



Land & Property
Information

Potts Point/Kings Cross Report Land Value Review

Report for Land Valuation
Advisory Group

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Executive Summary

The Land Valuation Advisory Group, as part of its role to monitor and review the ongoing quality of land values, has raised concerns on the land value levels in the Potts Point/Kings Cross area following the introduction of “lock out laws”. Since the introduction of the controversial laws, there has been number of closures of late night venues and supporting industries. The impact has been further highlighted by lower rents being achieved for a range of retail and commercial properties in the area. Assurance was sought that the land value levels in the Potts Point/Kings Cross area adequately reflected these impacts.

Land and Property Information (LPI) considered the outcomes of objections for the 2014 valuing year (the year the laws were introduced) reviewing the reasons for any value changes. The rating and taxing contractor was asked to consider the outcome of the objections and report back on their proposals for 2015 land values. They were also required to provide a rental analysis to support the land value outcomes for 2015. LPI further reviewed available sales evidence for a range of uses in and around the Potts Point area to ensure the outcomes were consistent with that evidence.

The objection contractor showed a 10% adjustment to sales evidence used which predated the implementation of the lock out laws when determining land values for the 2014 valuing year. The rating and taxing contractor applied a further average 20% decrease in land values for the 2015 valuing year. The decreases in land value were specific to commercial/retail use properties and reflected downturns in rentals achieved in for these styles of property. During the same period, mixed use and residential land values have been rising, reflecting the increased popularity of the location for residential owner occupiers and investors.

It is considered that the lockout legislation has had an effect, reflected by declining commercial rental returns in the Kings Cross/Potts Point locality for commercial properties. This decline is found to be adequately reflected in current land values, following an in-depth objection review process paired with the audit and review of the land values provided for the 2015 valuing year.

Background

The NSW Government introduced new restrictions, in February 2014, specific to access to licenced premises and the sale of alcohol after certain times. The new restrictions were introduced by the Liquor Amendment Act, 2014. The law enforces a 1.30am lockout and last drinks by 3am to the Sydney CBD precinct, including parts of Surry Hills and Darlinghurst to the Rocks and from Kings Cross to Cockle Bay.

The “lockout law” has seen recent controversy in that, although alcohol related crime and violence has significantly reduced, foot traffic and patronage to these areas has fallen significantly coinciding with the closure of a number of venues, bars, restaurants and hotels. There is increased uncertainty for the hospitality industry and ancillary retail/commercial activities within the Sydney CBD, particularly in the Kings Cross/Potts Point locality.

Since the introduction of the lockout laws, there has been a decrease in level of commercial rents achieved for the retail/commercial component of properties in the locality compared to the rents paid prior to the introduction of the legislation.

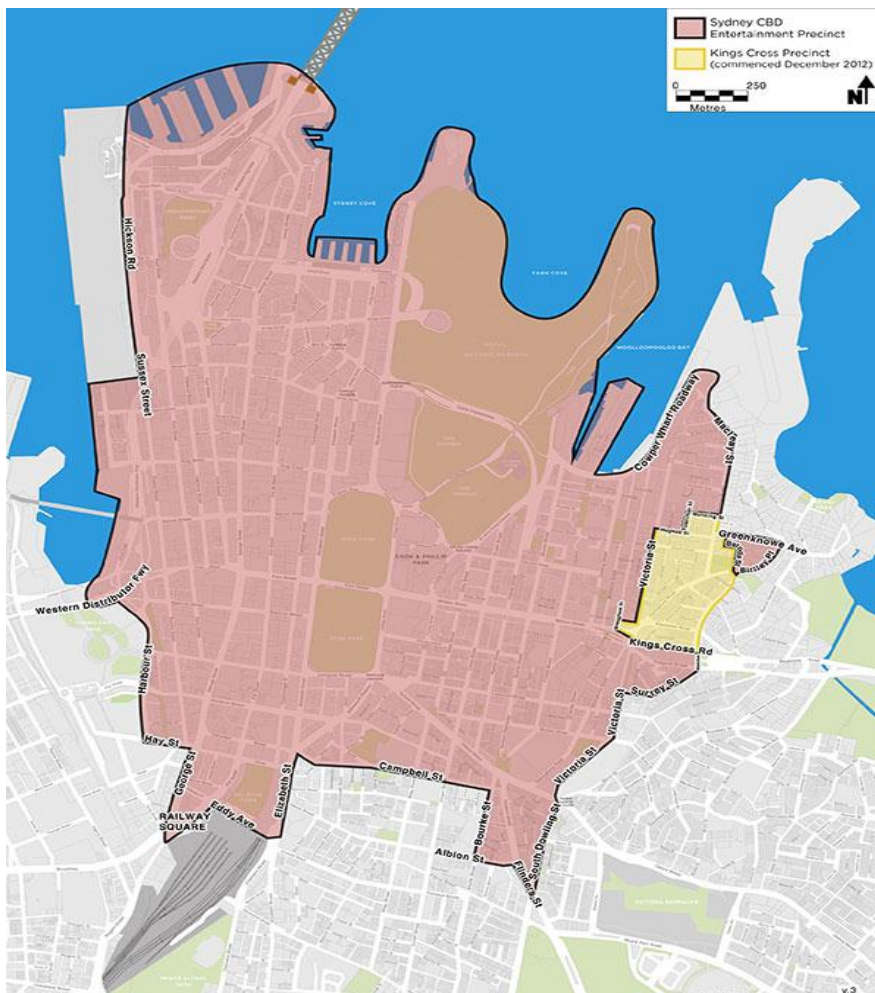
The vast majority of the commercially zoned properties in the Potts Point locality comprise retail/commercial on the ground floor with some form of residential above, being apartments, back packer accommodation or a hotel use. The residential component of these properties has been increasing in value, consistent with the market trend in Sydney generally, whilst the commercial ground floor use has been decreasing in terms of rental return.

Kings Cross and Potts Point is currently in the process of gentrification. As the late night entertainment trade has decreased there has been demand by developers to convert properties to a primarily residential mixed use. It is envisaged that as the locality undertakes further gentrification, the demand for high class retail/commercial will increase. It is expected that this will provide support services for the residential component, resulting in commercial rents recovering.

Introduction of Lock-Out Laws

The NSW Government introduced new restrictions, in February 2014, specific to access to licenced premises and the sale of alcohol after certain times. The new restrictions were introduced by the Liquor Amendment Act, 2014. The so called “lockout law” was instigated as a crackdown on alcohol fuelled violence as well as a NSW wide ban on takeaway alcohol sales after 10pm. The law enforces a 1.30am lockout and last drinks by 3am to the Sydney CBD precinct, including parts of Surry Hills and Darlinghurst to the Rocks and from Kings Cross to Cockle Bay.

Bars/clubs are banned from allowing people to enter the premises after 1.30am (lockout) and there is a 3am last drinks law. This was enforced across the new Sydney CBD Entertainment Precinct which stretches from parts of Surry Hills and Darlinghurst to The Rocks and from Kings Cross to Cockle Bay.



The “lockout law” has seen recent controversy in that, although alcohol related crime and violence has significantly reduced, foot traffic and patronage to these areas has fallen significantly coinciding with the closure of a number of venues, bars, restaurants and hotels. There is increased uncertainty for the hospitality industry and ancillary retail/commercial activities within the Sydney CBD, particularly in the Kings Cross/Potts Point locality.

Impact Specific to Kings Cross and Potts Point

The whole of Kings Cross is within this area and covered by the lockout laws. The impact has not only been on licensed premises, but has had a flow on effect to all businesses in this area.

It is considered the legislation introduced uncertainty for the hotel industry and ancillary retail/commercial activities within this location as at the 2014 valuing year. However, given the laws were implemented in late February, little evidence of their impact was available when land values were being determined for the 2014 valuing year. Land Values for each valuing year reflect the land value at 1 July of that year. Therefore, the land values reflected the lack of evidence for any impact, positive or negative.

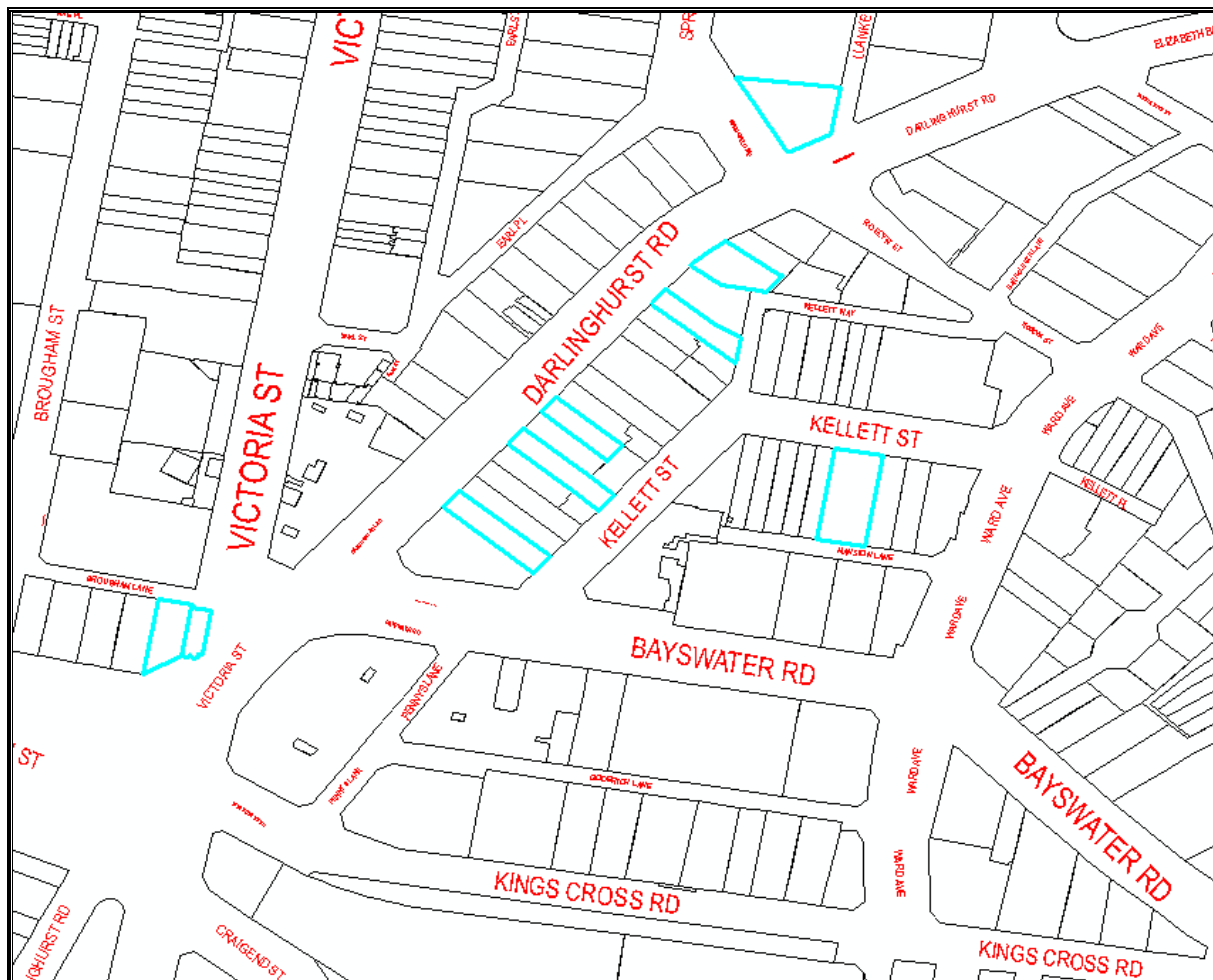
When objections to the land value of some of the impacted properties were received, the contractor reviewing those land values made an adjustment reflecting a more prudent and conservative approach, reflecting the likelihood of a negative impact, until more evidence of the actual impact became available.

The vast majority of the commercially zoned properties in the Potts Point locality comprise retail/commercial on the ground floor with some form of residential above, being apartments, backpacker accommodation or a hotel use. The residential component of these properties has been increasing in value, consistent with the market trend in Sydney generally, whilst the commercial ground floor use has been decreasing in terms of rental return.

Kings Cross and Potts Point is currently in the process of gentrification. As the late night entertainment trade has decreased there has been demand by developers to convert properties to a primarily residential mixed use. It is envisaged that as the locality undertakes further gentrification, the demand for high class retail/commercial will increase. It is expected that this will provide support services for the residential component, resulting in commercial rents recovering.

Properties subject to objection

In the Potts Point locality, nine properties were reviewed under the objection/review process over multiple valuing years with 29 recommended outcomes. The following map details the location of those nine properties.



The outcomes comprised two objections disallowed, four resulting in reductions between 5.19% and 10.0%, 14 resulting in reductions between 10% and 15.5% and nine resulting in reductions between 16.5% and 22.5%.

The contractor engaged by LPI to provide objection advice, for the properties listed below, made an overall 10% allowance to reflect the possible effect of the “lockout laws” on land values.

The table on the next page represents nine commercial properties located in Potts Point that were reviewed over multiple valuing years and details the 29 objection recommendation outcomes.

STREET NO.	STREET	AREA	ZONE	WF ID	Valuing year	L V	NEW LV BASIS	- % LV REDUCTION	LV CHANGE
70	DARLINGHURST RD	278.5	B2	3030482	1/07/2014	\$2,780,000	6A(1)	7.02	-\$210,000.00
70	DARLINGHURST RD	278.5	B2	3031915	1/07/2012	\$3,090,000	6A(1)	11.71	-\$410,000.00
62	DARLINGHURST RD	290.86	B2	2986641	1/07/2012	\$3,225,000	6A(1)	15.13	-\$575,000.00
62	DARLINGHURST RD	290.86	B2	2986641	1/07/2012	\$3,225,000	6A(1)	15.13	-\$575,000.00
62	DARLINGHURST RD	290.86	B2	3041953	1/07/2010	\$3,100,000	6A(1)	15.53	-\$570,000.00
62	DARLINGHURST RD	290.86	B2	3041953	1/07/2010	\$3,100,000	6A(1)	15.53	-\$570,000.00
62	DARLINGHURST RD	290.86	B2	3041954	1/07/2011	\$3,225,000	6A(1)	15.13	-\$575,000.00
62	DARLINGHURST RD	290.86	B2	3041954	1/07/2011	\$3,225,000	6A(1)	15.13	-\$575,000.00
62	DARLINGHURST RD	290.86	B2	3098363	1/07/2009	\$3,100,000	6A(1)	0	\$0.00
62	DARLINGHURST RD	290.86	B2	3098363	1/07/2009	\$3,100,000	6A(1)	0	\$0.00
60	DARLINGHURST RD	215	B2	2115676	1/07/2007	\$2,320,000	6A(1)	18.6	-\$530,000.00
60	DARLINGHURST RD	215	B2	2115685	1/07/2008	\$2,420,000	6A(1)	6.92	-\$180,000.00
60	DARLINGHURST RD	215	B2	2115690	1/07/2009	\$2,065,000	6A(1)	20.58	-\$535,000.00
60	DARLINGHURST RD	215	B2	3041950	1/07/2010	\$2,065,000	6A(1)	15.02	-\$365,000.00
60	DARLINGHURST RD	215	B2	3041951	1/07/2011	\$2,160,000	6A(1)	11.11	-\$270,000.00
44	DARLINGHURST RD	240.3	B2	3030483	1/07/2014	\$2,300,000	6A(1)	20.14	-\$580,000.00
44	DARLINGHURST RD	240.3	B2	3031916	1/07/2013	\$2,560,000	6A(1)	5.19	-\$140,000.00
40	DARLINGHURST RD	290.8	B2	3030485	1/07/2014	\$2,825,000	6A(1)	19.05	-\$665,000.00
40	DARLINGHURST RD	290.8	B2	3031918	1/07/2013	\$3,140,000	6A(1)	10.03	-\$350,000.00
13	KELLETT ST	524.1	B4	2988874	1/07/2014	\$2,675,000	14G	11.72	-\$355,000.00
13	KELLETT ST	524.1	B4	2988874	1/07/2014	\$2,675,000	14G	11.72	-\$355,000.00
248A	WILLIAM ST	106.2	B4	3031910	1/07/2013	\$980,000	6A(1)	11.71	-\$130,000.00
248A	WILLIAM ST	106.2	B4	3031911	1/07/2012	\$980,000	6A(1)	11.71	-\$130,000.00
248A	WILLIAM ST	106.2	B4	3035341	1/07/2014	\$885,000	6A(1)	20.27	-\$225,000.00
248	WILLIAM ST	246.6	B4	3031908	1/07/2013	\$4,590,000	14G	16.55	-\$910,000.00
248	WILLIAM ST	246.6	B4	3031909	1/07/2012	\$4,590,000	14G	16.55	-\$910,000.00
248	WILLIAM ST	246.6	B4	3035324	1/07/2014	\$4,130,000	14G	13.96	-\$670,000.00
23	DARLINGHURST RD	536	B2	3053319	1/07/2013	\$4,985,000	6A(1)	19.98	-\$1,245,000.00
23	DARLINGHURST RD	536	B2	3053326	1/07/2012	\$4,825,000	6A(1)	22.55	-\$1,405,000.00

Review of other Land Values following objection outcomes

The rating and taxing contractor considered the objection recommendations provided by the objection contractor and advised an amendment of some land values in Potts Point for the 2015 valuing year as listed below. The 2015 land value is the amended land value.

Zone	Component	House No.	Street	Suburb	2015 Land Values	% DIFF 2015 Current v Amended LVs
B2	MA2	20	BAYSWATER RD	POTTS POINT	\$ 4,480,000	-8%
B4	MA4	12	CHALLIS AVE	POTTS POINT	\$ 1,600,000	-20%
B2	MA2	18	DARLINGHURST RD	POTTS POINT	\$ 1,928,000	-7%
B2	MA2	33	DARLINGHURST RD	POTTS POINT	\$ 2,608,000	-19%
B2	MA2	34	DARLINGHURST RD	POTTS POINT	\$ 2,928,000	-15%
B2	MA2	37	DARLINGHURST RD	POTTS POINT	\$ 1,904,000	-17%
B2	MA2	39	DARLINGHURST RD	POTTS POINT	\$ 2,776,000	-13%
B2	MA2	40	DARLINGHURST RD	POTTS POINT	\$ 2,260,000	-5%
B2	MA2	42	DARLINGHURST RD	POTTS POINT	\$ 2,576,000	-6%
B2	MA2	44	DARLINGHURST RD	POTTS POINT	\$ 1,840,000	-12%
B2	MA2	45	DARLINGHURST RD	POTTS POINT	\$ 2,120,000	-13%
B2	MA2	46	DARLINGHURST RD	POTTS POINT	\$ 1,184,000	-6%
B2	MA2	48	DARLINGHURST RD	POTTS POINT	\$ 1,392,000	-5%
B2	MA2	49	DARLINGHURST RD	POTTS POINT	\$ 2,152,000	-12%
B2	MA2	54	DARLINGHURST RD	POTTS POINT	\$ 2,352,000	-7%
B2	MA2	61	DARLINGHURST RD	POTTS POINT	\$ 2,304,000	-13%
B2	MA2	62	DARLINGHURST RD	POTTS POINT	\$ 2,420,000	-2%
B2	MA2	66	DARLINGHURST RD	POTTS POINT	\$ 2,344,000	-14%
B2	MA2	72	DARLINGHURST RD	POTTS POINT	\$ 4,728,000	-9%
B2	MA2	75	DARLINGHURST RD	POTTS POINT	\$ 2,304,000	-12%
B2	MA2	83	DARLINGHURST RD	POTTS POINT	\$ 3,856,000	-6%
B2	MA2	99	DARLINGHURST RD	DARLINGHURST	\$ 1,840,000	-12%
B2	MA2	16	KELLETT ST	POTTS POINT	\$ 616,000	-10%
B4	MA4	17	KELLETT ST	POTTS POINT	\$ 1,104,000	-13%
B2	MA2	24	KELLETT ST	POTTS POINT	\$ 632,000	-1%
B4	MA4	54	KELLETT ST	POTTS POINT	\$ 3,190,000	-9%
B2	MA2	2	KELLETT WAY	POTTS POINT	\$ 1,096,000	-5%
B2	MA2	1	ROSLYN ST	POTTS POINT	\$ 1,472,000	-6%
B2	MA2	20	SPRINGFIELD AVE	POTTS POINT	\$ 4,288,000	-16%
B2	MA2	24	SPRINGFIELD AVE	POTTS POINT	\$ 9,160,000	-2%
B4	MA4	171	VICTORIA ST	POTTS POINT	\$ 3,780,000	-13%
B4	JA1	230	WILLIAM ST	POTTS POINT	\$ 1,790,000	-4%
B4	JA1	248	WILLIAM ST	POTTS POINT	\$ 3,304,000	-14%
B4	JA1	248	WILLIAM ST	POTTS POINT	\$ 795,000	-10%

Potts Point Market Overview

Potts Point is a diverse mix of property types and uses covered by differing planning controls. Property dwellings consist of single residential terrace housing, multi-level high rise unit development and mixed use properties that may have multiple tenants including retail/commercial, residential and hotel use.

For rating and taxing valuation purposes, the properties in the locality have been grouped into a number of components, each containing properties considered to, based on use, location and topography, experience similar market movements over time.

To account for the different zonings and uses of the land in Potts Point and Kings Cross, properties are located in the four components listed below. Sales evidence shows the land values in each component to be moving at different rates depending on the allowable uses. Individual handcrafted valuations of specific properties are undertaken, where necessary, when sales evidence or objection outcomes indicate mass appraisal is not the best method of valuation.

MA2 Potts Point Local Centre

This component contains commercial zoned properties. The majority of these properties have decreased by 20% between the 2014 and the 2015 valuing years.

MA4 Woolloomooloo, Potts Point, Elizabeth Bay Mixed Use:

This component contains mixed use zoned properties. The majority of properties in this component increased by 15% between the 2014 and the 2015 valuing years.

MB1 Darlinghurst Mixed Use:

This component contains mixed use zoned properties. This component increased by 15% between the 2014 and the 2015 valuing years. However, individual streets and properties were handcrafted in line with objection amendments and recent sales evidence.

EW1 The Bays and Potts Point small general residential:

This component includes single residential sites located in Woolloomooloo and Potts Point. The majority of this component was increased by 35% between the 2014 and the 2015 valuing years. This was based on evidence of strong market increases with some streets recording even larger increases.

Significant Sales

Mixed Use Sites

Large sites are being purchased for apartment /mixed use redevelopment sites.

The Crest Hotel site, 111-139 Darlinghurst Road, Potts Point sold at a contract date of 14 July 2015 for \$91,000,000 and has a land area of 1,681.8 m². The property has development approval for a 14 storey tower over a five storey podium for up to one hundred and seventy four units and fifty two car spaces.

The Bourbon Hotel site, 22-28 Darlinghurst Road, sold at a contract date of 26/03/2015 for \$24,450,000 and is currently being redeveloped for mixed use purposes in conjunction with other sites.

Lansbury's are reporting the sale of 37-41 Bayswater Road, Potts Point for \$27,500,000 with development approval for an 8 storey mixed use site comprising fifty one apartments, 1 retail unit and 2 levels of basement parking.

Residential Sales

47 Surrey Street, Darlinghurst a four level Victorian terrace erected on a 119m² block located within close proximity to Darlinghurst Road sold at a contract date at the 30 March 2015 for \$2,950,000. The subject property previously sold on the 6 May 2005 for \$1,600,000.

Commercial Rental Overview

Kings Cross has been renowned for its late night entertainment for many years. The recent Sydney Morning Herald article "*Golden Mile a basket case as commercial properties lose value*" discusses the effect of gentrification on commercial rental values.

The rating and taxing contractor, Quotable Valuation Australia (QVA,) has recently contacted Malcom Gunning, former president of the Real Estate Institute of NSW and principal of Gunning Commercial, to discuss the commercial rental market in the Kings Cross locality. It was agreed that lockout laws and other factors have affected commercial businesses, in that location, in a substantial way and while the vacancy rate remains relatively low, research carried out by Malcolm Gunning, revealed that many existing tenants are not paying the face rents that appear on their leases.

New tenants, mainly of the service industry (such as chemists, massage salons, nail salons), are not willing or able to pay the same rents as the previous occupants that were supported by the late night entertainment trade.

General discussions between the contractor and agents in the locality reveal that new commercial leases are being agreed at up to 40% less than previous years. These relate to strata commercial with residential accommodation on upper levels. In these discussions with real estate agents the contractor has been verbally informed of substantial reductions of rental paid by existing tenants, the agreements of which were made in commercial confidence and cannot be disclosed.

Please refer to Tab1 Commercial Rental Overview.

Tab 1 (the commercial rental overview) has been excluded as it contains commercially sensitive information.

Impact of Commercial Rental on Land Values

In relating this rental information to the land value for statutory rating purposes, as outlined above it is necessary to consider that in the vast majority of the commercially zoned properties in the Potts Point locality comprise retail/commercial on the ground floor with some form of residential above.

The residential component of these properties has been increasing significantly in value whilst the commercial ground floor use has been decreasing in terms of rental return.

There has been substantial demand from developers for redevelopment sites in the Potts Point locality with the demand for mixed use with apartments being the primary driver. This is reflected by the sale of the Crest Hotel, located at one end of the strip, and the Bourbon Hotel, located at the other end. These are larger sites with a higher allowable Floor Space Ratio (FSR) than the strip in between and lend themselves to redevelopment. However, even the smaller sites in Potts Point, which range between 200m² and 500m² with an FSR of 3:1, are capable of redevelopment.

The majority of land values are determined under section 6A(1) of the *Valuation of Land Act 1916 (the Act)*. Assumptions required by this section of the Act include the subject land being assumed to be vacant and being valued on its “highest and best” permitted use.

Two important court cases (*Toohey's Ltd V the Valuer General* (1925) and *Tetzner v The Colonial Sugar Refinery Co.Ltd* (1958)) provide guidance that when considering the highest and best allowable use, no consideration should be given to existing improvements.

When determining a land value pursuant to the *Valuation of Land Act 1916*, consideration of rental evidence should be treated with caution as the rental may reflect underdevelopment or a use that, due to no longer being viable, is not the highest and best allowable use.

Heritage Considerations

Please note two of the properties valued under the objection/review process, (3 Kellett Street and 248 William Street) are heritage listed under the Local Environment Plan (LEP) and have a hotel use. These two properties have been valued having regard to their use and design constraints in accordance with section 14G of the *Valuation of Act 1916*.

They have been valued with the same 10% reduction/allowance for the uncertainty of the impact of the new lockout laws. A further 15% allowance was adopted when applying the heritage assumptions required under the Act, reflecting a rental differential to take into account of inefficiencies of floor plate design of the existing heritage hotel in comparison to a new hotel over the same size and area on the land.

Conclusions

It is considered that the lockout legislation has had an effect on declining commercial rental returns in the Kings Cross/Potts Point locality.

A 10% allowance has been made for the negative effect on commercial land values by the objection contractor on each of his valuation recommendations. The locality is undergoing change with commercial rents falling, a reestablishment of residential development and increased uncertainty for the hotel industry and ancillary retail/commercial activities.

The objection recommendations were considered by the rating and taxing contractor and subsequently some alterations were made to 2015 land values.

A minor reduction has been made while the locality goes through this adjustment and when the locality has completed the gentrification process, it is expected future land values will increase for all zones and property uses. Ongoing audit and monitoring by LPI in the area will ensure values are accurate.

LPI considers current land values are accurate after an in-depth objection review process as well as auditing and review of the 2015 Annual Valuation Program.