

How the new development codes hit the builders

By MALCOLM WILSON

After many years of seemingly endlessly spiralling land values in the Sydney City area, land prices seem likely to be in for some severe downwards pressure in 1972 following the Council of the City of Sydney's latest regulations covering building ratios. So severe could the pressure be on city land values as a result of the new code, in fact, that some developers expect to see a sharp fall in land prices in 1972 compared with prevailing prices in 1971.

Certainly the levels of \$300 a square foot attained in the city business area (now referred to as the "Tank Stream" area) seem unlikely to be exceeded for possibly some years as developers adjust to the new set of rules governing development in the city.

Property developers with properties held for redevelopment and who have not yet decided to go ahead with their projects could thus face considerable problems in realising their purchase prices if they decide not to proceed with them.

Under the new code just introduced by the council, the floor space ratio in the Tank Stream area has been reduced from 10 to one to a basic 5.5 to one. But to this base, bonuses can be obtained by providing for such facilities as open spaces, through links and plazas which can add considerably to the basic ratio.

Even so, and particularly for office buildings, developers will find it hard to come up with a ratio of greater than eight or nine to one. The basic floor space ratio is reached at 12,500 square feet and above. Below this there is a sliding scale, so blocks with areas of less than 12,500 square feet are disadvantaged. The result will be that their potential returns will fall considerably and this will then be reflected in lower prices being paid for land.

In an example showing the impact that the new codes will have in governing develop-

IMPACT OF NEW SYSTEM OF PLOT RATIOS ON LAND VALUES

Site of 4,500 sq ft (60 x 75) in the city centre of Sydney

Under the old system, the developer had a development application for a property with a 10 to 1 plot ratio, plus 2 basements. Under the new system the plot ratio would be:

Basic 3.9
Bonus 2.0 by contributing \$37,500 for space for 15 cars.
Bonus 1.0 for using ground floor for retail.

6.9

But as this now excludes external walls, lift shafts, and ventilation shafts, it is equivalent to approximately 7.75 to 1 on the old basis with the added benefits of not having to provide the basements at a loss.

	OLD	NEW
No of floors	2B, G, and 9 floors	G and 7 floors
Net lettable area	37,290 sq ft	28,810 sq ft
Rental income at \$9	\$346,650	\$254,790
Outgoings (37.5 pc of income)	\$129,994	\$95,550
Net return	\$216,656	\$159,240
Capitalised at 10 pc	\$2,166,560	\$1,592,400
Building costs	\$985,000	\$680,800
Fees	\$153,000	\$107,000
Holding charges	\$75,000	\$53,000
Total costs	\$1,213,000	\$841,000
Residual value	\$953,560	\$751,440
Parking contribution	nil	\$37,500
Notional land value	\$950,000	\$751,000
Notional land value per square foot	\$210	\$160

ments in Sydney, the real estate firm of Hardie and Gorman Pty Ltd last week compared how much a developer would be prepared to pay for land values under the old and new codes. Based on a property currently for sale of some 4,500 square feet in the Tank Stream area of Sydney, they show that a developer prepared to pay \$210 a square foot for the land under the old code would be prepared to pay only \$160 a square foot under the just-introduced code.

Under the old code, it would have been possible to put up a building with two basements, a ground floor and nine upper floors. But under the new code this has been reduced to a ground floor plus seven upper floors. Admittedly this is a fairly severe case, as the size of the block is smaller than average and so suffers more than the average block under the new code.

As the table on this page shows, the net lettable area would be reduced from 37,290

to 28,810 square feet. Assuming rentals of \$9 a foot, less outgoings of 37.5 per cent of income, the net return falls from \$216,656 to \$159,000. Then if the property can be sold to an institution on a 10 per cent yield basis, the capitalised value of the completed building falls from \$2,166,560 to \$1,592,000.

Building costs under the new code would, of course, be lower because of the smaller number of floors, but still the residual value of the land that a developer would be prepared to pay would fall from \$953,560 (\$210 a square foot) to only \$715,000 (\$160 a square foot).

However, there are some in the city who believe that the impact won't be so much a heavy downwards pressure on land values as a strong upwards pressure on rentals. One said that the experience in London when a similar change was made was that land values tended to remain steady and it was rentals which rose strongly. Even so, there is such a lot of office space available in Sydney at the moment that it would appear unlikely that rentals could make much headway for some time.

One group likely to be affected by the change in codes is the banks, particularly the Bank of New South Wales which has several of its city sites under examination for redevelopment over the next few years. The brewers, which have a large number of choice corner sites, but whose small floor areas will count against them in the new formulas and whose land values are thus likely to realise considerably less than the \$300 a square foot that the sharemarket has until now anticipated for them.

However, council member Alderman Andrew Briger, who piloted the new code through the council, says he doubts there will be any slump in city land values. "There will be a lot of people who will want to be in the city because the facilities will now be so much better," he said. "We are now encouraging better architecture and the result will be a greater desire to be in the city."

One of the moves developers made to try to beat the new codes was make hurried development applications over their blocks under the old codes before the new codes came into force last week. This resulted in a rush of applications under the old codes, most of which are considered unlikely to proceed because of the excess of office space already available in the city.