of today mirroring the significant inflation recently; future escalation on construction costs remains at 3.0% per annum reflecting long-term average growth.

The sensitivity analysis also tests other variables, which is detailed in Section 4.5.

The sensitivity analysis indicates the financial viability of development under both scenarios is highly sensitive to increases in land prices, construction and civil works costs and a DCP.

Allowing for higher construction costs (say 10% above current levels), and land values at say \$100-\$130/m², a DCP rate of between \$25-\$75/m² is generally acceptable within current return on investment (ROI) expectations, assuming other variables remain constant.

- Typical ROI rates for mixed use residential projects are 20%-22%. Generally, anything lower than 18% is not considered viable, although there are exceptions based on the stakeholder feedback.
- Currently projects in this area are achieving 15% ROI allowing for higher construction costs. Our estimates allowing for higher construction costs are similar.

The sensitivity analysis indicates the viability of development under all scenarios appears to be highly sensitive to land value and construction cost. Increase in land value to \$300-\$500/sqm and above and increase in construction cost by 10% and above will have significant impact on the likely development viability.

The analysis also indicates in circumstances where land is not assembled and the developer must acquire the gross land area, the development feasibility may be significantly reduced.

Considering all variables tested, it is considered a DCP rate in the order of \$60/sqm may be feasible, noting significant increase in land value and construction cost may still diminish development viability and increased land utilisation / development yields and/or potential State / Council underwrite may be considered to offset land cost and other project costs and risks.

The tables overleaf presents the outcomes of the sensitivity analysis including the baseline and the construction shock scenarios for the TOD and Residential Precincts under the Structure Plan Scenario and the Indicative Developer Scenario.

Overall, the DCP potentially reduces ROI and therefore development viability, meaning any further increases in land prices will mean a DCP outside a 'feasible' range would constrain development outcomes into the foreseeable future.

Given land values within the TOD and Residential Precinct LSP are likely to increase during the short-medium term, the viability of development within the next 1-5 years will be marginal, even without a DCP. This needs to be considered carefully in refining the case for a DCP applicable to the HWS Study Area.

Sensitivity Analysis, Structure Plan Scenario TOD Precinct – Baseline

TOD	DCP (\$/sqm)						
~15 ha	\$25	\$45	\$60	\$75	\$90	\$110	
Land Value (\$/sqm)	\$130	31.9%	30.5%	29.5%	28.4%	27.4%	26.1%
	\$150	30.4%	29.0%	28.0%	27.0%	26.0%	24.7%
	\$300	20.1%	19.0%	18.1%	17.2%	16.4%	15.3%
	\$500	8.7%	7.7%	7.0%	6.3%	5.6%	4.7%
	\$600	3.8%	2.9%	2.2%	1.6%	1.0%	0.1%
	\$650	1.5%	0.6%	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

- Structure Plan Scenario TOD Precinct
- Assumed land use and yield including 11,310 sqm GFA of commercial floorspace and 743 dwellings
- Anticipated timeframe commencing from 2031 and fully build out by 2051
- Excluding GST, landing holding cost, financing cost, depreciation and others

Sensitivity Analysis, Structure Plan Scenario Residential Precinct – Baseline

Res	DCP (\$/sqm)						
~45 ha	\$25	\$45	\$60	\$75	\$90	\$110	
Land Value (\$/sqm)	\$130	25.4%	24.0%	23.0%	22.0%	21.0%	19.7%
	\$150	23.9%	22.6%	21.6%	20.6%	19.6%	18.4%
	\$300	13.8%	12.7%	11.8%	11.0%	10.2%	9.1%
	\$500	2.7%	1.7%	1.1%	0.4%	-	-
	\$600	-	-	-	-	-	-
	\$650	-	-	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

- Structure Plan Scenario Residential Precinct
- Assumed land use and yield including 2,417 dwellings
- Anticipated timeframe commencing from 2031 and fully build out by 2051
- Excluding GST, landing holding cost, financing cost, depreciation and others

Sensitivity Analysis, Indicative Developer Scenario – Baseline

Res	DCP (\$/sqm)						
~7.5 ha	\$25	\$45	\$60	\$75	\$90	\$110	
Land Value (\$/sqm)	\$130	28.7%	26.7%	25.2%	23.8%	22.4%	20.6%
	\$150	26.6%	24.6%	23.2%	21.9%	20.5%	18.8%
	\$300	12.7%	11.1%	10.0%	8.9%	7.9%	6.5%
	\$500	-	-	-	-	-	-
	\$600	-	-	-	-	-	-
	\$650	-	-	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

- Hypothetic standalone residential development located in the Residential Precinct
- 250 lots at 300 sqm/lot on average
- 10 hectares of gross land and 7.5 hectares of net developable area
- Commencing in 2023 and completion in 2028
- Excluding GST, landing holding cost, financing cost, depreciation and others

**Sensitivity Analysis, Structure Plan Scenario
TOD Precinct – Construction Cost Shock**

TOD	DCP (\$/sqm)					
~15 ha	\$25	\$45	\$60	\$75	\$90	\$110
\$130	21.0%	19.8%	18.9%	18.1%	17.2%	16.1%
\$150	19.7%	18.6%	17.7%	16.9%	16.0%	14.9%
\$300	11.0%	10.0%	9.3%	8.6%	7.8%	6.9%
\$500	1.2%	0.4%	-	-	-	-
\$600	-	-	-	-	-	-
\$650	-	-	-	-	-	-
\$750	-	-	-	-	-	-

Source: Macroplan (2022)

- Structure Plan Scenario TOD Precinct
- Assumed land use and yield including 11,310 sqm GFA of commercial floorspace and 743 dwellings
- Anticipated timeframe commencing from 2031 and fully build out by 2051
- One-off 10% increase in construction cost as of today
- Excluding GST, landing holding cost, financing cost, depreciation and others

**Sensitivity Analysis, Structure Plan Scenario
Residential Precinct – Construction Cost Shock**

Res	DCP (\$/sqm)					
~45 ha	\$25	\$45	\$60	\$75	\$90	\$110
\$130	15.0%	13.9%	13.0%	12.1%	11.3%	10.2%
\$150	13.8%	12.6%	11.8%	11.0%	10.1%	9.1%
\$300	5.2%	4.2%	3.5%	2.8%	2.1%	1.2%
\$500	-	-	-	-	-	-
\$600	-	-	-	-	-	-
\$650	-	-	-	-	-	-
\$750	-	-	-	-	-	-

Source: Macroplan (2022)

- Structure Plan Scenario Residential Precinct
- Assumed land use and yield including 2,417 dwellings
- Anticipated timeframe commencing from 2031 and fully build out by 2051
- One-off 10% increase in construction cost as of today
- Excluding GST, landing holding cost, financing cost, depreciation and others

**Sensitivity Analysis, Indicative Developer
Scenario – Construction Cost Shock**

Res	DCP (\$/sqm)					
~7.5 ha	\$25	\$45	\$60	\$75	\$90	\$110
\$130	18.4%	16.7%	15.4%	14.2%	13.1%	11.5%
\$150	16.6%	14.9%	13.7%	12.6%	11.4%	9.9%
\$300	4.7%	3.4%	2.4%	1.4%	0.5%	-
\$500	-	-	-	-	-	-
\$600	-	-	-	-	-	-
\$650	-	-	-	-	-	-
\$750	-	-	-	-	-	-

Source: Macroplan (2022)

- Hypothetic standalone residential development located in the Residential Precinct
- 250 lots at 300 sqm/lot on average
- 10 hectares of gross land and 7.5 hectares of net developable area
- Commencing in 2023 and completion in 2028
- One-off 10% increase in construction cost as of today
- Excluding GST, landing holding cost, financing cost, depreciation and others

Potential Options, Considerations & Risks

Considering the stakeholder feedback and financial modelling and sensitivity analysis, we have identified several options for The City's consideration in further refining the draft DCP applicable to the HWS Study Area.

The options identified may be considered variations of each-other, with degrees of flexibility about the form, quantum and timing of the DCP, mainly to encourage early development and mitigate the risk developer holdout, which would limit development outcomes across the HWS Study Area into the foreseeable future.

Options 2-4 will involve a departure from SPP3.6 and will require a relaxed interpretation of some of policy requirements and potentially require greater State / Local co-funding to fulfil the infrastructure requirements.

Note: ^ The Desktop Financial Modelling & Sensitivity Analysis presented in Section 4 tests development feasibility under a range of DCP rates and land values. The sensitivity analysis demonstrates a DCP rate of \$60/m or less may generate a generally feasible return on investment, assuming land values at \$130/m2 (net developable area) and allowing for a one off 10% increase in constructions costs. In cases where higher DCP rates and/or land values apply, development is generally not considered to be feasible.

Option 1 – implementing a 'feasible' DCP rate

This would involve adopting a 'feasible' DCP rate based on sensitivity modelling, that may be in the order of \$60/m2. This is informed by the sensitivity analysis presented, which demonstrates this is the highest DCP rate at which development remains generally feasible[^], allowing for prevailing land prices and a one-off increase in construction costs. This would potentially require a level of State Government co-funding for major infrastructure, including the balance of the TOD connector road, south of Milner road. This would likely involve The City negotiating with the State Government in relation to major infrastructure requirements, separate to METRONET, which could take some time to resolve.

Option 2 – two-part DCP rate

An alternative option may involve The City considering a two-part / blended DCP – with a district rate of say \$50/m2 and precinct level rates, to be negotiated on a project level within the range of say \$15-\$25/m2. This would create a degree of equity across the HWS Study Area at a district level and encourage early movers, with the potential to bring forward infrastructure investments across a network of precincts or projects. However, this may be too complex for The City to implement and administer and will likely involve significant ongoing resource implications from The City.

Option 3 – Option 3 – Negotiated Development Agreement (1-5 years) followed by a DCP

This would involve deferring the DCP and negotiating infrastructure contributions on a project/precinct level under a Voluntary or Negotiated Development Agreement. This assumes a district level DCP is not viable in the short-term (as evidenced by the feasibility modelling presented in this study) given variables such as land prices, increased construction and civil works costs and other costs. Whilst relatively inefficient with ad hoc infrastructure timing with the potential for poor streetscape and other public realm outcomes, this option may bring-forward investment among early movers such as [REDACTED] and [REDACTED] may be followed by a DCP (similar to option 1 or 2) after a period of say 5 years.

Option 4- Hybrid

This option would involve implementing a district wide DCP(similar to option 1) with a window of say 2-3 years in which developers may negotiate proposals with The City (e.g. works in kind) in lieu of the DCP (similar to option 3). This is likely to mitigate the need for advice regarding how it would operate within the existing WA planning context, but may require new or amended structure plan provisions to address how negotiation would work on a project-by-project basis during the initial phases.

How this relates to The City's Infrastructure Cost Plan

Considering the modelling, sensitivity analysis and stakeholder engagement, the following cost apportionment incorporates the existing preliminary DCP rate (\$/m2) together with a 'feasible' DCP rate, where the costs of roads and intersections and public open space are reduced by up to say 50%, where highlighted.

This assumes the quantum and cost of local road infrastructure may be reduced without significantly reducing local access and connectivity. It also assumes the up to 50% of the cost of land acquisition and construction of an ecological outcome in the form of a green corridor would be funded from other sources, thus lowering this cost requirement within the DCP.

Based on these assumptions, an estimated 'feasible' DCP rate should be **\$60/m2** consistent with the financial sensitivity analysis presented, which could be as low as 55% of the higher DCP rate applicable to the residential area.

Considering this, The City has undertaken an initial interrogation of several scenarios involving re-apportionment of HWS Study Area infrastructure cost. The details of Council's assessment are presented in Section 7.

Infrastructure Cost Plan				Current			'Feasible' DCP Rate		
Item	Construction (\$m)	Land Acquisition (\$m)	Total (\$m)	Residential Share (\$m)	TOD Share (\$m)	Other Share (\$m)	Residential Share (\$m)	TOD Share (\$m)	Other Share (\$m)
Intersections	15.2	0.9	16.1	6.3	2.1	7.7	3.1	2.1	10.8
Roads	50.8	6.2	57.1	28.7	6.8	21.6	14.3	3.4	39.4
Public Open Space	15.0	19.2	34.2	22.5	11.8	0.0	11.2	5.9	17.1
Drainage	2.9	5.6	8.5	3.0	5.5	0.0	3.0	5.5	0.0
Community Facilities	12.0	0.0	12.0	3.1	0.7	8.2	3.1	0.7	8.2
Administration Costs			4.2	2.7	1.5	0.0	2.7	1.5	0.0
Total	95.9	32.0	132.1	66.3	28.3	37.6	37.6	19.0	75.5
<i>Estimated DCP rate (\$/m2)</i>				110	90		63	61	

Risks

There are several risks relating to the options outlined above. These include:

- A significant portion of the current cost plan being allocated 'other share', which falls outside the HWS DCP.
- A requirement for the State and/or The City to fund a significant portion of roads and intersections, with the TOD connector road likely being entirely funded by the State.
- A requirement to transfer land acquisition for green network / conservation to the State and relax Liveable Neighbourhood Policy requirement of 10% POS.

Further specific comments relating to the risks under each option concerning the quantum and timing of infrastructure funding, governance and administration and the overall viability of development within HWS Study Area are presented below.

- **Option 1 (implementing a 'feasible' DCP rate)** – This option is likely to be relatively equitable and efficient in terms of quantum and timing of funding. However, it lacks flexibility to negotiate project-specific infrastructure contributions at a precinct level. This option presents a lower degree of risk for The City in relation to ongoing resource requirements and costs associated with governance and administration. This option presents a relatively low degree of risk to development viability when compared with the proposed district wide DCP range of \$90-\$110/m². However, this option will require significant State / Local co-funding to fulfil local infrastructure requirements, resulting in funding delays and uncertainty due to competition for grant/ advocacy / municipal budgets. It is suggested The City undertake further modelling to assess whether reducing the quantum and cost of local roads and POS can be validated.
- **Option 2 (two-part DCP rate)** – This option is likely to be the most equitable and efficient in terms of quantum and timing of funding, but is likely to present a high degree of risk for The City in relation to ongoing resource requirements and costs associated with governance and administration. This option is likely to encourage early development and may be favoured by developers based on the stakeholder discussions.
- **Option 3 (Option 3 – Negotiated Development Agreement (1-5 years) followed by a DCP)** – Whilst this option has the potential to bring forward infrastructure and development outcomes at a precinct level, the quantum of funding for infrastructure will be limited to amounts negotiated on a project-by-project basis until a district-wide DCP takes effect. Whilst this option presents a relatively low risk to development viability during the short-term, it could present the highest risk for The City in relation to ongoing resource requirements and costs associated with governance and administration. There is a risk under this option of little or no contributions being collected for district level infrastructure, with a requirement for State / Local co-funding to fulfil this infrastructure requirement.
- **Option 4 (Hybrid)** – This option is similar to a hybrid of Option 1 and 3 – with similar implications from a timing and governance perspective. There is a risk that if a developer wanted to deliver a project under the provisions of the DCP within the initial 2-3-year period (i.e. didn't want to negotiate infrastructure contributions) this may have financial implications for The City including a requirement to deliver works, which may not otherwise be required or occur during this time, without the DCP being triggered.

How the options align with State Planning Policy 3.6

The table presented here contains a high-level interpretation of the relative alignment (or otherwise) of the options identified against the principles set out in SPP 3.6, where this may be determined.

Scorecard Approach

The following scorecard is applied with indicative scores as indicated:

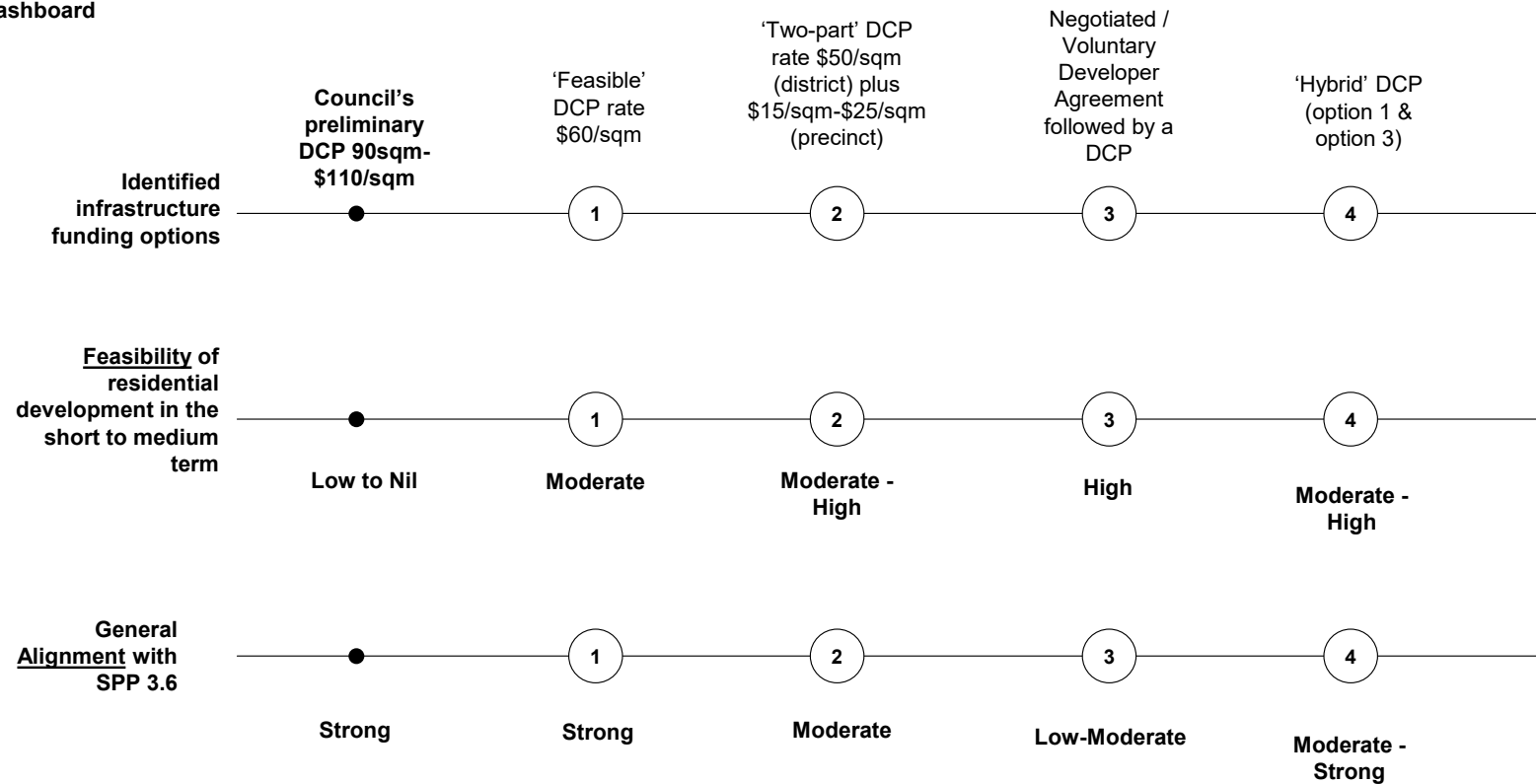
- Potentially low degree of alignment – ✓
- Generally consistent / good alignment – ✓ ✓
- Strong alignment – ✓ ✓ ✓
- Indeterminate – NA.

Key Findings

The feasible DCP rate (option 1) is likely to be the most consistent with SPP 3.6 principles – including equitable, efficient, transparent, and consistent – when compared with the alternative options outlined, followed by a Hybrid option (Option 4).

Option	1. Need & Nexus	2. Transparency	3. Equity	4. Certainty	5. Efficiency	6. Consistency	7. Right of consultation & review	8. Accountable
1_Feasible DCP rate	✓ ✓	✓ ✓ ✓	✓ ✓ ✓	✓ ✓	✓ ✓	✓ ✓ ✓	✓ ✓	✓ ✓ ✓
2_two-part DCP	✓ ✓	✓ ✓	✓ ✓	✓ ✓	NA	✓	NA	NA
3_Negotiated Development Agreement followed by a DCP	✓ ✓	✓	NA	✓	NA	✓ ✓	NA	NA
4_Hybrid	✓ ✓	✓ ✓	✓ ✓	✓ ✓	✓	✓ ✓	✓ ✓	✓ ✓

Options Summary Dashboard



Conclusions

Further residential development, beyond the current mix of rural living and low-density residential, is unlikely during the immediate to medium-term outlook, given the requirement for significant enabling district-level and precinct-level infrastructure.

If residential development is sought during the short-medium-term outlook within HWS, the State Government would need to fund a large portion of up-front / lead infrastructure, including major connector roads and open space acquisition and construction.

Given this, The City will most likely need to consider alternative land use planning outcomes in the absence of investment. Therefore, The City is encouraged to undertake further sensitivity analysis considering local infrastructure cost apportionment, to test the viability of the DCP funding options presented.

As shown, the feasible DCP rate (option 1) is likely to be the most consistent with SPP 3.6 principles – including equitable, efficient, transparent, and consistent – when compared with the alternative options outlined, followed by a Hybrid option (Option 4).

Recommendations

Immediate actions as an input to study refinement

The following suggested actions are offered without prejudice for further consideration by The City.

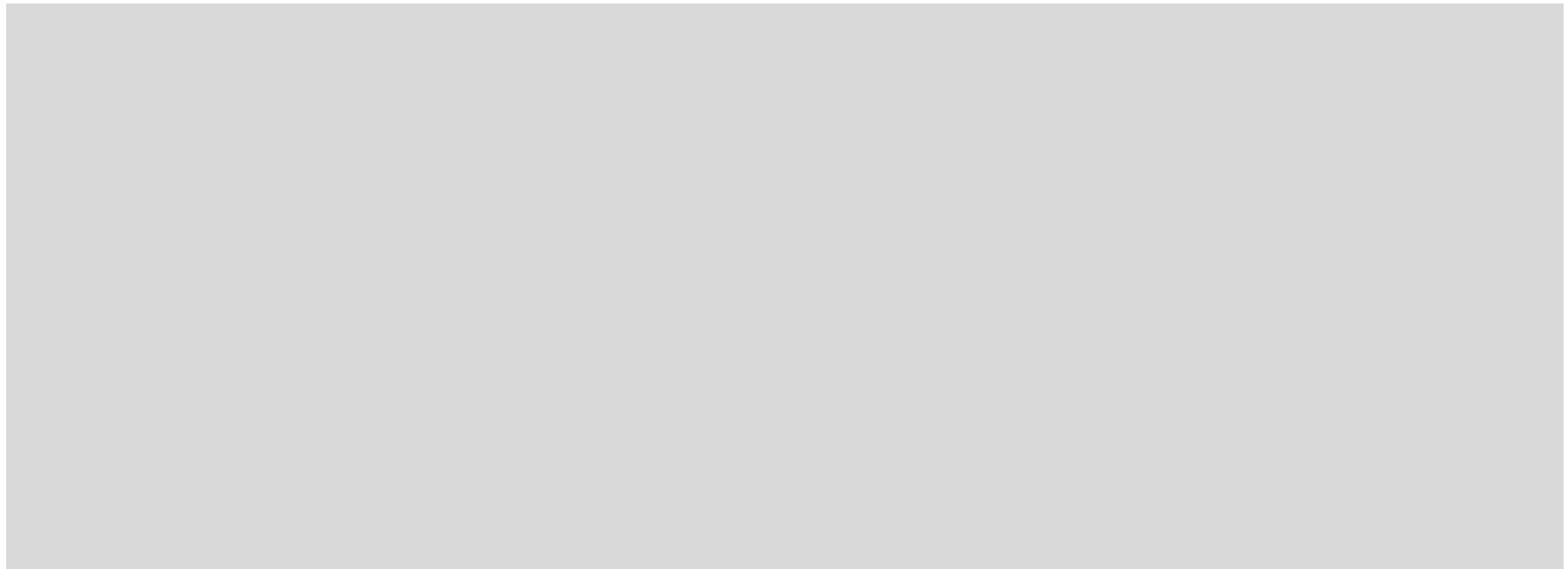
- The City may wish to review the forecast yields across the TOD and residential precincts considering reduced density in the short/medium term supported by lower infrastructure cost apportionment cited in this assessment. This is important as it may have subsequent implications for functional road requirements across the HWS Study Area.
- Urbis to update their reports, where relevant, to reflect the most current Census 2021 population and socio-demographic information, including employment and journey to work data to be released in October 2022.
- Update valuation assessment.
- Ongoing discussions with key civil works authorities to identify options for early works that will enable key projects to occur in the short-term.
- included within The City's Infrastructure Cost Plan as it relates to the TOD and residential precincts, with a view to identifying potential cost savings and/or alternative funding streams outside the DCP.

- Consider reducing the POS requirements within the DCP, with the aim of transferring a greater cost apportionment for the green link conservation works and ecological assets to the State Government.

Ongoing actions in defining a DCP pathway

- Invite expressions of interest from landowners and developers to see who wants to undertake development now – this might be undertaken via a media-led EOI process to identify who is interested in developing in the area during the next 12-24 months.
- As part of the EOI process, discuss the idea of allowing individual developers to negotiate infrastructure contributions on a project-by-project basis. This could be a good mechanism for triggering development activity and creating critical mass required to bring forward civil works that otherwise may not be delivered for many years. After an agreed sunset, a DCP rate may apply.
- Consider requirements for a City administration function involving working with landowners / developers including ongoing resource requirements and costs to The City associated with DCP governance and administration requirements.
- Further investigate how the proposed DCP options would operate within the existing WA planning context and request WAPC confirm the optimal compliance approach under SPP 3.6 given the constraints presented in this study.

1_Introduction



1.1_About This Report

This report is prepared by Macroplan (the author) for the City of Kalamunda (the City).

The City is exploring a methodology for, and to carry out, feasibility analysis incorporating findings and recommendations for the City and State Government decision makers to finalise the preparation of the High Wycombe South Development Contribution Plan (DCP).

The City has undertaken several calculations of a preliminary cost contribution rate for the DCP, using a 'per square metre' unit of charge for each of the Residential Precinct LSP and Transit Oriented Development (TOD) Precincts identified within the HWS Study Area.

Prior to proceeding further, the City wants to undertake detailed financial analysis in relation to the DCP and its impacts on land values in consultation with the State Government.

This report presents an assessment in relation to the DCP and potential development feasibility of the High Wycombe South structure plan precinct.

The City has also undertaken a separate assessment considering several scenarios involving reapportionment of infrastructure costs within the HWS Study Area. Macroplan has modelled the likely feasibility of Council's re-apportioned DCP rates and the details are presented in Section 7.

1.2_Scope of Work

The scope of this assessment involves the follows.

- 1. Project Initiation & background review.** Meet with the City at the outset of the engagement to gain a deeper understanding of the project context, background and purpose. Review local structure plans, work undertaken to date by the City and studies prepared by others that will frame the assessment.
- 2. Targeted stakeholder engagement.** Undertake targeted meetings / discussions (i.e. face-to-face, virtual, telephone) with a selection of private developers drawing on our networks, with specific reference to the High Wycombe South precincts. Document the findings of our discussions in file notes to be included in the desktop financial modelling, sensitivity analysis and project reporting.
- 3. Desktop financial modelling, scenario testing, sensitivity analysis & risks commentary.** Prepare a customised discounted cashflow (DCF) model with the capability to mirror the proposed developments across both precincts including several development scenarios. The model will draw heavily on inputs from technical reports prepared by others to inform the development of a detailed revenue side module in relation to pricing and escalation for all uses across the plan; and a detailed construction and operational cost module to be informed by a quantify surveyor and by Rawlinson's Construction Handbook, if required.

- Desktop Financial modelling & scenario testing. A 30-year DCF model will adopt several standard assumptions in relation to project financing, equity/debt, risk and profit margins / internal rate of return (IRR). The model is used to test the implications of the City's preliminary cost contribution rates across several development scenarios canvassing several parcels of land within the Residential Precinct and report on the impact of development contributions.
 - Sensitivity Assessment. Test the sensitivity of land values and profitability to various DCP rates to different thresholds and identify the maximum cost contribution rate (threshold), and likely implications take up of development.
 - Risks analysis & commentary. Provide a high-level analysis of key factors, and barriers, specific to HWS, besides the cost contribution rate, that are likely to influence the uptake of development in the precinct. As part of this we will have regard to the Risks Matrix set out in the request and identify any other risks and advise of the treatment for these risks in accordance with the City's Risk Table Matrix.
4. Attendance at client meetings & workshops.
 5. Documentation & presentation of study findings.

1.3_References

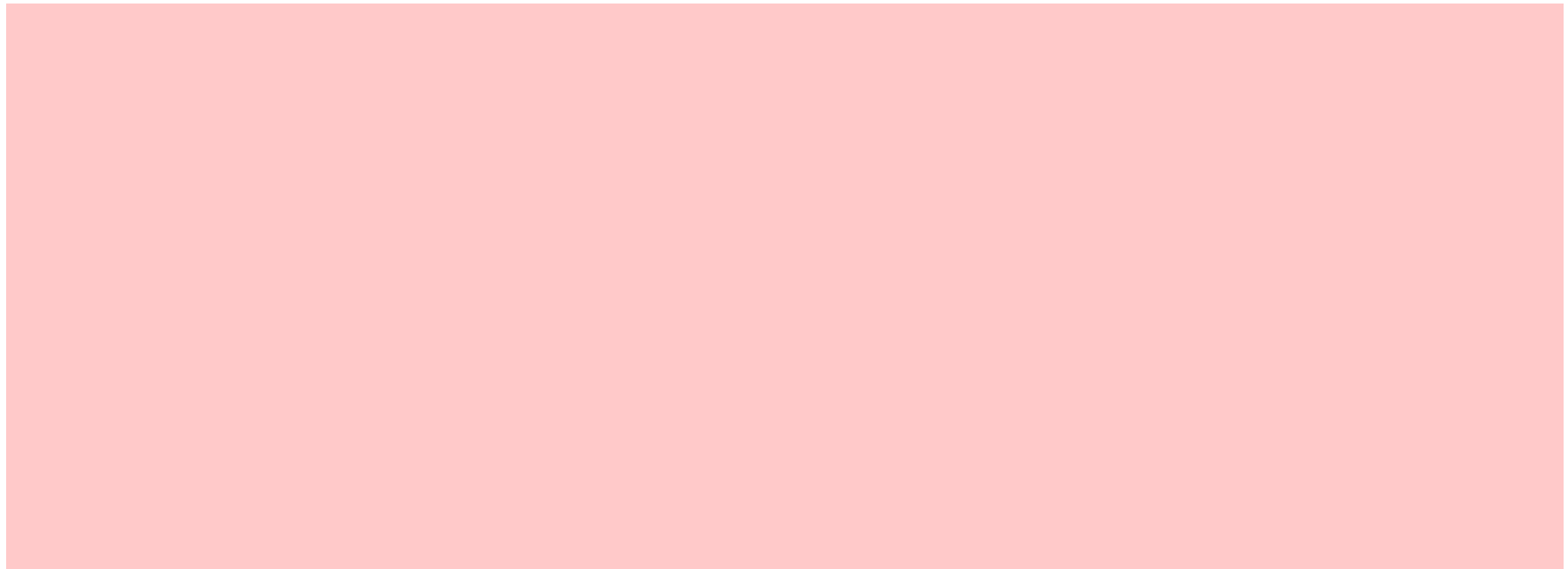
Further details of relevant literature, technical studies and data referenced in preparing this assessment are contained in Section 2_High Level Literature Review.

1.4_Limitations & Exclusions

This assessment is made subject to several limitations, and exclusions, including:

- Development sequencing – we have adopted assumptions presented in the HWS Study Area, based on reports prepared by Urbis in defining the HWS Study Area Scenario.
- We have referenced the construction cost index outlined in Rawlinsons (2022) for Perth. The Rawlinsons July update anticipates a 7.5% increase in building price from 31 Dec 2021 to 31 Dec 2022. Our assessment includes a one-off shock to construction prices of 10%, reflecting anecdotal information.
- We have approached up to ten (10) stakeholders as part of the targeted engagement process and received feedback from five (5) parties. This information has been used to inform the assessment. We feel this is sufficient for the purposes of the assessment. However, we can approach other parties, if this is deemed necessary.
- This assessment considers State Planning Policy 3.6 at a high level only and does not suggest changes or additions to the HWS Study Area, or provide an interpretation of how the options address State Planning policy principles.

2_High Level Literature Review



2.1_Overview

Macroplan reviewed the following reports and supporting information as part of a high-level literature review to understand the technical inputs and assumptions supporting the formulation of the HWS Study Area and DCP.

- City of Kalamunda, Development Contribution Plan Draft Mastersheet, June 2022.
- City of Kalamunda, Forrestfield North Development Contribution Plan Yields Analysis Summary Report, July 2021.
- City of Kalamunda, Local Planning Scheme No.3.
- City of Kalamunda, Ordinary Council Meeting, 26 April 2022.
- PIP Review.
- PIP Final.
- Civil Works & Drainage Infrastructure – KCTT – various.
- Community Infrastructure Strategy, KCTT.
- DCP Yields Summary Report.
- Element, Forrestfield North Residential Precinct Yield Analysis Report, July 2021.
- Forrestfield North District Structure Plan, August 2016.
- Forrestfield North Residential Precinct Local Structure Plan, June 2020.
- High Wycombe South Transit Oriented Development Precinct Activity Centre Plan, October 2017.
- Land Acquisition Plans – various.
- Metronet East Redevelopment Scheme, May 2021.
- Savills, Forrestfield North Residential Precinct DCP Various Lots Forrestfield & High Wycombe Valuation, January 2022.
- State Planning Policy 3.6 Infrastructure Contributions Guidelines, April 2021.
- Public Open Space Documents – various.
- Transport Modelling to Inform Apportionment, KCTT, March 2021.
- Urbis, High Wycombe Station Precinct Population Forecast Review, April 2021.
- Urbis, High Wycombe Station Precinct Retail & Commercial Assessment, April 2021.
- Urbis, High Wycombe South Review Population and Dwelling Type Review, September 2021.

The following data was referenced in preparing this assessment, including the financial modelling and sensitivity analysis.

- Rawlinsons Australian Construction Handbook, 2022.
- Realestate.com.
- RP Data.

2.2_General Remarks

The following general remarks are offered in relation to our high-level review of the studies identified above.

- The TOD and residential areas within the HWS Study Area currently comprise a mix of relatively low density residential and industrial uses, some of which may remain in this form for many years, potentially decades, in the absence of major civil and urban infrastructure investment.
- The preliminary DCP rate applicable to the TOD and residential areas of \$90/m² and \$110/m² respectively, is almost twice the DCP rate applicable in some greenfield contexts and this is likely to present a challenge for the viability of infill development in the HWS context. This is because existing land prices are within the high end of an acceptable range, whilst construction and civil works costs have increased significantly.
- According to Savills (January 2022), existing industrial land prices are in the range \$250/m²- \$300/m². According to purchasers, residential land prices should be in the lower range of industrial land prices, while residential landowners are reportedly seeking anywhere between \$250-\$500/m². Anecdotally, residential land is currently transacting at around \$100/m²- \$120/m².
- According to several developers approached through this study, higher land prices may be unrealistic, especially given recent significant increases in development costs. The timing and amount of the DCP is significant, given the DCP amount is considered when negotiating a land price and is typically not passed through to end purchasers.
- The anticipated sequencing of developments within the HWS area, especially high-density developments within the TOD is expected in the mid-late 2030s and early 2040s, reflecting research presented by Urbis (various reports). Whilst we generally agree with the views presented, the suggested market timing for future development will present challenges for the timing of cost recovery for major infrastructure works that will be required early in the 30-year DCP lifecycle.
- This may be addressed in part by allowing individual developers to fund early works infrastructure on a precinct/project basis, without waiting on the implementation of the DCP, which may come later. Examples include Works in Kind and Voluntary Contributions arrangements.
- This could unlock enabling infrastructure and generate a degree of critical mass within key locations that may stimulate development elsewhere and overcome current developer uncertainty and hold-out.
- Overall, the preliminary DCP requirement is almost twice the rate applicable in a Perth Greenfields context and the assumed timing of developments is much later than would be required to seed early infrastructure works. This presents a challenge that may be addressed by early movers, if able to negotiate infrastructure works outside a formal DCP process (e.g. WIK/Voluntary Contributions), especially during the next 1-5 years.
- The City should weigh up the costs of deferred development within HWS under the preliminary DCP, in the absence of significant up-front State-funded infrastructure – against the potential economic, social and overall affordability benefits that may arise through the application of a 'feasible' district level DCP and/or the option for developers and/or landowners to negotiate infrastructure contributions on a precinct-level. This would most likely involve State Government funding major infrastructure and The City identifying possible alternative sources of funding for some infrastructure items currently contained within in the DCP.
- In the absence of funding for lead infrastructure, current market forces are likely to favour a light industrial outcome as this is relatively less infrastructure intensive to deliver and meets current market demand for light industrial needs in proximity of the Perth Airport precinct and freight network.

2.3_Specific Remarks & Questions

The following specific comments and questions are offered in relation to the studies prepared by Urbis, CCS Strategic and Savills.

Population, Commercial, Dwelling Yields (Urbis)

Reports:

- Urbis, High Wycombe Station Precinct Population Forecast Review, April 2021.
- Urbis, High Wycombe Station Precinct Retail & Commercial Assessment, April 2021.
- Urbis, High Wycombe South Review Population and Dwelling Type Review, September 2021

Overall remarks

- The various report prepared by Urbis predate the release of Census 2021 which sets out the most recent socio-demographic information for the area. These reports may be updated and an interpretation of the implications for the study area including population, household formation and housing preferences should be provided as a minimum.

- Commentary and consideration of the impacts of COVID-19 on dwelling approvals / take-up rates, sales rates and prices including commercial centre sizing may be provided.
- Consideration of employment by industry / journey to work and intercensal movements with implications for study area demand / composition, sizing and timing to market – to be released in October 2022.

Specific Comments on the Urbis reports

Item	Remarks
Development period indicated is estimated at 44 years	The DCP period is expected to be 30 years. Some of the estimates presented by Urbis are for the period 2026-2064; This is fine. However, forecast timing differences may need to be addressed in the DCP implementation strategy.
Household formation / dwelling densities in the residential and TOD	To confirm based on Census 2021. Urbis estimate 6,195 residents living in 2,417 dwellings in the residential precinct most likely targeting families (i.e. average household size 2.56); with 1770 living in 743 dwellings most likely targeting professionals and couples with no dependent children (average household size approx. 2.38)
TOD and Residential precincts and surrounding areas will support a total of 11,310 sq.m retail and commercial floorspace, with 5,160 sq.m in the form of shop retail, comprised of a supermarket and associated specialties	To confirm sizing based on primary, secondary and tertiary catchment contexts and forecast growth scenarios (see note below).
Timing assumptions for medium scenario including focus on medium density with deferral of higher density	We note the commencement of high density (apartments) not commencing under the medium/high scenarios until 2041-2043 in the TOD precinct; and 2041 in the residential precinct. Whilst apartments account for a relatively small share of total dwellings across both precincts, how does this timing translate in terms of the anticipated works required under the DCP and can medium density residential and retail/commercial development in the TOD fund the bulk of infrastructure works required? What about works required up front?
Sequencing on residential development between 2025-2040	Urbis estimates a total of 225 dwellings by 2030, 585 by 2035 and 1,031 dwellings by 2040. This equates to an average of around 70 dwellings p.a. If we apply say up to \$20,000* per dwelling (equivalent) infrastructure charge, this means by 2040 the DCP may have generated the equivalent of around \$20 million on a per dwelling / lot basis. Whilst this is likely to be higher with retail/commercial developments occurring during this time, this is likely to be sufficient to fund major up-front infrastructure works required to facilitate developments during this time. <i>Note: a maximum levy for infrastructure of \$5,000 per dwelling shall apply for local governments seeking contributions for the capital cost of community infrastructure, subject to the support of the Western Australian Planning Commission (WAPC). Source: State Planning Policy 3.6 – Infrastructure Contributions (p.4)</i>
Dwelling preference projections	Urbis estimates are based on 2016 Census with a continued strong preference for detached dwellings. This prevailing trend is likely to be reinforced in Census 2021; However, the TOD precinct should be the focus for / encourage a higher density and there may be a stronger focus for higher density dwellings in the precinct, earlier in the precinct lifecycle, generating stronger potential for DCP cost recovery on a per-dwelling basis equivalent.

Community Infrastructure (CCS Strategic)

Report: City of Kalamunda High Wycombe South Structure Plan Community Infrastructure Strategy, Updated Final Report, March 2022 (CCS Strategic)

Overall remarks

- Whilst the reported estimates are based on the medium yield build-out scenario, it is not clear the reported numbers for the High Wycombe South population forecasts align with Urbis medium growth estimates. The City should obtain further information from CCS strategic to confirm this alignment.
- Within High Wycombe South, an estimated build out population of 7,357 has been applied through to 2050. It is noted this is less than half of the original estimate of 15,000 by 2041 and the reasons for this are understood.
- In the definition of the residential / community / worker profile for the catchment area – i.e. catchment radii (1km, 2km, 3km and 5km) around the local structure plan area – how has the author accounted for the very significant area occupied by the airport and surrounding industrial areas to the south in defining the community needs assessment? Approx 50% of the catchment area is inaccessible or not open to the public. How has the catchment for HWS been defined?

Valuations (Savills)

Report: Forrestfield North Residential Precinct DCP Various Lots Forrestfield & High Wycombe, WA, 11 January 2022 (Savills)

Overall remarks

- We note the report is marked 'DRAFT' and a recommendation is presented in this report to finalise the valuation report.
- The report would benefit from a summary table showing the range of land values by zone/use type for ease of use.
- What is the implied land value for estimating public acquisition land?

There is no other feedback or comments arising through our literature review in relation to the other studies listed.

3_Targeted Stakeholder Engagement



3.1_Overview

Macroplan received feedback from five (5) groups selected as part of the stakeholder engagement process - [REDACTED], [REDACTED], [REDACTED], [REDACTED] and [REDACTED]. A summary of the key themes arising from discussions with the named groups above is presented here.

3.2_Common Themes

- Land values of between **\$100-\$150/m2** appear to the absolute threshold for development viability.
- Fragmented land ownership is the biggest constraint to development in the area.
- Overcoming fragmented land will only take place once major trunk infrastructure works are undertaken and say 1-2 aggregators fund project specific civil works and get underway.
- [REDACTED] and potentially [REDACTED] the only groups with sites large enough to commence discrete projects of scale.
- All groups indicated **construction costs** have increased significantly (up to 40%) impacting development feasibility.
- Civil infrastructure costs have also increased significantly (up to 30%) but civil works are needed to switch on large discrete projects of say 5-10 ha comprising 200-250 lots.
- Unfortunately, the timing of civil infrastructure appears to be a constraint due to a perceived lack of critical mass in the area among civil authorities. Discussions with key authorities is suggested.
- Most groups indicated a DCP in the **\$25-\$75/m2** range would be acceptable. Some indicated capacity to deal with **\$50-\$75/m2**, subject to early infrastructure timing and stable land costs.
- Road infrastructure (i.e. red roads / blue roads distinction) was a common theme with a preference for major roads to be funded outside the DCP. The City notes: *Red Roads are Primary Regional Roads (PRR) - the apportionment of the DCP results in very small contributions towards anything within the PRR reserve. Regarding blue roads, this would likely only relate to Berkshire and maybe Maida Vale in the future - these costs again are apportioned with lower costs attributed to the development area.*
- Many considered the local road network was too complex and suggested this could be reduced by up to 50%. The City notes: *Key new roads are the TOD Connector and Raven Street extension. The DCP does not include any local roads / access streets that the subdivider would otherwise be required to provide.*
- Public open space and conservation assets also appeared to be a concern and most considered this should fall outside the DCP altogether. The City notes: *Conservation sites do not form part of the draft DCP costings - these will be acquired through the Metropolitan Region Improvement Fund (WAPC). POS is included only up to the 10% threshold. There may be opportunities to go back to the State to seek prefunding due to the imposition of the conservation corridor and edge effects through the EPA at the Structure Planning stage.*
- Most were open to negotiating a DCP on a project-by-project basis with a fixed 'district level' component to create equity and a flexible 'precinct level' component, that could involve WIK.
- There were mixed views about density. Some groups prefer 300sqm+ whilst others prefer 200-250sqm lots. No one is building apartments in Perth into the foreseeable future. The City may wish to review the forecast yields given this was used to inform traffic modelling. This may have subsequent implications for roads/intersection across the HWS Study Area.
- Everyone expressed a willingness to undertake development in the short-term, subject to certainty about land values, the DCP and the Structure Plan.
- No one liked the idea of incentives for density i.e. a minimum requirement or a cap on density within the DCP.

3.3_Specific Stakeholder Feedback

Property

Interest in the High Wycombe South area

- [REDACTED] have spent the last 9 months assembling 11 (contracted) lots around [REDACTED] totalling between [REDACTED].
- Potential development yield of up to 200-250 lots in this location.
- Land prices struck at [REDACTED] and some landowners have struck a deal to subdivide the house from the land, thus recovering the house sale price and land price separately.
- Several neighbouring landowners are wanting [REDACTED], which is considered unrealistic.

General remarks in relation to the developing in the Perth market context

- Construction costs have increased significantly during the last 18 months.
- This is impacting development margins, which have reportedly fallen from 24% to 14%.
- This is making development within the area and elsewhere borderline at [REDACTED]
- There is limited potential to pass-forward DCP costs – this needs to be absorbed into the land offering or the project and this is seen as a major future barrier to development in the area.

Overall comments on Structure Plan and DCP

- [REDACTED] understand and support the idea and methodology for the DCP.
- The TOD connector Road and works relating to Stewart and Brae Road will be important to their project.
- However, the following remarks were made:
 - The adopted population forecasts still appear to be aspirational and too high for the location.
 - Higher density is favoured in the Structure Plan but [REDACTED] believe lots smaller than 300sqm won't sell in this location.
 - The Structure Plan favours smaller lots i.e. 220sqm lot size generating a yield of approx. 350 lots; an R30 baseline would yield 280 lots (fewer lots) but better sales potential.
 - The proposed local road layout / plan in the Structure Plan doesn't appear to align with anticipated traffic volumes. [REDACTED] would reduce the local road provisions by around 50%.
 - POS within the Structure Plan is gold plated – 30% is significantly higher than 10% minimum requirement (approx. \$2m land cost) significant share of total costs.

- Inclusions and exclusions – question about whether the District Rec/Community Rec facility approx. 10ha should be excluded from the DCP given the land is already owned?
- Conservation land – could this potentially be excluded / differentiated from the DCP?
- [REDACTED] feel at R30 they could develop the whole residential area, subject to land assembly.
- The City prefers a per ha DCP / the State provisions allow for a per lot DCP.
- [REDACTED] prefer the idea of a per lot DCP – they have paid between [REDACTED] per lot in other project locations across WA.
- [REDACTED] expressed that an acceptable rate would be between [REDACTED] /lot which translates into approx. [REDACTED] on a yield of [REDACTED] lots or around [REDACTED]

Overall remarks

- [REDACTED] are keen to deliver a discrete 200 lot project as a standalone proposition, subject to a reasonable/viable DCP rate, but they will not deliver all infrastructure.
- Significant sewer / water mains infrastructure is required totalling at least [REDACTED] to switch on [REDACTED] project.

- Would settle on lots around Christmas then would commence works within 3-6 months after Christmas period.
- First settlements could be expected in mid-late 2023.
- Would deliver 200 lots over x3 12-month stages i.e. 3 year project.
- Settlement on the 11 lots would attract a lot of interest from surrounding land owners and interested parties.
- This would be a trigger for other landowners in the area to get serious about development / working with landowners to assemble lots.
- Between 400-500 lots could be delivered in total following [REDACTED] delivering approx. 200 lots with enabling works.
- Water Corporation / service authorities have indicated they need evidence of scale development before committing to fund works up front.
- Overall, the lack of upfront enabling water/sewer and trunk mains infrastructure is preventing timely and coordinated development.
- A staged DCP approach could work, if there were incentives for land aggregation of say up to 10 hectares.

Interest in the High Wycombe South area

- [REDACTED] held [REDACTED] under contract for approx. 3 years ago with intentions for commercial development
- The site is approx. [REDACTED] a with land prices struck at [REDACTED]
- Potential fuel station, fast food, convenience retail and/or full line retail anchors.
- No interest in doing high density residential in this location or elsewhere.
- Is aware of but doesn't know the neighbouring landowners.

General remarks in relation to the developing in the Perth market context

- Land values haven't increased that much since 2007 – still selling blocks at similar prices now
- However, construction costs have increased significantly.
- This will impact timing of development
- Still waiting on direction regarding infrastructure and finalisation of the Structure Plan and DCP process before doing anything in this location.

Overall comments on Structure Plan and DCP

- [REDACTED] the idea and methodology for the DCP and are paying anywhere between [REDACTED] DCP per lot elsewhere in Perth
- The TOD connector Road runs through the middle of the site.
- The expectation is Development WA will fund the TOD connector road on a 50/50 basis and recover costs. Without up-front delivery of the infrastructure development in the area won't occur in a timely manner.
- [REDACTED] expect anything to be happening here during the foreseeable future i.e. next 2-3 years.
- Difficult to comment on what an acceptable DCP rate would be – obviously [REDACTED] paying up to [REDACTED] elsewhere.
- However given the commercial nature of the uses envisioned on the land, it is not clear how the DCP would impact feasibility or how funding would be generated through the project to pay the DCP.
- Obviously with a residential project timing of land sales/pre-sales/settlement allow for collection of funds. With a commercial project the assets are typically held or on-sold and it may be some time before value is realised through the project to contribute / fund the DCP payment.

Overall remarks

- [REDACTED] keen to deliver a discrete commercial project in the location given the frontages created by the Structure Plan. However, the expectation is that they would share in infrastructure costs and deliver TOD connector road infrastructure.
- [REDACTED] to pay for some sewer / water infrastructure but anticipate most trunk is available already. They would fund upgrades to Milner and Sultana Roads, which would be shared with neighbouring developers.
- They haven't spoken to neighbouring landowners in the area and expect the residential areas to the north/east would take some years to consider selling / he wouldn't consider working with landowners to assemble lots.
- A staged DCP approach could work for this site and would be preferred on the basis that Development WA coordinate and deliver the TOD connector road within the property and connecting northbound.
- Without certainty about the DCP and the TOD connector road being delivered [REDACTED] continue to wait and not do anything. It is unrealistic to assume that development will occur ahead of the Structure Plan being formalised with agreements about major infrastructure being delivered.

Interest in the High Wycombe South area

- We understand the city may have had discussions with [REDACTED] previously.
- However the team indicated they are have no interest in the area.
- There is a team that focuses on industrial subdivision and development.
- There is a team that leads residential development.

*General remarks in relation to DPCs in the Perth context**Industrial*

- [REDACTED] referenced Kalamunda Wedge (industrial) estate as an example of a project with a DCP.
- There is a baseline DCP for major roads etc (e.g. Courtney Place) at [REDACTED] – this creates equity and switches on development / creates the early incentive and avoids developments being out of sequence.
- The total DCP is between [REDACTED] including civil infrastructure, where there is limited potential for cost sharing / recovery of costs.
- This assumes industrial land prices at around [REDACTED]

- [REDACTED] understands the need for DCPs and believe they are important for creating equity and facilitating timely development.

Residential

- Another example is Hatch Court which had similar challenges with fragmentation and hold-out.
- If a single developer could pick up say 50% of the land and develop it in stages, this would greatly assist with timing to market and avoid developer hold-out and mitigate fragmentation.
- This project involved a base rate which could be factored into the total development cost \$x/m2.
- The assumption however was the developer would pay for everything with land values at [REDACTED]
- [REDACTED] withdrew due to land fragmentation and increasing land costs and the fact there was not \$ in the DCP fund to begin with
- The suggestion based on this example is the municipality / State needs to buy into the project from an infrastructure perspective to facilitate development initially.

Overall comments on Structure Plan and DCP

- [REDACTED] think the DCP is a good idea and creates equitable funding outcomes. Comments included:
 - A DCP isn't great for residential development sequencing when there is significant fragmented land ownership, given the nature of development i.e. need to deliver a minimum number of lots to be viable.
 - With industrial a DCP is more likely to be ok, as individual projects can be completed on a shed-by-shed basis and funding for DCP works can be provided relating to a discrete project.
- A split / two-part DCP could be considered:
 - District level dealing with regional roads and infrastructure supporting the whole area.
 - Precinct level dealing with local roads, infrastructure and services relating to individual projects.
- Not clear how environmental assets and open space would be dealt with in the above methodology.
- The shopping list should be controlled in a way that ensures funding for regional level infrastructure is equitable whilst local/precinct level infrastructure is borne by the project.

Overall remarks

- The City should take a lead role in acquisition of land for roads and major district / regional level infrastructure to ensure early works commencement, which will encourage land assembly and development.
- [REDACTED] indicated the following maximum DCP rates would be reasonable:
 - Per lot - [REDACTED]
 - Per sqm/ - [REDACTED]
- The City should consider a split / two-part DCP for local and regional infrastructure and set up a DCP Administrator to oversee the implementation of the DCP process.
- Without certainty about the amount of DCP, administration of the process and advantages for early movers, the DCP will trail development and create uncertainty.
- [REDACTED] indicated The City needs to get the DCP on the table ASAP and agree both regional and local amounts on a project-by-project basis with developers.
- The DCP can't increase over time as land values increase, as this will dramatically impact project viability on a case-by-case basis.

- If each precinct owner/developer could deliver their own infrastructure and not rely on third parties this would greatly enhance timing of development.
- The waiting on third party input (excluding POS) can restrict timing and limit the potential to collect DCP funds early in the process.
- This means The City needs to work closely with landowners / developers to get the sub-division and road layout right first.
- A staging plan for all precincts / projects and related DCP infrastructure would greatly help with alleviating fragmentation and hold-out.

Current and anticipated future market interest/demand in the High Wycombe South precincts from private developers / landowners, including reference to land assembly and delivery preferences.

- [REDACTED] have engaged with landowners in this area and undertaken feasibility studies on several parcels.
- The issue for this area is the low selling price point of future lots, particularly small lots, coupled with englobo price expectations of existing landowners.
- The landowners are not being wholly unreasonable, however, many of them still have a value in mind from when the land was earmarked for Industrial.
- The main issue is that most of the lots are 1ha in size and have a reasonable level of capital investment already (dwelling, sheds, walls, bores, etc), which puts the existing Rural Residential value roughly at [REDACTED]. They cant match this value from a land subdivision perspective. If the lots were 2ha, then the existing Rural Residential value would probably still be circa [REDACTED], but they could offer the landowners (say and for illustration) [REDACTED] for their property based on \$1m / ha.

- This is a more compelling scenario for the landowners and their ability to achieve acquisitions.
- This is the main reason why the area has not been developed in their view.
- High dwelling construction costs are not assisting this area where townhouse development is likely preferred by the planning agencies over traditional lots.

The influence of contributions on developer costs, and the market sensitivity to a cost contribution rate and extent to which this will affect the likelihood of proceeding with development in line with the objectives of the planning framework.

- The higher the developer contributions the harder it gets. In these marginal areas, the developer contributions generally take the profit out of the project and push the englobo land value down, which doesn't assist with acquisitions.
- The more items put into the developer contribution shopping list the harder it gets at an acquisition level because of the conservatism / high level nature of the developer contributions scheme.
- The issue historically and still now and still likely for the next couple of years, is what is the developer contribution amount?
- At the moment, [REDACTED] have to make a semi conservative assumption as to what this will be. Numbered Item

The nature, priority, and staging of infrastructure required to attract development activity in the precinct.

- The big ticket items. If the state builds the infrastructure required and doesn't ask for it to be paid back then this is likely to assist the area.
- Costs need to be driven down to enable private sector land acquisition offers to meet landowner expectations.
- The landowners are happy living in this location on the larger lot with the lifestyle and many of them are relatively young so they are in no rush...plus they now have a train line so why would they sell for the rough numbers outlined above.

The propensity for the private sector to pre-fund infrastructure and the desired level of government pre-funding.

- [REDACTED] are happy to prefund, however, require scale (yield) to do this.
- There is not the likely scale in this area based on land assembly constraints.
- If you start throwing services like sewer, etc into developer contribution scheme, then the costs overall go up at a feasibility level.
- This is because the developer contribution scheme will have conservatism, etc in it.

Mechanisms to optimise funding and delivery of infrastructure, and value of cost contribution liabilities.

- Its best to keep the shopping list small for developer contributions scheme.
- Throwing everything into it to try and resolve all the issues ends up compounding the cost problem.
- The State should develop their land and upgrade the infrastructure at the same time.

Interest in the High Wycombe South area

- [REDACTED] have looked at this area previously but are not currently interested, mainly due to land price
- The team indicated PTA paid around [REDACTED] for public car parking as part of the station precinct, which has set a land price that is too high.
- [REDACTED] are negotiating greenfield land prices in the [REDACTED]. Piara Waters was around [REDACTED] on a medium density dwelling yield with median price of around [REDACTED].
- [REDACTED] are seeing a 40% increase in construction costs, which is placing downward pressure on land prices.
- This is coupled with a 30% increase in civil construction costs.
- It appears rises in both construction and civil infrastructure costs have peaked.

General remarks in relation to DPCs in the Perth context

- [REDACTED] are paying around [REDACTED]/lot DCP at Eglington Estates

- Other examples include a long dated DCP at Wongong in the range [REDACTED] per lot on 375sqm lots which is around [REDACTED].
- DCPs aren't typically applicable in infill areas – mainly greenfield areas.
- The High Wycombe area is still affordable but with cost pressures land prices will soon make things unaffordable to develop.

Overall remarks

- The City / State should consider seed funding for infrastructure / to provide up-front capital as a catalyst to development that may be recouped over time.
- Without this the lack of a single developer / master developer will mean sporadic uncoordinated development.
- [REDACTED] would consider 3-4 hectares to be a good-sized land area for a medium density project at say 38-40 lots /hectare.
- This assumes [REDACTED] land price. However on [REDACTED] this wouldn't work.
- Red roads should be State funded – delineation of red and blue roads required.
- Would be interested in a staged \$/ha DCP concept for early mover / medium density concept.

Our interpretation of feedback received

- Consider the potential for a **district level** rate and/or a **precinct level** rate on a project/precinct basis and enable individual developers to make infrastructure contributions reflecting an agreed precinct plan.
- Alternatively, consider allowing individual developers to **negotiate infrastructure contributions** on a project-by-project basis for the next 1-5 years, before implementing a DCP. This could be an effective means of triggering development activity and creating critical mass required to bring forward civil works that otherwise may not be delivered for many years.
- After an agreed sunset, a DCP rate may then apply. This might provide a clear signal to interested developers who want to be early movers and take the initiative to fund early works and benefit from a relatively low land prices, before land prices and construction costs increase over time. This idea was favoured by many of the stakeholders, particularly the local developers with land under offer / contract.
- Both of these arrangements may help **address delays in infrastructure funding** that will occur based on the anticipated development sequencing outlined in the HWS Study Area.
- Importantly, these arrangements will require a dedicated City-led **Administration function** involving dedicated resources to manage and oversee. This would be a non-standard approach outside SPP3.6 guidelines and require a separate process to be defined. It will also require further investment in the development of precinct plans for infrastructure identification.

4_Desktop Financial Modelling & Sensitivity Analysis

4.1_Overview

A financial feasibility assessment has been developed to mirror the proposed developments across both TOD and Residential Precincts. The assessment tests the implications of the City's preliminary DCP rates on the likely development viability and risk / returns across several development scenarios.

The feasibility assessment involves a discounted cashflow (DCF) approach modelling both the cost estimates and the revenue stream projections during a combined development / project lifecycle of 30 years. Key financial indicators tested include project net funding position, return on investment (ROI) and project internal rate of return (IRR).

Building onto the feasibility assessment, a sensitivity analysis has also been undertaken to test the impact of land values and various DCP rates on development viability. This will assist to understand the likely maximum DCP rate threshold which will have implications for potential developments within the Structure Plan Precinct.

The key inputs to informing the assumptions for the assessment are as listed in Section 2.1.

Some general assumptions for the assessment include the following:

- Cashflow period at 30 years from 2023 to 2052, with 2022 being year 0;
- Discount rate at 4%.

The feasibility assessment presented in this section is based on the City's draft infrastructure cost apportionment and DCP rate. The findings of the feasibility assessment presented in this section provide inputs to potential options which are presented in Section 6. Further feasibility analysis has been undertaken to reflect City's cost re-apportionment and alternative DCP rates as presented in Section 7.

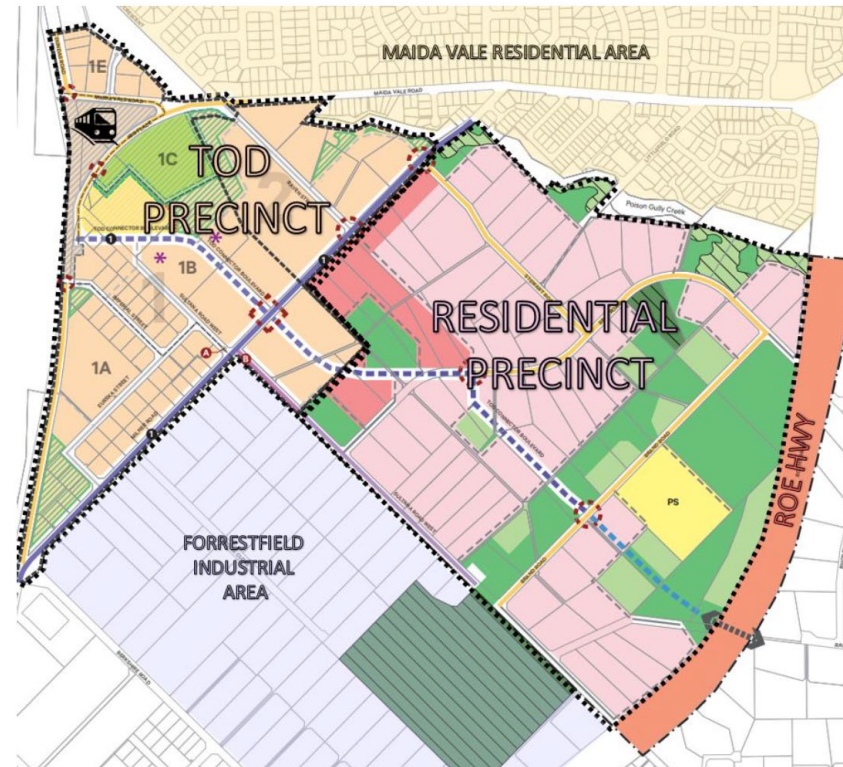
4.2_Scenario Definition

For analysis purposes, two scenarios have been defined including the follows.

- **Structure Plan Scenario:** this scenario assumes the overall Structure Plan Precinct (including both TOD Precinct and Residential Precinct) is to be notionally developed by a master developer, with the potential development within the precinct aligning to the assumed use mix, yield and staging as indicated in the *Ordinary Council Meeting (2022)* and *Forrestfield North Development Contribution Plan Yields Analysis Summary Report (2021)* based on inputs from Urbis, Element and others.
- **Indicative Developer Scenario:** this scenario assumes a standalone residential development located on a hypothetical parcel in the Residential Precinct is to be notionally developed by a potential developer, with the potential development reflecting the feedback received from the targeted stakeholder engagement.

It is noted that the feasibility assessment assumes a developer acquires zoned land which has been assembled as part of an approved masterplan for development, i.e. developer acquires the net developable area with an assumed development yield (as per the HWS Study Area). The net developable area excludes non-developable areas such as public roads, open space, walkways, reserves and other non-developable areas.

Map 4.1_Structure Plan Precinct



Source: City of Kalamunda

Structure Plan Scenario

The Structure Plan Scenario provides an overall review and assessment of the **31** ha TOD Precinct and the **60** ha Residential Precinct, totalling over 90 ha of net developable area (NDA) within the Structure Plan Precinct.

According to the assumed use mix and yield, it indicates approximately **11,310** sqm GFA of commercial floorspace and **743** dwellings within the TOD Precinct plus **2,417** dwellings within the Residential Precinct.

For analysis purposes, the following additional assumptions in relation to the likely land uses have been made:

- All commercial uses have been assumed as single level built form with an average site coverage of 80%, indicating the commercial uses may require approximately 14,138 sqm of land area.
- An average of 85% building efficiency has also been assumed for commercial uses for the purpose of calculating rent revenue.

- Carparking for commercial uses are assumed at grade open carparking. Carparking provision for is estimated based on the City's *Local Planning Scheme No.3*, which indicates a total of approximately 629 carparking spaces required for the commercial uses. Assuming 35 sqm per space and an average of 90% site coverage, this indicates a total of approximately 24,453 sqm of carparking area will be required for commercial uses.
- Based on the City's reports and various technical inputs prepared by Urbis and Element, single lot dwellings located in the Residential Precinct are assumed to sit across R30 and R40 with average lot size between 220-300 sqm/lot.
- Terrace / townhouses in the TOD Precinct are assumed as R60 at average of 150 sqm/lot, whilst those in the Residential Precinct are R60 and R80 at 120-150 sqm/lot.
- Apartments in both precincts are assumed as R80 at plot ratio of 1.0 and an average of 100 sqm/dwelling plus an average of 1 carparking space per dwelling. Carparking for apartments is assumed as undercroft carparking which forms part of the apartment built form.

Based on the above assumptions, it is indicated that, for the proposed yield, approximately **15** ha of land in the TOD Precinct and **45** ha of land in the Residential Precinct will be required, with the balance of the land likely to be underutilised. This means the current identified NDAs within both precincts may not be fully utilised under the current development yield.

According to the anticipated staging as indicated in the City's reports and various technical inputs, it is noted that the earliest development is anticipated in around 2031 with full build out expected in 2050+.

Table 4.1 overleaf presents the proposed development use mix and yield by type under the Structure Plan Scenario and potential land area required based on various assumptions aforementioned. Table 4.2 presents the current proposed development staging.

Table 4.1_Structure Plan Scenario Use Mix & Yield

Land Use	GFA sqm	Quantity No.	Land Required sqm
TOD Precinct			150,353
Retail	5,160		6,450
Commercial	1,200		1,500
Medical	1,200		1,500
Childcare	1,250		1,563
Showroom	2,500		3,125
Open Carpark - Retail	7,676	219	8,528
Open Carpark - Commercial	1,428	41	1,587
Open Carpark - Medical	7,140	204	7,933
Open Carpark - Childcare	2,789	80	3,099
Open Carpark - Showroom	2,975	85	3,306
Single Lot Dwellings	0	0	0
Terrace / Townhouses	-	625	93,750
Apartments	13,882	118	18,012
Undercroft Carpark - Apartment	4,130	118	-
Res Precinct			449,217
Single Lot Dwellings	-	938	235,160
Terrace / Townhouses	-	1,329	191,160
Apartments	17,647	150	22,897
Undercroft Carpark - Apartment	5,250	150	-

Source: City of Kalamunda; Element; Urbis; Macroplan

Table 4.2_Structure Plan Scenario Staging

Land Use	Timing						
	2021	2026	2031	2036	2041	2046	2051
TOD Precinct							
Retail			1,100	2,500	5,160	5,160	5,160
Commercial					450	900	1,200
Medical					450	900	1,200
Childcare			400	800	1,250	1,250	1,250
Showroom					2,500	2,500	2,500
Single Lot Dwellings							
Terrace / Townhouses				69	508	594	625
Apartments						31	118
Carparking - Apartment							
Res Precinct							
Single Lot Dwellings			189	433	735	938	938
Terrace / Townhouses			151	360	736	1,102	1,329
Apartments					120	135	150

Note: staging for carparking is assumed concurrent with the corresponding uses

Source: City of Kalamunda; Element; Urbis; Macroplan

Indicative Developer Scenario

The Indicative Developer Scenario provides a specific review and assessment on a typical standalone residential development which may occur within the Residential Precinct. This scenario reflect the feedback received from the targeted stakeholder engagement and their likely development intent.

This scenario assumes a standalone residential development located on a hypothetical parcel in the Residential Precinct. Key assumptions in relation to land use, yield and staging under this scenario include the following:

- **10** ha of gross land area;
- **250** lots at an average of 300 sqm/lot, indicating **7.5** ha NDA with the balance being road networks and public open space;
- 50 lots per annum, indicating 5 stages across 5 years;
- Site works and pre-sales commence in 2023 followed construction at 1 year per stage, with first settlement in 2025 and fully build out by 2029.

4.3_Key Assumptions

A number of assumptions have been made in order to undertake the feasibility modelling and analysis.

Land Value

The valuation report *Forrestfield North Residential Precinct DCP Various Lots Forrestfield & High Wycombe Valuation* prepared by Savills (2022) indicates the current land value ranging from \$130/sqm for unimproved residential land to up to \$750/sqm for improved residential land, whilst industrial land may range from \$150/sqm to up to \$600/sqm.

The feasibility assessment adopts **\$130/sqm** as an initial input applicable on a net developable area basis (as per described in Section 4.2) and a range of potential higher land values will be tested in the sensitivity analysis.

DCP Rates

The City's preliminary calculation indicates total infrastructure cost of approximately \$132.1 million, with \$28.2 million apportioned to TOD Precinct, \$66.3 million apportioned to Residential Precinct plus the balance of \$39.3 million other share.

Based on the identified NDAs of each precinct, this indicates average DCP rates at approximately **\$92/sqm** for TOD Precinct and **\$111/sqm** for Residential Precinct.

These preliminary DCP rates have been adopted in the feasibility assessment on the basis of net developable area required for the adopted development yield (as per described in Section 4.2) and various rates will be tested in the sensitivity analysis.

It is also noted these DCP rates are only applied to the net developable area in the scenarios instead of the overall precinct NDAs, i.e. 15 ha for the TOD Precinct, 45 ha for the Residential Precinct and 7.5 ha for the standalone development. Application to the overall precinct NDAs is tested the sensitivity analysis.

Cost Assumptions

The cost estimates for construction of the proposed development uses have been established with reference to the *Rawlinsons Australian Construction Handbook* (2022). The estimated cost rates are presented in Table 4.3.

Escalation on cost is assumed at 3.0% per annum reflecting the long term average inflation given the proposed development is not expected to be delivered in the short term horizon. However, considering the significant increase in construction cost recently, an one-off increase in construction cost as of today is to be tested in the sensitivity analysis.

Other assumptions relating to costs include the follows.

- Development management fee at 1.5% of development cost including land value;
- Project management fee at 1.0% of construction cost;
- Professional fees at 7.0% of construction cost;
- Contingency at 10.0% of construction cost;
- Allowance for environment sustainable design (ESD) at 3.0%;
- Authority fees and charges at 1.0%.

Table 4.3_Construction Cost Assumptions

Item	Rate
Site Works	\$110 \$/sqm land
Retail	\$1,790 \$/sqm GFA
Commercial	\$1,725 \$/sqm GFA
Medical	\$2,125 \$/sqm GFA
Childcare	\$2,105 \$/sqm GFA
Showroom	\$2,010 \$/sqm GFA
Single Lot Dwellings	\$247,500 \$/dwelling
Terrace / Townhouses	\$274,500 \$/dwelling
Apartments	\$250,000 \$/dwelling
Open Carpark	\$3,170 \$/space
Undercroft Carpark	\$26,250 \$/space

Source: *Rawlinsons Australian Construction Handbook* (2022); *Macroplan* (2022)

Revenue Assumptions

The estimated revenue streams likely to be generated by the proposed have been established based on comparable market rents and sales prices in suburb of High Wycombe and surrounding areas. The estimated revenue rates are presented in Table 4.4 below.

Escalation on revenue is assumed at 3.5% per annum considering the long term growth potential of the area with further improved transport connectivity and accessibility.

Other assumptions relating to revenue also include the follows.

- Occupancy rate for commercial uses at 100%;

Table 4.4_Revenue Assumptions

Item	Rate
Retail	\$450 \$/sqm NLA net
Commercial	\$275 \$/sqm NLA net
Medical	\$300 \$/sqm NLA net
Childcare	\$275 \$/sqm NLA net
Showroom	\$250 \$/sqm NLA net
Single Lot Dwellings	\$550,000 \$/dwelling
Terrace / Townhouses	\$465,000 \$/dwelling
Apartments	\$360,000 \$/dwelling

Source: *realcommercial.com*; *RP Data*; *Macroplan (2022)*

- Pre-sale of residential dwellings at 100% per stage with 10% deposit;
- Leasing cost at 3.5%;
- Sales cost 2.5%;
- No operating costs assumed for commercial uses given net rents assumed.

All commercial uses are also assumed to be capitalised at the end of the cashflow period with capitalisation rates by use presented in Table 4.5.

Staging

The assumptions relating to the staging of the proposed development is as per presented in Section 4.2_*Scenario Definition*.

Table 4.5_Revenue Assumptions

Capitalisation Rate	
Retail	6.15%
Commercial	6.50%
Medical	6.50%
Childcare	5.00%
Showroom	6.50%

Source: *Statista Average market yield of retail property in Australia (2021)*; *Knight Frank Melbourne Metropolitan Office Overview (2020) 2020*; *Colliers Hotel Sentiment Survey (2020)*

Other assumptions regarding staging include the follows.

- Land acquisition and DCP payment assumed to occur as of now with no escalation;
- Planning, site works and pre-sales assumed at 2 years before the delivery timing of each use;
- Construction works assumed at 1 year before the delivery timing of each use;
- Asset capitalisation at the end of the cashflow period.

Exclusions

This analysis excludes the following items.

- GST;
- Preliminaries;
- Decontamination;
- Flood mitigation;
- Excavation and bulk earthworks;
- Major infrastructure;
- Special equipment;
- Land holding cost;
- Fit-out;
- Major refurbishment, maintenance and repairs;
- Financing; and
- Depreciation.

4.4_Financial Outcomes

Structure Plan Scenario

Table 4.6 adjacent summaries the financial outcomes for both precincts within the overall Structure Plan Precinct.

It indicates that, based on the current assumptions under this scenario, both precincts have the potential to achieve positive net funding positions and viable project returns, including 27.3% ROI for TOD Precinct and 19.6% for Residential Precinct during the 30-year cashflow period.

However, based on the current development timeline under this scenario, development is expected to occur in 2031 and later. This indicates that, whilst developer acquires land as of today, it will not be developed until 10 years later and the value and project return will not be realised until 15-20 years later. With DCP borne by developer as of today, this may also incur potential land holding costs and forgone opportunity costs should it be developed in earlier stages.

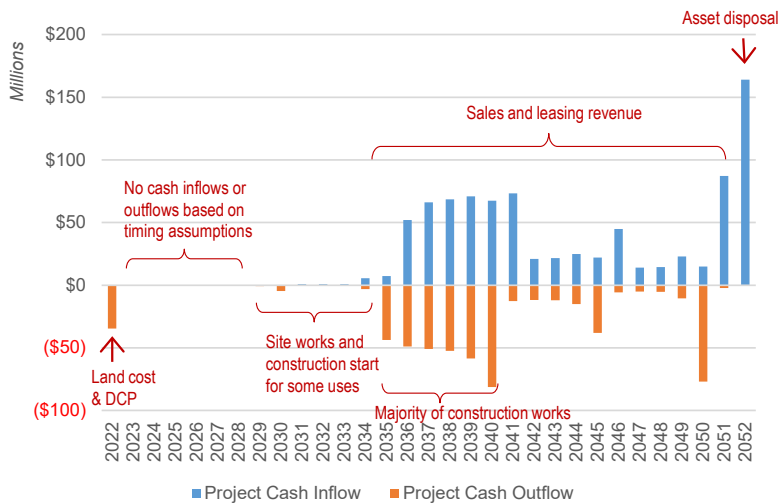
It is noted that IRR is of less relevant due to staging assumptions.

Table 4.6_Structure Plan Scenario Financial Summary

Item \$M	TOD Precinct		Res Precinct	
	Present Value	Nominal Value	Present Value	Nominal Value
<u>Project Revenue</u>				
Gross Sales Revenue	\$286.0	\$607.7	\$1,030.0	\$2,034.2
Less Sales Cost	(\$7.1)	(\$15.2)	(\$25.7)	(\$50.9)
Net Sales Revenue	\$278.8	\$592.5	\$1,004.2	\$1,983.3
Gross Leasing Revenue	\$41.5	\$103.1	\$0.0	\$0.0
Less Leasing Cost	(\$1.5)	(\$3.6)	\$0.0	\$0.0
Net Leasing Revenue	\$40.1	\$99.5	\$0.0	\$0.0
Asset Capitalisation / Disposal	\$47.7	\$154.6	\$0.0	\$0.0
Total Net Revenue	\$366.5	\$846.6	\$1,004.2	\$1,983.3
<u>Project Cost</u>				
Land Contribution	(\$20.6)	(\$20.6)	(\$61.4)	(\$61.4)
DCP	(\$13.8)	(\$13.8)	(\$49.9)	(\$49.9)
Site Works	(\$14.0)	(\$27.8)	(\$42.9)	(\$77.6)
Construction Works	(\$191.0)	(\$394.8)	(\$545.9)	(\$1,049.9)
Other Costs	(\$48.5)	(\$99.6)	(\$139.2)	(\$265.8)
Total Development Cost (Before Financing)	(\$287.9)	(\$556.5)	(\$839.4)	(\$1,504.7)
Financing	\$0.0	\$0.0	\$0.0	\$0.0
Total Development Cost (After Financing)	(\$287.9)	(\$556.5)	(\$839.4)	(\$1,504.7)
<u>Project Returns</u>				
Project Net Funding Position	\$78.6	\$290.1	\$164.9	\$478.6
ROI	27.3%		19.6%	
Project IRR	8.7%		9.3%	

Source: Macroplan (2022)

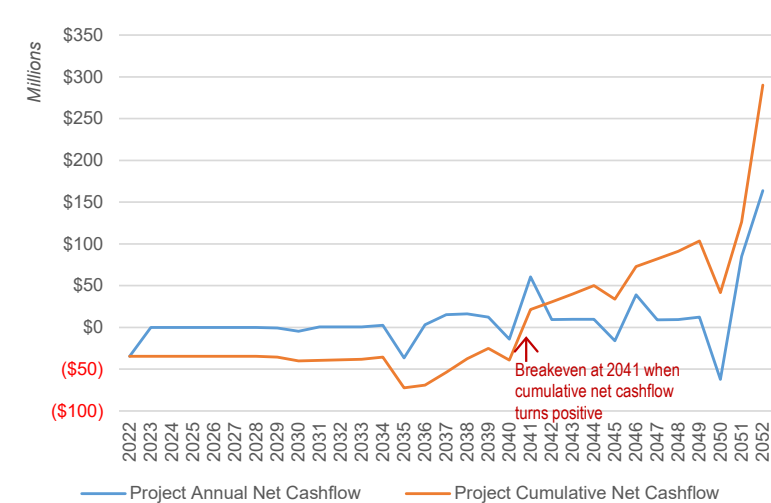
Chart 4.1_Structure Plan Scenario TOD Precinct Project Cash Inflow & Outflow



Source: Macroplan (2022)

- Project cash inflow: all incomes generated by the project per year, including sales income, leasing income and disposal of assets at the end of cashflow period.
- Project cash outflow: all expenses paid out for the project per year, including land cost, DCP, site works, construction works, other development cost, financing cost, and sales and leasing costs.

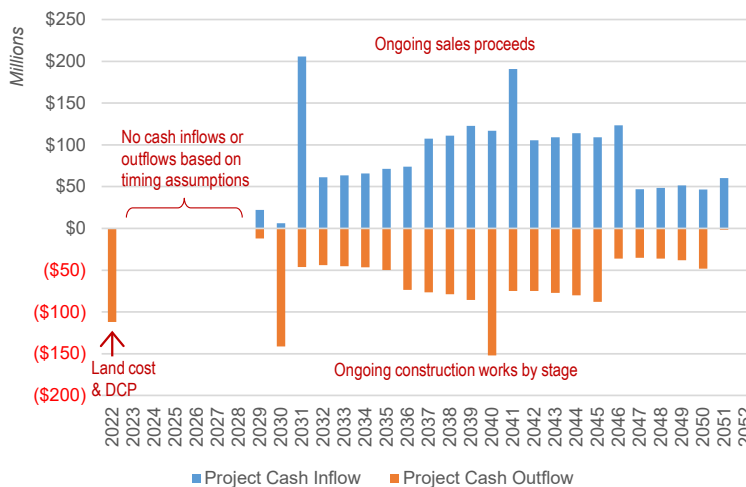
Chart 4.2_Structure Plan Scenario TOD Precinct Project Annual Net & Cumulative Cashflows



Source: Macroplan (2022)

- Project annual net cashflow: the net of total project cash inflows and outflows per year.
- Project cumulative net cashflow: the total of net project cashflow from the start of cashflow period.

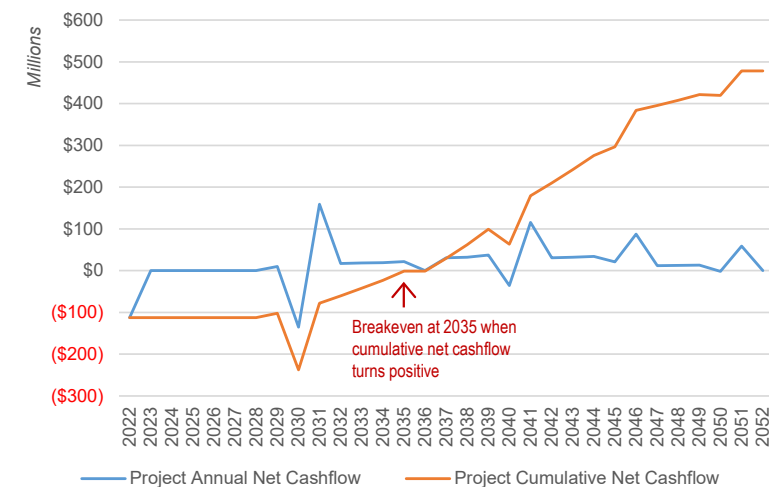
Chart 4.3 Structure Plan Scenario Residential Precinct Project Cash Inflow & Outflow



Source: Macroplan (2022)

- Project cash inflow: all incomes generated by the project per year, mainly including sales income for Residential Precinct.
- Project cash outflow: all expenses paid out for the project per year, including land cost, DCP, site works, construction works, other development cost, financing cost, and sales costs.

Chart 4.4 Structure Plan Scenario Residential Precinct Project Annual Net & Cumulative Cashflows



Source: Macroplan (2022)

- Project annual net cashflow: the net of total project cash inflows and outflows per year.
- Project cumulative net cashflow: the total of net project cashflow from the start of cashflow period.

Indicative Developer Scenario

Table 4.7 adjacent summaries the financial outcomes of the Indicative Developer Scenario.

Based on the assumptions under this scenario, it indicates that the hypothetical standalone residential development of 250 dwellings has the potential to achieve positive net funding position and viable project return, including 20.5% ROI and 16.0% IRR during the 30-year cashflow period.

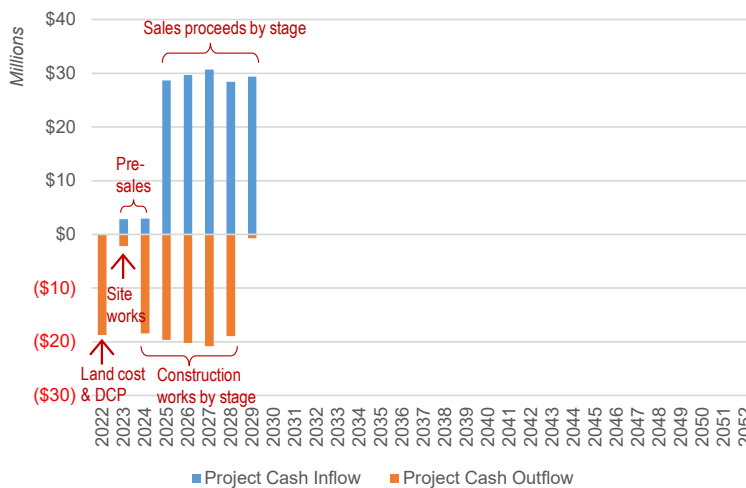
Given the staging assumptions under this scenario where the development is to be delivered in the near future, it indicates that the project return is expected to be realised in a relatively short term, i.e. next 5-10 years.

Table 4.7_Indicative Developer Scenario Financial Summary

Item \$M	Present Value	Nominal Value
<u>Project Revenue</u>		
Gross Sales Revenue	\$126.3	\$152.6
Less Sales Cost	(\$3.2)	(\$3.8)
Net Sales Revenue	\$123.2	\$148.8
Total Net Revenue	\$123.2	\$148.8
<u>Project Cost</u>		
Land Contribution	(\$10.3)	(\$10.3)
DCP	(\$8.3)	(\$8.3)
Site Works	(\$8.0)	(\$9.0)
Construction Works	(\$59.5)	(\$69.7)
Other Costs	(\$16.0)	(\$18.6)
Total Development Cost (Before Financing)	(\$102.2)	(\$116.0)
Financing	\$0.0	\$0.0
Total Development Cost (After Financing)	(\$102.2)	(\$116.0)
<u>Project Returns</u>		
Project Net Funding Position	\$21.0	\$32.8
ROI	20.5%	
Project IRR	16.0%	

Source: Macroplan (2022)

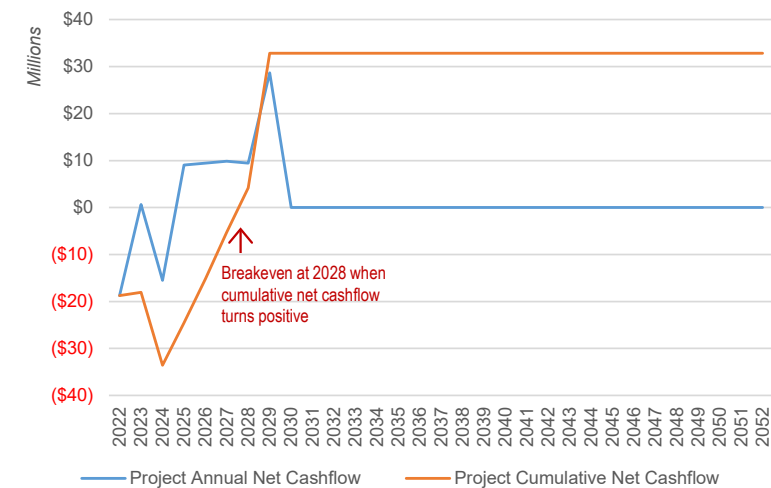
Chart 4.5_Indicative Developer Scenario Project Cash Inflow & Outflow



Source: Macroplan (2022)

- Project cash inflow: all incomes generated by the project per year, mainly including sales income for a residential development.
- Project cash outflow: all expenses paid out for the project per year, including land cost, DCP, site works, construction works, other development cost, financing cost, and sales costs.

Chart 4.6_Indicative Developer Scenario Project Annual Net & Cumulative Cashflows



Source: Macroplan (2022)

- Project annual net cashflow: the net of total project cash inflows and outflows per year.
- Project cumulative net cashflow: the total of net project cashflow from the start of cashflow period.

4.5_Sensitivity Analysis

Building onto the feasibility assessment, a sensitivity analysis has also been undertaken to test the impact of land values and various DCP rates on development viability. This will assist to understand the likely maximum DCP rate threshold which will have implications for potential developments within the Structure Plan Precinct.

The sensitivity analysis tests the likely impacts of the following variables under both scenarios.

- **Baseline:** test various land values as indicated in the Savills valuation report ranging from \$130/sqm to up to \$750/sqm and various DCP rates ranging from \$25/sqm to \$110 given the current rates being considered relatively too high; other assumptions remain unchanged.
- **Construction cost shock:** building onto the baseline, increase construction costs by 10% as of today mirroring the significant inflation recently; future escalation on construction costs remains at 3.0% per annum reflecting long-term average growth.

- **Land area application of DCP:** whilst the feasibility assessment applies DCP to the net land areas required by the proposed development assuming land has been zoned and assembled as part of an approved masterplan for development, applying DCP to the overall precincts / gross land area available is tested in the sensitivity analysis; other assumptions remain unchanged including construction costs.

- **Land area application of DCP with construction cost shock:** test the construction cost increase by 10% and apply DCP to the overall precincts / gross land area concurrently.

The sensitivity analysis tests the likely impacts of the above on ROI under both scenarios.

Table 4.8_Historic Building Price Index, Perth

	2016	2017	2018	2019	2020	2021
Mar 31	106.65	108.24	110.30	111.96	113.46	116.31
Jun 30	107.17	109.10	110.74	112.40	113.75	118.03
Sep 30	107.71	109.54	111.18	112.85	114.31	119.75
Dec 31	108.24	109.86	111.51	113.18	114.59	121.47(F)

Source: Rawlinsons Australian Construction Handbook (2022)

Table 4.9_Anticipated Building Price Index, Perth

	2021	2022
Mar 31	116.31	125.11 (R)
Jun 30	118.30	126.94 (F)
Sep 30	119.75	
Dec 31	121.47	

Source: Rawlinsons Australian Construction Handbook (2022)

Structure Plan Scenario*TOD Precinct*

The sensitivity analysis indicates the financial viability of development of the TOD Precinct is highly sensitive to increases in land value, DCP rates, construction costs and land area involved.

- When land value is below \$300/sqm, the development of the TOD Precinct is likely to achieve a favourable ROI of above 20% under all DCP rates tested.
- When land value increases to \$300/sqm and above, the ROI is likely to drop below 20% to around 15%-18% which is still considered bankable under all DCP rates tested.
- With land value further increasing to \$500/sqm and above, the development is generally unviable with ROI below 10%.
- The one-off 10% increase in construction cost is expected to reduce development viability significantly, where the development may remain viable when land value is below \$150/sqm and DCP no more than \$75/sqm.
- Applying DCP to the overall precinct also significantly reduces development viability, where the development may remain bankable with land value no more than \$130/sqm and DCP no more than \$60/sqm.
- The development is generally unviable when considering both construction cost shock and the overall precinct under all permeabilities.

High Wycombe South
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**Table 4.10_Structure Plan Scenario TOD
Precinct Sensitivity Analysis – Baseline**

TOD		DCP (\$/sqm)					
~15 ha		\$25	\$45	\$60	\$75	\$90	\$110
Land Value (\$/sqm)	\$130	31.9%	30.5%	29.5%	28.4%	27.4%	26.1%
	\$150	30.4%	29.0%	28.0%	27.0%	26.0%	24.7%
	\$300	20.1%	19.0%	18.1%	17.2%	16.4%	15.3%
	\$500	8.7%	7.7%	7.0%	6.3%	5.6%	4.7%
	\$600	3.8%	2.9%	2.2%	1.6%	1.0%	0.1%
	\$650	1.5%	0.6%	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

**Table 4.12_Structure Plan Scenario TOD
Precinct Sensitivity Analysis – Overall Precinct**

TOD		DCP (\$/sqm)					
~31 ha		\$25	\$45	\$60	\$75	\$90	\$110
Land Value (\$/sqm)	\$130	20.7%	18.3%	16.6%	14.9%	13.3%	11.1%
	\$150	18.2%	15.9%	14.2%	12.6%	11.0%	9.0%
	\$300	2.0%	0.3%	-	-	-	-
	\$500	-	-	-	-	-	-
	\$600	-	-	-	-	-	-
	\$650	-	-	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

**Table 4.11_Structure Plan Scenario TOD
Precinct Sensitivity Analysis – Construction
Cost Shock**

TOD		DCP (\$/sqm)					
~15 ha		\$25	\$45	\$60	\$75	\$90	\$110
Land Value (\$/sqm)	\$130	21.0%	19.8%	18.9%	18.1%	17.2%	16.1%
	\$150	19.7%	18.6%	17.7%	16.9%	16.0%	14.9%
	\$300	11.0%	10.0%	9.3%	8.6%	7.8%	6.9%
	\$500	1.2%	0.4%	-	-	-	-
	\$600	-	-	-	-	-	-
	\$650	-	-	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

**Table 4.13_Structure Plan Scenario TOD
Precinct Sensitivity Analysis – Overall Precinct
with Construction Cost Shock**

TOD		DCP (\$/sqm)					
~31 ha		\$25	\$45	\$60	\$75	\$90	\$110
Land Value (\$/sqm)	\$130	11.5%	9.5%	8.0%	6.5%	5.1%	3.3%
	\$150	9.3%	7.4%	5.9%	4.5%	3.2%	1.4%
	\$300	-	-	-	-	-	-
	\$500	-	-	-	-	-	-
	\$600	-	-	-	-	-	-
	\$650	-	-	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

Residential Precinct

Similarly, the financial viability of development of the Residential Precinct is also highly sensitive to increases in land value, DCP rates, construction costs and land area involved.

- When land value is below \$300/sqm and DCP rate is below \$90/sqm, the development of the Residential Precinct is anticipated to achieve a favourable ROI of around 20% and above.
- When land value increases to \$300/sqm and above, the development becomes generally unviable.
- With an one-off 10% increase in construction cost, the development becomes largely unviable under all permeabilities, whilst with land value at \$130/sqm and DCP below \$60/sqm it may still be considered bankable.
- Applying DCP to the overall precinct than only the land required significantly reduces development viability, where the development may remain viable when land value is no more than \$150/sqm and DCP no more than \$75/sqm.
- The development is generally unviable when considering both construction cost shock and the overall precinct under all permeabilities.

Table 4.14_Structure Plan Scenario Residential Precinct Sensitivity Analysis – Baseline

Res ~45 ha	DCP (\$/sqm)					
	\$25	\$45	\$60	\$75	\$90	\$110
Land Value (\$/sqm)						
\$130	25.4%	24.0%	23.0%	22.0%	21.0%	19.7%
\$150	23.9%	22.6%	21.6%	20.6%	19.6%	18.4%
\$300	13.8%	12.7%	11.8%	11.0%	10.2%	9.1%
\$500	2.7%	1.7%	1.1%	0.4%	-	-
\$600	-	-	-	-	-	-
\$650	-	-	-	-	-	-
\$750	-	-	-	-	-	-

Source: Macroplan (2022)

Table 4.16_Structure Plan Scenario Residential Precinct Sensitivity Analysis – Overall Precinct

Res ~60 ha	DCP (\$/sqm)					
	\$25	\$45	\$60	\$75	\$90	\$110
Land Value (\$/sqm)						
\$130	21.8%	20.0%	18.7%	17.5%	16.3%	14.7%
\$150	19.9%	18.2%	17.0%	15.8%	14.6%	13.1%
\$300	7.6%	6.3%	5.3%	4.3%	3.3%	2.1%
\$500	-	-	-	-	-	-
\$600	-	-	-	-	-	-
\$650	-	-	-	-	-	-
\$750	-	-	-	-	-	-

Source: Macroplan (2022)

Table 4.15_Structure Plan Scenario Residential Precinct Sensitivity Analysis – Construction Cost Shock

Res ~45 ha	DCP (\$/sqm)					
	\$25	\$45	\$60	\$75	\$90	\$110
Land Value (\$/sqm)						
\$130	15.0%	13.9%	13.0%	12.1%	11.3%	10.2%
\$150	13.8%	12.6%	11.8%	11.0%	10.1%	9.1%
\$300	5.2%	4.2%	3.5%	2.8%	2.1%	1.2%
\$500	-	-	-	-	-	-
\$600	-	-	-	-	-	-
\$650	-	-	-	-	-	-
\$750	-	-	-	-	-	-

Source: Macroplan (2022)

Table 4.17_Structure Plan Scenario Residential Precinct Sensitivity Analysis – Overall Precinct with Construction Cost Shock

Res ~60 ha	DCP (\$/sqm)					
	\$25	\$45	\$60	\$75	\$90	\$110
Land Value (\$/sqm)						
\$130	11.9%	10.5%	9.4%	8.3%	7.3%	6.0%
\$150	10.4%	8.9%	7.9%	6.9%	5.9%	4.5%
\$300	-	-	-	-	-	-
\$500	-	-	-	-	-	-
\$600	-	-	-	-	-	-
\$650	-	-	-	-	-	-
\$750	-	-	-	-	-	-

Source: Macroplan (2022)

Indicative Developer Scenario

Similar observations have been made under the Indicative Developer Scenario.

- When land value is around \$130-\$150/sqm, the development of the hypothetical standalone residential development is generally viable under all DCP rates tested.
- Once the land value increase to \$300/sqm and above, the development becomes generally unviable.
- The one-off 10% increase in construction cost is expected to reduce development viability significantly, whilst with land value no more than \$130/sqm and DCP no more than \$60/sqm it may still remain viable.
- Applying DCP to the overall gross land area assumed will also reduce development viability, where the development may remain viable if land value is no more than \$150/sqm and DCP is no more than \$75/sqm.
- The development is generally unviable when considering both the construction cost shock and the overall gross land area under all scenarios.

Table 4.18_Indicative Developer Scenario Sensitivity Analysis – Baseline

Res	DCP (\$/sqm)						
~7.5 ha	\$25	\$45	\$60	\$75	\$90	\$110	
Land Value (\$/sqm)	\$130	28.7%	26.7%	25.2%	23.8%	22.4%	20.6%
	\$150	26.6%	24.6%	23.2%	21.9%	20.5%	18.8%
	\$300	12.7%	11.1%	10.0%	8.9%	7.9%	6.5%
	\$500	-	-	-	-	-	-
	\$600	-	-	-	-	-	-
	\$650	-	-	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

Table 4.20_Indicative Developer Scenario Sensitivity Analysis – Overall Precinct

Res	DCP (\$/sqm)						
~60 ha	\$25	\$45	\$60	\$75	\$90	\$110	
Land Value (\$/sqm)	\$130	23.4%	21.0%	19.2%	17.5%	15.9%	13.7%
	\$150	20.8%	18.5%	16.8%	15.2%	13.6%	11.5%
	\$300	4.4%	2.7%	1.4%	0.2%	-	-
	\$500	-	-	-	-	-	-
	\$600	-	-	-	-	-	-
	\$650	-	-	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

Table 4.19_Indicative Developer Scenario Sensitivity Analysis – Construction Cost Shock

Res	DCP (\$/sqm)						
~7.5 ha	\$25	\$45	\$60	\$75	\$90	\$110	
Land Value (\$/sqm)	\$130	18.4%	16.7%	15.4%	14.2%	13.1%	11.5%
	\$150	16.6%	14.9%	13.7%	12.6%	11.4%	9.9%
	\$300	4.7%	3.4%	2.4%	1.4%	0.5%	-
	\$500	-	-	-	-	-	-
	\$600	-	-	-	-	-	-
	\$650	-	-	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

Table 4.21_Indicative Developer Scenario Sensitivity Analysis – Overall Precinct with Construction Cost Shock

Res	DCP (\$/sqm)						
~60 ha	\$25	\$45	\$60	\$75	\$90	\$110	
Land Value (\$/sqm)	\$130	13.9%	11.8%	10.3%	8.8%	7.4%	5.6%
	\$150	11.7%	9.7%	8.2%	6.8%	5.5%	3.7%
	\$300	-	-	-	-	-	-
	\$500	-	-	-	-	-	-
	\$600	-	-	-	-	-	-
	\$650	-	-	-	-	-	-
	\$750	-	-	-	-	-	-

Source: Macroplan (2022)

4.6_Summary

The sensitivity analysis tests several variables, including per sqm DCP rate, per sqm land value, construction cost increase, land area applicable and their combinations, and their impacts on the development viability for all scenarios defined. This analysis will have implications on the potential feasible DCP rates which may be adopted to support future developments in the HWS precinct.

Land Value

The viability of potential development under all scenarios appears to be sensitive to land value.

Within the TOD Precinct, the development may remain largely viable when land value is no more than \$300/sqm. Within the Residential Precinct, the development may remain largely viable when land value is no more than \$150/sqm. If land value increases to \$500/sqm for both precincts, the development is likely to become unviable.

Construction Costs

A one-off increase in construction cost by 10% appears to have a significant impact on the likely development viability.

With land value at \$130/sqm and 10% increase in construction costs, the development in TOD precinct may remain viable ($ROI \geq 18\%$) with DCP rate at around \$75/sqm or below; and the development Residential Precinct may be bankable (ROI at around 14% or above) with DCP rate at around \$60/sqm or below. Higher land value and higher DCP rates may diminish development viability.

Land Area Applied

The sensitivity analysis was undertaken showing the impact on project viability in circumstances where land is not assembled, and the developer must acquire the gross land area with the potential to negotiate a preferred development yield. In this case, the development feasibility may be significantly reduced when the HWS Study Area development yields are applied (both TOD and Residential Precincts).

With land values assumed at \$130/sqm, the development may remain viable with DCP rate generally at around \$60/sqm or below. Should land value increase coupled with 10% construction cost increase, the development is generally unviable.

This suggests the State and/or Council may need to underwrite a portion of the gross land cost; and/or review the HWS Study Area development yields to allow greater flexibility for a developer to increase the development potential applicable to the land in order to offset the land cost and other project costs and risks.

Implications to DCP

Considering all variables tested, it is considered a DCP rate in the order of \$60/sqm may be feasible, noting significant increase in land value and construction cost may still diminish development viability and increased land utilisation / development yields may be considered to offset costs and risks.

5_Potential Options, Considerations & Risks



5.1_Overview

Considering the stakeholder feedback and financial modelling and sensitivity analysis, we have identified several options for The City's consideration in further refining the draft DCP applicable to the HWS Study Area.

The options identified may be considered variations of each-other, with degrees of flexibility about the form, quantum and timing of the DCP, mainly to encourage early development and mitigate the risk developer holdout, which would limit development outcomes across the HWS Study Area into the foreseeable future.

Options 2-4 will involve a departure from SPP3.6 and will require a relaxed interpretation of some of policy requirements and potentially require greater State / Local co-funding to fulfil the infrastructure requirements.

5.2_Potential Options & Considerations

Option 1 – implementing a 'feasible' DCP rate

This would involve adopting a 'feasible' DCP rate of \$60/m². This is informed by the sensitivity analysis presented, which demonstrates this is the highest DCP rate at which development remains generally feasible, allowing for prevailing land prices and a one-off increase in construction costs.

Important Considerations: This would potentially require a level of State Government co-funding for major infrastructure, including the TOD connector road. This would likely involve The City negotiating with the State Government in relation to major infrastructure requirements, separate to METRONET, which could take some time to resolve.

Option 2 – two-part DCP rate

An alternative option may involve The City considering a two-part / blended DCP – with a district rate of say \$50/m² and precinct level rates, to be negotiated on a project level within the range of say \$15-\$25/m². This would create a degree of equity across the HWS Study Area at a district level and encourage early movers, with the potential to bring forward infrastructure investments across a network of precincts or projects. However, this may be too complex for The City to implement and administer and will likely involve significant ongoing resource implications from The City.

Important Considerations: This approach would require further specific instruction and advice regarding how it would operate within the existing WA planning context to meet the principles of SPP3.6.

Option 3 – Negotiated Development Agreement (1-5 years) followed by a DCP

This would involve deferring the DCP and negotiating infrastructure contributions on a project/precinct level under a Voluntary or Negotiated Development Agreement. This assumes a district level DCP is not viable in the short-term (as evidenced by the feasibility modelling presented in this study) given variables such as land prices, increased construction and civil works costs and other costs. Whilst relatively inefficient with ad hoc infrastructure timing with the potential for poor streetscape and other public realm outcomes, this option may bring-forward investment among early movers such as [REDACTED] and [REDACTED] may be followed by a DCP (similar to option 1 or 2) after a period of say 5 years.

Important Considerations: As above, this approach may require new or amended structure plan provisions and further specific instruction and advice regarding how it would operate within the existing WA planning context to meet the principles of SPP3.6.

Option 4- Hybrid

This option would involve implementing a district wide DCP(similar to option 1) with a window of say 2-3 years in which developers may negotiate proposals with The City (e.g. works in kind) in lieu of the DCP (similar to option 3). This is likely to mitigate the need for advice regarding how it would operate within the existing WA planning context, but may require new or amended structure plan provisions to address how negotiation would work on a project-by-project basis during the initial phases.

5.3_How this relates to The City's Infrastructure Cost Plan

The City has prepared a preliminary infrastructure cost plan for HWS considering several items, including major civil works, public open space and community infrastructure totalling approx. **\$132 million**. Approx **\$94.5 million** is allocated to two precincts:

- Approx **\$28.27 million** (around 21%) is allocated to the TOD precinct; and
- Approx **\$66.25 million** (around 50%) is allocated to the Residential Precinct LSP

The balance is to be derived from other grants or government sources.

- Approx. **\$73.18 million** (around 55%) of the total has been allocated for intersection and roads – of which a significant portion has been allocated to the residential precinct (\$34.9 million or 48%), which may highlight a requirement for State Government co-funding, including potentially funding the TOD connector road south of Milner road. It is suggested The City undertake scenario testing considering the potential for cost savings within LSP infrastructure (roads and intersections); and test traffic volume assumptions (by changing development yields) and their implications for road and intersection requirements across the HWS Study Area. The City notes *this may in fact be less about the road network requirements and more about whether 'other' (non DCP) sources should be increased to fund the road requirements.*
- Approx. **\$34.21 million** (around 26%) for public open space – of which a significant portion relates to land acquisition supporting a green link as part of a major conservation and ecological commitment within the HWS area. It is suggested The City explore alternative funding sources for local open space surrounding Environmental Conservation areas.

5.3_How this relates to The City's Infrastructure Cost Plan

The following table shows the estimated DCP rate (\$/m2) under the current cost apportionment between the residential and TOD precincts.

Infrastructure Cost Plan				Current		
Item	Construction (\$m)	Land Acquisition (\$m)	Total (\$m)	Residential Share (\$m)	TOD Share (\$m)	Other Share (\$m)
Intersections	15.2	0.9	16.1	6.3	2.1	7.7
Roads	50.8	6.2	57.1	28.7	6.8	21.6
Public Open Space	15.0	19.2	34.2	22.5	11.8	0.0
Drainage	2.9	5.6	8.5	3.0	5.5	0.0
Community Facilities	12.0	0.0	12.0	3.1	0.7	8.2
Administration Costs			4.2	2.7	1.5	0.0
Total	95.9	32.0	132.1	66.3	28.3	37.6
<i>Estimated DCP rate (\$/m2)</i>				<i>110</i>	<i>90</i>	

Considering the modelling, sensitivity analysis and stakeholder engagement, the following cost apportionment incorporates the existing preliminary DCP rate (\$/m²) together with a 'feasible' DCP rate, where the costs of roads and intersections and public open space are reduced by up to say 50%, where highlighted.

The following shows the feasible DCP rate (\$/m²) under an adjusted cost apportionment between the residential and TOD precincts, where the costs of roads and intersections and public open space are reduced by up to say 50%, where highlighted. The City notes conservation sites do not form part of the draft DCP costings - these will be acquired through the Metropolitan Region Improvement Fund (WAPC). POS is included only up to the 10% threshold.

Infrastructure Cost Plan

Item	Construction (\$m)	Land Acquisition (\$m)	Total (\$m)
Intersections	15.2	0.9	16.1
Roads	50.8	6.2	57.1
Public Open Space	15.0	19.2	34.2
Drainage	2.9	5.6	8.5
Community Facilities	12.0	0.0	12.0
Administration Costs			4.2
Total	95.9	32.0	132.1
<i>Estimated DCP rate (\$/m²)</i>			

'Feasible' DCP Rate

Residential Share (\$m)	TOD Share (\$m)	Other Share (\$m)
3.1	2.1	10.8
14.3	3.4	39.4
11.2	5.9	17.1
3.0	5.5	0.0
3.1	0.7	8.2
2.7	1.5	0.0
37.6	19.0	75.5
63	61	

The above assumes the quantum and cost of local road infrastructure may be reduced without significantly reducing local access and connectivity.

It also assumes the up to 50% of the cost of land acquisition and construction of an ecological outcome in the form of a green corridor may be addressed through Metropolitan Region Improvement Fund (WAPC).

This would likely involve going back to the State to seek prefunding due to the imposition of the conservation corridor and edge effects through the EPA at the Structure Planning stage.

Based on these assumptions, an estimated 'feasible DCP rate should be approx. **\$60/m2** consistent with the sensitivity modelling presented, which could be as low as 55% of the higher DCP rate applicable to the residential area.

The City has also undertaken a separate assessment considering several scenarios involving reapportionment of infrastructure costs within the HWS Study Area. The findings of this assessment are presented in Section 7.

5.4_Risks

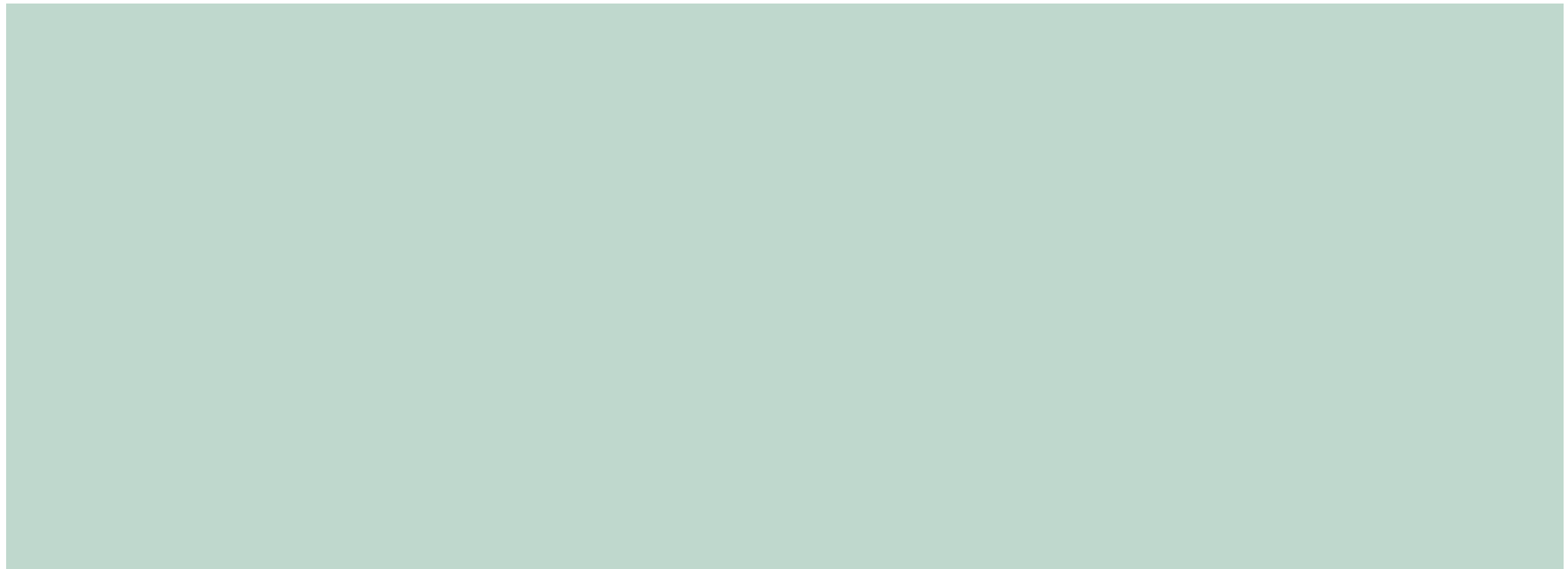
There are several risks relating to the options outlined above. These include:

- A significant portion of the current cost plan being allocated 'other share', which falls outside the HWS DCP.
- A requirement for the State and/or The City to fund a significant portion of roads and intersections, with the TOD connector road likely being entirely funded by the State.
- A requirement to transfer land acquisition for green network / conservation to the State and relax Liveable Neighbourhood Policy requirement of 10% POS.

Further comments relating to the risks under each option concerning the quantum and timing of infrastructure funding, governance and administration and the overall viability of development within HWS Study Area are presented overleaf.

Options	Risks to the quantum of funding and timing of infrastructure	Risks for The City in terms of governance & administration resource requirements and costs	Risks to overall development viability within HWS Study Area
1 Feasible DCP rate	<p>This option is likely to be relatively equitable and efficient in terms of quantum and timing of funding. However, it lacks flexibility to negotiate project-specific infrastructure contributions at a precinct level.</p> <p>The main risk under this option to the quantum and timing of funding is the rate that is deemed 'feasible' and how quickly the rate changes over time.</p>	<p>When compared with the other options, this option presents a lower degree of risk for The City in relation to ongoing resource requirements and costs associated with governance and administration.</p> <p>However, this option will require significant State / Local co-funding to fulfil local infrastructure requirements, resulting in funding delays and uncertainty due to competition for grant/ advocacy / municipal budgets.</p>	<p>This option presents a relatively low degree of risk to development viability when compared with the proposed district wide DCP rate of between \$90-\$110/m2. The feasible DCP rate of \$60/m2 is within the maximum range payable at a district level without limiting development viability across the HWS area. Anything higher and viability is reduced. This rate would need to be monitored over time and potentially indexed in line with land values.</p> <p>Whilst indexation sounds acceptable, the viability of development under this DCP option may decline rapidly if land values rise too fast.</p>
2 Two-part DCP rate	<p>This option is likely to be the most equitable and efficient in terms of quantum and timing of funding. It provides for equity at a district level whilst also allowing for flexibility to negotiate project-specific infrastructure contributions at a precinct level.</p>	<p>This option is likely to present a high degree of risk for The City in relation to ongoing resource requirements and costs associated with governance and administration.</p> <p>There is a risk under this option of little or no contributions being collected for district level infrastructure, with a requirement for State / Local co-funding to fulfil this infrastructure requirement.</p>	<p>This option reduces the degree of risk to development viability when compared with option 1, as it reduces the district DCP rate and allows developers to negotiate a reasonable infrastructure contribution on a precinct level, specific to project requirements. This is likely to be favoured by developers as it ensures an equitable contribution at a district level whilst allowing for flexibility at a precinct level.</p>
3 Negotiated Development Agreement followed by a DCP	<p>Whilst this option has the potential to bring forward infrastructure and development outcomes at a precinct level, the quantum of funding for infrastructure will be limited to amounts negotiated on a project-by-project basis until a district-wide DCP takes effect.</p> <p>This option is likely the least equitable or efficient in terms of quantum and timing of funding.</p>	<p>This option could present the highest risk for The City in relation to ongoing resource requirements and costs associated with governance and administration.</p>	<p>This option presents a relatively low risk to development viability during the <u>short-term</u> but may present a higher degree of risk to development, once a DCP is implemented.</p>
Option 4 – Hybrid	<p>Similar comments to options 1 and 3, noting there is a risk that if a developer wanted to deliver a project under the provisions of the DCP within the initial period (i.e. didn't want to negotiate) this may have financial implications for The City including a requirement to deliver works, which may not occur if the DCP is not triggered.</p>	<p>Similar comments to options 1 and 3 noting the requirement for ongoing direct Council-led negotiation should diminish over time. Again if the DCP is triggered early in the life of the scheme, this may increase resource requirements and costs for The City.</p>	<p>Similar to option 1 and 3</p>

6_State Planning Policy 3.6 Infrastructure Contributions



6.1_Overview

The following section includes excerpts from *State Planning Policy 3.6 – Infrastructure Contributions – Guidelines April 2021* (SPP 3.6), along with a general discussion and our interpretation of how the options identified in this study align with SPP 3.6.

6.2_Context

Under SPP 3.6, DCPs are expected to provide an equitable system for planning and levying infrastructure contributions across defined areas, and provide certainty to developers, infrastructure providers and the community about the charges which apply and how the funds will be spent.

It is expected that infrastructure funded and delivered via a DCP is for neighbourhood and district level facilities, and that larger-scale infrastructure servicing a regional catchment is funded via alternative sources.

This is because regional-scale infrastructure is largely a state-level responsibility.

Two types of infrastructure are required to facilitate and support urban consolidation policy objectives, including increased densities:

1. **Lead infrastructure** is required upfront to increase the amenity of an area, such as street upgrades, public realm upgrades, and public transport improvements.
2. **Lag infrastructure** is provided after the population has increased, to meet an increased community need.

There are several examples where the State Government has invested in upfront infrastructure to enable a redevelopment of an urban infill area, and has in some cases recouped money from this initial investment.

Examples include Subiaco redevelopment with a new underground train station, Scarborough with foreshore works, Elizabeth Quay and East Perth with an inlet. Without this upfront infrastructure, the increase in density and population would be difficult to achieve.

Lag infrastructure in an urban infill context could include significant upgrades to local urban parks including skate parks, swimming pools and other community facilities. The provision of lag infrastructure, that once the population has increased would generally be funded through local government property rates or other mechanisms, may be funded via DCPs formulated in accordance with SPP 3.6.

Overall, infrastructure items to be funded through a DCP, and the total cost of infrastructure contributions imposed, should be reasonable and align with the needs of the community and consider the impact on housing affordability.

6.3_Issues

The use of DCPs in infill development and regional areas experiencing slow growth rates and high land and construction costs requires a degree of caution as it may not result in the collection of sufficient funds to ensure the timely and coordinated provision of infrastructure, especially where the early of delivery of that infrastructure is essential.

Alternative approaches may include: incentive and performance based provisions in local planning frameworks that are linked to the delivery of broader community benefits, including infrastructure and public realm upgrades; or use of rating mechanisms available under the *Local Government Act 1995*.

Alternative approaches for funding and delivering infrastructure should ensure that the allocation of costs is transparent, equitable and accountable, and should be subject to consultation with the community prior to being implemented.

The use of mechanisms outlined in SPP 3.6, such as DCPs, should be carefully considered.

DCPs should not be considered the default instrument, and other alternatives for the coordinated delivery of infrastructure should be explored.

Contributions collected through a DCP will only fund the infrastructure and facilities which are reasonable and necessary for the new development and to the extent that the infrastructure and facilities are necessary to service the new development.

Additional funding and revenue sources need to be considered in addition to funding from the DCP to fund the proportion of infrastructure costs that cannot be recovered through the DCP (existing and future demand).

6.4_Negotiated / Voluntary Developer Agreements

Negotiated or Voluntary Developer Agreements may be considered in limited circumstances – usually large-scale projects under single ownership – and pursuant to a request from the landowner or developer, or in regional areas where a formal DCP is not considered by local government and contributing landowners to be necessary to achieve the desired infrastructure delivery outcomes.

Developer Agreements are voluntary and fall outside the formal infrastructure contributions system, and do not require State Government assessment or approval.

Any agreement for infrastructure contributions via a Developer Agreement should be consistent with the principles outlined in SPP 3.6 and any decision to deviate from these principles, including the provision of facilities of a higher-quality or specification than standard, should be a voluntary decision by all parties to the agreement.

6.5_SPP 3.6 Principles

SPP 3.6 defines eight (8) overarching principles guide the process for determining infrastructure contributions and the preparation of DCPs.

To meet DCP requirements, a local government should consider the following prior to and during formulation of a DCP.

1. Need and the nexus.
2. Transparency.
3. Equity.
4. Certainty.
5. Efficiency.
6. Consistency.
7. Right of consultation and review.
8. Accountable.

It is essential that the overall principles form the basis for seeking infrastructure contributions, including the preparation of every DCP as required.

6.6_Reconciliation of alternative options against SPP 3.6

The table presented here contains a high-level interpretation of the relative alignment (or otherwise) of the options identified against the principles set out in SPP 3.6, where this may be determined.

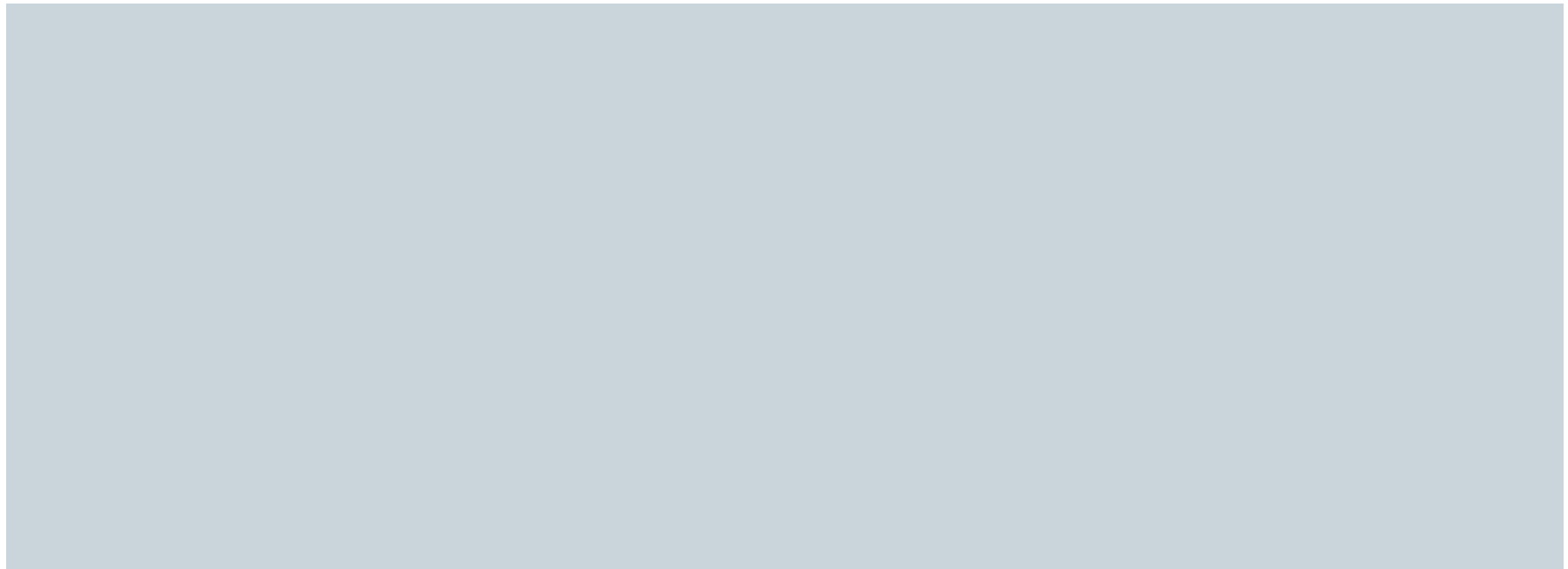
The following scorecard is applied with indicative scores as indicated:

- Potentially low degree of alignment – ✓
- Generally consistent / good alignment – ✓ ✓
- Strong alignment – ✓ ✓ ✓
- Indeterminate – NA

The feasible DCP rate (option 1) is likely to be the most consistent with SPP 3.6 principles – including equitable, efficient, transparent, and consistent – when compared with the alternative options outlined, followed by a Hybrid option (Option 4).

Option	1. Need & Nexus	2. Transparency	3. Equity	4. Certainty	5. Efficiency	6. Consistency	7. Right of consultation & review	8. Accountable
1_Feasible DCP rate	✓ ✓	✓ ✓ ✓	✓ ✓ ✓	✓ ✓	✓ ✓	✓ ✓ ✓	✓ ✓	✓ ✓ ✓
2_two-part DCP	✓ ✓	✓ ✓	✓ ✓	✓ ✓	NA	✓	NA	NA
3_Negotiated Development Agreement followed by a DCP	✓ ✓	✓	NA	✓	NA	✓ ✓	NA	NA
4_Hybrid	✓ ✓	✓ ✓	✓ ✓	✓ ✓	✓	✓ ✓	✓ ✓	✓ ✓

7_Infrastructure apportionment sensitivity analysis to achieve Option 1



7.1_Overview

The following section summarises the findings of a sensitivity analysis prepared by Council demonstrating several separate infrastructure apportionment actions, which when considered jointly, may demonstrate the case for Option 1.

Further details are included in an Annexure to this report.

7.2_Scenarios

With a focus on the Residential Precinct, the possible actions considered and explored by Council involves the follows.

- Action 1 – DCP to cover LSP infrastructure only including roads (Scenario 1A) and intersections (Scenario 1B) within the Residential Precinct.
- Action 2 – recalibrate road acquisition in new roads.
- Action 3 – review traffic modelling and reduce vehicles per day (VPD) by 20% to up to 40%.
- Action 4 – reduce public open space (POS) construction by 20%.
- Action 5 – remove the 'Green Link' acquisition.
- Action 6 – remove community infrastructure contribution towards DOS.

Action 1 – LSP Infrastructure Only

This action considers including road infrastructure within the LSP boundaries only and excluding those outside of the LSP. This scenario includes two parts:

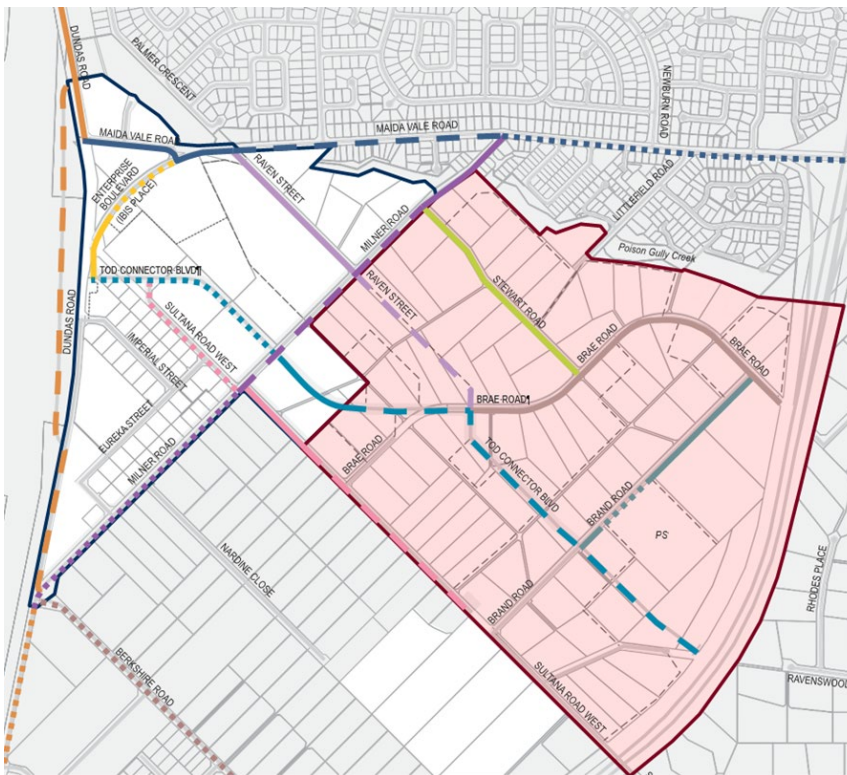
- Action 1A: roads within the LSP; and
- Action 1B: intersections within the LSP.

Under action 1A which considers roads within the LSP boundaries only, the total infrastructure cost is estimated at approximately \$19.6 million across the overall LSP. Compared to the draft DCP estimate of \$57.1 million, this indicates a reduction of \$37.4 million. Particularly within the Residential Precinct, the infrastructure cost under Action 1A is estimated at \$16.8 millions, a reduction of \$11.8 million from \$28.6 million previously appointed to the precinct. This may translate into a reduction in DCP by **\$19.81** per sqm for the Residential Precinct.

Similarly, Action 1B which considers intersections within the LSP boundaries only indicates a reduction in total infrastructure cost by \$12.8 million across the overall LSP and a reduction by \$3.7 million within the Residential Precinct. This may translate into a reduction in DCP by another **\$6.25** per sqm for the Residential Precinct.

Map 7.1-7.2 on the following pages present the proposed infrastructure and Table 7.1-7.2 present the comparisons between the draft DCP and the estimated infrastructure costs under this action testing, as well as the variation or savings likely to be achieved.

Map 7.1_LSP Infrastructure, Roads



Source: City of Kalamunda (2022)

High Wycombe South
Development Contribution Plan & Feasibility Analysis

Table 7.1_Action 1A, LSP Infrastructure, Roads

Rate	Draft DCP	Testing	Variation
Total	\$57 M	\$19.6 M	-\$37.4 M
Total Res Precinct	\$28.6 M	\$16.8 M	-\$11.8 M
\$/sqm Res Precinct	\$48.03	\$28.22	-\$19.81

Source: City of Kalamunda (2022)

RD01 – Milner Road (61%)

RD02 – Milner Road (64%)

RD03 – Raven St

RD04 – TOD Connector

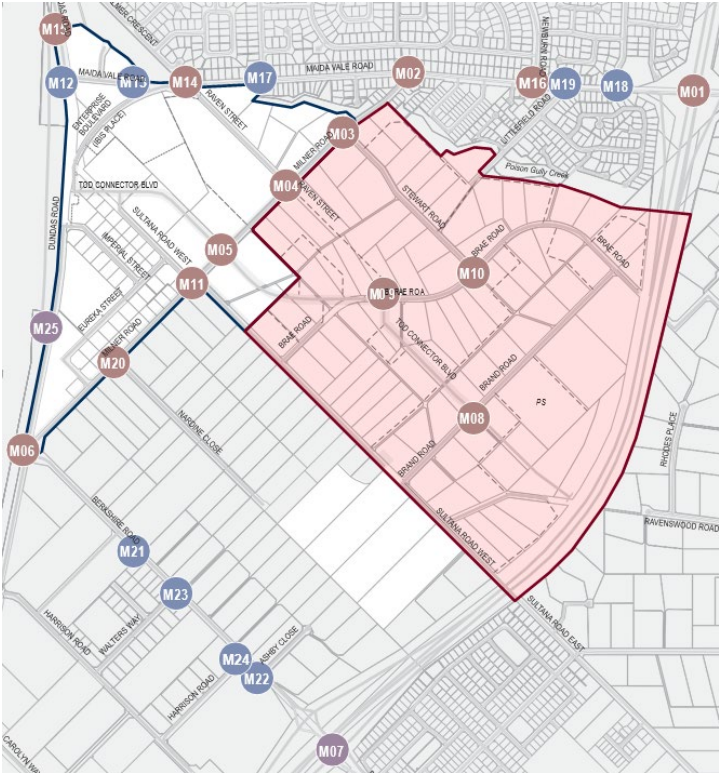
RD05 – Stewart Rd

RD06 – Brae Road

RD08 – Brand Road

RD09 – Sultana Road West

Map 7.2_LSP Infrastructure, Intersections



Source: City of Kalamunda (2022)

High Wycombe South
Development Contribution Plan & Feasibility Analysis

Table 7.2_Action 1B, LSP Infrastructure, Intersections

Rate	Draft DCP	Testing	Variation
Total	\$16.2 M	\$3.37 M	-\$12.84 M
Total Res Precinct	\$6.27 M	\$2.5 M	-\$3.7 M
\$/sqm Res Precinct	\$10.53	\$4.28	-\$6.25

Source: City of Kalamunda (2022)

- INT01 - M03 – Milner Rd / Stewart Rd
- INT02 - M04 – Milner Rd / Raven St
- INT03 - M08 – TOD Connector / Brand Rd
- INT06 - M09 – TOD Connector / Brae Rd, Raven St
- INT07 - M10 – Brae Rd / Stewart

Action 2 – Road Acquisition Recalibration

This action considers recalibrating road acquisitions to apportion cost only to the DCP for land required over and above what would otherwise have been provided by the subdivider. This would ensure that acquisition costs are only awarded for the land, that would not have otherwise been provided as a local road.

This would reduce the per sqm DCP rate for the Residential Precinct by **\$1.72/sqm**.

Action 3 – Traffic Volume Reduction

Council has reviewed the traffic modelling undertaken by KCTT, which was informed by the Yield Analysis prepared in early 2021 in consultation with Development WA, Metronet and consultants.

Based on the findings of the targeted stakeholder engagement, a potential reduction in VPD by 20% and 40% was explored by Council. This results in a reduction in DCP by **\$1.41** per sqm and **\$2.62** per sqm respectively for the Residential Precinct.

This indicates the relatively minor influence that a reduced traffic volume (from applying an assumption of lower yields) would have on the required road and intersection needs of the precinct.

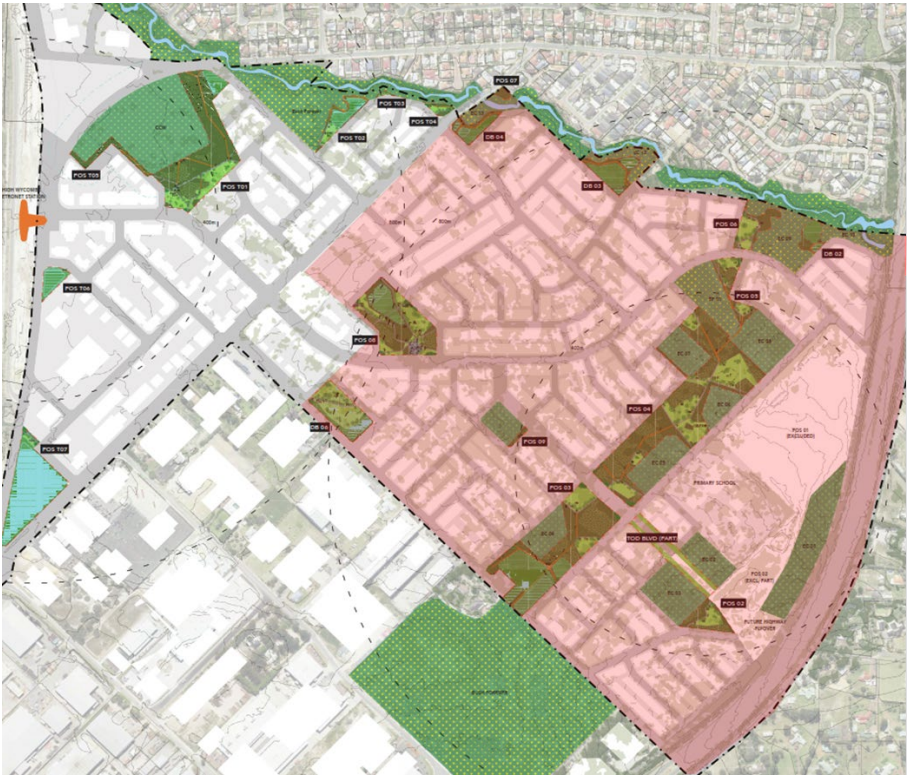
Action 4 – POS Construction Reduction

The POS within the LSP boundary totals approximately 221,703.97 sqm, including 8 POS sites, 3 drainage basin sites, 'The Finger', Brand Road Sporting Precinct, Sultana Road and Land for Flyover.

This action considers 20% reduction in POS construction, which indicates a reduction of \$2 million in infrastructure cost for the Residential Precinct, or a reduction of **\$3.38** per sqm in DCP for the precinct.

Map 7.3 overleaf presents the proposed POS locations and Table 7.3 presents the comparisons between the draft DCP and the estimated infrastructure costs under this action, as well as the variation or savings likely to be achieved.

Map 7.3_LSP Public Open Spaces



Source: City of Kalamunda (2022)

Table 7.3_Action 4, LSP Public Open Spaces

Rate	Draft DCP	Testing	Variation
Total	\$15 M	\$12 M	-\$3 M
Total Res Precinct	\$10 M	\$8 M	-\$2 M
\$/sqm Res Precinct	\$16.88	\$13.55	-\$3.38

Source: City of Kalamunda (2022)

Action 5 – Removal of 'Green Link' Acquisition

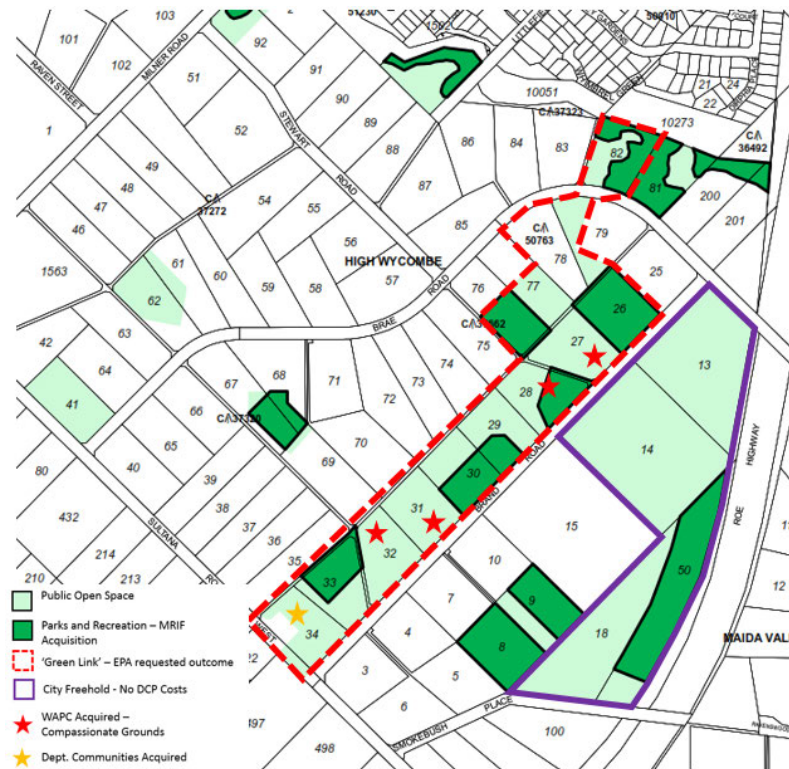
This action considers removing POS acquisition estimates for the 'Green Link' (noting the associated construction / improvement costs are to be retained). This involves four sites including POS3, POS4, POS5 and Sultana Road. The total acquisition cost is estimated at \$9 million. The removal of the acquisition of these sites results in a reduction of **\$15.14** per sqm in DCP for the Residential Precinct.

Table 7.4_Action 5, Removal of 'Green Link' Acquisition

Rate	Draft DCP	Testing	Variation
Total	\$26.58 M	\$17.55 M	-\$9 M
Total Res Precinct	\$15.28 M	\$6.25 M	-\$9 M
\$/sqm Res Precinct	\$25.52	\$10.48	-\$15.14

Source: City of Kalamunda (2022)

Map 7.4_Green Link



Source: City of Kalamunda (2022)

Action 6 – Removal of Community Infrastructure Contributions towards DOS

This action considers removing community infrastructure contributions including Town Park (leaving basic POS improvements only) and future stages of playing field and change rooms, clubhouse and school oval contributions. It is noted that the preliminary DCP rate already excludes the TOD Community Node which is estimated at \$60 million.

This results in a reduction of **\$3.39** per sqm in DCP for the Residential Precinct.

Table 7.5 Action 6, Removal of Community Infrastructure Contributions towards DOS

Rate	Draft DCP	Testing	Variation
Total	\$12 M	\$3.6 M	-\$8.4 M
Total Res Precinct	\$3.1 M	\$1.1 M	-\$2 M
\$/sqm Res Precinct	\$5.21	\$1.82	-\$3.39

Source: City of Kalamunda (2022)

Map 7.5_Brand Road Sporting Precinct / School Ovals



Source: City of Kalamunda (2022)

7.3_Key Findings & Conclusions

The City has explored and considered various combination of the actions. The current City's strategic direction is referred as scenario 3 which considers a combination action 1, 2, 5 and 6. This scenario indicates a total saving of **\$46.30** per sqm in DCP may be achieved for the Residential Precinct. This will reduce the per sqm DCP rate from \$111.07/sqm previously to **\$64.77** for the Residential Precinct. This is largely in line with Option 1.

Table 7.6_Actions & Scenarios to Achieve Option 1

Action	Scenario 1	Scenario 2	Scenario 3 (Council's strategic direction)	Scenario 4	Scenario5
1. Exclusion of road infrastructure outside of LSP boundaries	✓	✓	✓	✓	✓
2. Recalibrate road acquisition costs in new roads	✓	✓	✓	✓	✓
3. Reduction in VPD		✓		✓	✓
4. Reduce pos construction by 20%	✓	✓			✓
5. Remove 'green link' acquisition			✓	✓	✓
6. Remove community infrastructure towards dos	✓	✓	✓	✓	✓
Total reduction in Residential Precinct / sqm reduction	- \$34.54	- \$36.55	- \$46.30	- \$48.31	-\$51.69
Residential Precinct / sqm	\$76.52	\$74.51	\$64.77	\$62.76	\$59.38

Source: City of Kalamunda (2022)

Macroplan has adopted the updated rate and tested the likely feasibility for both the Structure Plan Scenario (Residential Precinct) and the Indicative Developer Scenario. This may be reflective of like development outcomes under Option 1.

It is noted that all other assumptions remain unchanged and consistent with Section 4.

Structure Plan Scenario – Residential Precinct

As presented in Table 7.6 adjacent, it indicates positive improvement of the overall project returns with a reduced DCP rate. The ROI is estimated at 22.7% for Residential Precinct during the 30-year cashflow period, compared to 19.6% previously, which is considered as a viable return.

However, it is also noted that, due to the currently development timeline under this scenario, the likely project return will not be realised until 15-20 years later.

Table 7.7_Structure Plan Scenario – Residential Precinct Financial Summary, DCP at \$64.77/sqm

Item \$M	Present Value	Nominal Value
<u>Project Revenue</u>		
Gross Sales Revenue	\$1,030.0	\$2,034.2
Less Sales Cost	(\$25.7)	(\$50.9)
Net Sales Revenue	\$1,004.2	\$1,983.3
Gross Leasing Revenue	\$0.0	\$0.0
Less Leasing Cost	\$0.0	\$0.0
Net Leasing Revenue	\$0.0	\$0.0
Asset Capitalisation / Disposal	\$0.0	\$0.0
Total Net Revenue	\$1,004.2	\$1,983.3
<u>Project Cost</u>		
Land Contribution	(\$61.4)	(\$61.4)
DCP (@ \$64.77/sqm)	(\$29.1)	(\$29.1)
Site Works	(\$42.9)	(\$77.6)
Construction Works	(\$545.9)	(\$1,049.9)
Other Costs	(\$139.2)	(\$265.8)
Total Development Cost (Before Financing)	(\$818.6)	(\$1,483.9)
Financing	\$0.0	\$0.0
Total Development Cost (After Financing)	(\$818.6)	(\$1,483.9)
<u>Project Returns</u>		
Project Net Funding Position	\$185.7	\$499.4
ROI	22.7%	
Project IRR	10.6%	

Source: Macroplan (2022)

Indicative Developer Scenario

Under the Indicative Developer Scenario, it indicates the estimated ROI may increase to 24.8% during the 30-year cashflow period with a reduced DCP rate, from 20.5% previously.

This demonstrates that the reduced DCP at \$64.77/sqm would support the likely viability of developments in the precinct from a financial feasibility perspective, as opposed to the preliminary DCP rate.

Construction Cost Shock

A construction cost shock of an one-off 10% increase as of today has also been tested under both scenarios with the reduced DCP rate.

The assessment indicates the increase in construction cost still has significant negative impacts on development viability under both scenarios.

Table 7.9_Construction Cost Shock, Both Scenarios

<i>DCP at \$66.77/sqm Land Value at \$130/sqm</i>	Structure Plan Scenario – Residential Precinct	Indicative Developer Scenario
Baseline	22.7%	24.8%
Construction Cost Shock	12.7%	15.1%

Source: Macroplan (2022)

Table 7.8_Indicative Developer Scenario Financial Summary, DCP at \$64.77/sqm

Item \$M	Present Value	Nominal Value
<u>Project Revenue</u>		
Gross Sales Revenue	\$126.3	\$152.6
Less Sales Cost	(\$3.2)	(\$3.8)
Net Sales Revenue	\$123.2	\$148.8
Total Net Revenue	\$123.2	\$148.8
<u>Project Cost</u>		
Land Contribution	(\$10.3)	(\$10.3)
DCP (@ \$64.77/sqm)	(\$4.9)	(\$4.9)
Site Works	(\$8.0)	(\$9.0)
Construction Works	(\$59.5)	(\$69.7)
Other Costs	(\$16.0)	(\$18.6)
Total Development Cost (Before Financing)	(\$98.7)	(\$112.5)
Financing	\$0.0	\$0.0
Total Development Cost (After Financing)	(\$98.7)	(\$112.5)
<u>Project Returns</u>		
Project Net Funding Position	\$24.5	\$36.3
ROI	24.8%	
Project IRR	19.4%	

Source: Macroplan (2022)

The other alternative scenarios with different combinations of actions indicates potential reduction of DCP rate to as low as \$59.38/sqm to up to \$76.52/sqm.

All the reduced DCP rates under the alternative options have been tested for both the Structure Plan Scenario (Residential Precinct) and the Indicative Developer Scenario.

As presented in Table 7.10 and Table 7.11 adjacent, the reduction of DCP rate can generally improve the overall project ROI, however, the construction cost shock of a 10% one-off increase may still reduce development viability significantly.

Table 7.10_Structure Plan Scenario – Residential Precinct Sensitivity Analysis, Alternative Options

Res Precinct	DCP (\$/sqm)				
<i>NDA ~45 ha</i>	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
<i>Land Value at \$130/sqm</i>	\$76.52	\$74.51	\$64.77	\$62.76	\$59.38
Baseline	21.9%	22.0%	22.7%	22.8%	23.0%
Construction Cost Shock	12.1%	12.2%	12.7%	12.8%	13.0%

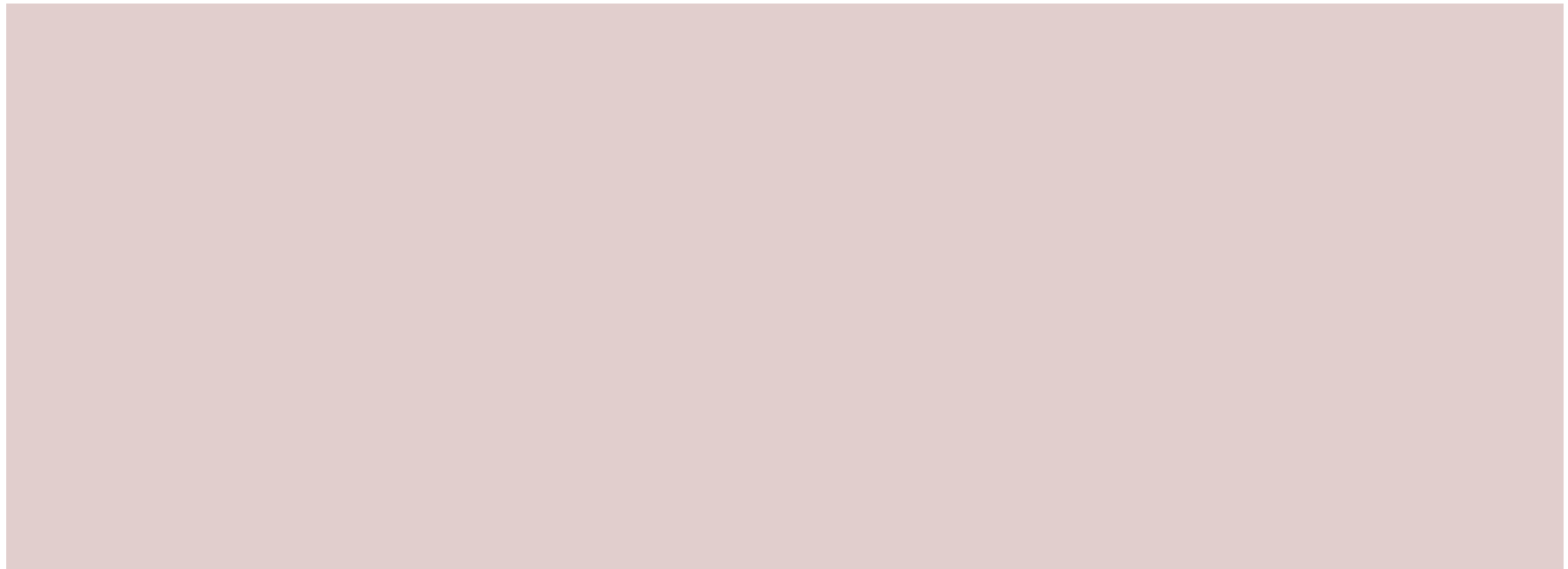
Source: City of Kalamunda (2022); Macroplan (2022)

Table 7.11_Indicative Developer Scenario Sensitivity Analysis, Alternative Options

Indicative Development	DCP (\$/sqm)				
<i>NDA ~7.5 ha</i>	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
<i>Land Value at \$130/sqm</i>	\$76.52	\$74.51	\$64.77	\$62.76	\$59.38
Baseline	23.7%	23.9%	24.8%	25.0%	25.3%
Construction Cost Shock	14.1%	14.3%	15.1%	15.2%	15.5%

Source: City of Kalamunda (2022); Macroplan (2022)

8_Conclusions & Recommendations



8.1_Conclusions

Further residential development, beyond the current mix of rural living and low-density residential, is unlikely during the immediate to medium-term outlook, given the requirement for significant enabling district-level and precinct-level infrastructure.

If residential development is sought during the short-medium-term outlook within HWS, the State Government would need to fund a large portion of up-front / lead infrastructure, including major connector roads and open space acquisition and construction.

Given this, The City will most likely need to consider alternative land use planning outcomes in the absence of investment. Therefore, The City is encouraged to undertake further sensitivity analysis considering local infrastructure cost apportionment, to test the viability of the DCP funding options presented.

As shown, the feasible DCP rate (option 1) is likely to be the most consistent with SPP 3.6 principles – including equitable, efficient, transparent, and consistent – when compared with the alternative options outlined, followed by a Hybrid option (Option 4).

8.2_Immediate actions as an input to study refinement

The following suggested actions are offered without prejudice for further consideration by The City.

- The City may wish to review the forecast yields across the TOD and residential precincts considering reduced density in the short/medium term supported by lower infrastructure cost apportionment cited in this assessment. This is important as it may have subsequent implications for functional road requirements across the HWS Study Area.
- Urbis to update their reports, where relevant, to reflect the most current Census 2021 population and socio-demographic information, including employment and journey to work data to be released in October 2022.
- Finalise valuation assessment.
- Ongoing discussions with key civil works authorities to identify options for early works that will enable key projects to occur in the short-term.
- included within The City's Infrastructure Cost Plan as it relates to the TOD and residential precincts, with a view to identifying potential cost savings and/or alternative funding streams outside the DCP.

- Consider reducing the POS requirements within the DCP, with the aim of transferring a greater cost apportionment for the green link conservation works and ecological assets to the State Government.

8.3_Ongoing actions in defining a DCP pathway

- Invite expressions of interest from landowners and developers to see who wants to undertake development now – this might be undertaken via a media-led EOI process to identify who is interested in developing in the area during the next 12-24 months.
- As part of the EOI process, discuss the idea of allowing individual developers to negotiate infrastructure contributions on a project-by-project basis. This could be a good mechanism for triggering development activity and creating critical mass required to bring forward civil works that otherwise may not be delivered for many years. After an agreed sunset, a DCP rate may apply.
- Consider requirements for a City administration function involving working with landowners / developers including ongoing resource requirements and costs to The City associated with DCP governance and administration requirements.
- Further investigate how the proposed DCP options would operate within the existing WA planning context and request WAPC confirm the optimal compliance approach under SPP 3.6 given the constraints presented in this study.

Annexure

Council of Kalamunda Sensitivity Analysis



PLACEHOLDER – INSERT DETAILED TRAFFIC MODELLING SCENARIOS



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