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# Assessment of development opportunities and constraints - Doncaster Hill Precinct

PREPARED FOR MANNINGHAM CITY COUNCIL

February 2004

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Implications for development applications

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## Executive Summary

1. The Doncaster Hill precinct has not proceeded as planned because of several key factors including:
  - The Australian and Melbourne property cycle;
  - Reduced demand for property investment;
  - A competitive supply of lower priced medium density housing;
  - A lack of confidence in the Doncaster Hill precinct by potential residents and developers;
  - Uncertainty in relation to the expansion of Westfield Shoppingtown; and
  - Increased construction costs and a perceived sale price risk.
2. Proposals for stand alone motor vehicle dealerships in the heart of Doncaster Hill put the vision for the precinct at risk.
3. The Audi proposal is not consistent with the Doncaster Hill vision. A mixed-use development on the subject site has a good prospect of being feasible given that the land component is fully funded by the motor vehicle sales development.
4. Significant underlying demand for the type of high-density dwellings proposed in Doncaster Hill remains. This demand will grow as the population continues to age and the price of detached homes in the municipality begins to exceed the cost of building high quality apartments.
5. There is strong capacity by more wealthy home owners in suburbs such as Doncaster East, Templestowe, Donvale and Warrandyte to purchase premium apartments in the \$450,000 to \$550,000 price range in coming years. Property prices in the upper quartile of these suburbs ranged between \$532,000 and \$762,000 in the December Quarter of 2003.
6. MacroPlan expects the private sector to move forward with significant residential development in Doncaster Hill in the next 3 to 5 years if a consistent policy mix supporting development is pursued. The development will be enhanced by:
  - A favourable economic cycle;
  - Pent up demand and ageing of the population;
  - Improved precinct credibility;
  - Exhaustion of less expensive smaller scale developments;
  - The impact of increased land values in the Metropolitan Growth Boundary; and
  - The expansion of Westfield Shoppingtown.

7. Amendment C33 provides the City of Manningham with the policy mix designed to achieve the vision of Doncaster Hill. However council could consider additional policy actions that will promote the realisation of the vision such as potential joint ventures, investment in the Doncaster Hill corridor, the use of branded hoardings, and stronger marketing to builders and developers.
8. Council should give the marketplace unequivocal signals that it will pursue the vision as promoted in line with Amendment C33. Future planning decisions within the precinct need to be consistent with the wider vision for Doncaster Hill.
9. Council should be aware that the approval of medium and smaller scale high-density development just outside the Doncaster Hill precinct, may dampen demand for high-density living in the precinct in the short term.
10. However, the product that will be offered by developers on Doncaster Hill in the medium and longer term will be unique and demand for this type of living will not be influenced by planning approval of smaller scale high density development outside the precinct.
11. The type of development in the Doncaster Hill precinct will dramatically impact on the demographic of future residents in Manningham. Achievement of the vision for Doncaster Hill will encourage more high income / asset rich baby boomers into the municipality. This will have extremely positive impacts on the viability of retailing and other businesses and the economic development of the area. Land values will be bolstered and council will be in a stronger position to fund services for the wider community from the impact on rate revenue.

# 1 Introduction

The Doncaster Hill precinct is a location of strategic importance for Melbourne's east, the City of Manningham and the residents of the municipality. To realise the vision that council and residents have created for Doncaster Hill, the precinct needs to reach its potential as a critical community asset.

Anything less than best use of Doncaster Hill as a prime community asset will have long term impacts on the image of Doncaster and the City of Manningham as a place to work, recreate and live.

The Doncaster Hill Strategy represents the culmination of years of work by Manningham City Council. The strategy has been developed to suit the needs of residents but it is consistent with the metropolitan planning strategy, *Melbourne 2030*.

This report by Macroplan Australia will update Council on opportunities and constraints relevant to the achievement of the Doncaster Hill Strategy with the following key vision-

*...create a 'state of the art', contemporary, sustainable, high density mixed use village that enhances the social, environmental, economic and cultural elements of the region.*

The report also complements Manningham's Economic Development Strategy completed by MacroPlan Australia previously and the Doncaster Hill Strategy.

MacroPlan Australia was engaged by Manningham City Council to produce an analysis of the demand and supply for medium and high-density accommodation in May 2001. That work concluded that the precinct could accommodate an additional 340,000m<sup>2</sup> of residential floorspace or approximately 4,100 apartments.

The property cycle has moved on since May 2001 and developers are now questioning whether there is enough demand in Doncaster Hill to make quality high-density living feasible.

This report considers the impact of recent information on building cost increases and new demographic data. It provides advice to Council on whether it should maintain its strategy of achieving the Doncaster Hill vision, or allow interim use of sites for activity that may not be consistent with the core direction of the vision.

## 2 The Property Market

### 2.1 The Manningham Market

Building approvals in Manningham continued to be healthy in 2003 but have so far not matched the levels of 2002. Activity focuses on residential building where more than \$154 million of residential and domestic building approvals were granted in the municipality of Manningham over the year to November 2003. While the level of building approvals in 2003 is down on levels in 2002, it is still above levels in 2001.

The chart below shows the recent trends in building approvals in Manningham.

**Figure 1. Trends in Building Approvals in Manningham**



Source: Building Activity Profile – Building Commission Victoria and MacroPlan Australia

Building approvals in Manningham peaked in 2002. The strong growth in that year is consistent with growth across Victoria, where approvals also hit record levels. However the decline in approvals in Manningham over the year to November 2003 compared to the same period in 2002, has been sharper than in the rest of Victoria.

Building activity levels in Manningham in the future will be driven by population growth, incomes and interest rates and a range of other factors that are discussed in part 2 and part 6 of the report.

## 2.2 The Melbourne and Victorian Property Cycle

### 2.2.1 House prices

Prices in Melbourne are now moderating with recent house prices for the December quarter indicating that many inner city suburbs and some middle and outer suburbs are experiencing price declines.

The biggest declines were in inner city suburbs such as Fitzroy, South Melbourne and Williamstown however there was also weakening in prices in suburbs within the City of Manningham.

Doncaster experienced a decline in price of 6.8 per cent in the December quarter with the average price for a house falling to \$408,000 compared to \$438,000 in the September quarter. Donvale also experienced a decline in prices of 4.8 per cent in the December quarter taking the average house price from \$533,580 to \$508,000.

**Table 1. House Prices in Manningham**

<b>Suburb</b>	<b>Dec 03 Median</b>	<b>Dec 03 Upper Quartile</b>	<b>Sep 03 Median</b>	<b>Dec 02 Median</b>	<b>Quarterly Growth %</b>	<b>Annual Growth %</b>
<b>Doncaster</b>	\$408,000	\$437,000	\$438,000	\$370,000	-6.8	10.3
<b>Doncaster East</b>	\$430,000	\$531,505	\$422,250	\$365,000	1.8	17.8
<b>Donvale</b>	\$508,000	\$651,500	\$533,580	\$412,500	-4.8	23.2
<b>Templestowe</b>	\$591,000	\$762,500	\$560,000	\$440,000	5.5	34.3
<b>Templestowe Lower</b>	\$430,000	\$490,000	\$415,000	\$373,500	3.6	15.1
<b>Park Orchards</b>	\$612,500	\$713,750	\$550,000	\$550,000	11.4	11.4
<b>Warrandyte</b>	\$544,000	\$745,000	\$630,000	\$367,750	-13.7	47.9

Source: Real Estate Institute of Victoria and MacroPlan Australia

The upper quartile prices represent a good indication of the purchasing power of wealthy home owners in Manningham. Owners of properties in the upper quartile of Donvale, Templestowe, Park Orchards and Warrandyte, could comfortably afford to move into premium apartments in Doncaster Hill.

The table below provides further details of house prices in Melbourne and other capital cities over time. It shows that Melbourne homes had the highest price increases in real terms over the last five years of any capital city to March 2002. As a consequence, Melbourne faces an elevated risk of cyclical price reductions in the future.

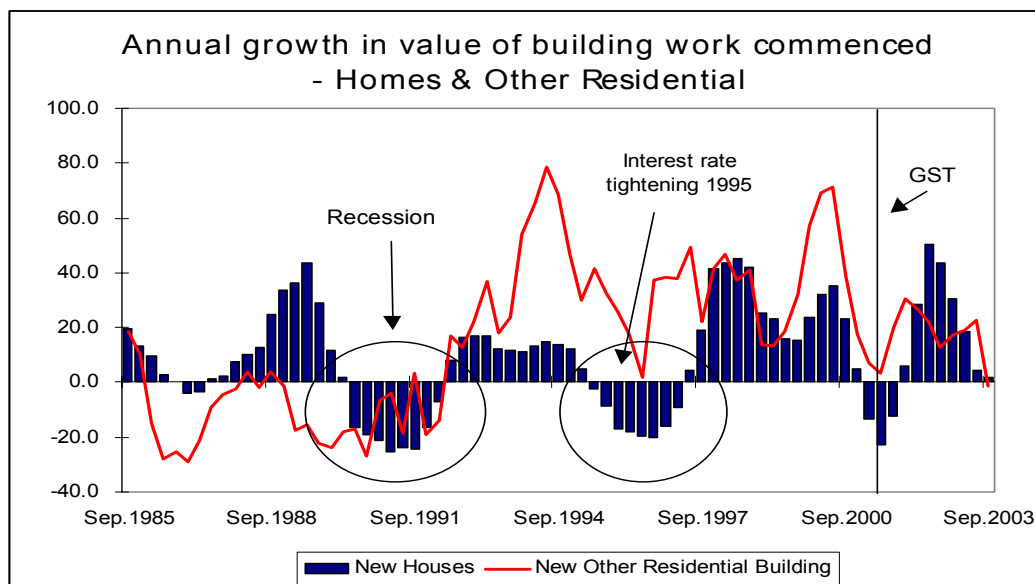
**Table 2. House price changes over five years**

	Nominal		Real	
	Five years leading to:		Five years leading to:	
	Mar-89	Mar-02	Mar-89	Mar-02
Sydney	101.4	143.7	77.0	106.7
Melbourne	60.2	150.5	40.8	112.4
Brisbane	46.2	121.8	28.5	88.2
Adelaide	18.2	98.8	3.9	68.6
Canberra	25.4	98.5	10.2	68.3
Perth	89.9	65.2	66.8	40.1
Hobart	na	63.6	na	38.8
Darwin	na	28.0	na	8.5
Australia	73.6	128.2	52.6	93.6

Source: Real Estate Institute of Australia as displayed in the *Submission to the Productivity Commission Inquiry on First Home Ownership – Reserve Bank of Australia*

## 2.2.2 Interest rates and demand

**Figure 2. Impact of interest rates and other factors on residential construction**



Source: ABS and MacroPlan Australia

Interest rate rises will dampen prices and turnover in 2004 as vendors fail to obtain their target price and purchasers continue to lose confidence in future price gains.

While interest rates are not high relative to inflation, it needs to be remembered that investors and owner-occupiers have bigger mortgages than they did in the last two cycles of interest rate tightening in 1989 and 1995.

Interest rates are expected to increase by a further 0.5 per cent in 2004. This will put further strain on the budgets of investors and owner-occupiers.

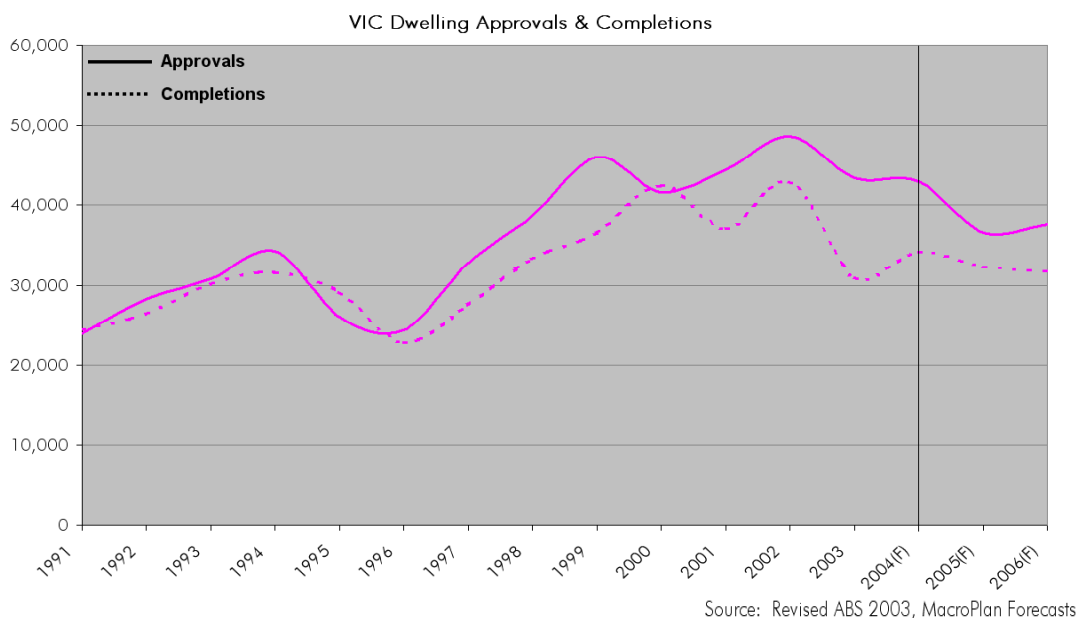
Interest rate rises will make those who are considering purchasing an investment property and renting it out more cautious due to the low rates of rental return. Low rates of rental return were tolerated between 1999 and 2003 due to significant capital gains, however as capital gains become more modest, investors will look to other assets such as shares.

### 2.2.3 Where in the cycle are we?

Analysis of construction activity over time shows that there are surges in demand for construction every three to five years. The stages of Melbourne’s property cycle are depicted below. The level of success for Doncaster Hill and the mixed residential, retail and office developments that are aspired to, will depend not only on the timing of building approval and construction start, but on the demand profile.

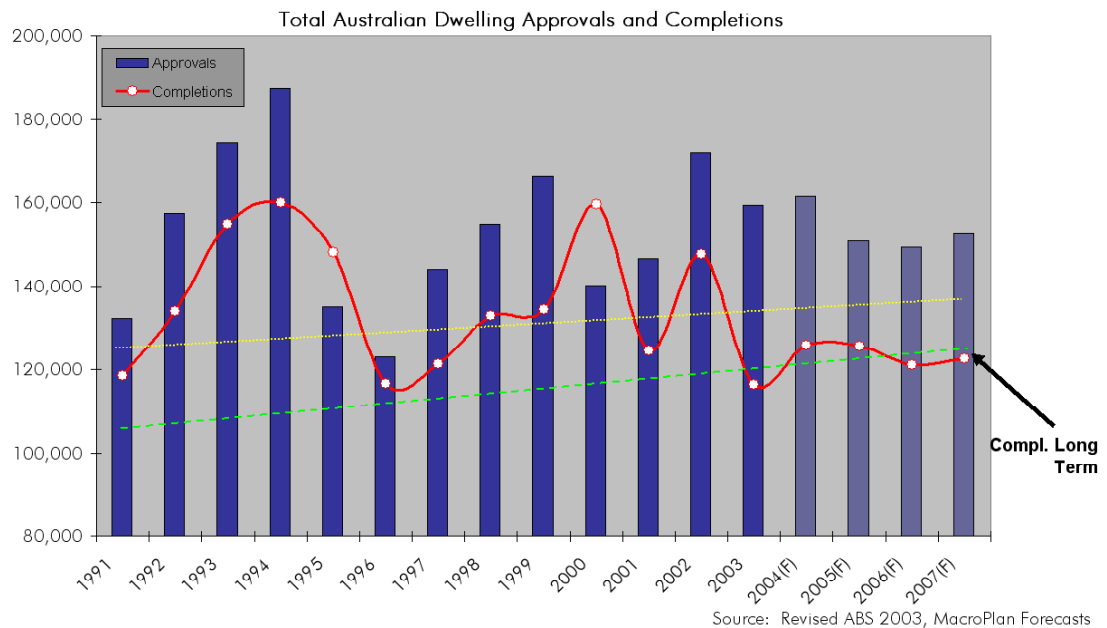
The chart below shows the ebbs and flows of dwelling approvals in Victoria.

**Figure 3. The Victorian Property Cycle – Dwelling Approvals and Completions**



The chart above shows that residential building work commencements weakened in 2003 in real terms. With the current interest rate climate, they are expected to weaken further in 2004, and remained subdued in 2005. Recovery is expected to begin after 2005, if employment and incomes continue to grow and Victoria's population growth remains healthy. The expectations of MacroPlan are consistent with those of other market economists including ANZ.

**Figure 4. Trends in Australian Dwelling Approvals and Completions**



The figure above depicts trends in the gap between building approvals and completions. It shows the level of completions flattening in 2004 and 2005. This will reduce the gap between demand and supply.

The important factor will be the supply of properties and the demand for those properties at the time they are completed. Dwelling construction is likely to begin to be met with more healthy levels of demand from 2006 onwards. As a consequence, sales of major residential developments in 2004 will remain weak as buyers reassess their investment decisions.

The demand and supply equation in Manningham is discussed in part 6 of this report.

### 3 The Doncaster Hill Precinct

Amendment C33 to the Manningham Planning Scheme is part of a package of amendments that will provide a statutory framework allowing the strategic framework for the Doncaster Hill strategy to be realised.

The two key themes within Amendment C33 are urban and built form and ecologically sustainable development. The urban and built form guidelines will encourage high density mixed use development, reducing pressure for development in more sensitive, low density areas.

Figure 5. View of the Precincts



### 3.1 The sites and key precincts

There are 7 precincts defined within Doncaster Hill. MacroPlan has focussed on the key precincts for development.

The heart of Doncaster Hill is Westfield Shoppingtown. Without this retail infrastructure the precinct would not be as attractive to potential purchasers.

The proposed \$200 million expansion of Westfield Shoppingtown is likely to be a key trigger point for the creation of residential demand in the area. If the Shoppingtown development does not go ahead, then the take up rate for residential living in the Doncaster Hill precinct may be reduced.

While the current Shoppingtown facility offers a variety of retailing, it is not up to the same standards as centres such as Chadstone and Southland in terms of image and product. Some residents of Manningham who may be considering moving closer to an activity centre in the next 5 to 10 years will consider areas other than Doncaster Hill if the proposed development does not move forward.

**Figure 6. The planned vision for Doncaster Hill**



The key precincts in and around Doncaster Hill are listed in 3.1.1 to 3.1.4

### 3.1.1 Precinct 1

Precinct 1 is located in and around council offices. There are a mix of community and youth facilities and the possibility of joint ventures between council offices and commercial office developments. The precinct includes Doncaster Primary School, the municipal offices and Schramms Reserve.

### 3.1.2 Precinct 2

Precinct 2 includes several high profile sites. Current planning applications are located on 'Gateway' sites that are strategically significant for the entire Doncaster Hill area. Precinct 2 includes the site of the current application by Mercedes Benz for a new vehicle dealership at 632-640 Doncaster Rd.

Located on the south side of Doncaster Road and includes the area between Tram Road, Doncaster Road, Frederick Street, Merlin Street and Hepburn Road. It is the centre of several proposed residential developments. The precinct is positioned with a north-facing aspect, catering for cafes, restaurants and outdoor eating. There have been several recent approvals for residential developments such as The Montage, Southpoint Apartments and The Pinnacle. The status of key sites is as follows.

- **2C - 642-654 Doncaster Rd: Montage (former Shell site).** \$48 million 12 storey mixed use building including restaurant, retail, and gymnasium with 206 serviced and residential apartments. Planning permit approved, project on hold.
- **2B – 682 Doncaster Rd: The Atrium (former Westpac office)** \$9 million. 9 level building comprising retail, offices and 41 apartments. Permit issued March 2003.
- **2D – 632 –640 Doncaster Rd: The Pinnacle (former Holden dealership)** \$30 million. 11 storey building including 132 apartments, restaurant, offices and 1828 m<sup>2</sup> retail space. Permit issued May 2002, currently for sale.

### 3.1.3 Precinct 3

It encompasses the area north of Doncaster Road and south of Goodson Street, between Tower and Council Streets. It is the interface between Westfield Doncaster Shoppingtown and the Civic and Education area, and offers views of the northern ranges. It will feature inviting plaza areas and stylish laneways, serviced by cafes/restaurants, and in close proximity to Shoppingtown.

- **3C – 659-667 Doncaster Rd: Beacon Proposal (former Mobil site)** \$48 million. 13 storey building with 219 apartments, retail and restaurants. Application on hold at applicants request.

### 3.1.4 Precinct 4

Includes the area north of Doncaster Road, east of Williamson's Road, south of Westfield Drive and west of Tower Street and features Westfield Doncaster Shoppingtown, a major regional shopping centre.

A planning application has been received to provide a \$200 million upgrade of the design and layout of Doncaster Shoppingtown so that it forms a vibrant and integral part of Doncaster Hill, with new shops, restaurants, inviting street frontages, improved public transport facilities and accessibility to neighbouring precincts.

Construction is expected to commence before the end of 2004, which will provide a major impetus for development in surrounding precincts that is consistent with the vision for Doncaster Hill.

### 3.1.5 Precinct 6

Precinct 6 is composed of several sites to the north of Doncaster Rd and to the west of Williamsons' Rd. Many of the sites include offices and retail showrooms.

- **6C – 537 Doncaster Rd: Earthtec. George Simic Proposal - 956m<sup>2</sup>.** A planning application has been lodged for four double storey dwellings on this site.

### 3.1.6 Precinct 7

Precinct 7 has wide ranging views to the city and over the adjacent golf links. It includes large development sites with high density potential.

Precinct 7 is defined as the area south of Doncaster Road and north of Carawatha Road, between Rose Street and the restaurant at 534 Doncaster Road, and includes the area south of Doncaster Road between Rose Street and Tram Road. Together with Precinct 6, this area forms the major gateway to Doncaster Hill from the Melbourne CBD, and will incorporate a mix of smaller scale residential, commercial and retail facilities.

Precinct 7 includes the site for the proposed Audi dealership which has been lodged with council.

- **7B - 584-588 Doncaster Rd: Ultra 819.** \$30 million. 8 storey building including motor vehicles sales and repairs, 82 apartments and 2000m<sup>2</sup> office space. Permit issued in May 2002, deferred with consent of all parties and developer. This is a key site within Doncaster Hill and has enormous potential as a gateway to the area.

## 3.2 The land value equation and impact on feasibility

### 3.2.1 *Land for residential development*

Valuations of land and the viability of sites partly depend on the development approved by council. Recent advice from industry suggests that land values can vary by up to 60 per cent depending on the density of development that may be approved. For the type of developments that Manningham council wishes to attract to Doncaster Hill, the land valuations and therefore the viability of a given site for residential development, is highly sensitive to the planning framework for development.

Land in benchmark areas adjacent to retail and key activity centres is valued between \$30,000 and \$40,000 per apartment in a 40-60 apartment development and between \$20,000 and \$25,000 per apartment in developments with 100 apartments or more.

The feasible development of these sites in the medium term will depend on trends in building costs, the cost of finance in coming years, together with any premium that exists on the Doncaster Hill precinct. The impact of marginal changes in these variables on the feasibility of developments that have been approved in Doncaster Hill will be explored in part 4 and 5 of this report.

### 3.2.2 *Commercial and Industrial land*

The equation for commercial and industrial land is more complex as the feasibility of the development depends not only on the price of land, building costs and expected sale prices, but also on the projected rental yield of the properties after they are sold.

Analysis by CB Richard Ellis on the value of land for commercial use can be used to value commercial land. With an average sale price for office space of \$3,500 a square metre, construction costs of \$2,000 per square metre, and with a developers margin of 20% on the sale price (\$700 square metre), land is worth \$800 per square metre.

As areas like Doncaster Hill, Box Hill, Camberwell Junction and Glen Waverley have faced rising vacancy rates for office space between 2000 and 2003, the demand for office space will remain subdued in the medium term.

### 3.2.3 Mixed use development feasibility case study

#### The site

The case study site is located on Doncaster Rd and is in excess of 5000 square metres. It falls within the area known as precinct 2.

The following development has been given approval.

Residential - 132 apartments @ at average size 100 m2 each = 13,200 m2

Retail - 1828 m2 including a restaurant

Office- 1525 m2

Car park - 285 spaces

**Table 3. The Residential equation**

<b>RESIDENTIAL EQUATION - 13,200m2</b>	
Revenue from sales @ \$4,000m2	\$51,744,000
Less developers 20% share of sales revenue	-\$10,348,800
Net sales revenue	\$41,395,200
Construction Cost of Apartments @ \$2,300 m2	\$30,360,000
Construction Cost of Carparks @ \$800 m2	\$6,076,000
<b>TOTAL CONSTRUCTION COST</b>	<b>-\$36,436,000</b>
Interest allowance on borrowed funds	-\$2,550,520
<b>TOTAL PROJECT COST</b>	<b>-\$38,986,520</b>
SUPER PROFIT / ADDITION TO LAND VALUE	\$2,408,680

**Table 4. The Retail equation**

<b>RETAIL EQUATION - 1828m2</b>	
Revenue from sales @ \$3,000m2	\$5,374,320
Less developers 20% share of sales revenue	-\$1,074,864
Net sales revenue	\$4,299,456
Construction Cost of Retail @ \$1,640 m2	\$2,997,920
Construction Cost of Carparks @ \$800 m2	\$1,120,000
<b>TOTAL CONSTRUCTION COST</b>	<b>-\$4,117,920</b>
Interest allowance on borrowed funds	-\$288,254
<b>TOTAL PROJECT COST</b>	<b>-\$4,406,174</b>
SUPER PROFIT / ADDITION TO LAND VALUE	-\$106,718

**Table 5. The Office equation**

<b>OFFICE EQUATION - 1525m2</b>	
Revenue from sales @ \$3,500m2	\$5,230,750
Less developers 20% share of sales revenue	<b>-\$1,046,150</b>
Net sales revenue	\$4,184,600
Construction Cost of Office @ \$2,140 m2	\$3,263,500
Construction Cost of Carparks @ \$800 m2	\$784,000
<b>TOTAL CONSTRUCTION COST</b>	<b>-\$4,047,500</b>
Interest allowance on borrowed funds	<b>-\$283,325</b>
<b>TOTAL PROJECT COST</b>	<b>-\$4,330,825</b>
<b>SUPER PROFIT / ADDITION TO LAND VALUE</b>	<b>-\$146,225</b>

Overall the above analysis shows that a mixed-use residential/office/retail development providing the developer with a 20 per cent return on sales yields the following returns.

Total project sales revenue (net of developers share)	=	\$49.9 million
Total project cost	=	\$47.72 million
Total addition to land value	=	\$2.155 million

The total addition to land value represents the profit margin above the developers' return of 20% on sales revenue. It can be used to assess whether the purchase price of land is feasible as part of the overall cost equation.

We know that land in Doncaster Hill has sold for between \$800 and \$1,200 m2 in recent times across different locations. **The total addition to land value in this case study of \$2.155 million represents only \$430m2 for a \$5,000m2 site.**

A potential developer would have to absorb a lower return on the project, if a price of \$800 m2 for land was paid on a proposed mixed-use project with the above cost structure. Alternatively the developer may consider increasing the residential component of the project to provide a better return on sales. However as it stands, the project in this case study would not provide a return that was adequate to cover the cost of land.

For developers who may have owned the land for several years and purchased land in Doncaster Hill for \$300 - \$400m2, the project proposed becomes more feasible. Under this scenario the return to the project would be adequate to cover the initial cost of land.

## 3.3 The Audi proposal

### *3.3.1 The proposal and consistency with Doncaster Hill vision*

The owners of 584-588 Doncaster Rd propose to construct a \$6 million Audi motor vehicle sale and servicing facility. The site is in precinct 7B.

The owners of the site – Edgardon Properties Pty Ltd – were granted planning approval to construct a mixed retail and residential development on 3<sup>rd</sup> May 2002. The approved development consists of an 8-storey building including the Audi motor vehicle sales facility and 82 apartments.

The site is substantial at 5823m<sup>2</sup> and is well positioned with pedestrian access to Doncaster Shoppingtown and the potential for spectacular views over Melbourne.

The owners of the property have now advised that they do not believe that a mixed high-density residential and retail facility is financially viable in the current property market.

They have also advised that given the investment that will be required to develop an Audi dealership, the site cannot be contemplated as viable for anything less than a 15-20 year period. Therefore the owner would be concerned with any permit that may limit life of the development as a motor vehicle dealership.

The proposed development by Audi is not consistent with the Doncaster Hill Strategy and in particular with Amendment C33 - the framework for preferred land uses.

The framework calls for a boulevard character along Doncaster Rd that encourages active street frontages, mixed uses within buildings, and pedestrian generating activities such as café, leisure and other entertainment.

Some of the key aims of Amendment C33 in Doncaster Hill are:

- To commit proposed development to higher intensity land uses suitable for a Principal Activity Centre.
- To incorporating Economically Sustainable Development into every facet of design, construction and operation.
- Include mixed uses within buildings.
- Encourage development that achieves projected population and employment targets.
- Encourage development that improves the image of the area.

### 3.3.2 The financial implications of a mixed use development on the Audi site

**Table 6. Financial implications of apartment development on 584 – 588 Doncaster Rd**

<b>NET REVENUE = \$24,429,440</b>
Apartment sales @ average price of \$380,000 * 82 apartments
= \$31,160,000
less selling and marketing cost
= \$623,200
less developers target return @ 20% of sales net of selling
= \$6,107,360
<b>CO STS = \$24,306,130</b>
Site preparation
= \$500,000
Construction of apartments @ \$2,300 square metre
= \$18,860,000
Car parking @ 1 car park per apartment @ \$800 M2 and 35 M2
= \$2,296,000
Garden's and beautification
= \$500,000
<b>TOTAL CONSTRUCTION COST</b>
= \$21,906,000
plus cost of 50% finance over three years @ 7%
= \$2,300,130
plus due diligence
= \$100,000
<b>SUPER PRO FIT BEYOND 20% return = \$123,310</b>

Source: Rawlinsons' Australian Construction Handbook and MacroPlan Australia

Based on the proposal approved, MacroPlan has estimated the financial profitability of the development based on a scenario of immediate construction start with completion in 2005.

The assessment is based on the construction of 82 apartments as a separate financial endeavour to the \$6 million motor vehicle dealership but located on the same site. MacroPlan has assumed that no office space is included as part of the project.

It is assumed that apartments are sold at \$3,800 a square metre or an average price of \$380,000 for a 100 square metre unit.

Construction cost is estimated at \$2,300 a square metre on average over the period 2004 and 2005. This estimate is derived from industry sources for multi storey two and three bedroom units with large public areas, lifts, air conditioning and a high standard of finish.

The table provides an overview of the profitability of the project as an addition to the site. As the table shows, the project would provide a 20 per cent return to the developer from sales net of selling costs equating to \$6.1 million. In addition a small super profit is generated.

The rates of return represented in this example are formulated on relatively conservative estimates of apartment sale prices and bullish estimates of construction costs. The construction cost per square metre that has been used is based on Rawlinsons' estimates for construction in Melbourne and takes into account the higher building costs in Victoria.

Total development costs for the project as estimated by MacroPlan including the cost of construction, finance and car parking, is estimated at \$2,964 per square metre. This is higher than estimates from key construction companies that estimate the cost of construction including finance and car parking at \$2,800 per square metre. Hence, the MacroPlan forecasts allow a significant buffer for cost increases during the life of the project.

MacroPlan has undertaken sensitivity testing of the inputs to the modelling done for the Audi proposal.

These sensitivity tests indicate that the assumptions are robust. For example, if construction costs are increased by a further 10 per cent, to \$2,530 per square metre, the developers return on sales revenue falls to 13.6 per cent assuming all other variables remain equal.

Given that construction costs have been increasing by 10 to 15 per cent per year in previous years, developers have been reticent to commit to large developments in the current property cycle with the future of building costs being uncertain.

Nevertheless, the estimates and assumptions used by MacroPlan are conservative and indicate that based on current building costs and moderate estimates of sale prices, a high density residential project on 584-588 Doncaster Rd is likely to provide an adequate return to the developer.

The original proposal to construct apartments in conjunction with a motor vehicle dealership has a strong prospect of being viable, as the development requires no extra use of land. The developer must currently consider that the motor vehicle dealership is profitable in its own right due to the intention to proceed with the dealership. Therefore, any addition to revenue from a mixed construction project would boost the value of the property.

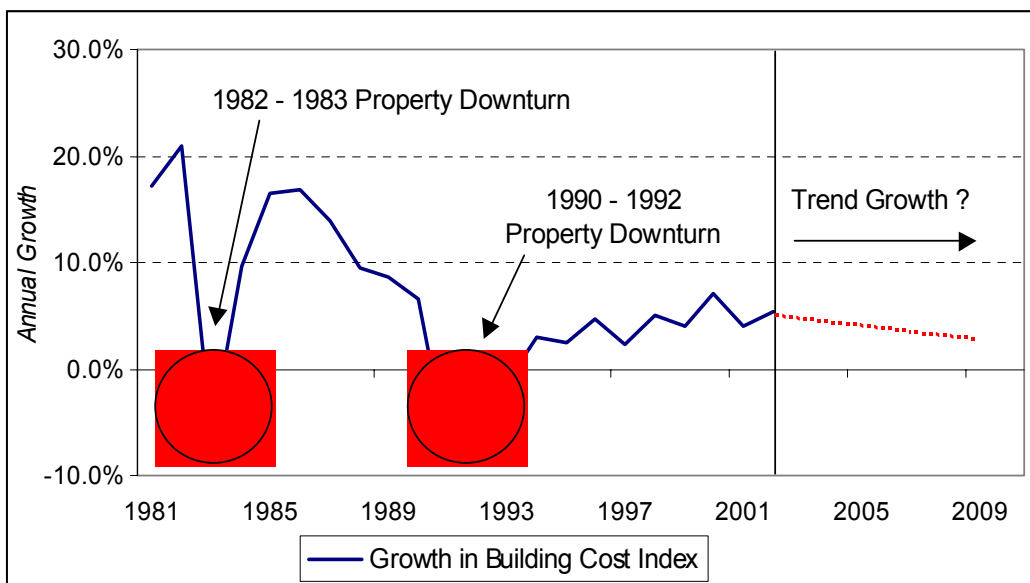
## 4 The Building Cost equation and options for development

### 4.1 Latest trends in building costs

Multi unit construction projects in Victoria are hampered by being 11 per cent more expensive to construct than in Sydney and up to 35 per cent more expensive than in Brisbane according to sources such as Rawlinsons' construction handbook.

Developers also face a climate where building costs on some projects have increased by 10 to 15 per cent per annum in the last 5 years making these projects quickly move from being viable to not viable.

**Figure 7. Trends in Building Costs in Melbourne – Annual Growth**



Source: Rawlinsons' and MacroPlan Australia

As the chart shows above building costs have been growing by 5 to 7 per cent per annum on average over the last 5 years. However, based on expectations of a moderate downturn in the property cycle, the growth in building costs will decline to a more sustainable level in line with inflation.

After time this should allow some projects to return to a more profitable position and make developers in the Doncaster Hill area more confident of generating an adequate return on their investment.

## 4.2 Impact of building costs on Doncaster Hill

As part 4.1 of this report depicts, expectations of a slowdown in the growth of building prices in the next three years will help make more high density residential projects feasible. Developers will receive renewed demand for these type of developments as the cost of apartments and the incomes of owner-occupiers and investors begin to converge more favourably.

After 2005, high density residential developments with a mixed retail and office component will face cost levels that are more in line with inflation and potentially below the growth of incomes. The cost of purchasing an apartment in Doncaster Hill will therefore be more attractive relative to disposable income and existing detached homes.

Council should therefore note that building costs have made several high density residential developments marginal following the peak of the current property cycle. However, as building costs grow more moderately in the future (in line with more sustainable growth in construction activity) it is likely that many of the currently stalled developments on Doncaster Hill will be in a position to proceed between 2006 and 2010.

## 5 Opportunities and Constraints highlighted by major developers

MacroPlan has consulted landowners and developers to assess some of the constraints and opportunities that have been highlighted as having a significant impact on the feasibility of mixed residential, retail and office developments.

### 5.1 The constraints for short term, medium term and long term development applications

Developers and landowners highlighted several risks to the attractiveness of mixed high density residential and retail development. These concerns are listed as follows:

#### 5.1.1 *Lack of demand by owner occupiers*

Developers believe that given the current apartment prices required to make high density developments viable, the demand by owner-occupiers in Manningham who may consider moving from a detached home to an apartment in the short term (ie. next 1 to 3 years) is weak.

Developers commented that owner-occupiers are concerned about purchasing apartments 'off the plan', that in many cases would be as expensive or more expensive than their own home. For example, a quality two-bedroom apartment with balcony in Doncaster Hill would cost between \$380,000 and \$450,000. This is in the same price range as average homes in Doncaster and other surrounding suburbs. Therefore, developers consider that there will be some resistance from current homeowners to invest the entire value of their property in an apartment.

Owner-occupiers are also less inclined to purchase a residence 'off the plan' because they will reside in it and are more attached to the property than an investor who will simply be renting it out, especially when they are aged 55+ as it may be their last residence.

MacroPlan considers that the type of high quality apartments envisaged for Doncaster Hill will be attractive to owner occupiers who own properties in the upper quartile of prices. A comparison between prices for homes in the upper quartile of sales in suburbs such as Donvale and Templestowe, indicates that apartment prices are competitive relative to these properties.

The demand by owner-occupiers will increase in the medium and longer term as the price of homes in surrounding suburbs increase and as the community continues to age.

### *5.1.2 Council approval of medium density living in proximity to Doncaster Hill*

Developers have claimed that a continual process of approvals for medium density living in proximity to Doncaster Hill is constraining demand for high-density projects on Doncaster Hill.

They believe that apartments can be built within 1km of Doncaster Hill at a competitive cost due to the lack of car parking cost and non-unionised labour. This keeps apartment and townhouse prices competitive with detached homes.

Council needs to consider how the planning process, in particular the Manningham Planning Scheme, could be adjusted to ensure that these type of smaller medium density developments do not soak up a significant share of potential demand for Doncaster Hill in the medium to longer term.

### *5.1.3 Cost of high quality and unique architecture*

Developers have stated that demands by council for 'cutting edge' and unique architecture in the Doncaster Hill precinct has added significantly to the cost of building apartments in some cases by up to 30 per cent. However, MacroPlan questions the reliability of these claims.

Developers believe that while some high quality architecture is appropriate, there also needs to be an acceptance of standard architecture on some sites to allow projects to move forward and critical mass to develop.

Developers have also stated that Ecologically Sustainable Planning requirements are not a significant factor in building costs and only add small margins to total construction costs.

### *5.1.4 Building Costs*

Not surprisingly, developers have blamed spiralling building costs as being a key issue in determining whether projects move forward. Proposals that were profitable in 2002 became unprofitable in 2003 as building costs increased by up to 15 per cent in one year due to rising costs of labour and increases in insurance costs.

In many cases the cost of construction has increased only in line with prices that properties can be sold for. However, developers face the risk in the short term that building costs will continue to increase above and beyond the market price of property. This phenomenon is occurring now with the slowdown in property price rises.

The impact of small changes in building costs and their influence on project viability is discussed further in part 4 of the report.

## 5.2 Opportunities for achieving the Doncaster Hill vision

Developers have argued that council needs to be more pro-active in making Doncaster Hill a more desirable place to live. They agree that the expansion and upgrade of Doncaster Shoppingtown will be important in improving the amenity of the area but they argue that more needs to be done to improve public spaces and make the area more attractive at street level.

Developers point to a lack of parkland and cultural facilities in close proximity to the spine of Doncaster Road. They believe that council should consider purchasing land and undertaking work to make the area more consistent with an activity centre by encouraging the establishment of facilities such as weekend markets or other cultural attractions.

In the short term developers also argue that council should consider renting key sites for use as public facilities over the next three to five years if they are concerned with the appearance of idle land. Once the sites become viable again, council could move to approve further high-density development.

## 6 The Demand and Supply Equation in Manningham

### 6.1 Demand for Doncaster Hill apartments

Consultation with Real Estate Agents in Doncaster confirmed that there is strong demand for high quality apartments with 2 to 3 bedrooms between \$350,000 and \$500,000 in the Doncaster Hill precinct.

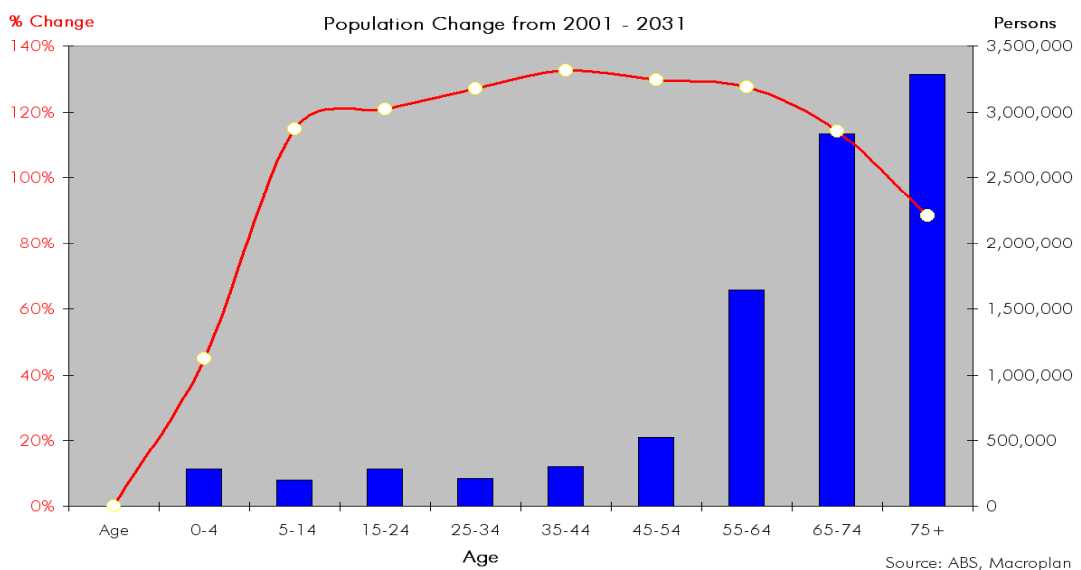
There is also strong demand for semi-detached and detached townhouse residences up to \$500,000 or even to \$550,000 in a location close to shops and facilities.

Estate Agents also noted that while most apartments and townhouses are being purchased by local residents, there is demand for quality medium and high density in Manningham from residents living in inner city locations who want to move to suburbs that are considered 'safer and more secure'.

### 6.2 Household needs of Manningham residents

Research findings have suggesting that the housing needs of the community are changing. As part of this change there has been a growing need for high density housing. This analysis has been supported by a previous extensive MacroPlan survey of resident housing needs.

**Figure 8. Growth in population by age cohort – 2001 - 2031**



The figure above depicts the projected changes in age distribution across Australia. It shows the enormous growth in the population of 'baby boomers' as they move into retirement. This trend will drive the demand for high density living in municipalities such as Manningham.

The demand created by the aging of population will combine with decreased housing size resulting in real demand for housing stock across metropolitan Melbourne. Younger persons and professionals will move to inner city areas and 'baby boomers' and retirees will continue to move into the middle ring of suburbs. As inner city residents become older, they move to middle and fringe locations.

Populations generally move within the same region or corridor, mainly due to familiarity with the area. Therefore, the population in the eastern region of Melbourne moves back and forward from inner to outer suburbs depending on age.

As discussed in section 2.2.1 of this report, there is strong capacity by more wealthy home owners in suburbs such as Doncaster East, Templestowe, Donvale and Warrandyte to purchase premium apartments in the \$450,000 to \$550,000 price range in coming years. Property prices in the upper quartile of these suburbs ranged between \$532,000 and \$762,000 in the December Quarter of 2003.

### *6.2.1 Migration in and out of Manningham and the impact on demand*

A close analysis of Australian Bureau of Statistics census data to determine latest housing preferences has revealed where Manningham residents moved between 1996 and 2001 and to the type of residences they have moved.

Firstly, the bulk of moves outside of Manningham between 1996 and 2001, by the 55-64 year old cohort are to cities adjacent to Manningham such as Whitehorse, Boroondara, Maroondah and Banyule. However the third most popular destination for this age cohort on the cusp of retirement was not surprisingly, the Mornington Peninsula.

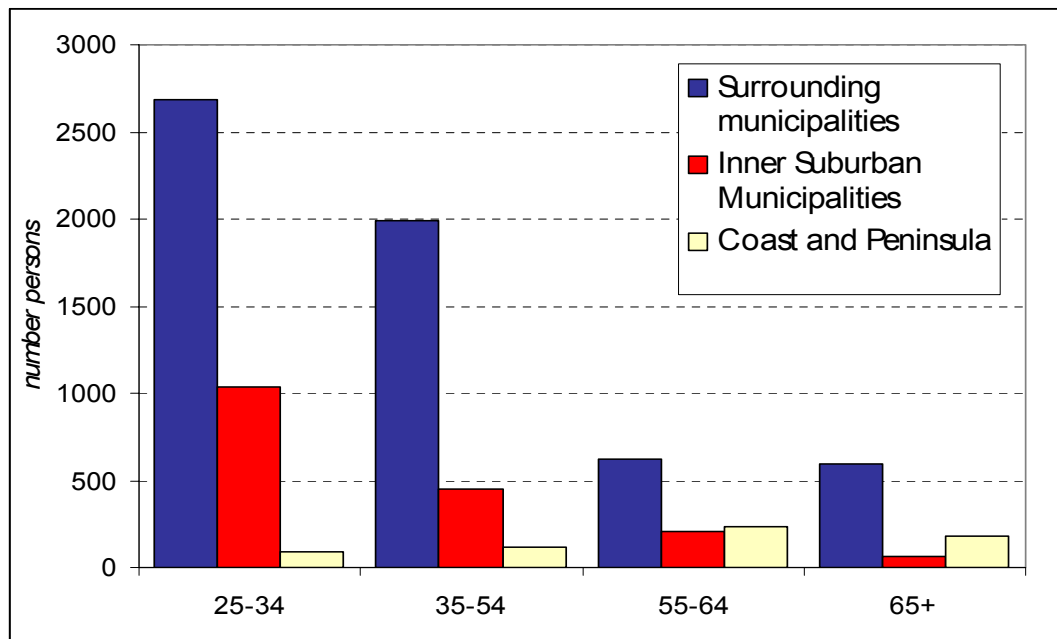
Other popular Local Government Areas not adjacent to Manningham include Stonnington, Port Phillip and Yarra. It is these cities that potentially attract individuals who are seeking an alternative lifestyle with closer access to restaurants and smaller dwellings after children leave home.

Focusing on the dwelling type moved to by 55-64 year old Manningham residents helps determine the strength of demand by this age group for high-density living.

Of the 210 55-64 year olds who moved to the cities of Port Phillip, Yarra, Stonnington and Melbourne from Manningham between 1996 and 2001, 42 per cent moved to high density dwellings such as flats, units and apartments. However, these inner suburban cities only captured 15 per cent of the 55-64 year old migrants from Manningham. Nearly 45 per cent of migrants in this age cohort settled in surrounding cities such as Whitehorse, Banyule, Boroondara and Maroondah.

The story is similar for those aged 65+. The chart below provides an overview of where migrants are moving to by selected age cohort. The **'Surrounding Cities'** classification refers to Whitehorse, Banyule, Boroondara and Maroondah, the **'Inner Cities'** classification refers to Port Phillip, Yarra, Stonnington and Melbourne and the **'Coasts and Peninsula'** classification refers to the Mornington Peninsula, Bass Coast, Surf Coast and Colac-Otway South.

**Figure 9. Migration from Manningham by Age and Destination: 1996 to 2001**



Source: MacroPlan Australia and ABS

The migration profile shows that Manningham is not losing large numbers of people to the inner suburbs, especially in the 55-64 year old and 65+ age cohorts. This is important as these age groups are the wealth holders particularly those in the 55-64 year cohort.

In conclusion the migration data shows that there is not significant demand for high density living in alternative municipalities by Manningham residents. Manningham residents are attracted to the surrounds of their community and will be more likely to seek high density living in the municipality rather than outside.

### 6.3 Development in the Doncaster Hill Precinct and the local economy

As those in the 45-54 age cohort reach retirement in the next 5 to 10 years, there will be a build up of demand for quality high density living in the municipality. While some residents will choose to move to coastal areas or stay in detached housing, many will look to downsize properties and move closer to activity centres like Doncaster Hill.

Council needs to be aware that a lack of supply of quality high density housing in Doncaster Hill in the period after 2006 will lead to a continual drain of relatively wealthy retirees and 'empty nesters' from the municipality.

If higher income residents leave the municipality due to a lack of quality housing stock, there is a risk of reduced growth in retail trade, and eventually the viability of some retail trade may fall. This will have a negative impact on the local economy.

Council needs to consider 'kick starting' development in the precinct with a clear commitment to the Doncaster Hill vision and a policy mix that aids its achievement. A failure to achieve the vision for Doncaster Hill will lead to the risk of reduced diversity in population and incomes in the municipality, as higher income residents search for quality housing in other areas.

The figure depicts the links between attracting asset rich baby boomers to Doncaster Hill and the benefits for the local economy and the municipality.

**Figure 10. Link between demography and economic strength of the municipality**

