

Nowra CBD Economic Analysis Commercial Development Contributions

Shoalhaven City Council

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Final Report**



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Executive Summary

Project Background

Shoalhaven City Council recently adopted the first phase of the Nowra Central Business District (CBD) Urban Design Master Plan (Master Plan) with the aim of revitalising the Nowra CBD. One of the primary goals of the Master Plan is to activate the CBD through facilitating sustainable development.

Council received a number of submissions from the development industry sector about the impact of development contributions on the feasibility of commercial development in the Nowra CBD. Subsequently Council resolved that development contributions for community infrastructure in Nowra CBD be reviewed, including the identification of possible disincentives to development and alternate policy approaches to address these.

The purpose of this report is to provide a market based assessment of the viability of property development in the Nowra CBD and identify practical, actionable recommendations that will facilitate the sustainable development of the CBD area and supporting key CBD infrastructure.

Nowra CBD

The Nowra CBD is estimated to have over 59,000sqm in retail and commercial shop front floor space with low vacancy rates of 2.7%. Over the last three years there has been two large commercial office building developments and one large floorplate retail development. The CBD sector perceives the major constraints to development opportunities as being:

- The fragmented CBD, split by the Princess Highway with Stockland Nowra located on the eastern side of the highway, reduces pedestrian traffic to the CBD.
- Competition from other industrial (South Nowra) and retail centres (Stockland Shellharbour) and future local community retail developments.
- The majority of visitors to the CBD travel via private vehicles in anticipation of parking within close proximity of their transaction location. While there is significant parking available on the fringe of the CBD, it is perceived there is a shortage of parking within the Nowra CBD impacting the retail sector around the heart of the CBD.

Development Contributions

The development contributions charged by Council are applied under the current S94 plan, being defined contributions set for specific activities. Development in the CBD, depending on the nature of the development, will incur either commercial or residential development contributions and parking development contributions based on Council's car parking code provided in the Development Control Plan No. 18.

The comparison of the development contributions incurred by commercial and residential development with the CBD of LGA's is difficult due to the different policies applied for parking and the impact of the LGA acting as the Water and Sewer Authority.

The residential development contributions charges applied by Shoalhaven City Council are similar in nature to those applied by the other local governments when water and sewerage charges are removed. It has been identified that a number of the local government areas require residential developments to provide the full provision of car parking on site rather than allow for the option of a parking contribution.

The commercial development contribution charge applied by Shoalhaven City Council is at the lower end of the range for the councils that apply S94 contribution charges. Both Port Macquarie-Hastings Council and the City of Wagga Wagga apply S94A charges based on 1% of the development cost.

The development contribution rate per car parking space charged by Shoalhaven City Council is towards the upper end of the benchmark set which ranges from \$19,621 at Port Macquarie to the highest charge imposed by Bega Shire Council of \$28,204.

Economic Viability of Development

The feasibility assessment of the viability of property development within the Nowra CBD has been based on a profit and return on investment (ROI) assessment for the develop and sell option for four potential development scenarios. The development scenarios are:

- **Commercial Office:** A three storey commercial office building within the Nowra CBD on a vacant 700sqm site. The assumed development comprises approximately 800sqm of net lettable office floor space, with 13 car spaces provided at-grade and contributions paid to Council for seven car park spaces.
- **Retail Development:** Development of a vacant site outside the core of the CBD. The assumed development comprises approximately 675sqm of net lettable retail floor space, with 25 car spaces provided at-grade and contributions paid to Council for three car park spaces.
- **Residential:** Development of a three storey residential building on a 700sqm site on the fringe of the CBD, comprising 12 residential apartments including three 1-bedroom apartments and nine 2-bedroom apartments with 12 car spaces at-grade and contributions paid to Council for six car park spaces.
- **Residential and Retail:** Development of a four storey mixed use building comprising approximately 316sqm of net lettable retail floor space and 12 residential apartments with eight car spaces at-grade, 12 car spaces underground and contributions paid to Council for 13 car park spaces.

The results of the feasibility assessment identified that the current economic viability of property development in the Nowra CBD is not very strong. The viability of retail development is only slightly positive, while commercial office development is negative and residential apartments have a significantly negative feasibility.

Sensitivity analysis has identified that although parking requirements are a significant cost component, a reduction in the parking contribution requirements in itself does not transform the residential and retail/residential scenarios into viable developments.

Other major factors impacting on the viability of the developments are:

- Current residential apartment sale prices would have to increase by over 20% to facilitate development within the Nowra CBD. This is reflective of the higher demand for detached housing which is priced at a level relative to medium density units.
- Office rents in the Nowra CBD would have to increase by 5-10% to facilitate viable development.
- The Nowra CBD is relatively well developed with the majority of sites having existing buildings and there are limited incentives for owners to knock down the existing buildings and redevelop as they can earn rent on the existing houses/buildings.
- Fragmented ownership of adjacent lots limit the ability to create larger amalgamated sites suitable for development.

Despite the relatively poor economic viability of property development in the Nowra CBD, consultation with real estate agents and developers indicates that there is some planning and construction activity currently in progress. This can be explained by a number of factors including that the majority of projects are being considered by long term local landholders. These developers have generally owned the land for a long period of time which has eliminated most holding costs and are sometimes willing to accept a lower rate of return on the land. Some of these sites may also have significant car parking credits, which would reduce the costs related to providing parking and improves the financial viability of the project.

Recommendations

Development of the CBD is an outcome of the external market environment, however it is recognised that Council policies and strategic initiatives can act as stimulus to promote economic activity and the demand for property in the Nowra CBD. Council can either provide direct intervention with policies incentivising development or indirect programs to facilitate and promote economic activity.

There is no 'silver bullet' that will allow Council to solve the problem of low development viability in the CBD and at the same time provide a sustainable agenda to fund future parking and infrastructure developments. It is recommended that Council consider the following approaches in order to improve the viability of property development and fund infrastructure development. The following recommendations focus on the Nowra CBD and should be considered in the wider context of Shoalhaven City Council's strategic and planning direction and financial position.

Discount Parking Requirements/ Contributions: It is recommended that Council consider the implementation of a policy allowing the discounting of parking requirements and contributions. The policy would need to be transparent and clearly outline circumstances that would justify discounts to be granted. While current parking requirements are considered to be suitable, the provision of a discount mechanism for the parking requirements for new development in the CBD would improve the viability of commercial property development. Providing discounts to developers would have the benefit of improving development feasibility as supported by the sensitivity analysis that found reducing parking contributions by 50% would improve the viability of commercial development.

By discounting parking contributions, Council needs to identify alternative funding mechanisms to facilitate the development of a multi-storey car park in the Nowra CBD. In addition, the Nowra CBD Master Plan also likely to result in additional infrastructure projects that need to be funded. The following alternative mechanisms are recommended in order to fund infrastructure, while promoting viable development.

- **Special Rate Variation:** It is recommended that Council consider applying for a special rate variation to fund the development of essential community infrastructure. The implementation of a special rate has the potential to raise significant funds for Council that could be used to fund the development of a multi-storey car park and other infrastructure programs.

Leveraging Council Owned Sites: It is recommended that Council continue to retain an open mind to leveraging its land holdings in the Nowra CBD to facilitate development. While site specific feasibility assessments indicated that some sites have a negative land value (due to the need to replace car parking) there is potential for alternative developments to become viable in the future. There are opportunities to leverage Council's sites and potentially partner with organisations such as Defence Housing Australia and the University of Wollongong to develop medium density residential accommodation within the CBD.

- **Government Funding for Infrastructure:** It is recommended that Council explore opportunities for Council and State Government funding for the development of infrastructure in the Nowra CBD including a multi-storey car park. A partnership approach involving State Government funding combined with Council providing the land and some funding may be attractive.
- **Section 94A:** It is recommended that Council consider implementing a Section 94A Development Contribution Plan as an alternative to the existing contributions scheme. A Section 94A plan incorporating a contribution equating to 1% of construction costs has benefits including being a more simplified and transparent approach, which would be expected to be attractive to developers and help facilitate development. However, the introduction of a Section 94A Development Contributions Plan would remove the ability of Council to charge for parking contributions, which would reduce funding potential and as such is not considered to be the preferred approach.

It is also recommended that Council develop a clear policy framework for the Nowra CBD including the finalisation of the Nowra CBD Urban Design Masterplan followed by the preparation of Development Control Plan(s) for the Nowra CBD with the aim of providing more clarity in the development process and reduce planning and approval timeframes.

It is recommended Council considers the utilisation of the following indirect programs in order to increase economic activity and the demand for property in the Nowra CBD and promote viable development:

- **Promote Nowra CBD as Regional Centre:** It is recommended that Council continues to promote the Nowra CBD as the commercial, retail and administrative centre of the South Coast region. There has been a leakage from the CBD due to development in other areas such as South Nowra that is impacting the attractiveness of development in the CBD.
- **Placemaking:** It is recommended that Council undertake placemaking activities to improve the amenity of the CBD for residents and visitors. The utilisation of placemaking within the Nowra CBD has the potential to create more reasons for people to spend more time in the CBD due to the incorporation of civic uses, public art, playgrounds or simply cosmetic alterations have made it more aesthetically pleasing. Placemaking does not necessarily require major capital investment though it is likely to require some funding. This could potentially include utilising revenue from the CBD levy and a special rate variation as well as leveraging Council services.
- **Business Development:** It is recommended that Council undertake business development and investment attraction activities to promote business investment in the Nowra CBD. Attracting new businesses to the CBD can reduce the vacancy rates of existing floor space, which can increase competition and facilitate new development. These include working with potential partners such as Defence Housing Australia and the University of Wollongong to develop medium density residential accommodation within the CBD. While the viability of development is negative, these organisations are likely to place a lower emphasis on financial returns. In addition, Council could consider partnering on a development including providing the land.
- **Marketing:** Successful marketing of a region can attract new residents which can increase demand for housing. By promoting the advantages of living in Nowra, Council can help boost the property market.
- **Events:** It is recommended that Council continue to collect the Promotional Rate Levy for the promotion of the Nowra CBD. The Nowra CBD Promotions Committee has undertaken many events and promotional activities aimed to increase business in the Nowra CBD.

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1. Introduction

1.1 Project Background

Shoalhaven City Council recently adopted the first phase of the Nowra Central Business District (CBD) Urban Design Master Plan (Master Plan) with the aim of revitalising the Nowra CBD. One of the primary goals of the Master Plan is to activate the CBD through facilitating sustainable development.

Council received a number of submissions from the property development industry about the impact of development contributions on feasibility of commercial development in the Nowra CBD. Council resolved that development contributions for community infrastructure in Nowra CBD be reviewed, including identification of possible disincentives to development and alternate policy approaches to address these.

1.2 Purpose of the Study

The key objective of the project is to undertake a market based assessment of the viability of property development in the Nowra CBD and develop practical and actionable recommendations that will enable the funding of key infrastructure and facilitate the sustainable and viable development of the CBD.

Specifically the project aims to:

- Assess the property market within the Nowra CBD;
- Benchmark development contributions with similar areas;
- Determine if and at what point development contributions affect the feasibility of commercial development in the Nowra CBD;
- Review development guidelines and planning controls; and
- Analyse alternative policy approaches that enable the funding of infrastructure, or increase the feasibility of commercial development in the Nowra CBD and recommend preferred option(s).

2. Project Context

2.1 Nowra CBD Urban Design Master Plan

Overview

The Nowra CBD Urban Design Master Plan was prepared by ARUP and Hill PDA on behalf of the Shoalhaven City Council. The Master Plan outlines a strategic direction to revitalize the Nowra CBD over the next 25 years, aims to create a framework for the centre to grow and identifies strategies to improve the quality and attractiveness of the public domain as a catalyst to encourage development. The vision for Nowra CBD is:

"Nowra town centre will be revitalised through greater transport access, green development and incentives which support mixed uses and higher densities.

The town centre will support and attract a range of residents, workers and visitors through the provision of civic facilities, amenities and public spaces which build upon the natural setting and physical strengths of the town."

Key Principles

Twelve key principles were developed to guide the implementation and future development of the detailed strategies in the Master Plan. Key principles relating to the future economic viability of development include:

- **02 - Multi-use CBD for everyone:** Enable a multitude of retail, residential, commercial, cultural and recreational activities, through a flexible, and appropriate spatial framework. Ensure the CBD is adaptive and can respond to the needs of both existing and future residents.
- **03 - Vibrant destination:** Protect and improve the integrity and viability of Nowra CBD by supporting and improving the diversity of residential, retail, business, services and cultural facilities. Maintain economic activity and convenience level retail and extend the areas and times where there is activity in the CBD.
- **05 - Incentives (encourages investment):** Provide incentives for investment through understanding existing barriers and by establishing a wide range of strategies and initiatives for both public and private investment in the CBD.

Car Parking

The Master Plan identifies car parking is an important component of the development of the Nowra CBD and identifies opportunities and initiatives including:

- In the long term, develop strategically located and sensitively designed multi-deck car parks, preferably around the periphery, to reduce the land devoted to parking within the CBD.
- Identify high value development sites, currently used for car parking, and determine if alternative land uses are more appropriate.
- Review current planning controls that require most new developments to provide car parking.

See Appendix A for maps of parking and potential redevelopment sites in the Nowra CBD.

Built Form

The Master Plan identifies the importance of built form on the future development of the Nowra CBD. There is an expectation that the density of development within the Nowra CBD will increase over time. The Master Plan identifies opportunities and initiatives with implications for the viability of development including:

- Reinforce the central core through increased building heights. The Master Plan proposes a 12m maximum height (4 storeys) with the potential for a 15m maximum height (5 storeys) in the central core. It is stated that one additional storey in the central core would potentially increase the feasibility of the area while avoiding the chance that a single development will soak up the demand and sterilise the area for years to come.

- Reinforce the central core through a reduction in building heights in areas where 3-4 storey development might not be appropriate in the short term.

Figure 2.1: Nowra CBD and Outer Study Area



Note: Aerial Photograph showing the area of the Nowra CBD Master Plan and the outer study area
Source: Shoalhaven City Council (2011)

Market Assessment

Hill PDA was engaged as a sub-consultant to ARUP to prepare a demographic and market assessment of potential land uses in the Nowra CBD. The objective of the report was to inform urban design options for the CBD considering the potential viability of proposed land uses. Key findings from the study were:

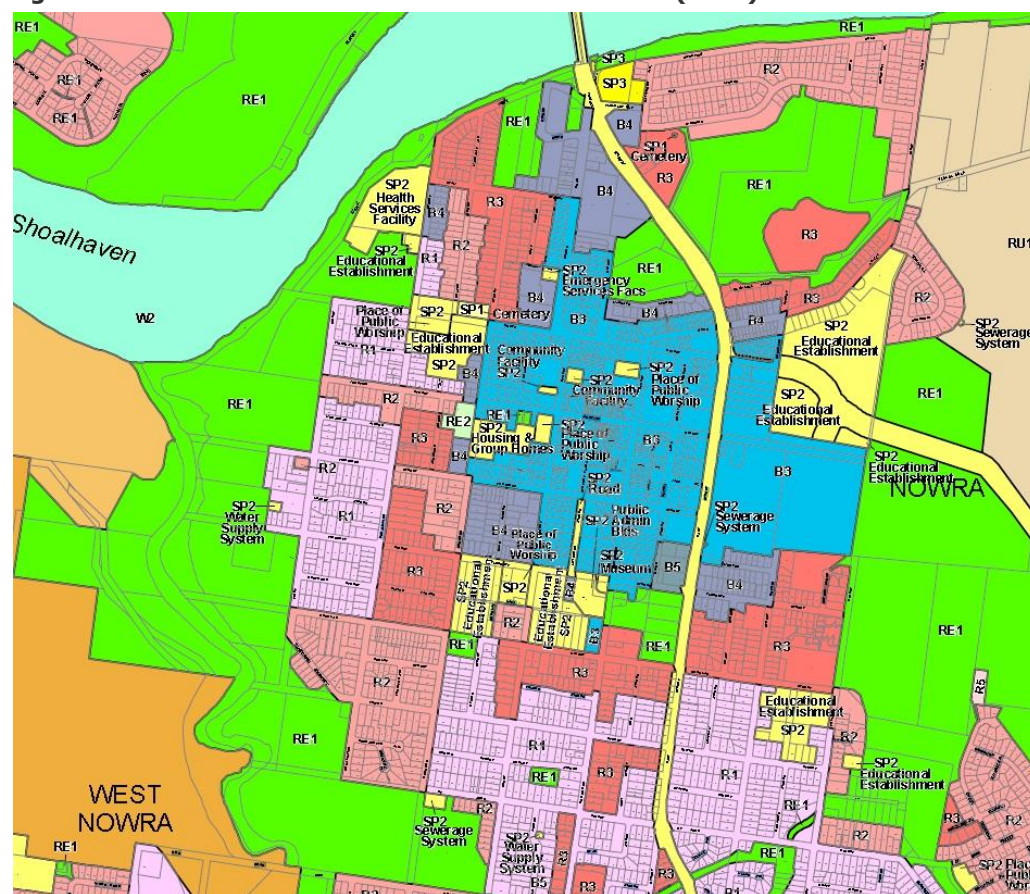
- **Retail:** The study found there was an undersupply of retail floor space in the Nowra CBD of 26,000sqm as at 2011, supported by lower than average vacancies recorded in the CBD and the high performance of Stockland Nowra. The supply and demand analysis found that there is a considerable undersupply of department store, specialty food and specialty non-food retailing. There are several approved development applications for retail projects within the CBD, which would reduce the undersupply if developed.
- **Residential:** The report highlights that residential development within the Nowra CBD has not been as prevalent as other similar centres due to the cost of Nowra apartments being marginally lower than houses. As such, the limited cost savings have not altered the preference of the majority of residents to live in separate houses. The report identified opportunities for residential development in the Nowra CBD including key worker accommodation, affordable housing, student housing and seniors living.

2.2 Draft Shoalhaven Local Environmental Plan (2009)

Council has prepared a new Local Environmental Plan (LEP) in accordance with the NSW Standard LEP Instrument and requirements set by the NSW Department of Planning and Infrastructure. The Draft LEP has been exhibited and will be re-exhibited before being submitted to the NSW Department of Planning and Infrastructure for approval. The Draft LEP includes a number of zonings in the Nowra CBD including:

- B3 Commercial Core: Applied to the core of the Nowra CBD to support a range of uses including retail, office, employment, entertainment and community uses.
- B4 Mixed Use: Land on the fringe of the CBD where a range or mix of land uses are encouraged, including retail, employment, residential, community and other uses.
- B5 Business Development: Land on the fringe of the CBD where employment generating uses such as offices, warehouses and retail premises (including those with large floor areas) are encouraged.
- R1 General Residential: Provides for a variety of residential housing types and densities, including dwelling houses, multi-dwelling housing, residential flat buildings, boarding houses and seniors housing.
- R2 Low Density Residential: Land where primarily low density housing (i.e. standard size house lots) are to be established or already exist.
- R3 Medium Density Residential: Land where a variety of medium density accommodation exists or can be considered.

Figure 2.2: Draft Shoalhaven Local Environmental Plan (2009)



Source: Shoalhaven City Council (2011)

2.3 Shoalhaven Contributions Plan 2010

The Shoalhaven Contributions Plan 2010 allows Shoalhaven City Council to levy direct contributions on development consents (or complying development certificates) issued for land within the City of Shoalhaven. These contributions are collected and then applied to provide community infrastructure or additional infrastructure to meet demand created by the development.

The Shoalhaven Contributions Plan 2010 outlines the anticipated infrastructure and projects that will need to be developed, the likely costs and the contribution rates to be applied to various development types. The development contributions applied to the Nowra CBD are outlined in Section 4.

2.4 Additional Studies

The following documents and strategies were reviewed to provide additional context and background for the study, and the significant implications impacting on this study identified.

Table 2.1: Literature Review

Document	Description	Implications for the Study
Car Parking Code Development Control Plan No. 18	Guidelines for the provision of car parking within the Shoalhaven City Council. The car parking code outlines the required provision of off-street car-parking for new developments.	The provision of parking within new developments can significantly increase construction costs. The study will assess the impact that parking requirements have on the viability of development within the Nowra CBD.
Medium Density Housing Development Control Plan No. 71	Guidelines for the development of medium density residential buildings within the Shoalhaven City Council. The control plan outlines the required provision of off-street car-parking for medium density residential developments.	The provision of parking within new developments can significantly increase construction costs. The study will assess the impact that parking requirements have on the viability of residential development within the Nowra CBD.
Shoalhaven Tourism Master Plan 2012-2017	The Tourism Master Plan 2012 – 2017 provides a framework for promoting the growth and development of the tourism industry over the next 5 years.	Increasing visitation and tourism expenditure within the Shoalhaven LGA will flow through to higher visitation and spending within the Nowra CBD. The Master Plan also outlines three priority projects for the Shoalhaven LGA including a 4-4.5 star branded hotel for the Nowra CBD.
Multi Storey Car Park Study	The Nowra CBD Car Parking Development Committee was established to investigate opportunities to increase car parking within the CBD. A study was commissioned by Council to provide concept designs and cost estimates for a multi-storey car park at the corner of Berry and Worrigee Streets in Nowra.	The business community believes that there is a shortage of car parking within the Nowra CBD with a multi-deck car park required to provide adequate car parking. The study estimates that a 3-4 storey car park on the site could be constructed for between \$7.7 - \$11.1 million. With less than \$500,000 in the Council parking reserve fund, Council needs to identify a way of funding development while not adversely impacting the viability of property development.

Source: AECgroup

3. Nowra CBD

This section provides an assessment of the Nowra CBD including the local economy, property market and future development opportunities and constraints.

3.1 Overview

Nowra is the largest coastal urban centre between Wollongong and the Victorian border with a population of approximately 31,000. Located less than three hours from the larger metropolitan centres of Sydney (2 hours), Canberra (2.5 hours) and Wollongong (1 hour), Nowra functions as the business and administrative 'capital' of the Shoalhaven local government area (LGA).

Dissected by the Princes Highway, the Nowra CBD is considered a focal point for subregional road and transport networks. A major regional centre for Shoalhaven LGA, the CBD contains a mix of retail, residential and commercial property including concentration of medium density living, business, employment, professional services, specialised shops and associated warehouses, transport logistics and bulky goods operations.

Figure 3.1: Nowra CBD and Outer Study Area



Note: Aerial Photograph showing the area of the Nowra CBD Master Plan and the outer study area.
Source: Shoalhaven City Council (2011)

Based on a survey conducted by Hill PDA in 2010, the Nowra CBD is estimated to have over 59,000sqm in retail and commercial shop front floor space with low vacancy rates of 2.7%. Over two thirds of this is located in the retail core of the Nowra CBD with major tenants including, albeit not limited to:

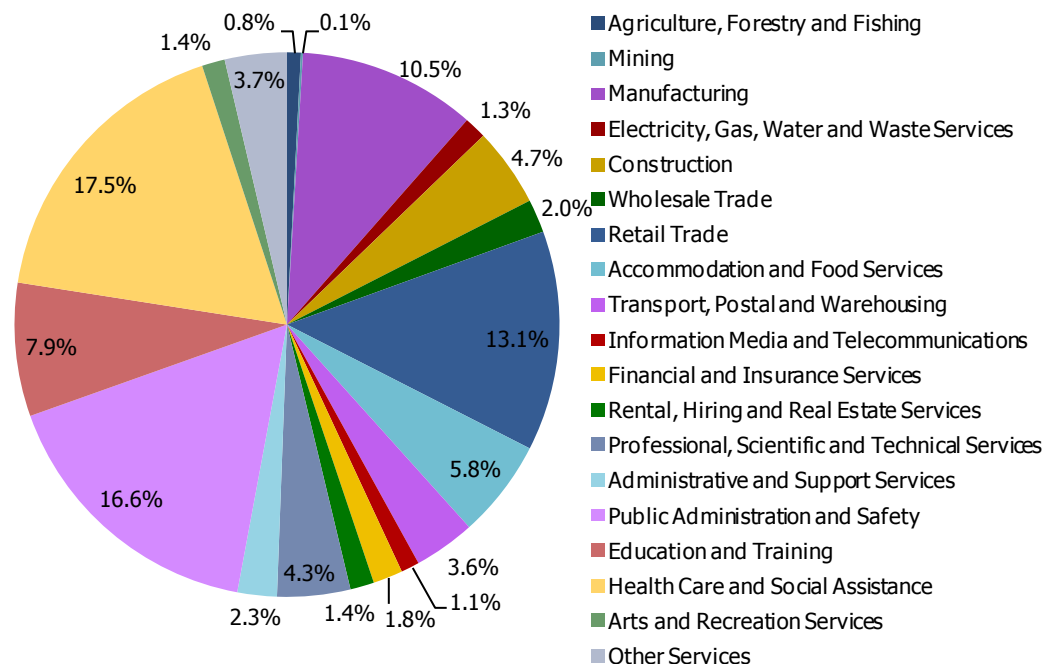
- Coles, Woolworths, Aldi and IGA Supermarkets;
- Target Country;
- Best and Less;
- Chemists Warehouses; and
- Major banks and building societies.

3.2 Economy

3.2.1 Employment by Industry

According to 2011 Census data, there were approximately 29,000 persons employed within the Shoalhaven LGA in 2011, with 60% working within Nowra-Bomaderry. Nowra-Bomaderry has a largely similar employment by industry profile as the Shoalhaven LGA, with 17.5% of its employment attributable to the health care and social assistance sector. Other sectors driving employment within the area include public administration and safety (16.6%), retail trade (13.1%) and manufacturing (10.5%), jointly representing more than a third of the area's total employment.

Figure 3.2: Employment by Industry, Nowra-Bomaderry, 2011

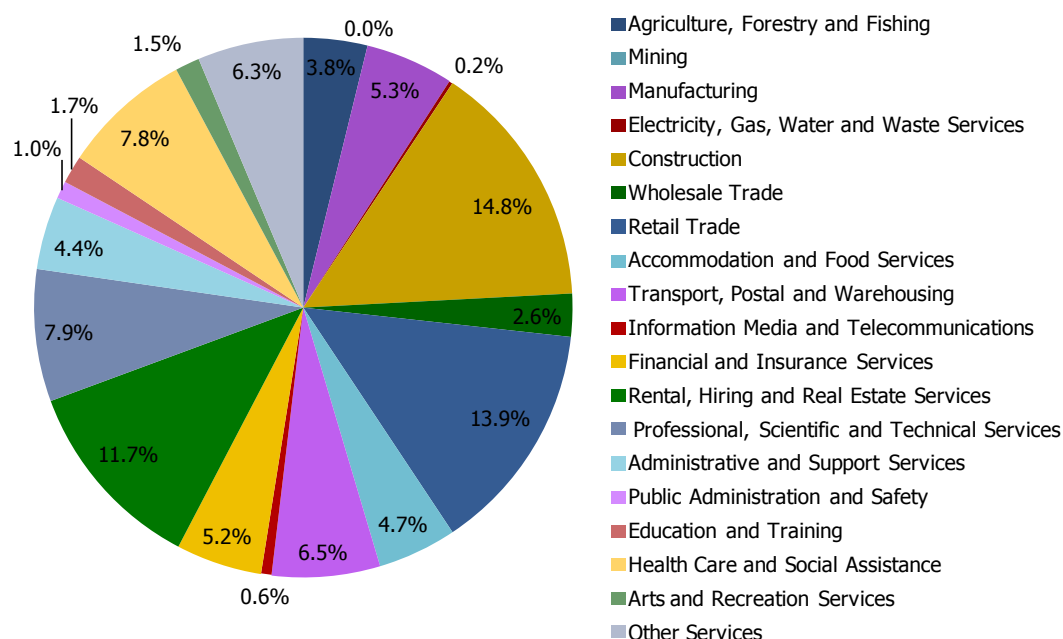


Note: Based on Place of Work
Source: ABS (2012)

3.2.2 Business Mix

As at June 2011, there were around 6,700 businesses actively trading within the Shoalhaven LGA with more than a fifth of the businesses currently operating in Nowra. The main businesses driving Nowra's economy accounting for 40% of the business activity include construction (14.8%), retail trade (13.9%) and rental, hiring and real estate services (11.7%). Nowra's business by industry profile is considerably different from that of the Shoalhaven LGA. When compared with the LGA, Nowra has a relatively higher proportion of health care, manufacturing and transport and warehousing businesses with a considerably lower proportion of construction businesses.

Figure 3.3: Businesses by Industry, Nowra, June 2011



Source: ABS (2012a)

3.3 Property Market

3.3.1 Residential

Almost 90% of dwellings in the Shoalhaven LGA are separate houses, reflecting the preference for lower density living. The majority of medium density residential dwellings in Nowra-Bomaderry are located in the Nowra CBD.

Table 3.1: Private Residential Dwellings, 2011

Household Type	Nowra CBD*	Nowra-Bomaderry	Shoalhaven LGA
Dwellings (No)			
Separate House	3,131	11,589	45,720
Semi-detached	576	984	2,522
Flat, Unit or Apartment	426	990	2,184
Other	148	284	1,066
Total	4,281	13,847	51,492
Dwellings (%)			
Separate House	73.1%	83.7%	88.8%
Semi-detached	13.5%	7.1%	4.9%
Flat, Unit or Apartment	10.0%	7.1%	4.2%
Other	3.5%	2.1%	2.1%
Total	100.0%	100.0%	100.0%

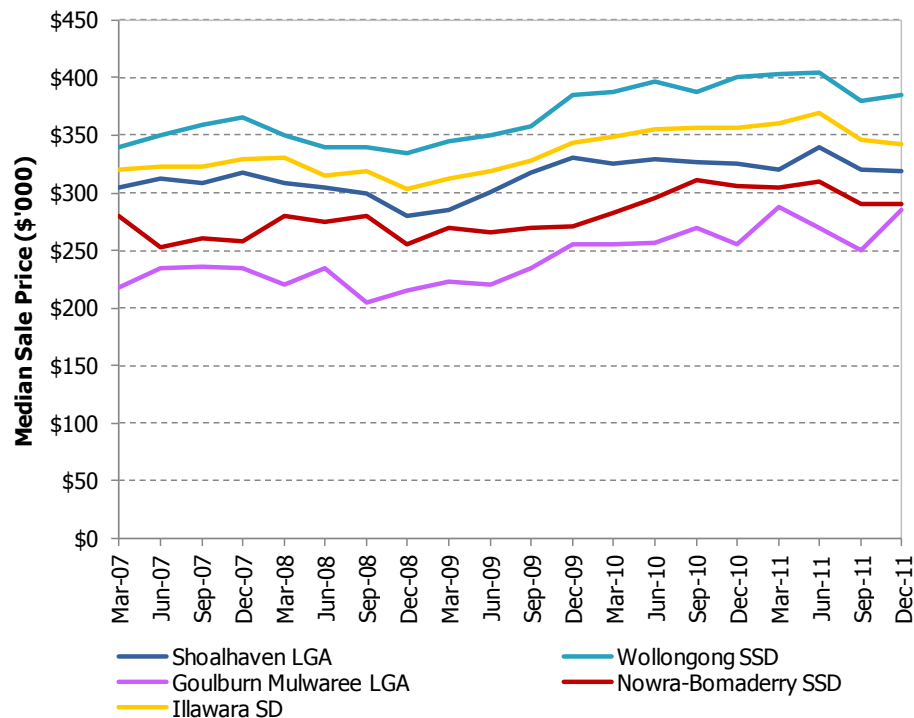
Note: * Nowra CBD estimated based on Nowra State Suburb.

Source: ABS (2012), AECgroup

In addition, home ownership levels are at their lowest in Nowra with less than half of the dwellings either owned/ being purchased. This is significantly lower than both the Nowra-Bomaderry (66.3%) and the LGA (72.7%) averages.

The cost of residential dwellings in Nowra-Bomaderry has recorded an upward trend over the past five years, recording a 3.5% increase since March 2007. The increase in residential dwelling prices is primarily attributable to the significant increase (9.3%) in unit prices, reflecting a trend towards living in units. Although the overall residential dwellings prices in Nowra-Bomaderry have increased over time, the area continues to offer affordable housing compared to elsewhere within the Shoalhaven LGA.

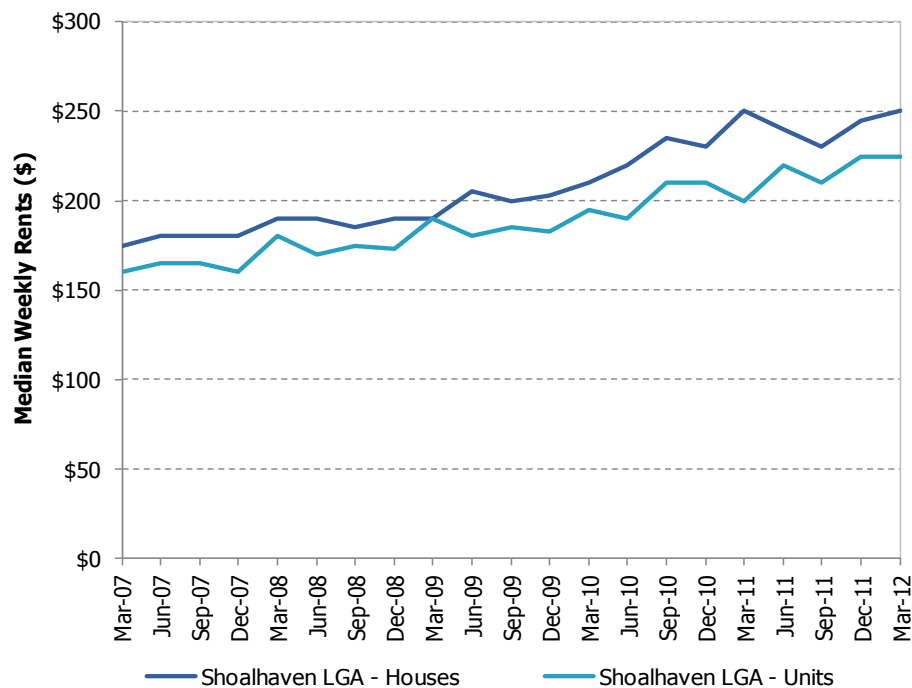
Figure 3.4: Median Sale Price, All Dwellings (\$'000), Mar Q 07 - Mar Q 12



Source: NSW Department of Housing (2012)

The median weekly rents for both houses and units in the Shoalhaven LGA have increased by more than 40% since March 2007, indicating a strong rental market for both dwelling types. With houses and units prices recording a similar trend over time, it is interesting to note that unit rentals on average are around 10% lower than house prices.

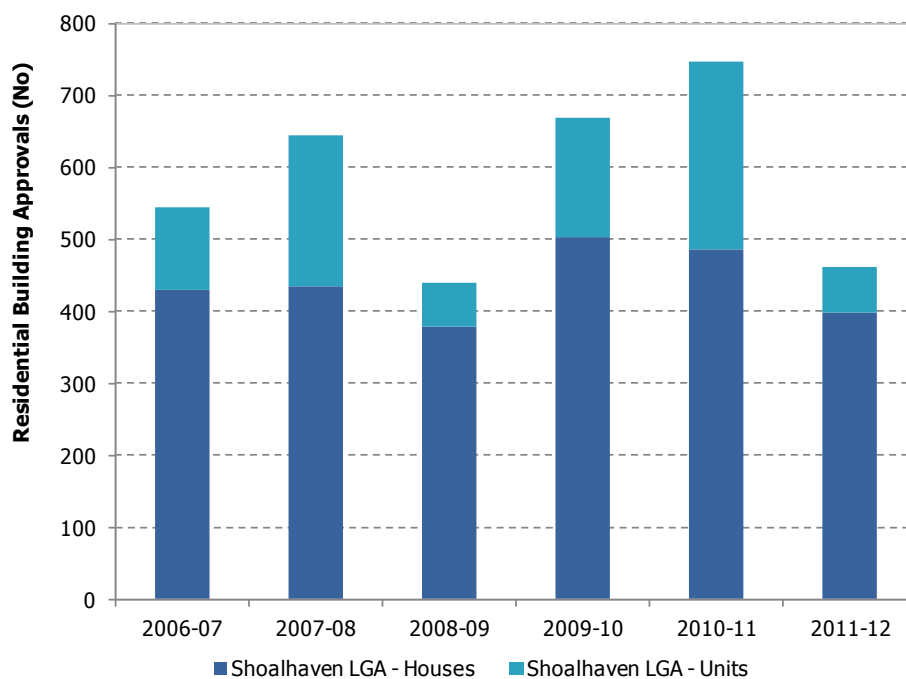
Figure 3.5: Median Weekly Rent (\$), March Q 07 - March Q 12



Source: NSW Department of Housing (2012)

During 2011-12 the Shoalhaven LGA recorded a total of 465 new residential building approvals with more than 85% comprising houses. While the number of residential building approvals have fluctuated over the past five years, the average value of new house approvals has increased to \$255,600, representing an average annual increase of 4.3% since 2006-07.

Figure 3.6: New Residential Building Approvals (No), 2006-07 to 2011-12



Source: ABS (2012b)

3.3.2 Commercial Office and Retail

There has been limited retail and commercial office development within the Nowra CBD in the last three years. The three largest projects include:

- **Berry Street:** A three level commercial office building comprising approximately 800sqm of office floor space including car parking provided at grade at the rear of the building. The majority of the floor space was leased by government agencies.
- **Worrigee Street:** A large floorplate retail development located on the southern side of Worrigee Street between Kinghorne Street and Haigh Avenue. The building comprises approximately 800sqm of retail floor space and incorporates underground and at-grade car parking. The building is leased by Officeworks.
- **57 Graham Street:** A three level commercial office building located towards the north of the CBD. The building comprises approximately 880sqm of commercial floor space and undercroft car parking.

Retail and commercial office rental rates within the Nowra CBD vary significantly based on the location and quality of the floor space.

- Ground Floor Retail Floor Space (\$/sqm)
 - Stockland Nowra: \$1,000-\$1,200
 - Junction Street: \$500-\$700
 - Kinghorne Street: \$400-\$450
 - Berry Street: \$280-\$320
 - South Kinghorne Street: \$240-\$270
 - North CBD: \$190-\$210
- Office
 - CBD Core – New Floor Space: \$300-\$320
 - CBD Fringe – New Floor Space: \$280-\$300
 - Old above ground office (built more than 10 years ago): \$170-\$190

Consultation with local real estate agents, property developers and professionals indicates that there is planning activity among land owners in the Nowra CBD including office developments and bulky goods projects on the fringe of the CBD. The majority of projects are being considered by local residents who have been long term landowners and developers in the Nowra area.

3.3.3 Other Development

Two other significant developments in the Nowra CBD are:

- **Shoalhaven Entertainment Centre:** The Shoalhaven City Council invested significantly in the city with the opening of the Shoalhaven Entertainment Centre in July 2008. Architecturally designed, the \$23 million iconic venue comprises of two main theatres and smaller rooms for functions like meetings, presentations, cocktail parties and fundraisers. The Auditorium has a capacity of 1,000 general floor admission and 200 reserve seating. The Auditorium and the Studio theatres are designed to have a variety of different functions including; concerts, conferences, presentations, expos, dinners, auctions, community events, professional theatre as well as sporting events.
- **Shoalhaven Cancer Care Centre:** Currently under construction, the Shoalhaven Cancer Care Centre on the corner of North and Scenic Drive in the outer study area, is a significant regional project. The centre will provide integrated multidisciplinary cancer care, ambulatory care services, teaching and research facilities and clinical offices.

Consultation with local real estate agents and property developers indicates that there is planning activity and strong interest in the development of serviced apartments and short-term accommodation in the Nowra CBD.

3.4 Future Development

3.4.1 Opportunities

There are several opportunities for development in the Nowra CBD to take advantage of the competitive advantages of the region. The following opportunities have been identified based on research and consultation with Council, real estate agents and other stakeholders.

- **Population and Household Growth:** The Shoalhaven LGA is recording population growth which is projected to increase into the future. There is potential for population growth to drive demand for medium density residential development in the Nowra CBD.
- **Retirement Accommodation:** The Australian population continues to experience an ageing population with the Shoalhaven LGA an attractive location for retirees. Older residents often want to live in close proximity to essential medical, retail and administrative services. The Nowra CBD has the potential to be an attractive location for older residents due to access to medical services such as the Shoalhaven District Hospital and the South Coast Cancer Care Centre, which is under construction.
- **Student Housing:** The University of Wollongong has a campus in Nowra that includes the Graduate School of Medicine. There is an opportunity to develop student accommodation within the Nowra CBD that is close to key services.
- **Military Housing:** HMAS Albatross is a large Naval Air Station located outside Nowra. The base has approval for a multi-million dollar investment including accommodation, services and aircraft facilities. There is an opportunity to develop accommodation within the Nowra CBD to house military personnel and their families.
- **Tourism Accommodation:** There is an opportunity to increase the provision of tourism accommodation within the Nowra CBD, in proximity to the river. The Tourism Master Plan identifies the development of a 4-4.5 star hotel as a priority project for the Shoalhaven LGA.
- **Improved Road Infrastructure:** The development of major transport infrastructure projects (including the Berry to Bomaderry upgrade of the Princes Highway and the Nowra to Nerriga Main Road 92 Extension) will improve access to Nowra from major centres including Sydney, Wollongong and Canberra. The improved access will likely increase the attractiveness of Nowra as a tourism destination, with the potential to flow through to increased activity and expenditure in the CBD. Improved access also has the potential to increase demand for medium density accommodation in the CBD.
- **Office Space:** In recent years several government agencies have established offices in the Nowra CBD. With a move towards decentralisation, there is an opportunity for the Nowra CBD to attract additional agencies to service the South Coast region. In addition, there are a large number of professional services companies that are located on the fringe of the CBD in residential accommodation. There is an opportunity to attract these businesses back into traditional office space in the core of the CBD. Consultation with real estate agents and developers indicates that these opportunities have fuelled recent development interest in the Nowra CBD.
- **Retail Development:** Real estate agents have identified demand in the market from large national retail chains to locate within the Nowra CBD. In recent years, several retailers have established stores in South Nowra due to an inability to locate within the Nowra CBD. Consultation with real estate agents and developers indicates that bulky goods operations are also looking at the fringe of the Nowra CBD for development opportunities.
- **Council Owned Land:** Shoalhaven City Council is a major land holder within the Nowra CBD with sites including several large public car parks. These sites represent opportunities for redevelopment to increase the density of development within the CBD.

3.4.2 Constraints

There are some constraints that are inhibiting property development within the Nowra CBD including:

- **Flooding:** Some of the land within the Nowra CBD (as defined in the Draft Nowra CBD Urban Design Master Plan) is flood affected (impacted by the 1 in 100 year flood event) which restricts development. In addition, some land within the CBD has issues with the soil that impacts stability and results in higher construction costs.
- **Fragmented CBD:** The Nowra CBD is split by the Princes Highway with Stockland Nowra located on the eastern side of the highway. People visiting Stockland Nowra do not have to travel into the heart of the CBD, which reduces pedestrian traffic and visitation to local businesses within the CBD.
- **Proximity of Parking:** The majority of visitors to the CBD travel to the CBD via private vehicles in anticipation of parking within close proximity of their area of transaction. While there is significant parking available on the fringe of the CBD, consultation with local retailers indicates there is a perceived shortage of parking within the Nowra CBD which is impacting the retail sector around the heart of the CBD.
- **Competition from other Centres:** The development of other retail and commercial centres in Nowra and the surrounding region has increased competition and led to higher retail leakage. Centres that are in competition with the Nowra CBD include:
 - South Nowra: A light industrial and bulky goods precinct that is located approximately 3km south of the Nowra CBD. South Nowra has attracted significant investment in recent years due largely to the availability of relatively cheaper land on the Highway.
 - Stockland Shellharbour: A major shopping centre located approximately 50km north-east of the Nowra CBD. Stockland Shellharbour has several major department stores, specialty stores, banks, fast food, services and supermarkets. The first stage of the expansion was completed in May 2012 and has attracted strong demand from residents in the Shoalhaven LGA.

Proposed future local retail developments will further the trend of residents shopping and undertaking transactions at local centres rather than travelling into the CBD.

- **Changing Nature of Retail:** The retail sector is evolving with strong growth in online retail sales, which is placing pressure on traditional 'high street' retailers. Australia's total online spending was approximately \$11.5 billion during the year ending June 2012. Recording annual growth of 19% since June 2011 (NAB, 2012), the online retail sales growth in Australia continues to record stronger growth than the traditional retail sales sector which grew by 4.2% over the past year.

While the growth of the online sector creates issues for traditional retailers, it is also creating opportunities for innovative companies who are retaining their physical stores while also building their online presence. Customer service still remains very important for a lot of consumers and retailers able to provide good customer service are able to offer a strong point of differentiation.

4. Development Contributions

4.1 Nowra CBD Contributions

This section outlines the different development contribution rates currently charged by the Shoalhaven City Council for property development in the Nowra CBD. Development contributions include charges applied to commercial and residential developments and parking. Development contributions have been established to fund the development and upgrade of community, recreation, emergency services and parking facilities.

It is likely that additional projects will be identified as a result of the Nowra CBD Master Plan with development contributions considered as a method of funding their development.

4.1.1 Commercial Development

Under the Shoalhaven Contributions Plan 2010, commercial development contributions rates are currently charged by Shoalhaven City Council for three projects. The charges are per equivalent tenement (ET), with one ET of commercial development representing 200sqm of gross floor area. All new retail and commercial development in the Nowra CBD are required to pay these charges outlined in the table below.

Table 4.1: Commercial Development Contribution Rates, 2012

Project Description	Contribution Rate/ ET
CWFIRE2001 Citywide Fire & Emergency Services (\$/200sqm)	\$115.61
CWFIRE2002 Shoalhaven Fire Control Centre (\$/200sqm)	\$169.15
CWMGMT3001 Contributions Management & Administration (\$/200sqm)	\$480.79

Source: Shoalhaven City Council (2010)

4.1.2 Residential

The Shoalhaven City Council currently charges a series of residential development contribution rates for various recreational, leisure and other neighbourhood facilities.

Table 4.2: Residential Development Contribution Rates, 2012

Contribution	Charge per Residential ET
Northern Shoalhaven Sports Stadium	\$495.21
Northern Shoalhaven Leisure Centre	\$793.40
Planning Area 1 - Active Recreation Facility Upgrades	\$181.04
Nowra District Community Centre	\$125.64
Nowra District Integrated Youth Services Centre	\$28.21
Synthetic Hockey Field Facility	\$72.06
Shoalhaven City Arts Centre	\$32.43
Shoalhaven Mobile Childrens Services	\$10.74
Shoalhaven Multimedia & Music Centre	\$10.66
Shoalhaven City Library Extensions	\$282.68
Shoalhaven Multi Purpose Cultural & Convention Centre	\$1,310.76
Citywide Fire & Emergency Services	\$117.52
Shoalhaven Fire Control Centre	\$171.94
Contributions Management & Administration	\$488.72
Embellishment of Icon and District Parks and Walking Tracks	\$210.03
Northern Shoalhaven Community Transport and Family Support Services	\$6.62
Northern Shoalhaven Integrated Children's Services	\$40.11
Total	\$4,377.77

Source: Shoalhaven City Council (2010)

The aforementioned rates are charged per residential ET, with one ET representing a four bedroom unit. The table below provides a breakdown of residential ETs by unit size.

Table 4.3: Residential ETs by Unit Size

Dwelling	Residential ETs
1 Bed Unit	0.4
2 Bed Unit	0.6
3 Bed Unit	0.8
4 Bed Unit	1.0

Source: Shoalhaven City Council (1996a)

4.1.3 Parking

The number of parking spaces required for new development in the Nowra CBD is determined based on the Council's car parking code provided in the Development Control Plan No. 18 (DCP 18). The parking requirements for development types relevant to this study are outlined in the table below.

Table 4.4: Parking Requirements by Development Type

Development Type	Sqm per Parking Space
Commercial Premises	40.0
Shops	24.0
Supermarkets	19.0
Designated Storage Area	50.0
Restaurant	24.0

Source: Shoalhaven City Council (1996b)

The car parking contributions rate for the Nowra CBD is currently \$23,587 per car parking space that is not provided on-site. This rate is only applicable to the Nowra CBD and not other areas within the Shoalhaven LGA. The car parking contributions are held in a reserve that is designated to be used to develop car parking facilities.

The Nowra CBD car parking contributions program has been relatively unsuccessful having collected only a fraction of the funding required to construct a multi-storey car park in the Nowra CBD. It appears as if a combination of factors (including limited recent development having occurred in the Nowra CBD and successfully completed developments not being required to pay parking contributions) having resulted in the program not achieving its desired outcome.

4.2 Benchmarking

The following LGAs have been selected as the benchmark set for development contributions based on the LGA population, land area and similarity of being a coastal location with a CBD. The complexity and multitude of charging structures that exist across different LGAs is recognised in establishing the benchmark set. The profile of the selected benchmark set is as follows:

Table 4.5: Profile of Benchmark Set

Local Government	Population (2009)	Area (sq km)	DLG Grouping
Shoalhaven City Council	95,812	4,530.6	5
Port Macquarie-Hastings	75,104	3,686.1	4
Shellharbour City Council	66,905	147.4	4
Wagga Wagga City Council	62,904	4,825.3	4
Eurobodalla Shire Council	37,442	3,427.7	4
Bega Valley Shire Council	33,481	6,277.8	4

Note: DLG Grouping numbers used to classify local governments. 4 = Small to Medium Regional Town / City: part of an urban centre that is predominantly urban in nature with a population between 30,001-70,000. 5 = Large to Very Large Regional Town / City: part of an urban centre that is predominantly urban in nature with a population over 70,000.

Source: NSW Government Premier and Cabinet, Division of Local Government (2010).

4.2.1 Port Macquarie-Hastings Council

Commercial: Commercial office space in Port Macquarie incurs water and sewer charges as per the S94 Plan and S94A development contribution plans. If parking is required, the S94A contribution is replaced by the car parking S94 contribution. The following contributions are based on an assumed 800sqm single story office development.

Table 4.6 Commercial Contribution - Port Macquarie-Hastings Council

Contribution	Amount	ET 1.6 Equivalent
Water	\$9,497	\$15,290
Sewer	\$3,953	\$6,324
S94A	\$22,000	\$22,000

Note: Based on an assumed 800sqm single storey office development.
Source: Port Macquarie-Hastings Council

If car parking contribution is required, the S94 car parking contribution of \$19,742 would replace the S94A contribution requirement.

Residential: Residential contributions are set by S94 Plan. Charges for 2 bedroom residential multi-unit (3 storeys) in Port Macquarie are outline in the table below.

Table 4.7: Residential Contribution - Port Macquarie-Hastings Council

Contribution	Amount
Water	\$9,497
Sewer	\$3,953
Open Space	\$5,187
Roads	\$6,625
Community Services	\$4,007
Bush Fire	\$438
Admin Building	\$789
Admin Levy	\$526
Total	\$31,022
ET Equivalent	\$19,461

Source: Port Macquarie-Hastings Council

No standard parking contribution is applied and if parking is required it is assessed on a case by case basis.

4.2.2 Shellharbour City Council

Commercial: Commercial office space in the Shellharbour location would incur a city wide facilities per office/shop. The following contributions are based on an assumed 800sqm single story office development.

Table 4.8: Commercial Contribution - Shellharbour City Council

Contribution	Amount (2005)	Indexed to 2012
City-wide facilities	\$232	\$333

Note: Based on an assumed 800sqm single storey office development.
Source: Shellharbour City Council

Car parking is on a per car park space contribution as per the table below.

Table 4.9: Car Park Contribution - Shellharbour City Council

Contribution	Amount (2005)	Indexed to 2012
Car parking per space	\$17,529	\$20,601

Source: Shellharbour City Council

Residential: Development contribution charges for a two bedroom residential multi-unit in Shellharbour are outlined in the table below. These costs do not include parking contributions (assessed on a case by case basis) or water and sewerage charges (charged separately as Shellharbour City Council is not the water and sewer authority).

Table 4.10: Residential Contribution - Shellharbour City Council

Contribution	Amount (2005)
City-wide facilities	\$2,827
Precinct facilities	\$3,294
Total	\$6,131
ET Equivalent at 0.6	\$3,636
Indexed to 2012	\$4,276

Source: Shellharbour City Council

4.2.3 City of Wagga Wagga

Commercial: Commercial office space in the Wagga Wagga Central area attracts a charge under the S94A Plan based on 1% of the construction value. The following contributions are based on an assumed 800sqm single story office development.

Table 4.11 Commercial Contribution - City of Wagga Wagga

Contribution	Amount
S94A	\$22,000

Note: Based on an assumed 800sqm single storey office development.

Source: City of Wagga Wagga

Residential: Residential contributions are set by S94 Plan. Charges for a multi-unit development in the Wagga Wagga Central area are outlined below.

Table 4.12: Residential Contribution – City of Wagga Wagga

Contribution	Amount (2006)
Administration	\$259
Civic, Community and Cultural – Future	\$258
Civic, Community and Cultural – Recoupment	\$1,258
Roads and Traffic Management – Future	\$1,843
Open Space and Recreation - Recoupment	\$581
Opens Space and Recreation – Future	\$940
Total	\$5,137

Source: City of Wagga Wagga

Wagga Wagga Council does not apply a parking contribution for residential development.

4.2.4 Eurobodalla Shire Council

Commercial: Commercial office space in Eurobodalla location would incur water and sewer charges as per S94 Plan development contribution, though this is dependent on the type of business. The following contributions are based on an assumed 800sqm single story office development.

Table 4.13: Commercial Contribution - Eurobodalla Shire Council

Contribution	Amount	ET 0.0012 Equivalent
Waste facilities per 21m ² per person	\$2.15	\$82

Note: Based on an assumed 800sqm single storey office development.

Source: Eurobodalla Shire Council

If a car parking contribution is required, the S94 car parking contribution is \$21,200.

Residential: Residential contributions are set by S94 Plan. Charges for a two bedroom residential multi-unit (3 storeys) in Eurobodalla location (less than 100 sqm) are outlined below.

Table 4.14: Residential Contribution – Eurobodalla Shire Council

Contribution	Amount
Waste Facilities	\$83
Open Space and Recreation	\$805
Community and Cultural	\$99
Roads	\$1,933
Paths and Cycleways	\$243
Plan Preparation and Admin	\$95
Total	\$3,258

Source: Eurobodalla Shire Council

The car parking contribution applies to development in specific areas in the CBD, for Batemans Bay (main urban centre), it is \$21,200 per car park.

4.2.5 Bega Valley Shire Council

Commercial: Commercial office space in Bega Valley location would incur water and sewer charges as per S94 Plan development contribution. The following contributions are based on an assumed 800sqm single story office development.

Table 4.15: Commercial Contribution – Bega Valley Shire Council

Contribution	Rate	Amount
Water	\$12,430 per 500 m ²	\$19,888
Sewer	\$9,448 per 500 m ²	\$15,116

Note: Based on an assumed 800sqm single storey office development.

Source: Bega Valley Shire Council

If car parking contribution is required, the S94 car parking contribution is \$28,805.

Residential: Residential contributions are set by S94 Plan. Charges for a two bedroom residential multi-unit (3 stories) in Bega Valley are outlined below.

Table 4.16: Residential Contribution – Bega Valley Shire Council

Contribution	Amount
Water	\$3,108 (each bedroom) = \$6,216
Sewer	\$2,362 (each bedroom) = \$4,724
Recreation facilities	\$162
Public reserve acquisition	\$2,376
Total	\$13,478

Source: Bega Valley Shire Council

Note: Public reserve acquisition = \$ value/sqm x 28.5sqm: Maximum \$1,188.00 each bedroom

The following parking contribution is set out for the following multi-unit housing units:

Multi-unit housing up to 2 bedrooms = \$338

4.2.6 Comparison of Benchmark Set

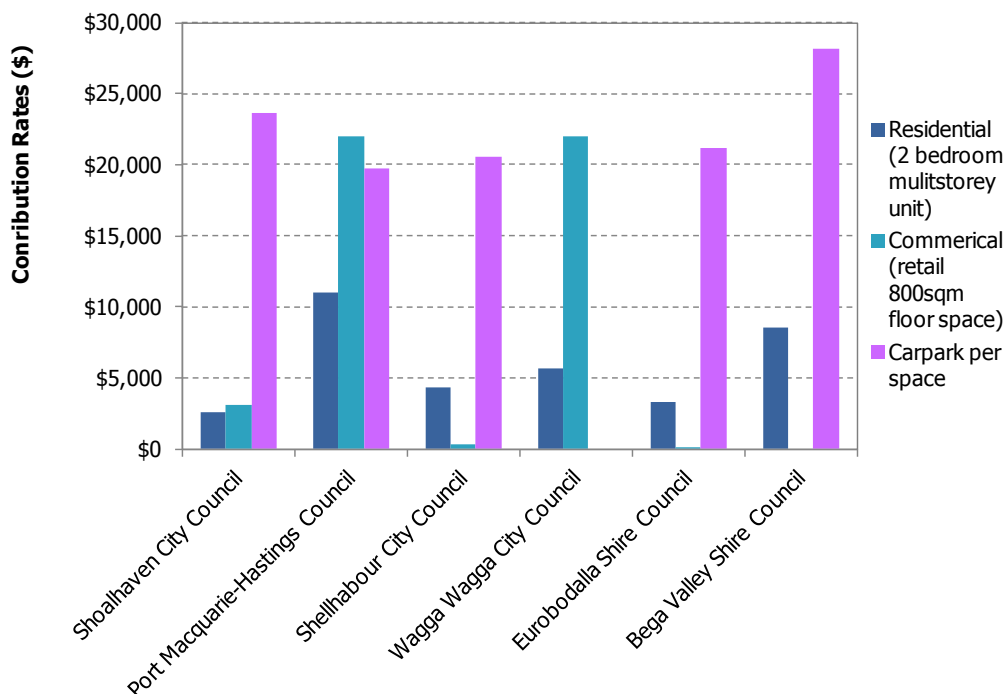
The comparison of the development contributions incurred by commercial and residential development with the CBD of LGA's is difficult due to the different policies applied for parking and the impact of the LGA acting as the Water and Sewer Authority.

The residential development contribution charge applied Shoalhaven City Council are similar in nature to those applied by the other local governments when water and sewerage charges are removed. It has been identified that a number of the local government areas require residential developments to provide the full provision of car parking on site rather than allow for the option of a parking contribution

The commercial development contribution charge applied by Shoalhaven City Council is at the lower end of the range for the councils that apply S94 contribution charges. Both Port Macquarie-Hastings Council and the City of Wagga Wagga apply S94A charges based on 1% of the development cost.

The development contribution rate per car parking space charged by Shoalhaven City Council is towards the upper end of the benchmark set which ranges from \$19,621 at Port Macquarie to the highest charge imposed by Bega Shire Council of \$28,204.

Figure 4.1: Development Contribution Rates Comparison, 2012 (excluding Water and Sewerage Charges)



Source: Various Councils

Overall, development contributions (other than car parking contributions) charged by Shoalhaven City Council for the Nowra CBD are relatively low when compared to similar centres.

5. Feasibility Assessment

This section outlines the methodology and results of the feasibility assessment undertaken on a selection of four development scenarios that could occur within the CBD.

5.1 Approach

Several property feasibility / performance / valuation techniques can be utilised to assess whether economically viable development is possible within the Nowra CBD. The following approach, as shown below focuses on development profit and return on investment (ROI). The development feasibility appraisal is based upon a develop and sell approach.

Table 5.1: Parking Requirements by Development Type

Component	Calculation
Capital Costs	
+ Land costs and taxes	
+ Building construction costs	
+ Parking construction costs	
+ Parking contributions	
+ Other Development contributions	
+ Professional fees	
+ Statutory fees	
- GST	
= Net Costs	(A)
+ Interest/holding costs	
= Total Costs	(B)
Capitalised Revenue	
+ Property sales	
- Selling costs	
- GST	
= Net Revenue	(C)
Development Profit/Loss	
\$	(D) = (C) – (B)
%	(E) = (D) / (B)
Return on Investment	
ROI (\$)	(F) = (C) – (A)
ROI (%)	(G) = (C) / (A)

Source: AECgroup

The calculation of the capitalised revenue for commercial development is undertaken using a direct capitalisation approach. This approach is based on traditional valuation theory, whereby the market net income of a single year is capitalised (multiplied) in perpetuity to arrive at the market value of the property. The net market income is capitalised using a rate or yield which is estimated from sales of investment properties.

The formula for the calculation of a yield can be expressed as:

$$\text{Yield} = \text{Net rent} / \text{sale price}$$

Given a known net income, and by applying an appropriate yield, the formula can be used to ascertain the market value of a property, as follows:

$$\text{Market value} = \text{Sustainable net rent} / \text{yield}.$$

For the purpose of the feasibility assessment, the financial viability of development has been assessed by the ROI of the project. Property developers generally aim to exceed a 'hurdle rate', which varies depending on the nature of the project and anticipated risks. For the purpose of the feasibility assessment, the following benchmarks have been identified to assess the viability of development:

- Negative where the ROI is below 12%.
- Marginal where the ROI is between 12-15%.
- Positive where the ROI is above 15%.

Consultation with real estate agents and local property developers indicated that the hurdle rate that local developers were willing to accept was generally lower than the rate developers in Sydney and larger regional cities were willing to accept.

Each of the main cost component headings contains a number of variable inputs. We have kept these input headings consistent across the various development types to enable simple comparison to their relative effect on total development cost. Estimates have been based on market research and consultation with Council, local real estate agents and developers to ensure that they accurately reflect the property development environment in Nowra.

Parking costs have been separated from building costs as the cost has the potential to have a mix of building costs (cost of constructing parking within the development) and statutory fees (parking contributions paid to Council if insufficient parking provided onsite). The component costs are outlined in the table below.

Table 5.2: Inputs to Feasibility Assessment

Cost Component	Assumption
Land Costs	<ul style="list-style-type: none"> • Land purchase costs: Based on research & consultation with real estate agents • Land transaction costs: Stamp Duty; due diligence & legal costs (1% of land purchase costs)
Building Construction Costs	<ul style="list-style-type: none"> • Construction costs based on \$/m² values from construction cost handbooks and consultation with developers
Parking Construction Costs	<ul style="list-style-type: none"> • Construction costs based on a \$/m² values from construction cost handbooks and consultation with developers
Parking Contributions	<ul style="list-style-type: none"> • Council contributions for parking
Other Development Contributions	<ul style="list-style-type: none"> • Council contributions for other community infrastructure
Statutory Fees	<ul style="list-style-type: none"> • Council application fees • Water and sewerage costs
Professional Fees	<ul style="list-style-type: none"> • Professional fees (surveyors, engineers, valuers, architects and planners) – 6% of construction costs
Capitalised Interest	<ul style="list-style-type: none"> • Interest costs on purchasing the land for (7.5% interest rate) • Interest costs on construction (7.5% interest rate) • Assuming 40% debt and 60% equity • Assuming 4 months for project planning and 8 months for construction
Holding Interest	<ul style="list-style-type: none"> • Interest costs until development is sold (7.5% interest rate) • Assuming 40% debt and 60% equity • Assuming 6 months following completion of development
GST	<ul style="list-style-type: none"> • GST on land purchase costs, construction costs, professional fees
Property Revenue	<ul style="list-style-type: none"> • Rental and sales prices based on research and consultation with real estate agents • Yields based on consultation with real estate agents and developers
Selling Costs	<ul style="list-style-type: none"> • Marketing and commissions (3.5% of property revenue)
Development Profit	<ul style="list-style-type: none"> • Based on the difference between sale price and total development cost

Source: AECgroup

When calculating required parking contributions for a redevelopment, the new development application is granted credit for parking contributions already paid as part of a previous development. If the previous development application on a site resulted in contributions being paid for five car park spaces, the new development application would be credited for those five car park spaces. As these credits are site specific, they have been excluded from the general development feasibility process.

5.2 Development Feasibility

This section assesses the development feasibility of core land uses within the Nowra CBD.

5.2.1 Commercial Office

Development Scenario

The feasibility assessment is based on the assumed development of a three storey commercial office building within the Nowra CBD on a vacant 700sqm site. The assumed development comprises of approximately 800sqm of net lettable office floor space, with 13 car spaces provided at-grade and contributions paid to Council for seven car park spaces.

Based on the assessment of the property market and consultation with local real estate agents, the value of the land in the Nowra CBD is estimated to vary between \$400/sqm to \$500/sqm. It has been assumed that the cost of land would be towards the lower end of this range. It is considered that office space could achieve a rental rate of \$320/sqm in line with the current market.

Table 5.3: Commercial Office Development Assumptions

Component	Assumption
Site Size (sqm)	700
Land Value (\$/sqm)	\$400
Building Height (storeys)	3
Building Footprint (%)	45%
Net Lettable Area (sqm)	803sqm
Parking Provision (spaces)	At Grade – 13 Contributions -7.1
Rent (\$/sqm)	\$320
Yield (%)	9%

Source: AECgroup

Feasibility

The feasibility assessment indicates the development has a ROI of 11.5%, which equates to a negative financial feasibility. The development is marginally below the 12% threshold where a developer may consider the project.

Table 5.4: Commercial Office Feasibility Assessment

Component	\$
Costs	
Land Cost	\$282,800
Building Costs	\$1,767,150
Parking Construction Costs	\$31,200
Parking Contributions	\$167,470
Other Development Contributions	\$3,078
Professional Fees	\$124,869
Statutory Fees	\$12,829
Capitalised Interest	\$48,454
Holding Interest	\$36,568
Less GST Input Tax Credits	\$238,940
Sub-Total	\$2,235,477
Revenue	
Revenue	\$2,761,763
Less Selling Costs	\$96,662

Component	\$
Less GST Payments	\$266,510
Sub-Total	\$2,398,591
Development Profit	
Profit (\$m)	\$163,113
Sales Margin (%)	7.3%
Return on Investment	
Capitalised Costs	\$2,150,456
ROI (\$m)	\$248,135
ROI (%)	11.5%

Source: AECgroup

5.2.2 Retail

Development Scenario

The feasibility assessment is based on the assumed development of a one storey retail building within the Nowra CBD. It has been assumed that the development will be undertaken on a vacant site outside the core of the CBD. The assumed development comprises of approximately 675sqm of net lettable retail floor space, with 25 car spaces provided at-grade and contributions paid to Council for three car park spaces.

Based on the assessment of the property market and consultation with local real estate agents, the value of the land is estimated to be approximately \$450/sqm based on its position on the edge of the CBD. It is considered that office space could achieve a rental rate of \$350/sqm in line with the current market.

Table 5.5: Retail Development Assumptions

Component	Assumption
Site Size (sqm)	1,500
Land Value (\$/sqm)	\$450
Building Height (storeys)	1
Building Footprint (%)	50%
Net Lettable Area (sqm)	675sqm
Parking Provision (spaces)	At Grade – 25 Contributions -3
Rent (\$/sqm)	\$350
Yield (%)	10%

Source: AECgroup

Feasibility

The feasibility assessment indicates the development has a ROI of 17.0%, which represents positive financial feasibility as it exceeds the 15% threshold that a developer would look to achieve.

Table 5.6: Retail Feasibility Assessment

Component	\$
Costs	
Land Cost	\$681,750
Building Costs	\$960,000
Parking Construction Costs	\$60,000
Parking Contributions	\$73,711
Other Development Contributions	\$2,584

Component	\$
Professional Fees	\$102,105
Statutory Fees	\$9,172
Capitalised Interest	\$44,099
Holding Interest	\$29,001
Less GST Input Tax Credits	\$188,932
Sub-Total	\$1,773,489
Revenue	
Revenue	\$2,290,179
Less Selling Costs	\$80,156
Less GST Payments	\$221,002
Sub-Total	\$1,989,020
Development Profit	
Profit (\$m)	\$215,531
Sales Margin (%)	12.2%
Return on Investment	
Capitalised Costs	\$1,700,389
ROI (\$m)	\$288,631
ROI (%)	17.0%

Source: AECgroup

5.2.3 Residential

Development Scenario

The feasibility assessment is based on the assumed development of a three storey residential building within the Nowra CBD. It is assumed that the development would occur on a 700sqm site on the fringe of the CBD, which is reflected in a relatively lower land value of \$400/sqm.

The assumed development comprises of 12 residential apartments including three 1-bedroom apartments and nine 2-bedroom apartments. The development has been assumed to comprise 12 car spaces at-grade and contributions paid to Council for six car park spaces to meet the requirements of the car parking code.

Based on the assessment of the property market and consultation with local real estate agents, it is expected that residential units could achieve sale prices of \$180,000 for 1-bedroom units and \$220,000 for 2-bedroom units.

Table 5.7: Residential Development Assumptions

Component	Assumption
Site Size (sqm)	700
Land Value (\$/sqm)	\$400
Building Height (storeys)	3
Building Footprint (%)	50%
Yield (units)	1 Bedroom Units - 3 2 bedroom Units - 9
Parking Provision (spaces)	At Grade – 12 Contributions -6
Sale Price (\$)	1 Bedroom Units - \$180,000 2 bedroom Units - \$220,000

Source: AECgroup

Feasibility

The feasibility assessment indicates the development has a ROI of -6.4%, which represents a negative financial feasibility.

Table 5.8: Residential Feasibility Assessment

Component	\$
Costs	
Land Cost	\$282,800
Building Costs	\$1,856,400
Parking Construction Costs	\$26,400
Parking Contributions	\$165,112
Other Development Contributions	\$127,345
Professional Fees	\$129,936
Statutory Fees	\$9,788
Capitalised Interest	\$50,234
Holding Interest	\$39,720
Less GST Input Tax Credits	\$259,778
Sub-Total	\$2,427,957
Revenue	
Revenue	\$2,520,000
Less Selling Costs	\$88,200
Less GST Payments	\$243,180
Sub-Total	\$2,188,620
Development Profit	
Profit (\$m)	-\$239,337
Sales Margin (%)	-9.9%
Return on Investment	
Capitalised Costs	\$2,338,003
ROI (\$m)	-\$149,383
ROI (%)	-6.4%

Source: AECgroup

5.2.4 Mixed Use Retail and Residential

Development Scenario

The feasibility assessment is based on the assumed development of a four storey mixed use building within the Nowra CBD comprising ground floor retail and residential units on the upper levels. It is assumed that the development would occur on a 600sqm towards the fringe of the CBD, which is reflected in a relatively lower land value of \$400/sqm.

The assumed development comprises of approximately 316sqm of net lettable retail floor space and 12 residential apartments. The development has been assumed to comprise eight car spaces at-grade, 12 car spaces underground and contributions paid to Council for 13 car park spaces to meet the requirements of the car parking code.

Table 5.9: Retail/Residential Development Assumptions

Component	Assumption
Site Size (sqm)	600
Land Value (\$/sqm)	\$400
Building Height (storeys)	4
Building Footprint (%)	60%
Net Lettable Area (sqm)	316sqm
Yield (units)	1 Bedroom Units - 3 2 bedroom Units - 9
Parking Provision (spaces)	At Grade – 8 Underground -12 Contributions -13
Rent (\$/sqm)	\$350
Yield (%)	10%
Residential Sale Price (\$)	1 Bedroom Units - \$180,000 2 bedroom Units - \$220,000

Source: AECgroup

Feasibility

The feasibility assessment indicates the development has a ROI of -7.6%, which represents a negative financial feasibility.

Table 5.10: Retail/Residential Feasibility Assessment

Component	\$
Costs	
Land Cost	\$242,400
Building Costs	\$2,373,360
Parking Construction Costs	\$426,000
Parking Contributions	\$286,980
Other Development Contributions	\$128,555
Professional Fees	\$182,506
Statutory Fees	\$14,993
Capitalised Interest	\$69,034
Holding Interest	\$55,857
Less GST Input Tax Credits	\$365,479
Sub-Total	\$3,414,206
Revenue	
Revenue	\$3,500,245
Less Selling Costs	\$122,509
Less GST Payments	\$337,774
Sub-Total	\$3,039,963
Development Profit	
Profit (\$m)	-\$374,243
Sales Margin (%)	-11.0%
Return on Investment	
Capitalised Costs	\$3,289,314
ROI (\$m)	-\$249,352
ROI (%)	-7.6%

Source: AECgroup

5.3 Sensitivity

The following section tests the sensitivity of key development variables on the viability of development.

Car Parking Cost

The cost for the provision of car parking ranges between 7.5% to 20.9% of the total cost of each development.

Table 5.11: Cost of Car Parking Relative to Development Cost

Development	Car Parking Cost (Building and Contributions)	Total Development Cost	% of Car Parking Cost Relative to Total Development Cost
Commercial Office	\$198,670	\$2,235,477	8.9%
Retail	\$133,711	\$1,773,489	7.5%
Residential	\$191,512	\$2,427,957	7.9%
Retail/Residential	\$712,980	\$3,414,206	20.9%

Source: AECgroup

Each example property development presented above required more car spaces than could be provided on-site and the parking requirement was addressed by the use of parking contributions. In order to achieve parking code requirements, developers would have to expand the onsite parking by providing underground parking.

The following table assesses the sensitivity of the development viability if the parking requirements were fully met within the site by the underground parking. The additional cost to provide parking on site is greater than the cost of parking contributions and further degrades the negative financial feasibility of the commercial, residential and retail/residential property developments. The positive feasibility of the retail development degrades to a marginal position.

Table 5.12: Sensitivity of Car Parking Contributions

Development	Parking requirements met with parking contributions	Parking provide fully on site
Commercial Office	11.4%	7.6%
Retail	17.5%	14.6%
Residential	-3.4%	-9.4%
Retail/Residential	-6.8%	-11.2%

Source: AECgroup

The sensitivity of a reduction in car parking costs has been assessed on the basis of a relief arrangement for the reduction in car parking contributions and the availability of car parking credits (assuming all other variables remain unchanged). Many sites within the Nowra CBD have parking credits (as a result of existing developments) that can be used to reduce the number of car spaces that need to be provided onsite and parking contributions. If the overall cost of the development is reduced by the reduction in car parking costs, the expected ROI of the project would improve and make it a more commercially attractive project.

If the parking contributions for the commercial office development were reduced (as a result of parking credits or through a discount provided by Council) by 25%, the viability of the development would improve from negative to marginal, with a 50% reduction resulting in a further improvement to positive viability. The impact of any reduction in the parking contribution for the retail development will strengthen the viability of the project. Due to the significantly negative viability of residential and retail/residential developments, the feasibility of these developments remains negative even if parking contributions are eliminated.

While the feasibility assessment indicated that the viability of development is negative, the availability of parking credits on sites within the Nowra CBD helps explain some recent development activity. Parking credits also help explain why the Nowra CBD car

parking contributions program has been relatively unsuccessful having collected only a fraction of the funding required to construct a multi-storey car park in the Nowra CBD.

Table 5.12: Sensitivity of Car Parking Contributions

Development	Reduction in Parking Contributions				
	0%	25%	50%	75%	100%
Commercial Office	11.5%	13.5%	15.6%	17.7%	19.9%
Retail	17.0%	18.1%	19.3%	20.5%	21.7%
Residential	-6.4%	-4.9%	-3.3%	-1.7%	0.0%
Retail/Residential	-7.6%	-5.7%	-3.8%	-1.8%	0.3%

Source: AECgroup

Revenue

Based on market research and consultation with real estate agents and property developers, it is estimated that new two bedroom units in the Nowra CBD could achieve an average sale price of \$220,000.

The following table assesses the sensitivity of development viability if higher residential sale prices were achieved (assuming all other variables remain unchanged). In order for the viability of the example residential development to become positive, an average sale price of almost \$280,000 would need to be achieved, which is approximately 25% above the current market. For the example of mixed use retail/residential development, an average sale price greater than \$300,000 would need to be achieved, which is more than 30% above the current market.

Table 5.13: Sensitivity of Residential Unit Prices

Development	Average Sales Price (2 Bedroom Unit)				
	\$220,000	\$240,000	\$260,000	\$280,000	\$300,000
Residential	-6.4%	2.1%	10.6%	19.1%	27.7%
Retail/Residential	-7.6%	-1.5%	4.5%	10.6%	16.6%

Source: AECgroup

Based on market research and consultation with real estate agents and property developers, it is assumed that new office space in the Nowra CBD could achieve an average rental rate of \$320/sqm.

The following table assesses the sensitivity of development viability if higher office rental rates were achieved (assuming all other variables remain unchanged). In order for the viability of the example office development to become positive, an average rental rate of over \$330 would need to be achieved, which is approximately 5% above the current market average.

Table 5.14: Sensitivity of Office Rental Rates

Development	Average Rental Price (\$/sqm)				
	\$300	\$310	\$320	\$330	\$340
Office	4.6%	8.1%	11.5%	14.9%	18.5%

Source: AECgroup

Development Timeframes

Each example property development assumed a 12 month development timeframe including four months for the planning/approval process and eight months for development.

Reducing the time it takes to develop a project from purchasing the site to selling the finished property can significantly improve the viability of development by reducing holding costs. The following table assesses the impact of an extension in the time it takes to complete the planning for the project and gain approval (assuming all other variables remain unchanged).

If the timeframe for the example retail development increased from four to six months, the viability of the development would reduce from positive to marginal. A further increase to eight months would result in the viability of development become negative.

Due to the residential and retail/residential developments having negative returns, expanded timeframes have little impact and actually result in a less negative ROI (due to the loss being divided by a longer timeframe resulting in a less negative annual ROI).

Table 5.15: Sensitivity of Planning/Approval Timeframes

Development	Planning/Approval Timeframe (months)					
	3	4	5	6	7	8
Commercial Office	12.6%	11.5%	10.7%	9.9%	9.2%	8.7%
Retail	18.5%	17.0%	15.7%	14.5%	13.6%	12.7%
Residential	-7.0%	-6.4%	-5.9%	-5.5%	-5.1%	-4.8%
Retail/Residential	-8.3%	-7.6%	-7.0%	-6.5%	-6.1%	-5.7%

Source: AECgroup

Construction Costs

Increased construction costs will reduce the viability of development. However, consultation with local property developers indicates that it is not a key issue that is impacting development feasibility in the Nowra CBD. While the cost of property development has increased due to competition from mining, property developers indicate that they have good access to building and construction services in Wollongong.

Building Heights

The Master Plan proposes a 12m maximum height (4 storeys) for the fringe of the CBD with the potential for a 15m maximum height (5 storeys) in the central core to potentially increase the feasibility of the area.

The viability of development is not sensitive to the allowable building heights within the Nowra CBD. Increasing the maximum height of buildings within the Nowra CBD above 4 storeys does not improve the viability of development as higher development actually results in less viable development as increasing building heights results in higher construction costs (due to the required inclusion of lifts and higher building standards). These higher costs more than outweigh the increased revenue associated with the larger development.

Floor Space Ratios

The development scenarios outlined above were based on the building footprint that resulted in the most viable development. Increasing the building footprint (and FSR) on the site increases the total building floor space and therefore the revenue associated with the development. However, increasing the building footprint (and FSR) on the site reduces the space for at-grade parking, which results in higher construction costs for underground parking or costs associated with parking contributions.

The development scenarios assume the building footprint (and FSR) on the site that provides the optimal balance between potential revenues and costs. As such, increasing building footprints or FSRs in the Nowra CBD will not improve development viability.

Land Uses

The range of land uses supported in the Nowra CBD are not restricting the viability of development. The proposed B3 Commercial Core zone allows for the key land uses such as retail, office, shop top housing and seniors housing that have potential for the CBD. While the viability of development is negative, it is other issues that are primarily impacting the feasibility development with zoning amendments unlikely to have an impact.

5.4 Feasibility Issues

The results of the feasibility and sensitivity assessment outlined above highlights that the current economic viability of property development in the Nowra CBD is not very strong. The viability of retail development is only slightly positive, while commercial office development is negative and residential apartments have a significantly negative feasibility.

Based on the findings of the feasibility and sensitivity assessment combined with input from real estate agents, land holders and property developers during the consultation phase, the following key issues have been identified as impacting the viability of property development within the Nowra CBD.

- **Revenue:** Achievable revenue from property developments (including rents and sales prices) are the biggest issue impacting the viability of development in the Nowra CBD.
 - **Residential Apartment Values:** Achievable residential apartment sale prices are not high enough to facilitate development within the Nowra CBD. This reflects the current state of the wider residential market within Nowra where there is higher demand for detached housing relative to medium density units. The sensitivity analysis indicates that achievable unit prices would have to increase by over 20% to facilitate viable development.
 - **Office Rents:** Achievable office rents in the Nowra CBD are not high enough to facilitate viable development. The sensitivity analysis indicates that higher rents (5-10% above the current market averages) are required to make development viable. Government agencies represent a key opportunity for the Nowra CBD though the rents that they are willing to pay is capped in an attempt to reduce government expenditure. At the same time Government agencies have requirements on the environmental sustainability of new buildings that they can move into which can increase construction costs for developers.
- **Parking Costs:** Parking costs have a major impact on the viability of development in the Nowra CBD. In order to meet the requirements of the car parking code, developers will be required to provide underground car parking or pay a contribution to Council to fund the provision of parking within the CBD. Both these options are expensive and impact the feasibility of the developments. As highlighted in the sensitivity analysis, although parking costs represent a significant component of development costs, the reduction or removal of these costs will not necessarily result in the developments becoming viable projects. The sensitivity analysis indicates that reducing contributions by 50% could potentially facilitate viable office development and improve the attractiveness of retail development. However, due to the relatively low achievable residential unit prices, eliminating parking contributions is insufficient to facilitate viable residential development.
- **Fragmented Ownership:** While the feasibility assessment indicates that retail development in the Nowra CBD is viable, the lack of suitably sized lots is restricting development. There is fragmented ownership within the Nowra CBD with adjacent lots having different owners. Consultation with real estate agents and property developers has indicated that potential developments have been blocked as land holders of individual sites (necessary to create a large amalgamated site) have been unwilling to sell.
- **Planning/Approval Times:** The time it takes to undertake a property development (including planning, gaining approval, construction and leasing/selling) has an impact on the feasibility of development. The sensitivity analysis indicates that an increase in timeframe and associated holding costs can result in a development with a positive feasibility becoming negative.

Developers have identified conditions of consent set by Council and inconsistencies in the application of planning guidelines as slowing down the approval process and negatively impacting development. While this may not be true, it is important that Council has a clear policy framework in place for the Nowra CBD that provides more certainty to developers and Council's assessing staff. The absence of clear policy framework is inhibiting the development process. The finalisation of the Nowra CBD Urban Design Masterplan followed by the preparation of Development Control Plan(s)

for the Nowra CBD would provide clarity and guidance to both developers and Council's assessing staff on development parameters and would likely reduce planning and approval timeframes.

In addition, promoting improved education and communication with developers on application requirements could assist developers in reducing development timeframes.

- **Incentives of Reinvestment:** The development feasibility assessments outlined below have assumed the developments will occur on vacant land. The Nowra CBD is relatively well developed with the majority of sites having existing buildings on them including older houses and light industrial/commercial buildings. There is limited incentive for owners to knock down the existing buildings and redevelop as they can earn rent on the existing houses/buildings.

Despite the current economic climate negatively impacting the feasibility of development in the Nowra CBD, consultation with real estate agents, Council staff and developers indicate that there are several projects being planned for the Nowra CBD. The majority of these projects are being considered by long term land holders that have been involved in property development in Nowra for over 20 years. These developers have generally owned the land for a long period of time which has eliminated most holding hosts and are sometimes willing to accept a lower rate of return on the land. Some of these sites may also have significant car parking credits, which reduces the costs related to providing parking and improves the financial viability of the project.

6. Policy Options to Improve Viability of Development

Shoalhaven City Council has several options that it could consider to improve the viability of development within the Nowra CBD. These include policy tools that could potentially have a direct impact on the viability of development and those that can indirectly influence viability.

It is important to note that there are some components of the viability of development (such as construction costs, taxes and financing) that Council has no control over.

Direct Impact Options

These include policy tools that can directly improve the viability of development by increasing what can be developed as part of the development or reducing project costs.

- **Increasing Building Heights:** Increasing the allowable building heights within a commercial centre can sometimes improve the viability of development by allowing a developer to increase the size of the project (and potential revenue). Based on the sensitivity analysis conducted above, increasing the maximum height of buildings within the Nowra CBD above 4 storeys does not improve the viability of development. It actually results in less viable development as increasing building heights results in higher construction costs due to the required inclusion of lifts and building standards. These higher costs more than outweigh the increased revenue associated with the larger development.
- **Discount Parking Requirements/ Contributions:** Council could consider the implementation of a policy allowing the discounting of parking requirements and contributions. This could take different forms including:
 - **Discount Parking Requirements:** Parking requirements for new development in the Nowra CBD are outlined in the parking code. While current parking requirements are considered to be suitable, discounting could improve the viability of commercial property development. However, discounting parking requirements would need to be supported by town planning, traffic and engineering analysis to ensure that there would not be future adverse impacts (such as parking congestion) within the CBD.
 - **Discount Parking Contributions:** The sensitivity analysis indicated that discounting parking contributions by 50% could result in a potential development with a negative financial feasibility becoming positive. By discounting the required contributions, Council could potentially facilitate more development and at the same time increase the contributions received for parking requirements.
- **Leveraging Council Land:** Council is a major land holder within the Nowra CBD, which include several public car parks. Council could consider leveraging these sites to facilitate development within the CBD. Potential opportunities are investigated in the following chapter.
- **Reducing Development Assessment Times:** One of Council's roles is to assess development applications and determine whether they should be approved. This is an important function and Council has legislative requirements it must meet.

The development of a clear policy framework for the Nowra CBD including the finalisation of the Nowra CBD Urban Design Masterplan followed by the preparation of Development Control Plan(s) for the Nowra CBD would provide clarity and guidance to both developers and Council's assessing staff. Combined with improved education of developers on the approval process, a clear policy framework could streamline the approval process for developers, reduce planning timeframes and help facilitate development.

- **Delaying Contribution Payments:** As outlined in the sensitivity analysis, reducing the holding costs of developers can improve the viability of development. Council could consider allowing developers to pay development contributions once the finished product is sold rather than prior to construction commencing. This would reduce the upfront and holding costs to the developer.

The implementation of such a program would create some risks to Council in the event that a developer does not pay the outstanding fee. The program should mitigate risks to Council as much as possible. Any offer of delayed payments should be provided on the basis of a legally binding contract that stipulates specific milestones for the development and payments. Contracts should include provisions for retribution if milestones are not met but also provide flexibility to account for and allow for circumstances outside the control of the proponent.

Indirect Impacts

The rents and sales prices that can be achieved by a new development are a crucial component to the viability of the project. Rents and sales prices are determined by the market with increased demand generally resulting in higher prices. While Council cannot directly impact the property market, there are tools to increase the demand for property in the Nowra CBD, which will indirectly place upward pressure on prices and improve the viability of development. These include:

- **Placemaking:** Placemaking revolves around creating meaningful and connected places that reflect the needs of the people who inhabit them and the customers that visit them and seeks to build vibrant, active places, and provide access and wellbeing for all. Placemaking can influence the property market by making a destination more attractive to residents and visitors. This can impact the retail sector as potential consumers generally spend more time in and around the retail centres (whether or not shopping was their reasoning for going to the place) and thus generate greater expenditure. The utilisation of placemaking in and around retail centres creates more reasons for people to spend time and for a longer duration at these places– whether it be due to the incorporation of civic uses, public art, playgrounds or simply cosmetic alterations have made it more aesthetically pleasing. Placemaking can add value to the retail sector by:
 - Building partnerships and community support;
 - Creating compelling destinations of choice;
 - Bringing more people on the streets;
 - Attracting people to stay longer and spend more;
 - Reducing retail leakage;
 - Enhancing market positioning;
 - Making successful businesses and happy traders;
 - Creating more liveable environments; and
 - Creating pride.

Moreton Bay City Council, located north of Brisbane, has undertaken a rejuvenation of the Redcliffe Seaside Village including widening boulevard-style footpaths, creating viewing decks, landscaping and recreational facilities. The project aimed to increase visitation and activity in the village centre in order to benefit local businesses and promote investment. A multi storey mixed use development was recently completed in the Redcliffe Seaside Village including 184 apartments, pub, office space, retail space and recreation facilities.

- **Business Development:** Council can influence the demand for retail and commercial floor space by actively undertaking business development and investment attraction activities. Attracting new businesses to the CBD can reduce the vacancy rates of existing floor space, which can increase competition and facilitate new development.

Albury has been successful in attracting government agencies and commercial businesses to the City, which has facilitated the recent development of several commercial office developments.

- **Marketing:** Successful marketing of a region can attract new residents which can increase demand for housing. By promoting the advantages of living in Nowra, Council can help boost the property market and improve the viability of property development.

The Evocities project is an example of a marketing campaign involving seven regional cities in regional NSW including Albury, Armidale, Bathurst, Dubbo, Orange, Tamworth and Wagga Wagga. The main objective of the campaign is to encourage capital city residents to relocate to an Evocity. The campaign has highlighted the lifestyle, affordability, employment and education benefits of relocating to a regional city and has successfully attracted new residents.

- **Events:** Community events have the potential to increase visitation and activity within the Nowra CBD which can result in greater expenditure for local retailers and businesses. The improved performance of local businesses can result in greater competition and higher achievable rents. Council currently collects a Promotional Rate Levy for the promotion of the Nowra CBD, which is forecast to be approximately \$158,000 in 2012-13. The Nowra CBD Promotions Committee has undertaken many events and promotional activities aimed to increase business in the Nowra CBD.

7. Alternative Infrastructure Funding Mechanisms

The development feasibility and sensitivity analysis indicates that reducing parking contributions by 50% could potentially result in a property development with a negative financial feasibility becoming positive. As such, by reducing required contributions, Council could potentially facilitate more development in the Nowra CBD.

The Nowra CBD car parking contributions program has been relatively unsuccessful having collected only a fraction of the funding required to construct a multi-storey car park in the Nowra CBD. However, the reduction in potential revenue from development contributions would require Council to fund the development of additional parking and infrastructure in the CBD using alternative mechanisms. Alternative funding mechanisms that Council could consider to facilitate the development of parking and infrastructure in the Nowra CBD include:

- **Paid Parking:** Shoalhaven Council currently does not charge for parking in the CBD in either Council car parks or on the street. While a number of towns in Regional NSW charge for short term street parking in the heart of the CBD, only a few have paid day parking. Orange Council charges \$2 a day for workers to park in the CBD car park. Poor demand saw the daily fee reduced from \$5 a day, which resulted in considerably higher take-up and increased total revenue for Council. Orange is a larger centre than Nowra, indicating that Shoalhaven City Council would have difficulty charging more than \$2 a day. Wollongong City Council charges \$195 per month for a space in CBD car parks, with strong demand resulting in long waiting lists. However, Wollongong is a major CBD with considerably different market dynamics than experienced by Nowra.

Council could consider taking out a loan to fund the construction of a decked car park in Worrigee Street. Council could charge workers a daily, weekly or monthly fee to park in the car park with the revenue used to service and repay the loan taken out by Council.

Based on the findings of the *Multi Storey Car Park Study*, a three storey car park with 523 car spaces and without cladding could be developed for \$8.49 million including GST. Assuming Council used the \$463,000 from the car parking fund, a loan of \$8.03 million would be required to meet the shortfall. Assuming an interest rate of 6.5% and a repayment period of 30 years, Council would have a monthly repayment of \$50,750 to pay off the loan. This would require every car space to be leased for a monthly fee of \$97 or approximately \$5 per weekday. With parking in the Nowra CBD currently free, it is very unlikely that Council would be able to lease all car spaces at this rate.

- **Special Rate Variation:** Council could consider applying for a special rate variation to fund infrastructure development within the Nowra CBD. A special rate variation allows councils to increase general income above the rate peg, under the provisions of the Local Government Act 1993 (NSW), section 508A. This involves a % increase over the existing rate structure for up to seven years. Funding the development of essential community infrastructure is a key reason for implementing a special rate variation.

The Independent Pricing and Regulatory Tribunal (IPART) is responsible for assessing applications for special rate variations against a comprehensive assessment criteria that includes demonstrated need, community support, impacts on rate payers, sustainability and productivity.

Numerous Councils in NSW have successfully applied for special rate variations in 2012-13 to fund infrastructure programs including Coffs Harbour, Port Macquarie and Kempsey Shire. Special rates included increases between 2-13% above the rate peg of 3.6%.

The Shoalhaven City Council Delivery Program and Operational Plan budgeted revenue of \$60 million in 2011-12 from rates and annual charges. As an example, if Council were to achieve a special rate of 3% above the peg, this would equate to an additional \$1.8 million in revenue. Based on a special rate of 3%, it would take 4.5

years to raise the \$8.03 million to meet the shortfall in construction for the multi-storey car park.

The implementation of a special rate shifts the financial cost of funding infrastructure development from property developers to existing rate payers. As outlined in the feasibility assessment, a reduction in parking contributions by 50% could improve the viability of development within the CBD. The implementation of a special rate has the potential to raise significant funds for Council (and at the same time reduce development contributions) that could be used to fund the development of a multi-storey car park and other infrastructure programs.

- **Section 94A:** The development and adoption of a Section 94A Development Contribution Plan would allow Council to apply a fixed levy on development as a % of construction costs rather than Section 94 fee which is a payment for each infrastructure project. Other councils in NSW such as Wollongong have adopted this approach. The advantages of this framework are:
 - More simplistic and transparent approach rather than developers trying to haggle on why they have to pay these contributions.
 - Application across all development which could potentially increase Council's revenue from development contributions.
 - It increases certainty on the benefits arising from the contribution with the S94A Development Contribution Plan outlining the facilities that will be funded by the development contributions.

The introduction of a S94A Development Contributions Plan would require an investment of significant resources to identify and allocate previous contributions and develop an appropriate and equitable plan.

The assumed office development outlined in the feasibility assessment included a three storey building with 803 sqm of office floorspace. The assumed development scenario included 13 car spaces provided at grade on the site with parking contributions paid for 7.1 spaces (equating to \$167,470). The feasibility and sensitivity assessment identified that a reduction in parking contributions of 50% would be needed to make the development financially viable.

The assumed office development scenario had a construction cost of approximately \$1.8 million. If Council was to impose a development contribution (excluding water and sewerage) equating to 1% of construction costs, the assumed development would attract a development contribution of \$18,000. This is approximately 10% of the development contributions that would currently be charged for the development. The assumed development would currently attract commercial contributions of approximately \$3,000 indicating that approximately \$15,000 of the potential Section 94A contribution could be allocated to parking.

The assumed residential development outlined in the feasibility assessment included a three storey building with 12 units and has an estimated construction cost of \$1.9 million. If Council was to impose a development contribution (excluding water and sewerage) equating to 1% of construction costs, the assumed development would attract a development contribution of \$19,000. The assumed development would currently attract residential contributions (excluding water and sewerage) of approximately \$28,900 indicating that a potential Section 94A contribution would be lower than current charges and may create some shortfalls in funding.

The more simplified and transparent approach associated with Section 94A contributions would be expected to be attractive to developers and help facilitate development (and achieve development contributions for Council). As previously identified, the Nowra CBD car parking contributions program has been relatively unsuccessful in achieving its desired outcome and the Section 94A approach could increase Council revenue to fund a multi-storey car park and other infrastructure programs.

Removing parking contributions would create a strong incentive for developers to minimise the number of car spaces they are required to provide as part of the development. As previously outlined, a reduction in the number of required car spaces can allow developers to provide car spaces at-grade and avoid the costly

option associated with developing underground parking. However, reducing parking requirements would need to be supported by town planning, traffic and engineering analysis to ensure that there would not be future adverse impacts (such as parking congestion) within the CBD.

- **Council Funding:** Funding for the construction of a multi-storey car park in the Nowra CBD is currently not included in Council's Long Term Financial Plan. The current balance of the car parking fund is currently approximately \$463,000 and Council would need to allocate over \$8 million to the project. Council could consider allocating funding to the development of the multi-storey car park though it would require cost benefit analysis to determine if the total community and economic benefits justify the cost of construction.

Funding infrastructure development through Council expenditure has the advantage of shifting the burden from property developers to Council, which would potentially improve the viability of property development within the CBD. However, it places a considerable financial burden on Council and all the ratepayers of the Shoalhaven local government area.

- **State Government Funding:** Council could look to source State or Commonwealth Government funding for the development of infrastructure within the Nowra CBD including a multi-deck car park. The State Government has recently committed funding to develop numerous car parks throughout NSW though the majority of these projects have been linked to providing parking in proximity to hospitals and transport interchanges.

Funding infrastructure development through government funding has the advantage of reducing the burden on new property development, which would potentially improve the viability of property development within the CBD. It also reduces the financial burden on Council. However, the availability of government grants and funding has reduced in recent years with governments looking to curb spending and balance budgets.

- **Partnership Funding:** Council could consider investigating a partnership approach involving State/Commonwealth Government funding combined with Council providing the land and some funding. This approach may be attractive with a several recent grant programs treating applications with partnership funding more favourably. While a full user pay system is unlikely to fund the full development cost of the project, it could be combined with government funding to subsidise costs.
- **Shoalhaven Water:** Shoalhaven Water is part of Shoalhaven City Council and manages the collection, treatment and distribution of water in the LGA. Shoalhaven Water charges contributions for new developments to cover the development of future water and sewerage infrastructure. Shoalhaven Water's Strategic Business Plan 2011-2012 outlines the financial plan for the next 20 years, which includes significant operating profits. Council could consider leveraging the financial position of Shoalhaven Water and reduce the contributions payable by residential unit development in the Nowra CBD to improve viability.

The assumed residential development outlined in the feasibility assessment included a three storey building with 12 residential units (including a mix of one and two bedroom units). Water supply and sewerage contributions for the assumed development would equate to \$98,452. If Shoalhaven Water were to waive these contributions for the development, the development would still have a significantly negative viability of -3.2%. However, while the waiving of water and sewerage contributions is not expected to make development viable in the current property market, it is possible that concessions could have an impact in the future.

8. Recommendations

8.1 Key Findings

The analysis of the financial viability of property development in the Nowra CBD and development contributions resulted in the following key findings:

- The Nowra CBD car parking contributions program has been relatively unsuccessful having collected only a fraction of the funding required to construct a multi-storey car park in the Nowra CBD. It appears as if a combination of factors (including limited recent development having occurred in the Nowra CBD and successfully completed developments not being required to pay parking contributions due to parking credits) having resulted in the program not achieving its desired outcome.
- The benchmark assessment of development contributions found that contributions charged for development in the Nowra CBD are generally in line with similar areas in NSW. Development contributions for residential and commercial developments (excluding water and sewerage) in the Nowra CBD are towards the lower end of the comparative site while parking contributions are towards the upper end.
- The feasibility assessment highlighted that the current economic viability of property development in the Nowra CBD is not very strong. The viability of retail development is only slightly positive, while commercial office development is negative and residential apartments have a significantly negative feasibility. The key issues impacting development viability are:
 - Residential Apartment Values: Achievable residential apartment sale prices are not high enough to facilitate development within the Nowra CBD. The sensitivity analysis indicates that achievable unit prices would have to increase by over 20% to facilitate viable development.
 - Office Rents: Achievable office rents in the Nowra CBD are not high enough to facilitate viable development. The sensitivity analysis indicates that higher rents (5-10% above the current market averages) are required to make development viable.
 - Parking Costs: In order to meet the requirements of the car parking code, developers are often required to provide underground car parking or pay a contribution to Council to fund the provision of parking within the CBD. Both these options are expensive and impact the feasibility of the developments. The sensitivity analysis indicates that reducing contributions by 50% could potentially facilitate viable office development and improve the attractiveness of retail development. However, due to the relatively low achievable residential unit prices, eliminating parking contributions is insufficient to facilitate viable residential development.
- The feasibility assessment and sensitivity analysis found that zonings, land uses and building heights are not the key issues impacting the viability of development. There is sufficient flexibility in these planning controls with the property market, parking and contributions having the most significant impact.
- Despite the relatively poor economic viability of property development in the Nowra CBD, consultation with real estate agents and developers indicates that there is some planning and construction activity currently in progress. This can be explained by a number of factors including that the majority of projects are being considered by long term local landholders. These developers have generally owned the land for a long period of time which has eliminated most holding costs and are sometimes willing to accept a lower rate of return on the land. Some of these sites may also have significant car parking credits, which would reduce the costs related to providing parking and improves the financial viability of the project.

8.2 Recommendations

There is no 'silver bullet' that will allow Council to solve the problem of low development viability in the CBD and at the same time provide a sustainable agenda to fund future parking and infrastructure developments. It is recommended that Council consider the following approaches in order to improve the viability of property development and fund infrastructure development. The following recommendations focus on the Nowra CBD and should be considered in the wider context of Shoalhaven City Council's strategic and planning direction and financial position.

- **Discount Parking Requirements/ Contributions:** It is recommended that Council consider the implementation of a policy allowing the discounting of parking requirements and contributions. The policy would need to be transparent and clearly outline circumstances that would justify discounts to be granted. The recommendation is considered to be a preferred approach to implementing a Section 94A plan (as discussed below).

While current parking requirements are considered to be suitable, the provision of a discount mechanism for the parking requirements for new development in the CBD would improve the viability of commercial property development. However, discounting parking requirements would need to be supported by town planning, traffic and engineering analysis to ensure that there would not be future adverse impacts (such as parking congestion) within the CBD.

The Nowra CBD car parking contributions program has been relatively unsuccessful having collected only a fraction of the funding required to construct a multi-storey car park in the Nowra CBD. Providing discounts to developers would have the benefit of improving development feasibility as supported by the sensitivity analysis that found reducing parking contributions by 50% would improve the viability of commercial development. However, discounting contribution rates may place pressure on Council to fund the development of future parking through alternative means (discussed below).

- **Special Rate Variation:** It is recommended that Council consider applying for a special rate variation to fund the development of essential community infrastructure. Funding for the construction of a multi-storey car park in the Nowra CBD is currently not included in Council's Long Term Financial Plan with the Nowra CBD Master Plan also likely to result in additional infrastructure projects that need to be funded. The implementation of a special rate has the potential to raise significant funds for Council (and at the same time reduce development contributions) that could be used to fund the development of a multi-storey car park and other infrastructure programs. A special rate has the additional benefit of being equitable with all CBD landholders contributing.

Numerous Councils in NSW have successfully applied for special rate variations in 2012-13 to fund infrastructure programs including Coffs Harbour, Port Macquarie and Kempsey Shire. As an example, if Council were to achieve a special rate of 3% above the peg, this would equate to additional revenue of approximately \$1.8 million.

- **Section 94A:** It is recommended that Council consider implementing a Section 94A Development Contribution Plan as an alternative to the existing contributions scheme. A Section 94A plan incorporating a contribution equating to 1% of construction costs has benefits including being a more simplified and transparent approach, which would be expected to be attractive to developers and help facilitate development. The implementation of a Section 94A development contribution would reduce the total required contributions associated with commercial developments by reducing parking contributions. As outlined in the sensitivity analysis, reducing parking contributions by 50% would help facilitate commercial development in the Nowra CBD.

However, the introduction of a Section 94A Development Contributions Plan would require an investment of significant resources to identify and allocate previous contributions and develop an appropriate and equitable plan. The implementation of a Section 94A plan would also remove the ability of Council to charge for parking contributions, which would reduce funding potential. As such, the existing Section 94 approach incorporating potential discounts for parking requirements/ contributions is considered to be the preferred approach.

- **Leveraging Council Owned Sites:** It is recommended that Council continue to retain an open mind to leveraging its land holdings in the Nowra CBD to facilitate development. While site specific feasibility assessments indicated that some sites have a negative land value (due to the need to replace car parking) there is potential for alternative developments to become viable in the future. Retaining an open mind to the future land holdings will have the added benefits of improving the perception of Council in the development and business community and Nowra as an investment destination.

There are opportunities to leverage Council's sites and potentially partner with organisations such as the Defence Housing Australia and the University of Wollongong to develop medium density residential accommodation within the CBD. While the feasibility assessment highlighted the negative commercial viability of medium density residential development, the investment decisions of governments and universities are not driven solely by commercial returns. Governments and universities often place a stronger emphasis on social factors, which could help facilitate projects that would not be attractive to the private sector. It is recommended that Council continue to maintain strong relationships with these organisations and consider opportunities for partnerships such as providing land at a discounted price.

- **Government Funding for Infrastructure:** It is recommended that Council explore opportunities for Council and State Government funding for the development of infrastructure in the Nowra CBD including a multi-storey car park. A partnership approach involving State Government funding combined with Council providing the land and some funding may be attractive with a several recent grant programs treating applications with partnership funding more favourably. While a full user pay system is unlikely to fund the full development cost of the project, it could be combined with government funding to subsidise costs.
- **Clear Policy Framework:** It is recommended that Council develop a clear policy framework for the Nowra CBD including the finalisation of the Nowra CBD Urban Design Masterplan followed by the preparation of Development Control Plan(s) for the Nowra CBD. This would provide clarity and guidance to both developers and Council's assessing staff regarding development parameters. It is recommended that Council planning staff continue to engage with property developers to improve communication and understanding of issues by both parties with the aim of reducing planning and approval timeframes.

In addition to the direct actions outlined above, it is recommended that Council continues to promote increased economic activity in the Nowra CBD. The rents and sale prices that can be achieved by a new development are a crucial component to the viability of the project. It is recommended that Council focus on the following actions to increase economic activity and the demand for property in the Nowra CBD.

- **Promote Nowra CBD as Regional Centre:** It is recommended that Council continues to promote the Nowra CBD as the commercial, retail and administrative centre of the South Coast region. There has been a leakage from the CBD due to development in other areas such as Shellharbour and South Nowra.
- **Placemaking:** It is recommended that Council undertake placemaking activities to improve the amenity of the CBD for residents and visitors. The utilisation of placemaking within the Nowra CBD has the potential to create more reasons for people to spend more time in the CBD due to the incorporation of civic uses, public art, playgrounds or cosmetic alterations. The rejuvenation of the Redcliffe Seaside Village north of Brisbane included widening boulevard-style footpaths, creating viewing decks, landscaping and recreational facilities. The project aimed to increase visitation and activity in the village centre in order to benefit local businesses and promote investment. A multi storey mixed use development was recently completed in the Redcliffe Seaside Village including 184 apartments, pub, office space, retail space and recreation facilities.

Placemaking does not necessarily require major capital investment though it is likely to require some funding. This could potentially include utilising revenue from the CBD levy and Council services.

- **Business Development:** It is recommended that Council undertake business development and investment attraction activities to promote business investment in the Nowra CBD. Attracting new businesses to the CBD can reduce the vacancy rates of existing floor space, which can increase competition and facilitate new development. These include working with potential partners such as Defence Housing Australia and the University of Wollongong to develop medium density residential accommodation within the CBD.

It is also recommended that Council provide assistance to local retailers and businesses to facilitate growth and development. A strong business community will flow through to higher demand, rents and improved development viability.

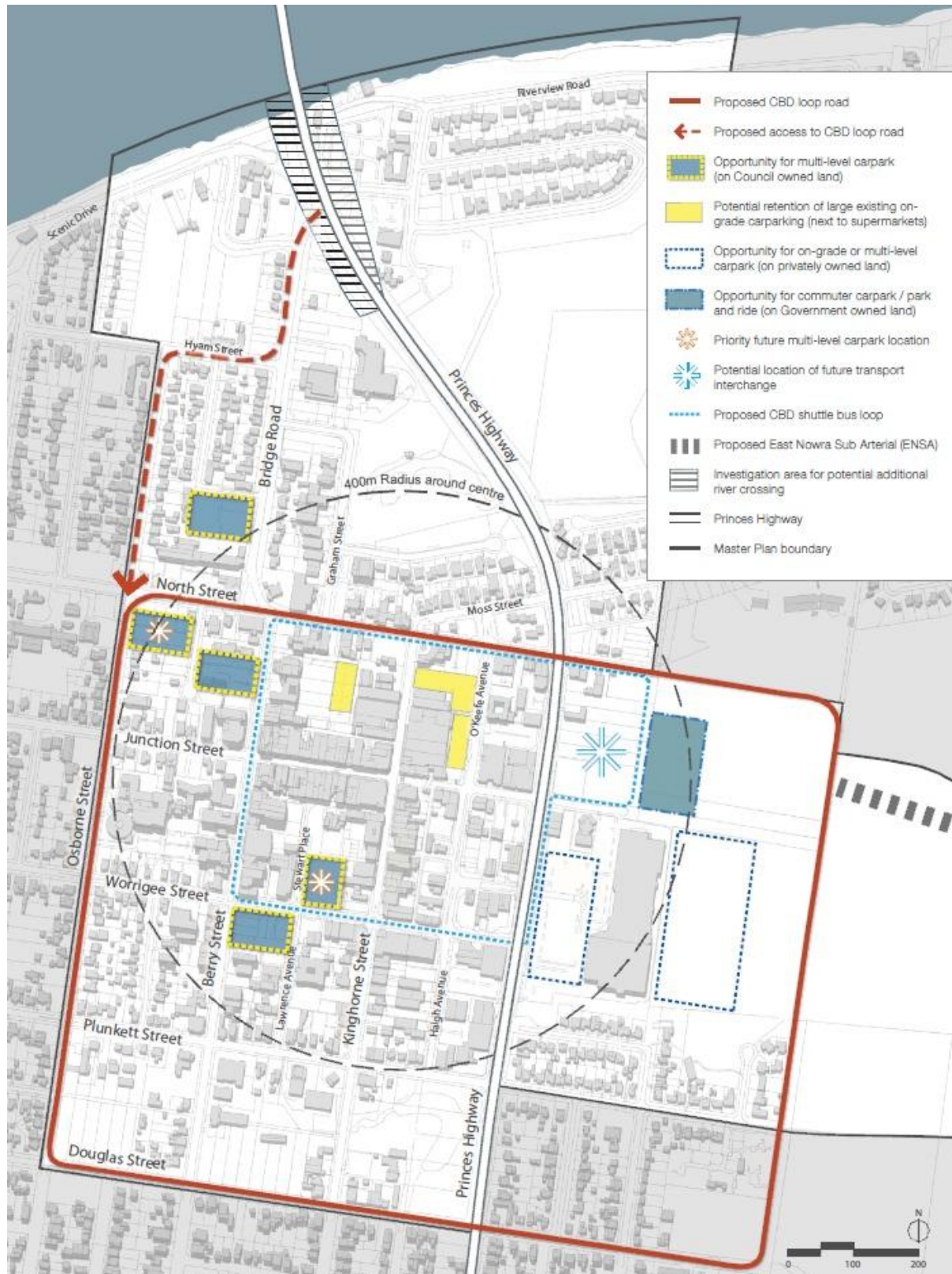
- **Marketing:** Successful marketing of a region can attract new residents which can increase demand for housing. By promoting the advantages of living in Nowra, Council can help boost the property market. The Evocities project is an example of a marketing campaign involving seven regional cities in regional NSW that has attracted new residents from the capital cities.
- **Events:** It is recommended that Council continue to collect the Promotional Rate Levy for the promotion of the Nowra CBD. The Nowra CBD Promotions Committee has undertaken many events and promotional activities aimed to increase business in the Nowra CBD. Ballarat is an example of a city that has boosted visitation and business activity through a successful events strategy.

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Appendix A: Nowra CBD Master Plan

Figure A.1: Nowra CBD Car Parking



Source: Shoalhaven City Council (2011)



Economics, Planning & Development
Business Strategy & Finance
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Design, Marketing & Advertising
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