DS057B - Evaluation Financial Analysis Report (REMPLAN)

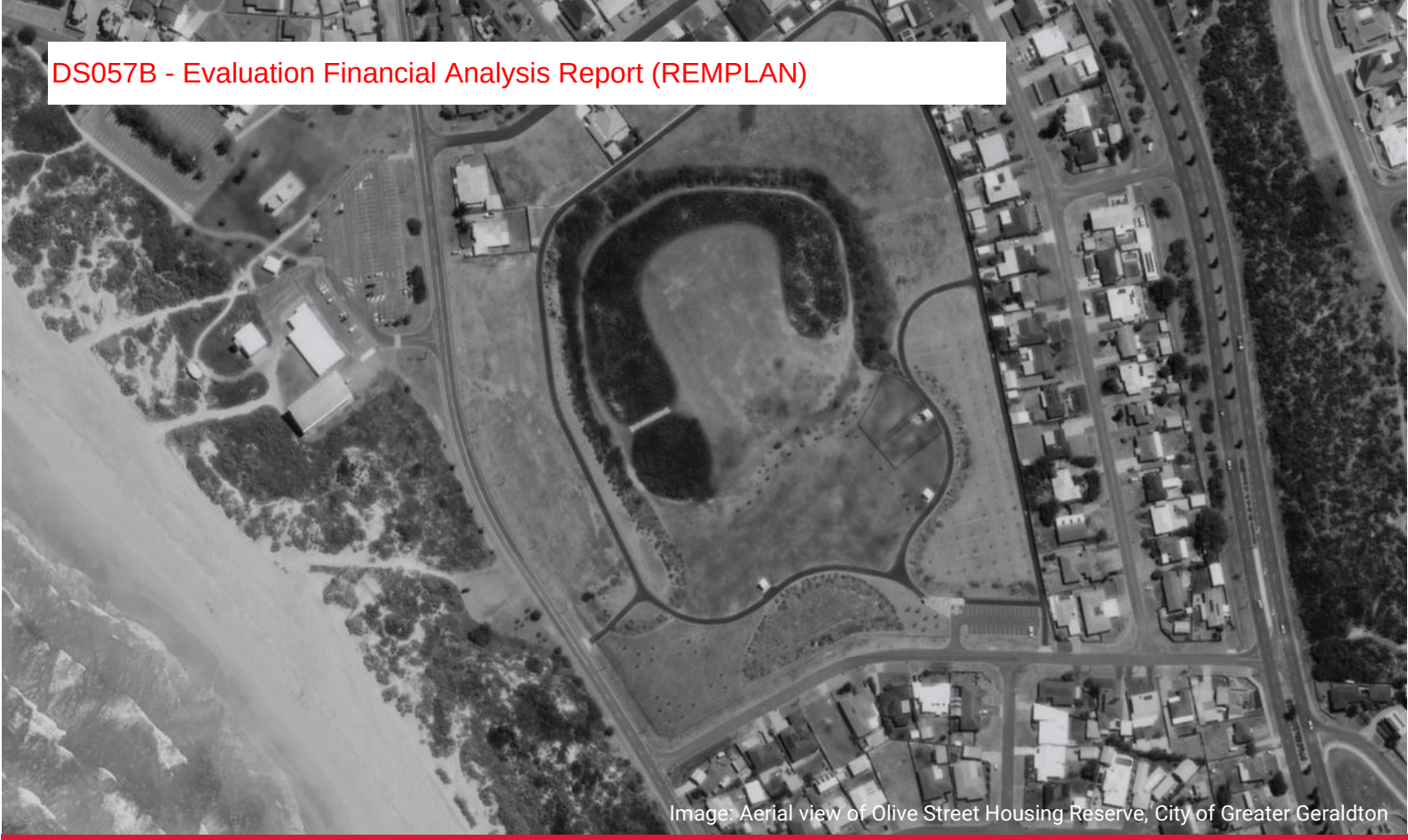

Image: Aerial view of Olive Street Housing Reserve, City of Greater Geraldton

Olive Street Reserve Housing Project
Financial Analysis

Project undertaken for City of Greater Geraldton
March 2025

REMPLAN

OLIVE STREET RESERVE HOUSING PROJECT

Financial Analysis

This report has been prepared by the team at REMPLAN

March 2025

DISCLAIMER:

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Acronyms and Shortforms

ABS	Australian Bureau of Statistics
City	City of Greater Geraldton
Greater Geraldton	Greater Geraldton Local Government Area
GROH	Government Regional Officers Housing
IRR	Internal Rate of Return
LCCA	Life Cycle Cost Analysis
LGA	Local Government Area
PPI	Producer Price Index
Project	Olive Street Reserve Housing Project
ROI	Return on Investment

Executive Summary

The City of Greater Geraldton (City) is investigating opportunities to support the Olive Street Reserve Housing Project (the Project) in partnership with the State Government. The Project aims to address the critical shortage of accommodation for essential services workers in the region by developing seven four bedroom homes in Mahomet Flats. The cost for development of the homes is estimated to be $4.66 million, the State Government will contribute $1.60 million toward development of the homes, thereby reducing the City's contribution from $4.66 million to $3.06 million.

The City is proposing the Olive Street model operate on a rent and sell approach to maximise the financial return to the City and by providing housing for essential workers such as doctors, nurses, teachers, and police officers through the Government Regional Officers Housing (GROH) program, reducing the financial risk to City funds.

To support the City's decision-making regarding investment, or otherwise, into the Project, analysis has been undertaken to estimates financial implications and potential outcomes. Three scenarios for use of City funds have been undertaken:

Scenario 1: Olive Street Reserve Housing Project	The City invests funds in to the proposed development of housing for rent to sell purposes.
Scenario 2: Council funds invested:	The City invests funds (otherwise invested in the Project) into a low risk term deposit.
Scenario 3: Council funds & revenue from sale of Olive Street Reserve lots invested:	The City sells the seven lots remaining in the Olive Street Housing Reserve and invests sale revenues and the City's funds (otherwise invested in the Project) into a low risk term deposit.

Cashflow analysis indicates investing in the Olive Street Reserve Housing Project is more likely to yield higher returns compared to investing funds into a low-risk interest bearing account.

The total return at the end of Year 12 for Scenario 1 is $7.80 million, higher compared to the return for Scenario 2 ($5.08 million) and Scenario 3 ($6.97 million). Noting that for Scenario 1 the initial investment is a sunk cost, whereas the initial investment is returned under Scenario 2 and Scenario 3. Even without the return on initial investment, Scenario 1 provides a better financial outcome for the City, in addition to:

- boosting housing supply,
- supporting employment,
- supporting the provision of local essential services,
- helping to attract further investment into the local residential building industry through demonstrating confidence in Geraldton's housing market.

Table ES-1: Cash Flow Analysis outcomes

	Scenario 1: Olive Street Housing Project	Scenario 2: Council funds invested	Scenario 3: Council funds & land sale revenues invested
Return on Investment (ROI) *(income derived relative to initial investment)*	$7.80M	$2.02M	$3.91M
Return at end of Year 12	$7.80M	$5.08M	$6.97M

1. Introduction

Communities across Australia face a significant national housing shortage, expected to worsen in the coming years. Reflective of a national trend, existing housing supply in Geraldton is struggling to meet demand, resulting in rising property prices and rental shortages. A key challenge Geraldton faces is the affordability of housing. The lack of new developments has driven competition in the market, making it difficult for first-home buyers and low-income households to secure suitable housing. The rental vacancies are also limited, straining the rental market and creating barriers for individuals and families looking to relocate to Geraldton for work or lifestyle opportunities.

In 2012, the City of Greater Geraldton (City) developed the Olive Street Reserve which saw the development of fifteen residential lots adjacent to the reserve. These freehold lots were marketed for sale, with eight lots sold to help offset a portion of the development costs. However, seven lots remain unsold and have since been retained by the City, with the land remaining vacant.

Figure 1-1: Olive Street Housing Project, example of promotional signage

The City is investigating opportunities to support the Olive Street Reserve Housing Project (the Project) in partnership with the State Government. The Project aims to address the critical shortage of accommodation for essential services workers in the region. In partnership with the State Government, it is envisages the residences will service essential workers such as doctors, nurses, teachers, and police officers through the Government Regional Officers Housing (GROH) program.

It is envisaged the housing developed will be occupied by families or colleagues residing together, with this in mind GROH expressed the need for the houses to be four-bedroom and two-bathroom dwellings. Supporting the GROH program helps sustain essential services and ensures they remain accessible in the region. Beyond meeting housing needs, this initiative strengthens Greater Geraldton's economy by local job creation, skill development, and enhanced economic resilience.

The City estimates net contribution to this project is approximately $3.1 million, with the Western Australian Government contributing $1.6 million. The State Government's contribution reinforces the shared commitment across all levels of government to increase housing supply and ensuring the provision of essential services in Geraldton.

The City is proposing the Olive Street model operate on a rent and sell approach to maximise the financial return to the City and by providing housing for the State Government will further reduce the potential risks.

This report provides an overview of current housing market conditions and the availability of services provided by key service workers. A financial analysis has been conducted to evaluate potential financial outcomes associated with the use of City funds for the Project or alternative allocations. A summary of the financial outcomes for each option is included to support the City's investment decision-making process regarding the Project.

Reporting and analysis are based on the following data sources:

- CoreLogic RP Data, REMPLAN Property Analysis Module.
- Australian Bureau of Statistics (ABS) Census of Population and Housing, REMPLAN Community.
- ABS, Regional Population.
- Department of Planning, Lands and Heritage, Western Australia Tomorrow Population Report No. 12.
- ABS, Building Approvals, Australia.
- ABS, Producer Price Index.
- Master Builders, Building and Construction Industry Forecasts, Western Australia.

2. Housing Market

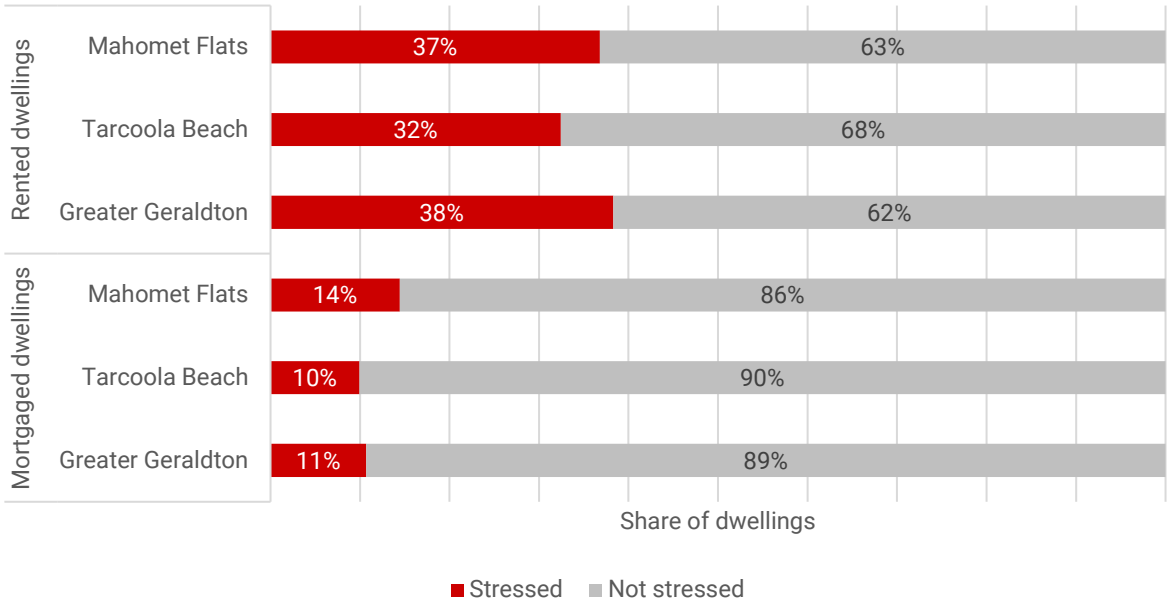
2.1 Housing Affordability

A household is experiencing housing stress when the cost of housing (rent or mortgage repayments) is high relative to household income. Households in the lower 40% of income earners that are spending more than 30% of their income on housing, are considered to be experiencing financial housing stress.

Generally renters experience a higher rate of housing stress compared to those with a mortgage, reflective of the higher likelihood of renters having lower incomes and less control over housing costs compared to homeowners.

As illustrated in Figure 2-1, renters in Greater Geraldton are three time more likely to be experiencing housing stress compared to homeowners. The Olive Street Housing Research is located in Mahomet Flats and close to Tarcoola Beach, with housing stress in those suburbs largely reflective of the whole local government area (LGA).

Figure 2-1: Housing Stress Greater Geraldton, 2021

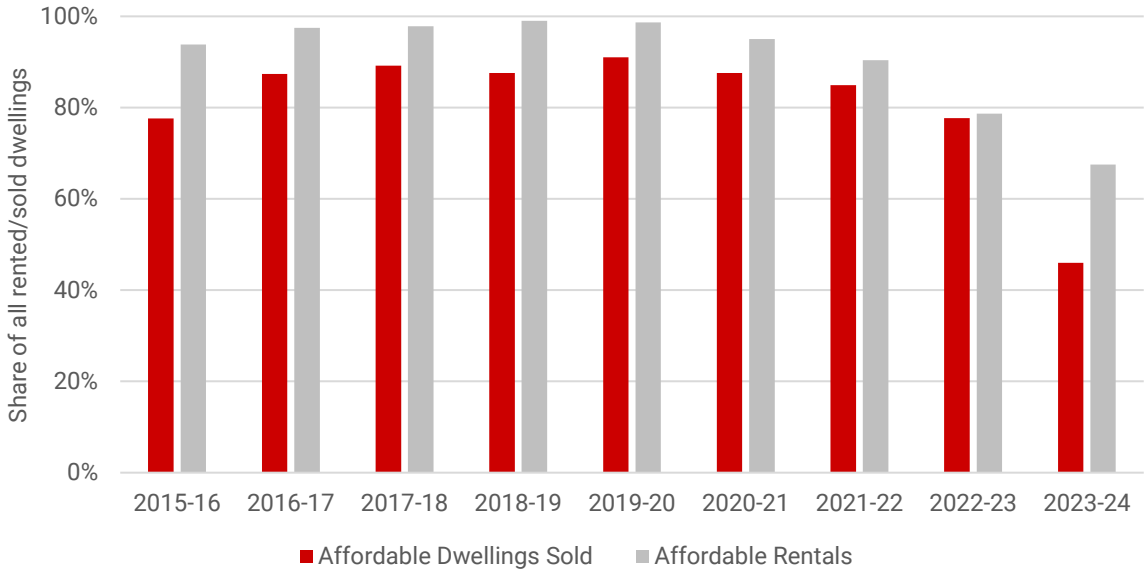


Source: REMPLAN Property Analysis Module

The term 'housing affordability' refers to the relationship between expenditure on housing and household incomes as a way of reflecting potential barriers for entry into the housing market. The number of dwellings that are affordable has a strong relationship with income. A dwelling is considered unaffordable if the asking price for rent or sale is higher than 30% of household income. Fewer homes are considered affordable the lower household incomes are.

The rate of affordable dwellings (rented or mortgaged) considered affordable in Greater Geraldton has decreased over the last four years (Figure 2-2), from 91% of purchased homes and 99% of rentals in 2019-20 to just 46% of purchased home and 38% of rental in 2023-24.

Figure 2-2: Affordable Dwellings, Greater Geraldton, 2015-16 to 2023-24



Source: REMPLAN Property Analysis Module

As detailed in Table 2-1, there has been little change in the number of affordable rentals over the past ten years, however affordability has fallen from 94% (2015-16) to 68% (2023-24). The number of affordable purchased homes has increased particularly post-2020. However, the new housing stock remains out of reach for many with the rate of affordability falling to the lowest point in ten years (46% in 2023-24).

Table 2-1 Housing Affordability, Greater Geraldton, 2015-16 to 2023-24

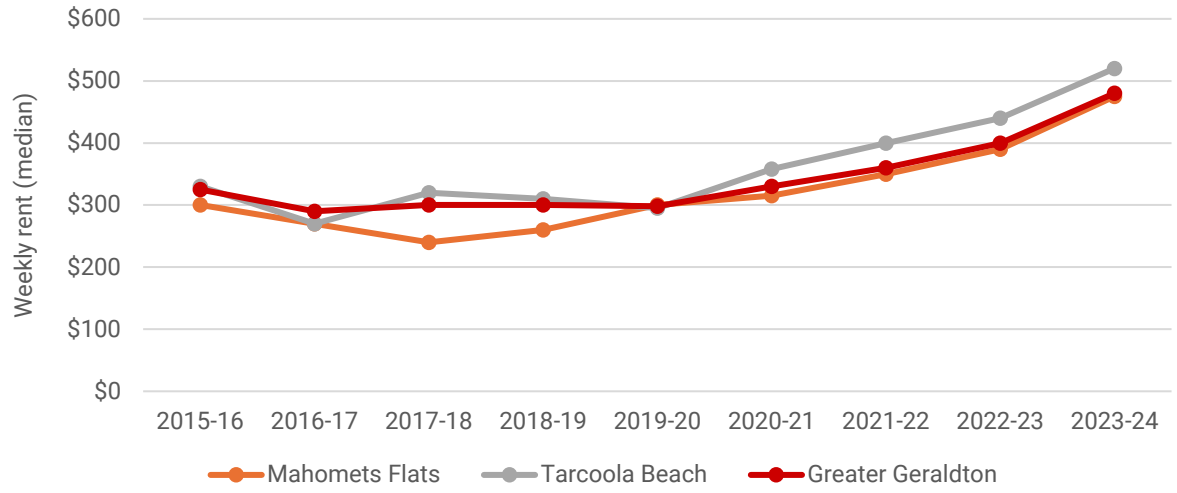
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Affordable Dwellings Sold - % of total sales	78%	87%	89%	88%	91%	88%	85%	78%	46%
Affordable Rentals - % of total rented	94%	98%	98%	99%	99%	95%	90%	79%	68%
Affordable Dwellings Sold – number	337	373	439	430	475	802	981	848	653
Affordable Rentals – number	288	346	356	412	473	377	311	352	337

Source: REMPLAN Property Analysis Module

2.2 Housing Market Conditions

The fall in housing affordability has coincided with increases in the median rental and house sale prices. As illustrated in Figure 2-3, the median weekly rent in Geraldton was $325 in 2015-16, having increased 48% by 2023-24 to a median of $480. The increase in Mahomets Flats and Tarcoola Beach has been more pronounced with rents increasing 58% between 2015-16 and 2023-24, from $300 in Mahomet Flats and $330 Tarcoola Beach to $475 and $520 respectively.

Figure 2-3: Median Weekly Rent, Greater Geraldton, 2015-16 to 2023-24

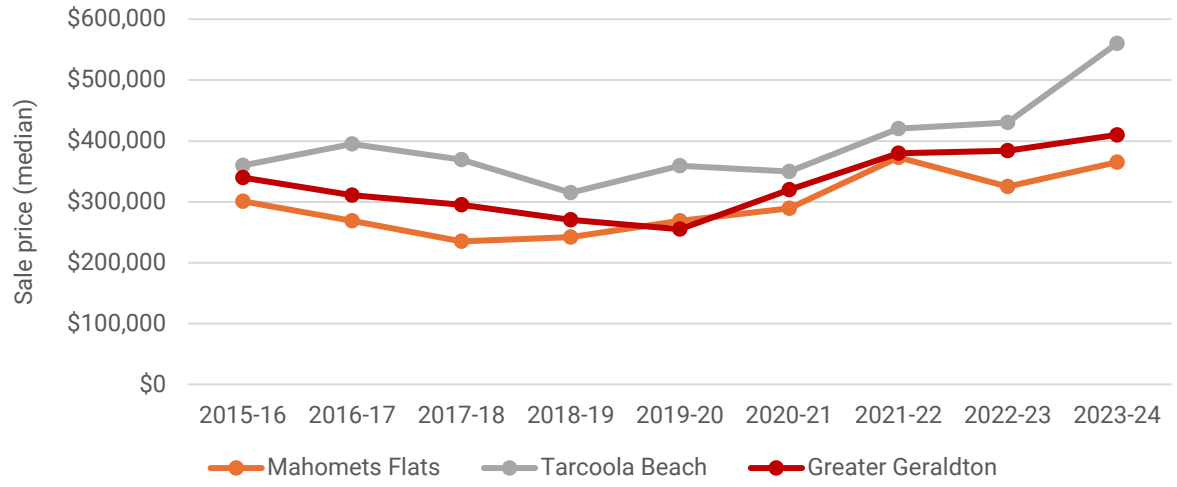


Source: REMPLAN Property Analysis Module

Figure 2-4 presents the median sale price for the LGA, Mahomets Flats and Tarcoola Beach. Tarcoola Beach properties are generally sold at a higher than LGA average price, particularly in 2023-24 when the median was $560,000 compared to $410,000 for the LGA. The price of housing in Mahomet Flats has remained fairly stable, increasing 21% over the past 10 years from $360,000 in 2015-16 to $560,000 in 2023-24.

The movement in the median sale price in Mahomet Flats potentially indicates a lack of new housing stock and little capital gain for existing dwellings. Both factors act as a disincentive for developers.

Figure 2-4: Median Property Sale Prices, Greater Geraldton, 2015-16 to 2023-24



Source: REMPLAN Property Analysis Module

Western Australia's (WA) housing market is more dynamic than other states, experiencing fluctuating property values over the last 10 years due to the influence of the mining sector and interstate migration. Housing supply has struggled to meet the growing demands at times, especially during periods of strong economic performance. Perth drives majority of the State's housing market trends.[1] Perth is considered to have a higher long-term investment appeal due to its size, growth prospects, and economic importance. Whereas Greater Geraldton offers more affordable entry points for property investors and rental yields are better compared to major cities due to the lower property prices.

The median house sale price and annual change is presented in Table 2-2. Of note is the rapid rise the median price between 2019-20 and 2020-21. Since then house prices in Geraldton have continued to increase, albeit at far slower annual rate compared to the State. In 2023-24 the median house price in Geraldton was $410,000, having increased 7% from the previous year, in comparison the State average price increased 18% to $622,000.

[1] https://www.realestate.com.au/insights/why-this-city-has-emerged-as-australias-strongest-property-market/

Table 2-2 Median Sale Prices, Greater Geraldton and Western Australia, 2015-16 to 2023-24

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Median Sale Price ($'000s)									
Greater Geraldton	$340	$311	$295	$271	$255	$320	$380	$384	$410
Western Australia	$435	$415	$420	$410	$375	$430	$490	$529	$622
Annual Change									
Greater Geraldton	0%	-9%	-5%	-8%	-6%	25%	19%	1%	7%
Western Australia	-2%	-5%	1%	-2%	-9%	15%	14%	8%	18%

Source: REMPLAN Property Analysis Module

The median weekly rent in Geraldton has been above $400 since 2021-22. Over that same period the State-wide average has jumped from $470 per week to $615 per week. There has been a sustained annual increase in weekly rent since 2019-20, with the jump in 2023-24 the highest increase in weekly rent seen for at least the last ten years in both Geraldton (20%) and the West Australian average (16%).

Table 2-3 Median Weekly Rent, Greater Geraldton and Western Australia, 2015-16 to 2023-24

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Median Weekly Rent ($)									
Greater Geraldton	$325	$290	$300	$300	$298	$330	$360	$400	$480
Western Australia	$400	$375	$350	$360	$365	$410	$470	$530	$615
Annual Change									
Greater Geraldton	-7%	-11%	3%	0%	-1%	11%	9%	11%	20%
Western Australia	-9%	-6%	-7%	3%	1%	12%	15%	13%	16%

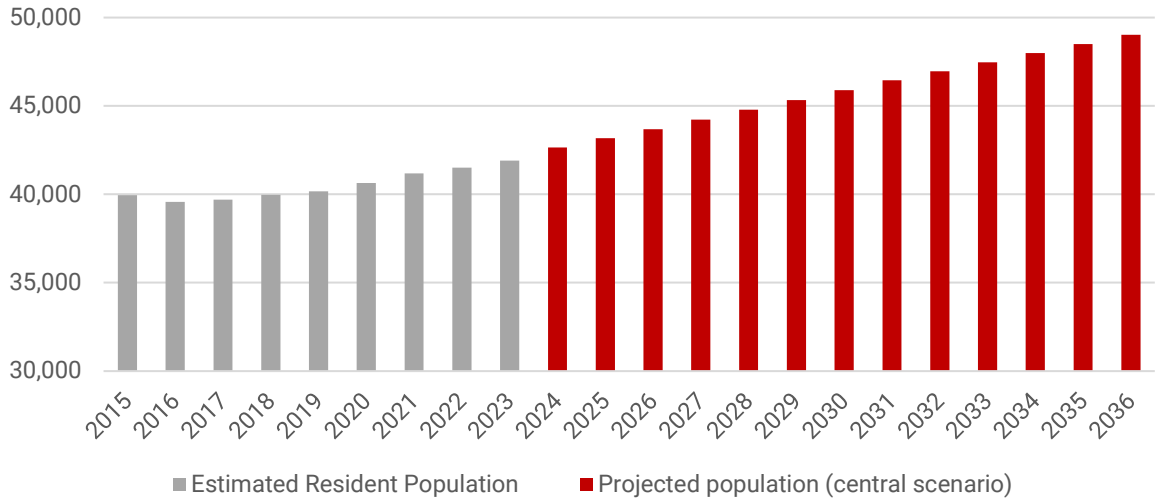
Source: REMPLAN Property Analysis Module

3. Building Industry

3.1 Demand and Supply

Population growth in the region is strongly influenced by essential workers and regional industries, such as agriculture, mining, and fishing, which can impact local employment and drive the need for housing. The latest State Government population projections (central scenario) estimate there will be an additional 7,000 residents living in Geraldton by 2036. As illustrated in Figure 3-1, the pace of population growth in Geraldton is expected to rise over the next decade with annual population growth to average 1.2%, compared to just 0.6% for the past decade.

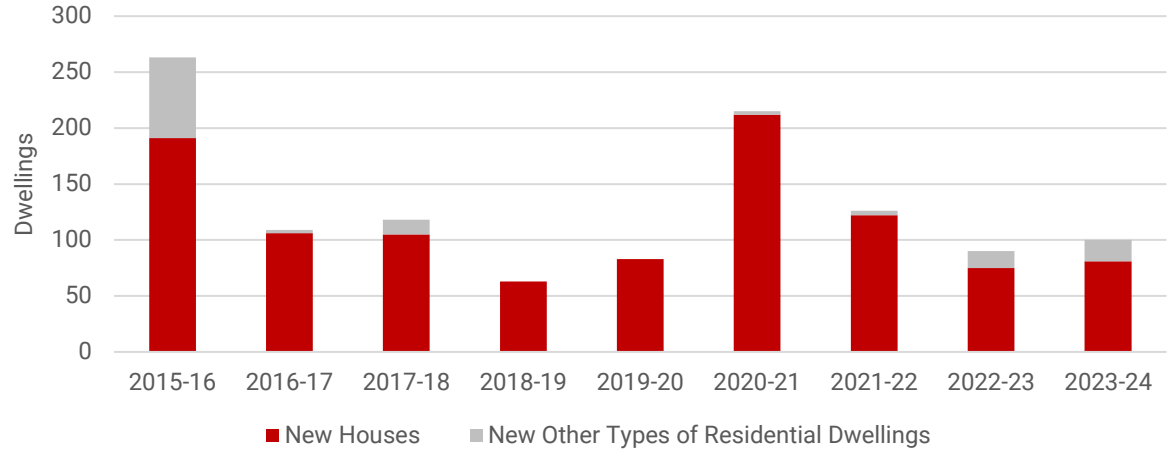
Figure 3-1: Population, estimated and projected, Greater Geraldton



Source: ABS, Regional Population. Dept. of Planning, Lands and Heritage, Western Australia Tomorrow Population Report No. 12.

Strong population growth, rising housing stress, and worsening affordability suggest that the current rate of housing supply is failing to keep pace with local demand. This is reflected in the consistently low number of annual residential approvals, which have remained at approximately 100 per year, except for spikes in 2015–16 and 2020–21 (Figure 3-2). This trend indicates that the number of new dwellings being constructed may not be sufficient to meet both current and future housing needs.

Figure 3-2: Residential Dwelling Approvals, Greater Geraldton, 2015-16 to 2023-24



Source: REMPLAN Property Analysis Module

3.2 Challenges

The residential building industry in Western Australia faces a combination of challenges including increased demand, financial pressure, supply chain disruptions, and material shortages, which extends project timelines and strain finances (see Table 3-1).

Table 3-1: Challenges Facing the Construction Industry in Western Australia

Challenge	
Transport and Logistics Issues	• Geraldton is located north of Perth and other major metropolitan areas, which are the main sources of construction materials. • This geographical isolation can result in longer lead times for deliveries and high transportation costs can drive up material prices. • The availability of local suppliers may be limited, which means developers rely on sourcing materials nationally, increasing the potential delays and stock shortages.
National and International Supply Chain Disruption	• Supply chains are currently impacted by global and national disruptions. These include shortages of raw materials, delays in manufacturing, and interruptions in shipping. • If a developer needs to source brick or materials from overseas, supply chain disruptions, customs delays, or port congestion could affect delivery times.
Material Shortages	• There are currently ongoing challenges in the Australian building industry related to shortages in specific materials, including brick. • Other essential items including steel, timber, and insulation are also in short supply. E.g. steel prices have been volatile due to global demand and supply disruptions and timber supply issues have affected the broader construction industry.
Price Volatility	• Supply chain disruptions, combined with rising fuel costs and inflation, have led to increased prices for many construction materials. • Price volatility may affect the financial viability of a development project. • If material costs are not accurately anticipated or if supply issues cause delays, it could affect profit margins and timelines.
Local Labour and Skilled Trades Availability	• Along with material shortages, the availability of skilled labour in remote regions like Geraldton can be limited. • A shortage of local construction workers means that skilled labour must be sourced from outside the region, adding to costs and potential delays. • Labour shortages can exacerbate the impact of material delays, as construction may be halted or slowed while waiting for necessary supplies.

The Producer Price Index (PPI) developed by the ABS includes a measure of the cost of inputs into the house construction industry[2]. Table 3-2 reports the PPI for housing construction industry for Perth and the weighted average for all capital cities. Perth's PPI showed a 3.5% increase in December 2024 compared to December 2023. This was significantly higher than the increases seen in other capital cities like Sydney (+0.6%), Melbourne (+1.8%), and Brisbane (+1.7%). The change in housing construction industry PPI for all capital cities (weighted average) was 1.6, such that the cost of housing construction inputs in Perth increased at twice the rate (3.5%) compared to the capital city average. The higher year-on- year increase suggests that Perth is facing greater inflationary pressures within the construction sector compared to other capitals. These cost increases are creating substantial financial strain for developers in Perth, who face higher material and labour costs compared other cities. This could potentially impact project viability and timelines, supporting the current challenges experienced in WA and the Greater Geraldton's construction industry.

[2] https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release

Table 3-2: Producer Price Index, Percentage Change from Corresponding Quarter of Previous Year, Capital Cities

	Dec-22	Mar-23	Jun-23	Sept-23	Dec-23	Mar-24	Jun-24	Sept-24	Dec-24
Percentage Change from Corresponding Quarter of Previous Year									
Perth	13.8	12.5	8.2	6.3	4.4	1.6	2.0	1.9	3.5
Capital Cities (weighted average)	14.2	11.4	7.4	4.4	2.4	1.3	1.1	1.4	1.6

Source: ABS, Producer Price Index.

4. Essential Service Provision

There are around 5,200 essential services workers in Geraldton across of health care, education and public safety sectors (Table 4-1). The rate of provision of these workers is 0.13 per resident (i.e. the ratio of essential service workers to the number of residents), a ratio that varies according to the sub-sector.

Table 4-1: Provision of Essential Services, Greater Geraldton, 2021

Sub-sector	Workers	Ratio (Workers: Residents)
Hospitals	1,002	0.03
Social Assistance Services	743	0.02
Medical and Other Health Care Services	729	0.02
Residential Care Services	346	0.01
Health Care and Social Assistance, nfd	63	0.00
Preschool and School Education	1,520	0.04
Tertiary Education	277	0.01
Public Order, Safety and Regulatory Services	518	0.01
Total	**5,198**	**0.13**

Source: ABS Census of Population and Housing, REMPLAN Community.

Maintaining or improving the current level of essential service provision is closely tied to population growth. If the existing service levels (Table 4-1) are sustained as the population increases, the number of essential services workers will need to grow to 5,750 by 2026 and 6,115 by 2031. Therefore an additional 553 workers will be required by 2026 (compared to the 2021 Census workforce count), and a further 917 workers will be needed by 2031 (compared to 2021).

Table 4-2: Projected Essential Services Workers, Greater Geraldton, 2026 and 2031

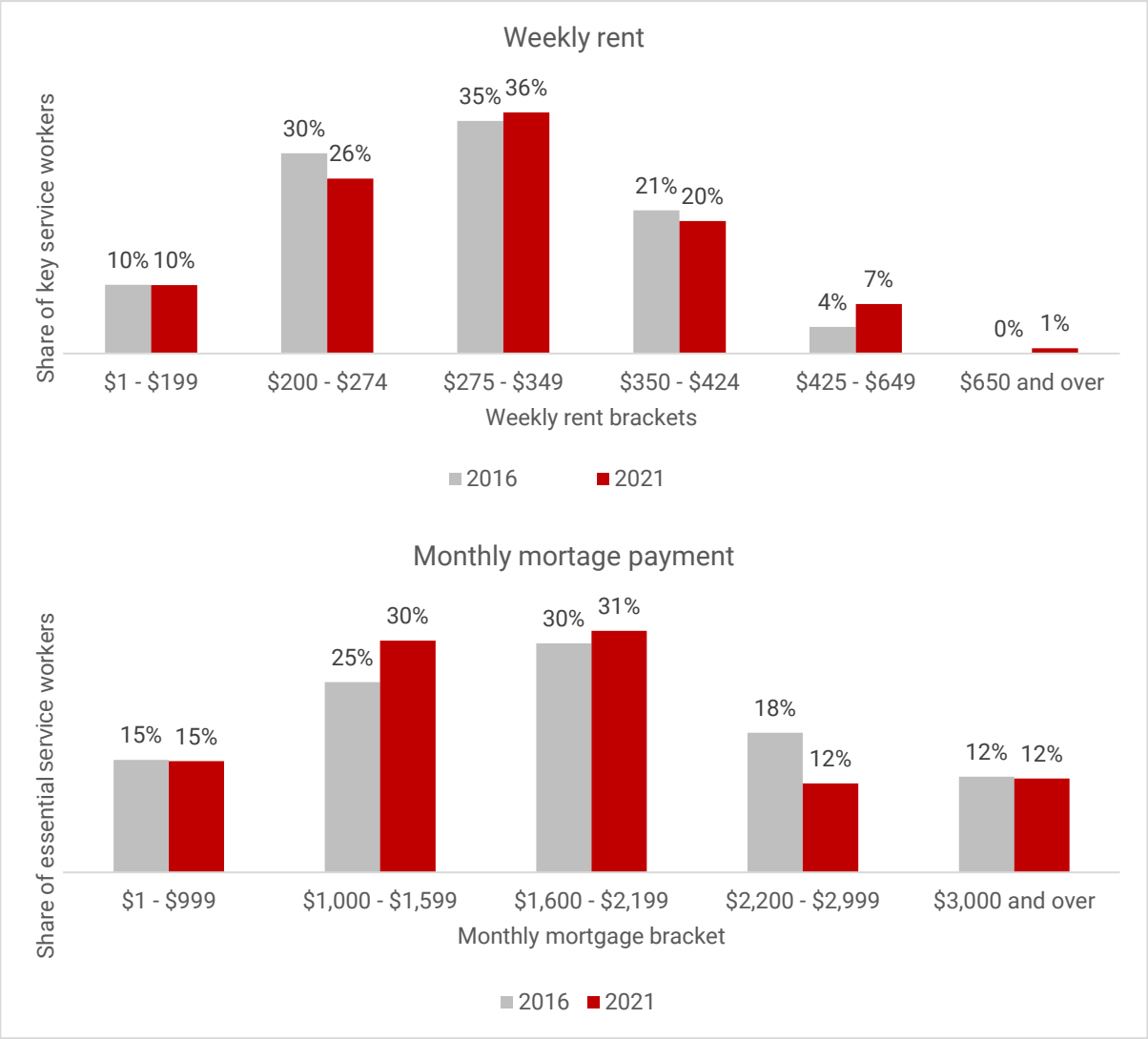
Sub-sector	Workers 2021	Projected Workers		Additional workers required to maintain service provision	
		2026	2031	2021 - 2026	2021 - 2031
Hospitals	1,002	1,109	1,179	107	177
Social Assistance Services	743	822	874	79	131
Medical and Other Health Care Services	729	807	858	78	129
Residential Care Services	346	383	407	37	61
Health Care and Social Assistance	63	70	74	7	11
Preschool and School Education	1,520	1,682	1,788	162	268
Tertiary Education	277	306	326	29	49
Public Order, Safety and Regulatory Services	518	573	609	55	91
Total	**5,198**	**5,751**	**6,115**	**553**	**917**

Source: REMPLAN.

Figure 4-1 illustrates the change in housing costs (rent and mortgage) for essential service workers in Greater Geraldton. The rental bracket of $275 - $349 is the most common, with little change in the proportion between 2016 and 2021. The lower rental backet accounted for 30% of essential workers in 2016, this fell to 26% in 2021. Conversely higher rents of $425 or higher accounted for 4% in 2016, a proportion that doubled by 2021 with 8% of essential workers paying $425 or more per week.

Mortgage repayments for essential services workers between 2016 and 2021 have seen a growing proportion paying less than $2,200 per month (37% in 2016, 45% in 2021). This can reflect a number of trends including a shift of homeownership to more affordable areas, potential stagnant property values in some local areas, or a change in borrowing habits (smaller loans to ensure manageable repayments).

Figure 4-1: Housing costs for essential service workers residing in Greater Geraldton, 2016 and 2021



5. Financial Assessment

5.1 Methodology

The Project will see the development of seven four bedroom homes in Mahomet Flats. A tender process undertaken in January 2025 determined the cost for development of the homes to be $4.66 million at an average cost of $665,700 per home. The intention is for the homes to be development by 2026. The State Government will contribute $1.6 million toward development of the homes[3], thereby reducing the City's contribution from $4.66 million to $3.06 million.

The City proposes to lease all seven homes to the State Government's GROH program, in order to address housing shortages for essential workers in Geraldton and to reduce financial risk for the City. The terms of the lease will include:

- Weekly rental payment to the City of $820 regardless of occupancy.
- The City would be responsible for maintenance (with the exception of damage caused by lessee).
- GROH would be responsible for management of tenants.
- The City has the right to review and adjust the weekly rental amount once every three years.

Most importantly the homes will be leased to GROH over a ten-year timeframe, following which the City will renew the properties and release to the private housing market.

In order to understand the financial implications and potential outcomes for the City, financial modelling has been undertaken on three scenarios:

- **Scenario 1: Olive Street Reserve Housing Project:** The City invests funds in to the proposed development of housing for rent to sell purposes is undertaken.
- **Scenario 2: Council funds invested:** The City invests funds (otherwise invested in the Project) into a low risk term deposit.
- **Scenario 3: Council funds & revenue from sale of Olive Street Reserve lots invested:** The City sells the seven lots remaining in the Olive Street Housing Reserve and invests sale revenues and the City's funds (otherwise invested in the Project) into a low risk term deposit.

A cash flow analysis has been conducted on all three scenarios to evaluate and forecast the movement of cash into and out of the investment options. Analysis has been conducted over a 12-year period, at which time the homes are assumed to be sold to the private market. The intent being to assist Council assess liquidity, financial sustainability and profitability of each option.

Life Cycle Cost Analysis (LCCA) has been undertaken on Scenario 1: Olive Street Reserve Housing Project. LCCA assists in understanding total costs associated with the Project (over the 12-year period), development to disposal, rather than just the initial investment.

Table 5-1 outlines the assumptions adopted to conduct the cash flow comparison and the LCCA of Scenario 1.

[3] Redirection of unspent State Government funds previously allocated for the Beresford Foreshore Development.

Table 5-1: Financial analysis scenario assumptions

	Scenario 1: Olive Street Housing Project	Scenario 2: Council funds invested	Scenario 3: Council funds & revenue from land sales invested
State Government contribution	$1.60M	$0	$0
Council investment	$3.06M	$3.06M	$3.06M
Houses developed	7	-	-
Construction Cost (total of all properties)	$4.66M	-	-
Other development costs (total of all properties)	$40,000	-	-
GROH weekly rent per property	$820	-	-
Maintenance, management and local charges[a] (annual, total of all properties)	$56,700	-	-
Rent indexation (annual)	5%	-	-
Frequency of rent indexation	3 years	-	-
Property commencement value (per property)	$650,000	-	-
Timing of property sales	Years 11 & 12	-	-
Property renewal costs (prior to sale, per property)	$75,000	-	-
Sales commission fee and settlement costs (% of sale value)	3.0%	3.0%	3.0%
Sale revenue per lot (average)	-	-	$200,000
Timing of land sale	-	-	Years 2 - 5
Property/land annual capital growth	3.0%	3.0%	3.0%
Return on investment (investment fund)	-	4.5%	4.5%
Depreciation assumptions (applied to Life Cycle Cost Analysis)			
Depreciation method	Straight-line	-	-
Depreciation rate	2.5%	-	-
Depreciation value (per property)	$16,250	-	-

Note: a) includes maintenance, and water and sewerage services charges (water consumption to be paid by lessee).

5.2 Cash Flow Comparison

Table 5-2: Cash Flow Analysis over 12 years

	Year of Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Scenario 1: Olive Street Housing Project													
Initial investment	-$4,700,000												
State Government funding	$1,600,000												
Net operating income (rent less maintenance costs)	$0	$241,780	$240,646	$254,413	$253,234	$252,030	$266,473	$265,221	$263,944	$279,095	$277,766	$157,949	$0
Net revenue (sales less commission & property renewal)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$2,133,261	$2,915,457
Net	-$3,100,000	$241,780	$240,646	$254,413	$253,234	$252,030	$266,473	$265,221	$263,944	$279,095	$277,766	$2,291,210	$2,915,457
Scenario 2: Council funds invested													
Initial investment	-$3,060,000												
Interest earned (end of period)	$0	$145,350	$144,241	$142,358	$148,408	$154,715	$161,291	$168,145	$175,292	$182,741	$190,508	$198,605	$209,481
Net	-$3,060,000	$145,350	$144,241	$142,358	$148,408	$154,715	$161,291	$168,145	$175,292	$182,741	$190,508	$198,605	$209,481
Scenario 3: Council funds & revenue from land sales invested													
Initial investment	-$3,060,000												
Interest earned (end of period)	$0	$145,350	$144,241	$155,137	$179,045	$203,969	$221,295	$230,700	$240,505	$250,726	$261,382	$272,491	$287,414
Net sale revenue (less commission)	$0	$0	$300,700	$407,400	$407,400	$203,700	$0	$0	$0	$0	$0	$0	$0
Net	-$3,060,000	$145,350	$444,941	$562,537	$586,445	$407,669	$221,295	$230,700	$240,505	$250,726	$261,382	$272,491	$287,414

Internal Rate of Return (IRR) reflects the annual rate of return relative to initial investment. The IRR in this case treats initial investment for all three scenarios as a sunk cost (higher IRR the better the return).

- Scenario 1: provides the strongest rate of return at 11%,
- Scenario 2: is the poorest IRR at -6%, in other words, the investment is losing value in real terms, and
- Scenario 3: provides a reasonable rate of return at 4%.

Return on Investment (ROI) reflects income derived from investment at the end of the 12 years. Based on the cash flow comparison:

- Scenario 1 delivers a ROI of $7.80M, a return of 252% on initial investment,
- Scenario 2 delivers a ROI of $2.02M, a return of 66% on initial investment, and
- Scenario 3, an ROI of $3.91M, a return of 128% on initial investment.

Cashflow analysis indicates investing in the Olive Street Reserve Housing Project (Scenario 1) is more likely to yield higher returns compared to investing funds into a low-risk interest bearing account (Scenario 2 and Scenario 3). The total return at the end of Year 12 for Scenario 1 is $7.80 million, higher compared to return for Scenario 2 ($5.08 million) and Scenario 3 ($6.97 million). Noting the initial investment is a sunk cost under Scenario 1, while the initial investment is returned under Scenario 2 and Scenario 3. Even without the return on initial investment, Scenario 1 provides a better financial outcome for City funds.

Table 5-3: Cash Flow Analysis outcomes

	Scenario 1: Olive Street Housing Project	Scenario 2: Council funds invested	Scenario 3: Council funds & revenue from sale of Olive Street Reserve lots invested
Internal Rate of Return (IRR)	11%	-6%	4%
Return on Investment (ROI)	$7.80M	$2.02M	$3.91M
Return at end of Year 12	$7.80M	$5.08M	$6.97M

5.3 Life Cycle Cost Analysis (Scenario 1)

Table 5-4: Life Cycle Cost Analysis, Scenario 1, 12 years

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	2030-2031	2031-2032	2032-2033	2033-2034	2034-2035	2035-2036	2036-2037	2037-2038
Cost Generating Activities													
Capital Costs													
Legal and compliance fees	$15,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tender preparation and vendor selection	$5,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Construction cost	$4,660,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Project, superintendence and contract management	$20,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
sub-total Capital Costs	*$4,700,000*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
Operating Costs													
Property renewal (prior to sale)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$288,019	$393,626
House sale commission	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$74,885	$102,343
House maintenance, management and charges	$0	$56,700	$57,834	$58,991	$60,170	$61,374	$62,601	$63,853	$65,130	$66,433	$67,762	$39,495	$0
Depreciation	$0	$113,750	$113,750	$113,750	$113,750	$113,750	$113,750	$113,750	$113,750	$113,750	$113,750	$113,750	$65,000
sub-total Operating Costs	$0	$170,450	$171,584	$172,741	$173,920	$175,124	$176,351	$177,603	$178,880	$180,183	$181,512	$516,149	$560,969
TOTAL COSTS	**$4,700,000**	**$170,450**	**$171,584**	**$172,741**	**$173,920**	**$175,124**	**$176,351**	**$177,603**	**$178,880**	**$180,183**	**$181,512**	**$516,149**	**$560,969**
Revenue Generating Activities													
State Government development grant	$1,600,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Rental income	$0	$298,480	$298,480	$313,404	$313,404	$313,404	$329,074	$329,074	$329,074	$345,528	$345,528	$197,445	$0
House sale	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$2,496,165	$3,411,425
GROSS REVENUE	**$1,600,000**	**$298,480**	**$298,480**	**$313,404**	**$313,404**	**$313,404**	**$329,074**	**$329,074**	**$329,074**	**$345,528**	**$345,528**	**$2,693,609**	**$3,411,425**

The findings of LCCA are presented at various discount rates to account for the accrual of costs and revenues over an extended time period. Applying a discount rate adjusts the flow of costs and revenue in present value, ensuring a fair comparison of costs incurred at different times. Three discount rates are adopted to test how sensitive the total life cycle cost is to changes in economic conditions, investment risks, or funding costs. The three discount rates adopted are 3%, 5% and 8%. The lower discount rate (3%) is more reflective of public sector projects with long-term stability, while the higher discount rate (8%) reflects greater uncertainty.

Costs, revenues and net gain (revenues less costs) are presented in present value terms in Table 5-5, and show the Olive Street Reserve Housing project will deliver a net benefit under a 3% and 5% discount rate. The net benefit under the 3% and 5% discount rates are $1.7 million and $0.9 million, respectively.

Table 5-5: Life Cycle Cost Analysis Summary, Scenario 1

	Discount rate		
	3%	5%	8%
Total Costs (Net Present Value)	$6,963,687	$6,668,103	$6,318,832
Total Revenues (Net Present Value)	$8,670,227	$7,540,644	$6,244,754
Net Gain (Net Present Value)	$1,706,540	$872,541	-$74,078