Pyrmont Peninsula Place Strategy Implementation

Feasibility Analysis of Special Infrastructure Contributions (SIC)

Department of Planning, Industry & Environment

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Atlas URBAN ECONOMICS

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Executive Summary

BACKGROUND

The Pyrmont Peninsula Investigation Area ('**the Peninsula**') comprises the suburb of Pyrmont and much of the neighbouring suburb of Ultimo, bounded by Darling Harbour in the north and east, Broadway to the south and Wentworth Park in the west.

The need for a Pyrmont Peninsula Place Strategy was identified in the Greater Sydney Commission's 2019 independent review of the planning framework for the Western Harbour precinct.

The Pyrmont Peninsula Place Strategy provides a 20-year framework that identifies areas that can accommodate future growth - Darling Island, Blackwattle Bay, Tumbalong Park and Ultimo sub-precincts for more gradual growth - Pirrama, Pyrmont Village and Wentworth Park sub-precincts.

The Place Strategy was developed by the Department of Planning Industry and Environment (DPIE) throughout 2020 in consultation with the community and stakeholders and was finalised in December 2020. Since then, DPIE has been working on implementation of the Place Strategy through sub-precinct planning in the Peninsula.

On 11 December 2020 the NSW Government announced a metro station at Pyrmont as part of Sydney Metro West project. The commitment to a metro station at Pyrmont foreshadowed a value share contribution mechanism would be applied to the Peninsula once Sydney Metro West opens, requiring some property owners who benefit from increased land values associated with the new station to make an annual contribution to offset the cost of the station. A one-off Transport Special Infrastructure Contribution (**Transport SIC**) would be applied to certain new developments ahead of the station's opening.

Atlas Urban Economics (Atlas) has been engaged by Department of Planning, Infrastructure and Environment (DPIE) to examine the viability of a Transport SIC in the Peninsula.

PYRMONT PENINSULA SUB-PRECINCT MASTERPLANS

The Pyrmont Place Structure Plan considered the existing character and potential capacity of the sub-precincts to guide the land use and urban design framework for the Peninsula. The Sub-precinct Masterplans (completed in 2021) respond to forecast resident and worker populations for the Pyrmont Peninsula which is summarised in Table ES-1.

Table ES-1: Forecast Growth by Precinct (2021-2041)

Sub-precinct	Resident Growth	Jobs Growth
Pirrama	+190	+350
Pyrmont Village	+135	+1,380
Darling Island	+600	+2,730
Blackwattle Bay	+2,055	+5,770
Tumbalong Park	+2,055	+2,870
Wentworth Park	+1,115	+1,200
Ultimo	+2,350	+8,700
Total Growth	**+8,500**	**+23,000**

Source: as quoted in Cred (2020)

The sub-precincts of Ultimo, Blackwattle Bay, Tumbalong Park and Darling Island are identified as best placed to accommodate a sustainable increase in development **whilst maintaining** their existing character and amenity offering.

Commercial land uses are focused in three key areas of the Peninsula - around the future Pyrmont Metro Station (Darling Island sub-precinct), along the foreshore of Blackwattle Bay (Blackwattle Bay sub-precinct) and in the existing commercial area immediately south of Central Station (Ultimo sub-precinct).

To support the Place Strategy, new planning controls will identify appropriate height and development potential of key sites, including around the new Pyrmont Metro station while ensuring precious heritage, parklands and character are protected and public benefit is created. The Place Strategy identifies other sites that are considered capable of planning change.

SPECIAL INFRASTRUCTURE CONTRIBUTIONS

Special infrastructure contributions (**SIC**) are charged within a framework that identifies demand for state and regional infrastructure within Special Contribution Areas (SCAs). The adoption of a SIC levy rate is underpinned by a SIC infrastructure schedule which identifies key items of infrastructure to be funded by SIC funding and development feasibility testing to ensure no significant impact to development supply.

A SIC framework is proposed to apply to the Peninsula except in the sub-precinct of Ultimo, referred to as 'the draft Special Contributions Area (**the Draft SCA**)'.

CONTRIBUTION IMPACT TESTING

The Study's core objective is to test capacity of development in the Draft SCA to contribute to a SIC.

The Study expects that the City's Affordable Housing (**AH**) Program (which currently applies in the City of Sydney LGA, excluding the Peninsula) will be made applicable during implementation of the Place Strategy. Accordingly, the implications of this policy change are included as an input in the contribution impact testing along with all statutory fees and charges.

The scope of the analysis is to test the capacity of development to contribute to a SIC in the following scenarios:

- **Scenario 1** - SIC applied consistently to all new development in the Draft SCA (regardless of change to planning controls).
- **Scenario 2** - SIC applied to all new development in the Draft SCA at variable rates based on changes to planning controls

  In this scenario, '**Low base contribution**' is applied to 'base' development capacity (i.e. GFA under the existing planning instrument) while '**Additional contribution**' is applied to 'additional GFA' from a change to planning controls.

The contribution impact testing is undertaken in three steps:

1. **Step 1 - Identification of areas and notional development yields for testing**

   Atlas worked with DPIE to identify sites within sub-precincts for impact testing by land use. This step develops notional development yields based on existing planning controls which are then tested in Step 2 and Step 3.

2. **Step 2 - Baseline feasibility (s7.11 contributions, AH contributions)**

   Generic feasibility testing is carried out on sites and notional development yields developed in Step 1. Step 2 assumes all applicable statutory fees are payable (including Affordable Housing under the City's AH Program).

3. **Step 3 - Impact testing of rates**

   Step 3 iteratively tests for rates (residential and non-residential) that could be applied as:

   - Flat SIC rates (Scenario 1), or
   - Differential SIC rates (Scenario 2).

'Impact' is measured with respect the proportion of Surplus Value that is appropriated to the contributions. The greater the proportion of Surplus Value remaining, the less the impact.

- **No Change to Planning Controls**
  - Tolerance to a SIC is comparatively more modest for a site with no planning change.
  - Where a deepening of market demand is induced by the new Metro station from an amenity uplift, impact from a SIC could be offset depending on site location relative to the Metro station.
  - There is a case for a SIC to be lower for sites with no change than for sites that benefit from planning uplift.
- **Change to Planning Controls (increased FSR)**
  - Tolerance to a SIC is directly related to quantum of planning uplift. Sites which benefit from a greater increase to FSR benefit from a greater Surplus Value, with that Surplus Value acting to mitigate impact.
  - Tier 2 AH contributions are only payable on *additional residential GFA*. Accordingly, sites which benefit from *additional commercial GFA* are only subject to Tier 1 AH contributions. This has direct implications for the capacity of these developments to pay a SIC.

Figure ES-1 and Figure ES-2 illustrate conceptually summary of impact to Surplus Value in Scenario 1 and 2 respectively.

Figure ES-1: SIC Scenario 1 - Summary of Impact to Surplus Value

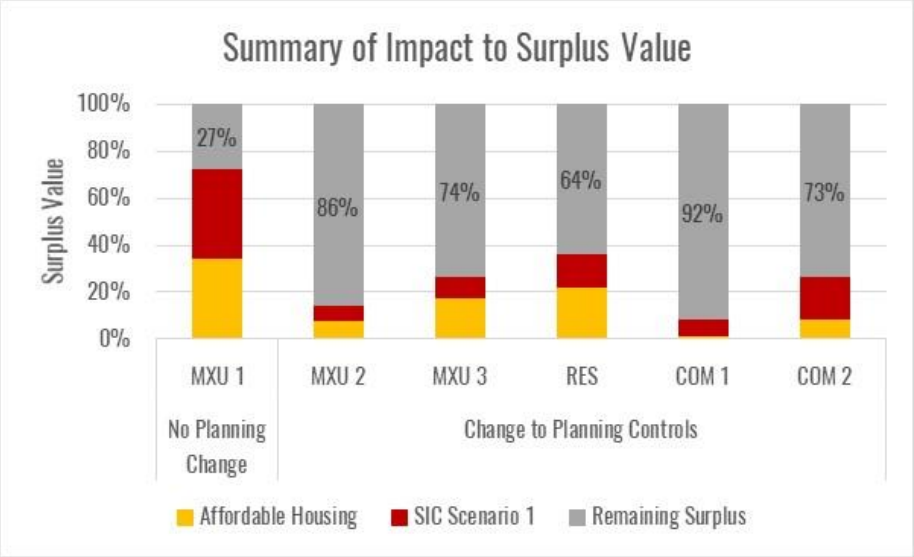
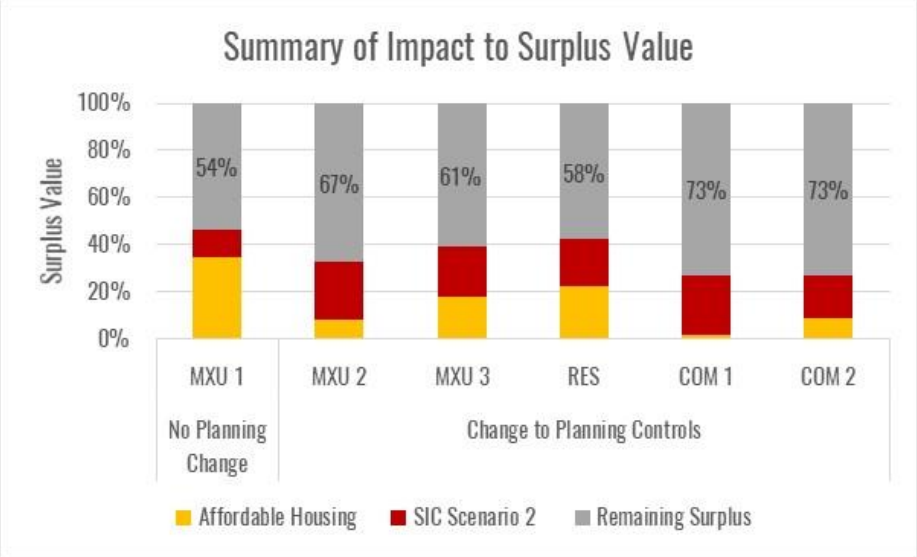


Figure ES-2: SIC Scenario 2 - Summary of Impact to Surplus Value



Source: Atlas

After contributions, the remaining Surplus Value in Scenario 1 is a broad spread - from 27% to 93%. Sites that benefit from change to planning controls/ planning uplift retain more of their Surplus Value compared to sites that are not rezoned.

In Scenario 2, the retention of Surplus Value is more even, with a 'tighter' spread of remaining Surplus Value - from 54% to 73%. The demonstrates that the application of differential rates in Scenario 2 apportions impact more proportionately - as Base FSR is subject to much lower rates than Increased FSR.

Notwithstanding impact, the key to mitigating feasibility impacts is notice. Advance notice would allow sites already purchased to be progressed for development and for due diligence investigations to account for any increased contributions prior to site purchase. Staggering and phasing-in of a SIC (with other contributions requirements) will be necessary. Supportive market conditions are also critical to the offset and mitigation of impact.

While every site is different and site-specific nuances could result in different feasibility metrics, the contribution impact testing carried out in the Study informed by property market observations and assumptions are underpinned by analysis of market evidence in the Peninsula and in comparable markets.

RECOMMENDATIONS

SIC Scenario 1 (flat rates applied to all new development)

On the premise that sites that benefit from planning uplift will have greater capacity to contribute than sites that do not, the selection of rate for uniform application in SIC Scenario 1 would need to balance the proportionality of impact.

The impact testing found the tested SIC rates had a broad distribution of impact on Surplus Value. Sites with planning uplift retain more of their Surplus Value (up to 93%) compared to sites with no planning change (retaining 27% of Surplus Value).

Table ES-2: Tested SIC Scenario 1 Rates

Land Use	SIC Rates	Application
Residential	$300/sqm GFA ($27,000/ dwelling)	Total Residential GFA
Non-residential	$200/sqm GFA	Total Non-residential GFA

Source: Atlas

Selection of SIC rates under this scenario would need to be sufficiently low to avoid unacceptable impact on feasibility of sites with no/ modest planning change, yet be sufficient to enable meaningful contribution from sites with planning change.

If Scenario 1 rates were implemented (Table ES-2), the Study recommends consideration of offset for existing floorspace to assist with proportionality of impact.

The current practice and operation of existing SIC frameworks recognise existing buildings/ floorspace for offset against SIC payments. Depending on the proportion of existing floorspace available for offset, the tested SIC rates ($300/sqm residential GFA and $200/sqm non-residential GFA) could be equivalent to lower SIC rates (after allowing for credit offset).

SIC Scenario 2 (variable rates applied to all new development based on change to planning controls)

The application of differential rates to Base FSR (GFA permissible under existing planning instrument) and Increased FSR would result in 'more targeted' impact to feasibility, i.e. sites contribute according to their respective financial capacities.

The impact testing found a 'tight' distribution of impact on Surplus Value. Sites that benefit from planning uplift retain more of their Surplus Value (up to 73%) compared to sites that have no planning change (retaining 54% of Surplus Value).

If Scenario 2 were implemented, the Study recommends the rates in Table ES-3 as maximum bands for implementation.

Table ES-3: Tested SIC Scenario 2 Rates

Planning Scenario	Land Use	SIC Rates	Application
Base FSR	Residential	$10,000/ dwelling	Base Dwellings
	Non-residential	$30/sqm	Commercial GFA
		$40/sqm	Retail GFA
Increased FSR	Residential	$2,000/sqm ($180,000/ dwelling)	Additional Residential GFA
	Non-residential	$1,500/sqm	Additional Non-residential GFA

Source: Atlas

General Recommendations

The Study recommends that advance notice (at least 12 months) of a SIC is provided to the market with savings provisions applying to applications lodged during this time. This would allow:

- Sites already purchased and developments already in the pipeline to be progressed and delivered.
- Market participants to factor-in the rates in due diligence and purchase negotiations.

As with all contributions policy, landowner expectations and market behaviour adjust over time. Implementation that provides clear notice to the market will ensure any adverse impact to future investment can be mitigated as far as possible.

Notwithstanding the impact testing which shows there is scope for contributions other than AH contributions, ***staging*** and ***staggering*** of various contributions is important to avoid a 'layering of charges' that could undermine investment confidence.

Glossary of Terms and Abbreviations

Terms

Additional GFA	Additional development capacity which results from a rezoning
Amenity Uplift	Increase in desirability from improved amenity (which could be due to improved transport accessibility, improved public realm amenity, etc.)
Base FSR	Development potential permissible under existing planning instrument (as relevant)
Base GFA	GFA permissible under existing planning instrument (as relevant)
Draft SCA	The area covered by the Pyrmont Peninsula except the sub-precinct of Ultimo
Economic Price/ rent	The price or rent necessary to provide an adequate return on development
Greenfield Area	An undeveloped area typically used for agricultural and/or non-urban uses. Greenfield areas are typically not serviced by essential infrastructure such as water, sewerage, gas and electricity
Growth Area	An area earmarked for future housing development and formally defined under the State Environmental Planning Policy (Sydney Region Growth Centres) 2006
Increased FSR	Refer to 'Planning Uplift'
Infill Area	An existing urban area with development opportunities within existing lot patterns
Planning Uplift	Increase in development capacity following a rezoning
Surplus Value	Defined as the difference between the assumed site value (under current planning controls) and the site value after a rezoning
The Act	Environmental Planning and Assessment Act 1979

Abbreviations

ABS	Australian Bureau of Statistics
AH	Affordable Housing
DPIE	Department of Planning Industry and Environment
FSR	Floor space ratio
GFA	Gross Floor Area
IRR	Internal Rate of Return
LEP	Sydney Local Environmental Plan (2012)
LGA	Local Government Area
PC	Productivity Commission
SIC	Special Infrastructure Contributions
The City	City of Sydney Council
The Program	City of Sydney Affordable Housing Program
Tier 1 AH	Clause 7.13 Affordable Housing contributions under the LEP
Tier 2 AH	Planning Proposal contributions applicable to site-specific planning proposals

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1. Introduction

1.1 Background

In August 2019, the Greater Sydney Commission (GSC) carried out a review of the planning framework for the Pyrmont/ Ultimo area, identified as the Pyrmont Peninsula Investigation Area (**the Peninsula**). The review was completed in September 2019 and outlined three core recommendations for the Peninsula, including to:

- Align the local planning framework with the Greater Sydney Region Plan and Eastern City District Plan.
- Develop a Place Strategy for the Pyrmont Peninsula Investigation Area, including a planning framework, master plan, economic strategy and governance plan.
- Implement the Place Strategy within 9-12 months.

The Pyrmont Place Strategy (**the Place Strategy**) provides a 20-year framework that identifies areas that can accommodate future growth and was developed through 2020. The Place Strategy and series of supporting technical studies was exhibited in Q3 2020. Following public consultation, the Place Strategy was finalised in December 2020.

On 11 December 2020 the NSW Government announced a new metro station at Pyrmont as part of the Sydney Metro West project. The station at Pyrmont would ease congestion at CBD train stations at Central and Town Hall and assist to relieve congestion on the Dulwich Hill Light Rail line. Station locations at Pyrmont were announced in May 2021.

The commitment to a new metro station at Pyrmont foreshadowed a value share contribution mechanism would be applied to the Peninsula once the Sydney Metro West project opens, requiring some property owners who benefit from increased land values associated with the new station to make an annual contribution to offset the cost of the station.

A one-off Transport Special Infrastructure Contribution (**Transport SIC**) would be applied to certain new developments in the Peninsula in advance of the station's opening.

Atlas Urban Economics (Atlas) has been engaged by Department of Planning, Infrastructure and Environment (DPIE) to examine the viability of a Transport SIC in the Peninsula.

1.2 Draft Special Contributions Area (Draft SCA)

The Peninsula comprises the suburb of Pyrmont and much of the neighbouring suburb of Ultimo, bounded by Darling Harbour in the north and east, Broadway to the south and Wentworth Park in the west. The Peninsula is characterised by a vibrant mix of land uses in an area of strong heritage values.

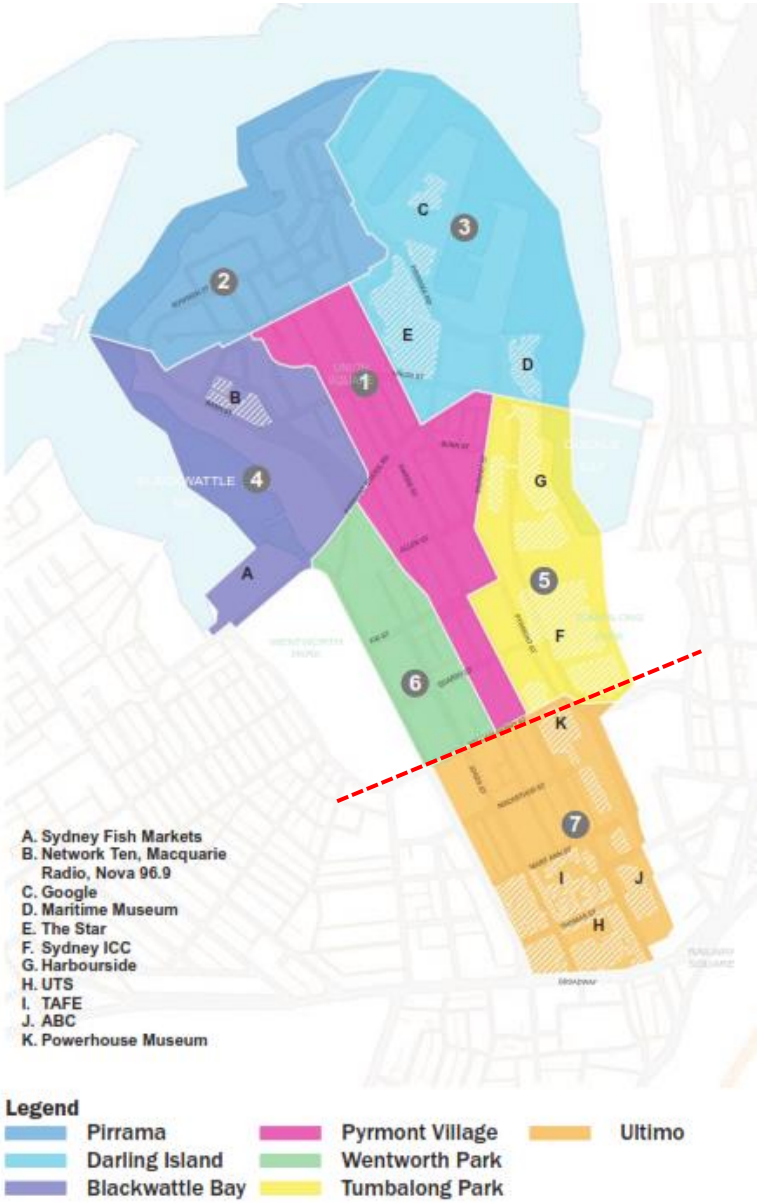
The Peninsula is one of the Sydney Central Business Districts (CBD) largest fringe office markets, whilst Ultimo accommodates several tertiary education campuses.

The Place Strategy structure plan identifies seven sub-precincts across the Peninsula, based on existing uses and desired future character and experience. These include:

- **Pyrmont Village:** a historic ridgeline village of fine grain shopfronts and terrace houses centred on Union Square, Elizabeth Healey Reserve and the Pyrmont heritage conservation zone.
- **Pirrama**: an industrial headland that has transformed into a mixed-use residential neighbourhood.
- **Darling Island:** a harbour home of large commercial, cultural and entertainment destinations.
- **Blackwattle Bay**: a media hub, tourist destination and future mixed-use quarter.
- **Tumbalong Park:** a celebration and event space for both local community and global visitors.
- **Wentworth Park**: a parkside community of historic warehouses and terraces that builds upon the scale and experience of the Ultimo heritage conservation zone and local heart of Quarry Green.
- **Ultimo:** a centre for creativity and learning at the edge of Central Station reinvigorating the Harris Street heritage conservation zone through a series of connected campuses.

Figure 1.1 illustrates the seven sub-precincts identified in the Pyrmont Place Strategy Structure Plan.

Figure 1.1: Pyrmont Peninsula Sub-precincts and Draft SCA



Source: DPIE (2020)

A SIC framework is proposed to apply to the Peninsula except in the sub-precinct of Ultimo (coloured orange in **Figure 1.1**), i.e. indicatively northwest of the red dotted line. This excludes the Ultimo sub-precinct which will be serviced by Central train station. The area to which a SIC is proposed to apply is referred to as '**the Draft SCA**'.

1.3 Scope and Approach

Atlas is engaged to test capacity of development in the Draft SCA to contribute to a Transport SIC, noting its planning permissibility and unique characteristics, improved accessibility from a Metro station and aspirations of the Place Strategy.

Specifically, the Study undertakes the following:

- Review of the Peninsula's strategic context, including its location, existing and proposed planning controls, major infrastructure projects and the Affordable Housing contributions schemes which apply across the Peninsula.
- Review of the Pyrmont Peninsula Sub-precinct Masterplans and in particular the sites identified for change in the context of forecast employment and residential floorspace.
- Property market appraisal of the Peninsula to identify patterns of supply and demand, the trends and drivers that influence land use and market activity.

- Generic testing of notional development types to examine the tolerance for a SIC in the following charge scenarios:
    - **Scenario 1** - SIC applied consistently to all new development within the Draft SCA (regardless of change to planning controls).
    - **Scenario 2** - SIC applied to all new development within the Draft SCA at variable rates based on changes to planning controls.
- Aggregation of the findings to identify if a generic contribution rate/s that could apply and the observations that should influence the rate/s.
- Recommendations on special infrastructure contributions in the Draft SCA in the context of other contributions required.

1.4 Assumptions and Limitations

The Study highlights the necessity of assumptions made and acknowledges the limitations of an aggregate study such as this.

Generic feasibility testing is based on notional development yields formulated for the purposes of contribution capacity testing. The development yields tested are notional only; they have not been urban design or engineering tested.

Generic feasibility testing is based on high-level revenue and cost assumptions and does not consider nuances of a site typically considered in detailed feasibility analysis.

A desktop appraisal of 'as is' or existing property values is carried out without the benefit of site inspections or property financial information (i.e. rental income and investment returns).

Despite the assumptions made and limitations of generic feasibility testing, the analysis is considered to be appropriate in examining the opportunity for, and impacts of SIC rates in the Draft SCA.

Overall Contributions Requirements

The Study's parameters of analysis are to test the viability of a SIC in the Draft SCA. The analysis is carried out holistically with regard to existing and potential statutory fees and charges.

Affordable housing contributions are currently required in the Peninsula. The Study expects that the City's Affordable Housing Program (which currently applies in the Sydney LGA but not in the Peninsula) will be made applicable during implementation of the Place Strategy. Accordingly, the implications of this policy change are included as an input in the feasibility testing.

2. Strategic Context

2.1 Location Context

The Pyrmont Peninsula is located within the City of Sydney local government area (LGA) and forms the western boundary of the Sydney Central Business District (CBD). The Peninsula is characterised by a broad mix of land uses – Federation-style detached housing, high-rise apartments, the Darling Harbour entertainment precinct, retail and hospitality uses, commercial office buildings and educational facilities.

Immediately east of the Peninsula is the Sydney CBD - a strategically important economic hub and multi-billion-dollar property market. The Peninsula plays an important supporting role to the Sydney CBD as a large and established fringe office market with a significant cluster of Technology, Advertising, Media and Information Technology (TAMI) industries.

To the north of the Peninsula is the Bays West Precinct – a 77ha precinct comprising Rozelle Bay, White Bay, Glebe Island, Rozelle Rail Yards and White Bay Power Station. The Bays West Precinct has been identified for transformation over the coming decades into a mixed-use precinct and will include a new metro station as part of the Sydney Metro West metro line.

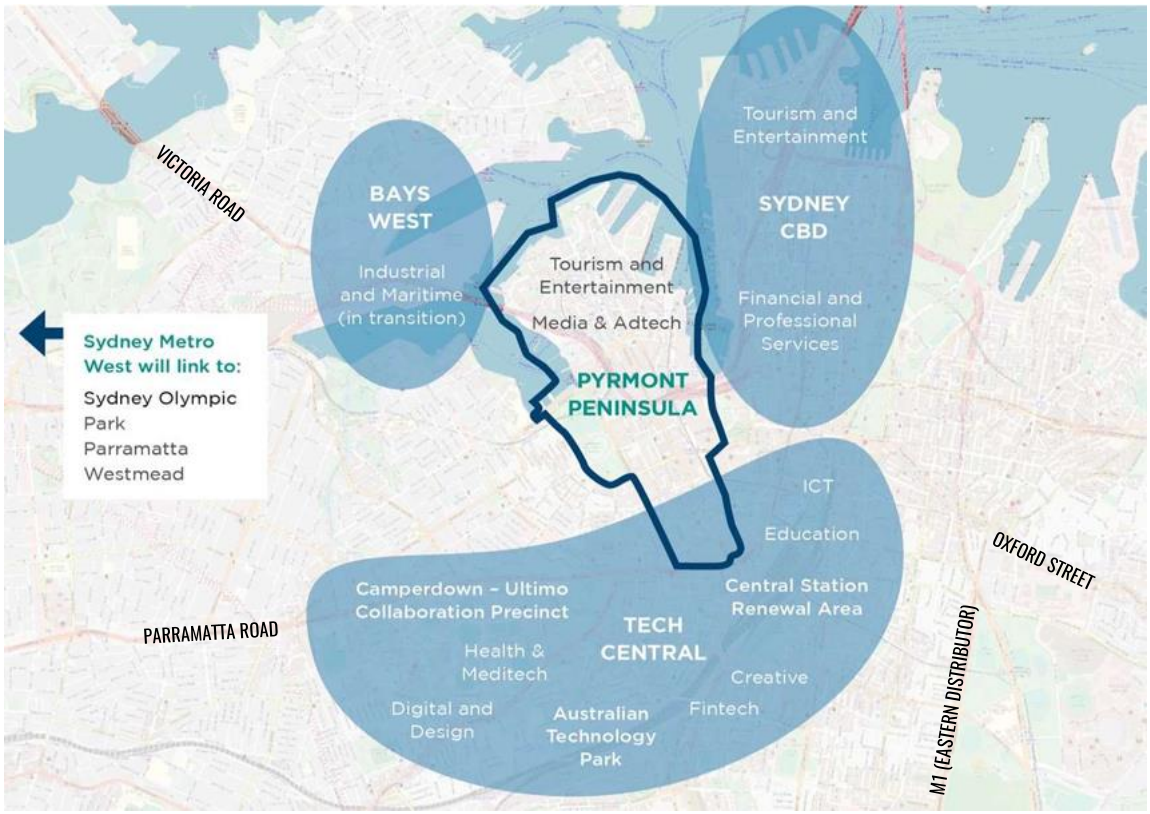
The southern section of the Peninsula falls within the Camperdown-Ultimo Collaboration Precinct. Anchored by the Royal Prince Alfred Hospital, TAFE NSW, University of Notre Dame, University of Sydney and University of Technology Sydney and various medical and research institutions, the precinct has been identified by NSW Government as a nationally important precinct and is subject to ongoing precinct planning.

Other important precincts south of the Peninsula include the Central Station Renewal Area and Tech Central Precinct. The Central Station Renewal Area comprises 24ha of government-owned land in and around Central Train Station and includes the 'Tech Central' precinct. Tech Central is being planned for 250,000sqm of commercial floorspace to accommodate technology companies and start-up businesses.

Accordingly, the Peninsula is positioned amongst a variety of existing and future precincts of significant economic importance.

Figure 2.1 depicts the Peninsula's location in the context of surrounding economic precincts.

Figure 2.1: Locational Context Map



Source: PWC (2020)

2.2 Existing Planning Context

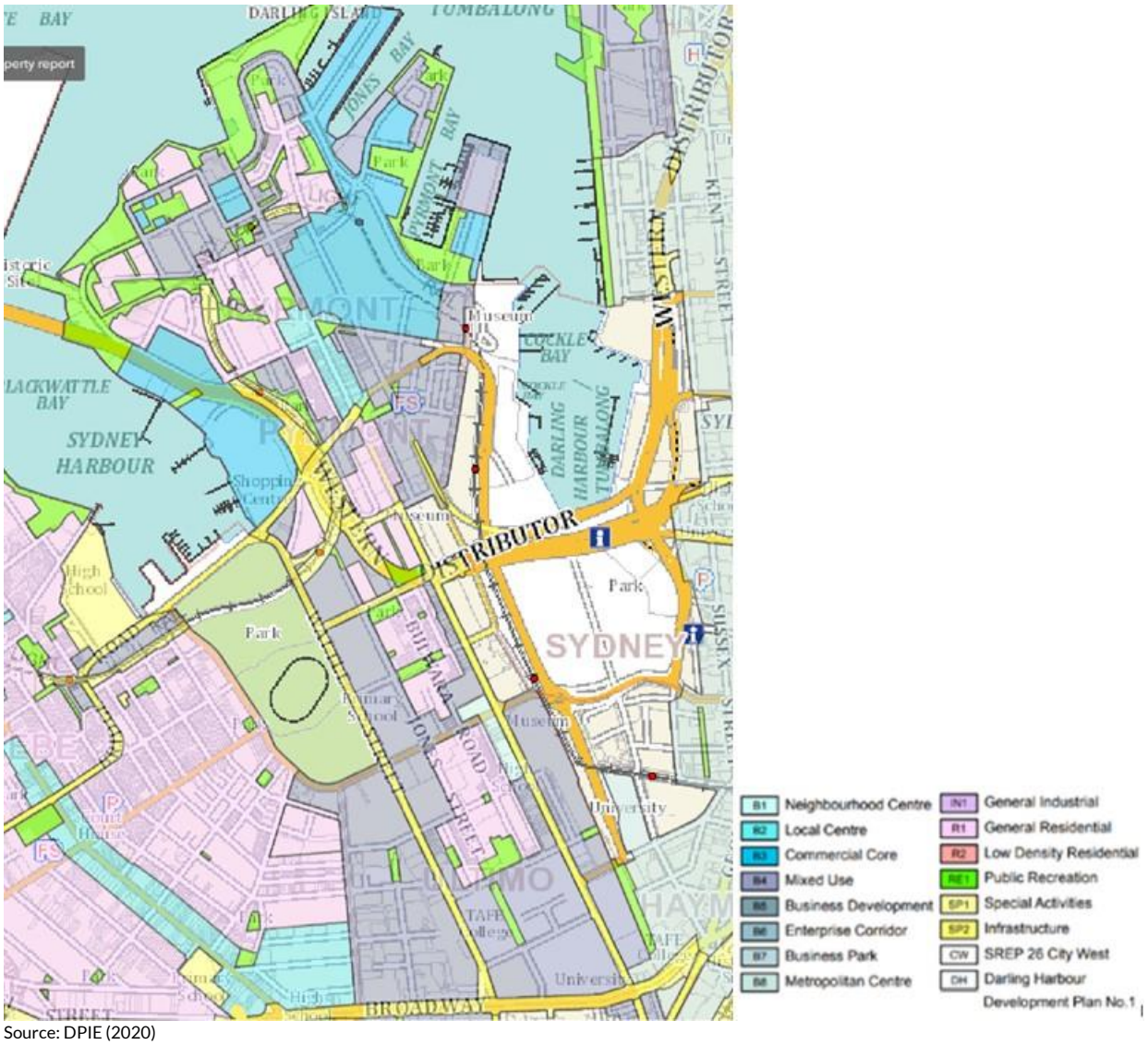
Land use and development across the Peninsula is primarily governed by the Sydney Local Environmental Plan 2012 (SLEP). Parts of the Peninsula are subject to other State planning instruments, predominantly along the harbour foreshore. The key instruments include:

- Sydney Regional Environmental Plan No. 26 – City West (SREP 26)
- Darling Harbour Development Plan No. 1
- Sydney Regional Environmental Plan (Sydney Harbour Catchment) 2005 (SEPP Sydney Harbour)
- State Environmental Planning Policy (State and Regional Development) 2011 (SEPP SRD)
- State Environmental Planning Policy (State Significant Precincts) 2005 (SEPP SSP)

The SLEP outlines the land use zones and density controls (maximum building heights, floor space ratios) which apply to the Peninsula. The Peninsula is zoned a mix of residential and employment uses, with R1 General Residential, B2 Local Centre, B3 Commercial Core and B4 Mixed Use applying to much of the precinct. A significant variance in permitted densities applies across the Peninsula. Floor space ratios (FSRs) range from FSR 0.6:1 to FSR 1.5:1 along certain sections of Harris Street and other neighbouring residential streets and increase up to FSR 4:1 to FSR 6:1 on certain sites. Generally, densities are lower along the harbour foreshore and areas of high heritage value.

Figure 2.2 illustrates the applicable land use zones which apply across the Peninsula.

Figure 2.2: Applicable Planning Instruments, Pyrmont Peninsula



Source: DPIE (2020)

2.3 Pyrmont Peninsula Place Strategy (2020)

The Pyrmont Peninsula Place Strategy was finalised in December 2020 and outlines a unified planning framework centred around a vision of the Peninsula being a key attractor for global investment. This vision is itself supported by 10 Directions which address matters of strategic economic, social and environmental significance in the Peninsula.

Building upon these 10 Directions, the Place Strategy also identifies of 'Five Big Moves' for the Peninsula which will guide the planning and urban design framework. These five initiatives include:

1. Build and link a world class foreshore.
2. Enhance the opportunity to provide a vibrant 24-hour cultural and entertainment destination.
3. Realise the benefits of a new Metro station by making Pyrmont a destination, rather than the point where journeys start.
4. Create a low carbon and high-performance precinct.
5. More, better and activated public spaces across the Peninsula.

The Place Strategy also identifies key sites, where development will drive new jobs while providing the impetus for the 'Big Moves' necessary to make the Peninsula a more connected and integrated part of the Sydney Harbour foreshore.

Pyrmont Peninsula Structure Plan

A Structure Plan for the Peninsula is established through the Place Plan and sets out the spatial interface of the vision, key Peninsula-wide directions, and identifies the areas of change. The Structure also identifies key sites, where development will accommodate new jobs while providing the impetus for the 'Big Moves' necessary to make the Peninsula a more connected and integrated part of the Sydney Harbour foreshore. **Figure 2.3** illustrates the Pyrmont Peninsula Structure Plan.

Figure 2.3: Structure Plan, Pyrmont Peninsula Place Strategy

Source: DPIE (2020)

To support the Place Strategy, new planning controls will be prepared to identify the appropriate height and development potential of key sites, including the new Pyrmont Metro station while also ensuring precious heritage, parklands and character are protected and public benefit is created.

It is from this increase in density controls that there is potential for Affordable Housing contributions.

2.4 Infrastructure Programme

The Peninsula is expected to benefit from several catalytic infrastructure and development projects over the coming decade which will dramatically improve accessibility, increase visitation and improve overall economy activity.

The key project that will produce catalytic benefits across the Peninsula is the delivery of a new metro station as part of the **Sydney Metro West** metro line. Sydney Metro West will directly link Pyrmont to the Sydney and Parramatta CBDs for the first time and will significantly improve commuting times to and from the Peninsula. Commute times from Pyrmont to the Parramatta CBD are estimated to be circa 18-minutes, whilst linking to the Sydney CBD in just minutes.

The Pyrmont Metro Station is proposed at Pyrmont Bridge Road and Union Street with station entrances at Pyrmont Bridge Road and Union Street. A station location map is provided at **Figure 2.4**.

Figure 2.4: Station Location, Pyrmont Metro Station

Source: Sydney Metro (2021)

The other major transformative project underway within the Peninsula is the proposed redevelopment of the **Sydney Fish Markets (SFM)**. It is estimated that that the redevelopment could deliver at least 2,000 jobs, a $4.78 billion increase in retail spend over 10 years, and a $1.36 billion increase in wholesale market expenditure over the decade following completion (Deloitte Access Economics, 2019). This project also serves as the catalyst for the redevelopment of Blackwattle Bay – a major urban renewal precinct being delivered by the NSW Government.

2.5 Affordable Housing Contributions Policy

This section provides an overview of the local planning framework which governs Affordable Housing (**AH**) delivery in the Peninsula.

2.5.1 Local Strategic Planning Statement - City Plan 2036

The City of Sydney's Local Strategic Planning Statement (LSPS), *City Plan 2036*, provides a 20-year land use vision and framework for the City of Sydney LGA. The draft LSPS builds upon the key objectives, strategies and actions of the Greater Sydney Region Plan and Eastern Harbour City District Plan and form a direct link between strategic State Government planning objectives and local planning instruments (i.e. Sydney Local Environmental Plan 2012).

The LSPS is informed by a separate draft Housing Strategy prepared by the City, *Housing for All*. The Housing Strategy includes a set of specific AH objectives and actions for the Sydney LGA, primarily through Priority H4.

Priority H4: Increasing the diversity and number of homes available for lower-income households

Priority H4 of the Housing Strategy specifically addresses Planning Priority E5 of the Eastern Harbour City District Plan. The Priority focuses on strategies and actions to increase the supply of affordable rental housing stock across the City of Sydney LGA, with an articulated target of 11,500 AH dwellings by 2036. These actions are detailed in **Table 2.1**.

Table 2.1: Key Actions under Priority H4, Housing for All (City of Sydney Housing Strategy, 2019)

No.	Actions
4.1	Implement *Planning Proposal: Affordable Housing Review* to increase the amount of affordable rental housing across the LGA.
4.2	Work with other councils in the District to jointly advocate for more affordable rental housing.
4.3	Advocate to the NSW Government for changes to State Environmental Planning Policy (Affordable Rental Housing) 2009 ensuring boarding houses with floor space bonuses results in genuine affordable rental housing outcomes.
4.4	Advocate to the NSW Government to deliver a minimum 25 per cent of floor space as affordable rental housing in perpetuity on all NSW Government controlled sites, including on social housing sites.
4.5	Advocate to the NSW Government to deliver 100% affordable housing to the Liveable Housing Guideline's gold level on all NSW Government sites, in accordance with the target set by the National Dialogue on universal housing design.
4.6	Advocate the to the NSW Government to amend the Region and District Plans and State Environmental Planning Policy (Affordable Rental Housing) 2009 to ensure affordable rental housing is provided in perpetuity and supports key workers.
4.7	Advocate to the Australian and NSW government for targeted programs and policy interventions that respond to inner city housing market conditions and increases the supply of affordable rental housing.
4.8	Work with the NSW Government to use the affordable housing funds from the Redfern-Waterloo Affordable Housing Contributions Plan and redevelopment of Central Park to provide an increased proportion of affordable rental housing, in addition to the District Plan's affordable housing targets, on the Waterloo Estate.

Source: City of Sydney (2019)

Key actions under Priority H4 of direct relevance to the peninsula would be the requirement for NSW Government-owned sites to deliver a minimum 25% of floorspace as AH floorspace in any redevelopment and the adoption of the City of Sydney's AH Review planning proposal.

2.5.2 City West Affordable Housing Program

The Revised City West Affordable Housing Program (the City West Program), along with the Sydney LEP 2012 and SEPP 70, are the principal policies and statutory instruments governing the delivery of AH and collection of AH contributions across the peninsula. The City West Program applies to development in the Pyrmont-Ultimo precinct as defined in the Sydney LEP 2012.

The City West Program is administered by City West Housing; a not-for-profit AH provider and sole operator under the Program. Oversight of the Program is provided by the City of Sydney, who apply conditions of consent requiring a monetary contribution, and DPIE, initially receiving contributions which are then transferred to City West Housing. AH provided under the City West Program must be provided to applicants who meet the gross income criteria under SEPP 70. Rents are fixed by City West Housing at 25%-30% of gross household income.

The City West Program aims to deliver approximately 600 affordable rental units within the Pyrmont-Ultimo area. There are approximately 476 affordable rental units which have been delivered across the peninsula in some 13 separate buildings, though much of this supply was secured through contributions received under the original City West AH Program during 1996-2000. The receipt of cash contributions from development enables City West Housing to invest in development opportunities that deliver AH outcomes that are suitably designed and configured.

AH contributions are levied on an inclusionary basis under the City West Program. Contributions are based on the proportion of *total* floor area in a development. The proportion of floorspace to be delivered as AH differs based on the land use proposed, categorised as residential and non-residential.

The floorspace contribution required for both these categories is:

- **Residential uses**: 0.8% of total floor area
- **Non-residential uses**: 1.1% of total floor area

Contributions may be delivered in-kind (i.e. completed dwellings), in lieu (i.e. monetary contribution) or a combination of both. AH delivered in-kind must be a minimum of 50sqm in total floor area. In-kind contributions must be vested in the City of Sydney via a transfer who subsequently transfer these to City West Housing for incorporation to their portfolio.

Alternatively, AH contributions under the City West Program may be made via monetary contributions. These contributions must be spent in the Sydney LGA to procure AH outcomes. The contribution amount is calculated as dollar rate of the total floor area of a development. Contribution rates are indexed annually based on the *Implicit Price Deflator (New and Used Dwellings)* as published by the Australian Bureau of Statistics. The current contribution rates effective from 1 July 2021 to 30 June 2022 are:

- **Residential uses**: $32.13/sqm of total residential floor area.
- **Non-residential uses**: $46.16/sqm of total non-residential floor area.

By way of example, a residential development comprising 6,500sqm in total floor area would be required to deliver 0.8% of that floorspace as AH. This would equate to 52sqm of floorspace. That contribution could be delivered in-kind (as it meets the 50sqm minimum requirement). Alternatively, a monetary contribution of $208,845 could be made (6,500sqm x $32.13/sqm of total floor area).

2.5.3 City of Sydney Affordable Housing Program

The City of Sydney (the City) adopted the City of Sydney Affordable Housing Program (the Program) in July 2020. Clause 7.13 of the Sydney Local Environmental Plan 2012 expands the operation of affordable housing contribution schemes to all other land (not currently subject to an AH contribution scheme).

A contribution requirement would be required on 'residual land' and 'Central Sydney' to apply to 'new' floor area (i.e. additional to existing floor area) and/ or to the floor area that is changing in use.

The AH contributions are phased-in over time to allow for market adjustment. AH contributions are payable at 50% from when the Sydney LEP 2012 (Amendment No. 52) was made on 1 July 2021. The full contributions (100%) are expected from 1 June 2022.

Table 2.2: Contribution Rates, Clause 7.13

Date of Determination of DA	Total Floor Area (non-residential)	Total Floor Area (residential)
To 30 June 2021	0%	0%
1 July 2021 to 30 July 2022	0.5%	1.5%
1 July 2022 onwards	1.0%	3.0%

Source: City of Sydney

The current equivalent monetary contribution rate is $10,588/sqm (indexed to 1 March 2022).

Planning Proposal Land

The Program proposes to amend the Sydney LEP 2012 to provide for a new framework to identify sites (as "Planning Proposal land") that will benefit from increased development capacity through a site-specific planning proposal process where a supplementary AH contribution has been identified.

This would mean the AH contribution requirement under clause 7.13 and a supplemental AH contribution would apply to land identified. The requirement may specify how the contribution requirement is to be satisfied, by either:

- An in-kind dedication of completed affordable rental housing dwellings in a development; or
- An equivalent monetary contribution payment.

Once land is identified, the AH contribution requirement is calculated at the DA stage and will be applied under s7.32 of the *Environmental Planning and Assessment Act 1979* as a condition of consent.

The proposed contribution rates applicable to Planning Proposal land by precinct are shown in **Table 2.3**.

Table 2.3: Proposed AH Contribution Rates, Planning Proposal land

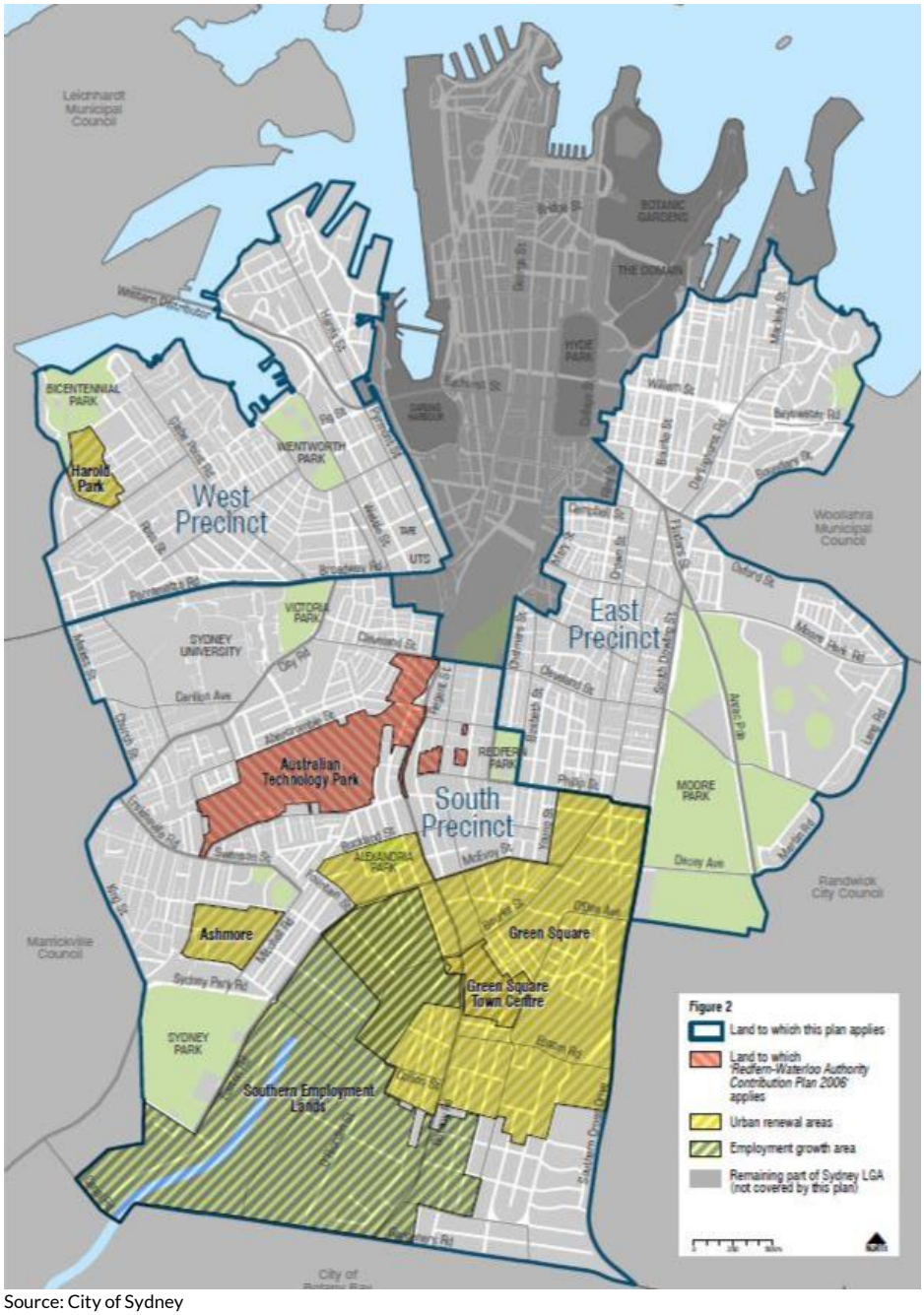
Precinct	Proportion of Additional Floor Area for AH
West	12%
South	12%
East	24%

Source: City of Sydney

The above contribution rates are applicable only where a site-specific planning proposal is for FSR increase on land. Where other changes to planning controls are being made (e.g. rezoning or significant increase in height), site-specific analysis will be required to determine an appropriate contribution rate.

The Pyrmont Peninsula falls within the 'West Precinct', as depicted in **Figure 2.5**.

Figure 2.5: Affordable Housing Contribution Precincts



Source: City of Sydney

In time, AH contributions would be 'standard' across the Sydney LGA. The City West AH Program would continue to apply until such time a policy decision is made to bring it in line with the rest of the Sydney LGA.

2.6 State and Regional Infrastructure Contributions Policy

Special infrastructure contributions (SIC) are charged within a framework that identifies demand for state and regional infrastructure within Special Contribution Areas (SCAs).

The SIC is collected as a hypothecated development levy from developers to share the cost of developing state and regional infrastructure (i.e. schools, state and regional roads, regional open space, emergency and health facilities and some public transport infrastructure) required to support growth.

The adoption of a SIC levy rate is underpinned by a SIC infrastructure schedule which identifies key items of infrastructure to be funded by SIC funding and development feasibility testing to ensure no significant impact to development supply.

Infrastructure Contributions Reform

In November 2020, the NSW Productivity Commissioner published a detailed review of the infrastructure contributions system in NSW. The Review culminated in 29 recommendations that form the foundation of reform to improving certainty and efficiency on how infrastructure is delivered. Among these are for a regional infrastructure contribution and for a transport infrastructure contribution to be applicable where there is a major transport project.

The rationale is that major transport projects bring an ***amenity uplift*** (due to improved accessibility). Additionally, major transport projects are catalysts for the rezoning of land and unlocking of development capacity (***planning uplift***). Cumulatively, amenity uplift and planning uplift result in greater market demand which is then reflected in market pricing.

DPIE has accepted the Review's recommendation of regional contributions subject to confirmation of the charging methodology. The recommendation of a transport infrastructure contribution is also accepted subject to further work to determine the level of the charge to be levied on future rezonings, having regard to, *inter alia*, development capacity, feasibility and cumulative impact of development contributions.

Application to the Draft SCA

A SIC framework is proposed to apply to the Peninsula except in the sub-precinct of Ultimo, referred to as '**the Draft SCA**'.

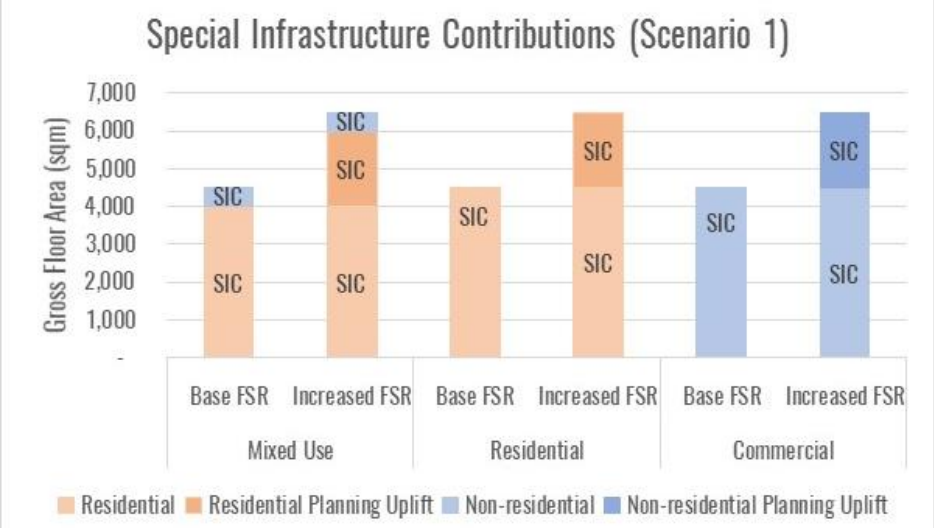
DPIE could implement the SIC framework in one of two scenarios:

- **Scenario 1** - SIC applied consistently to all new development in the Draft SCA (regardless of change to planning controls).
- **Scenario 2** - SIC applied to all new development in the Draft SCA at variable rates based on changes to planning controls.

  In SIC Scenario 2 and for the purposes of the analysis, a SIC that applies to Base FSR is referred to as '**Low base contribution**', while a charge on Increased FSR is referred to as '**Additional contribution**'.

Figure 2-6 illustrates conceptually how a SIC would operate if it were applied to all development. In this scenario, the SIC would be charged on overall development capacity, regardless whether a site is the beneficiary of planning uplift.

Figure 2-6: Conceptual Illustration of SIC (applied to All New Development)

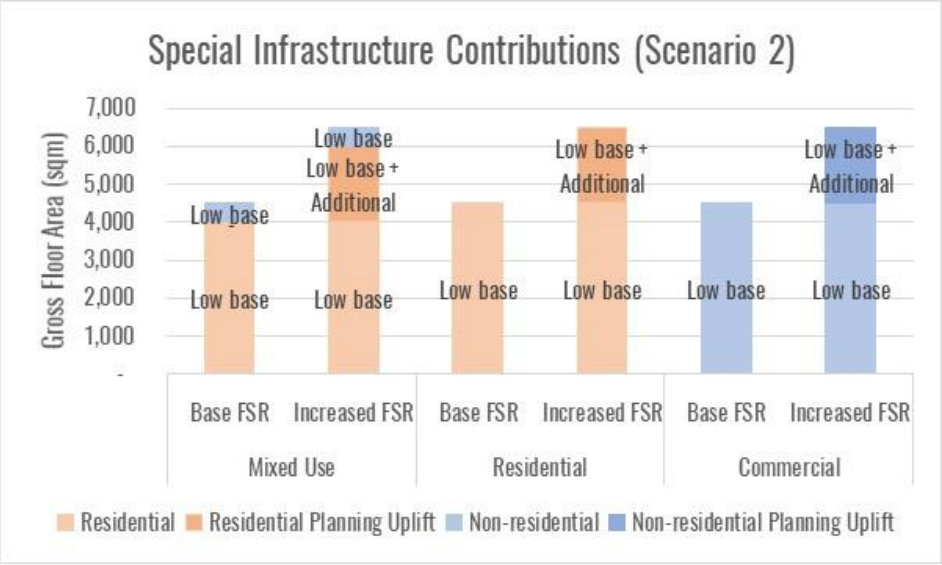


Source: Atlas

Figure 2-7 illustrates how a SIC would operate if different rates were instead adopted to recognise the varying capacities of sites to contribute, depending on whether they are the beneficiary of planning uplift.

In this scenario, a low base contribution could apply to 'base' development capacity (i.e. GFA under the existing planning instrument) and an additional contribution could apply to 'additional GFA' from a change to planning controls.

Figure 2-7: Conceptual Illustration of SIC (applied to All New Development based on Changes to Planning Controls)



Source: Atlas

Feasibility Considerations for Application of SIC Requirements

The Study acknowledges that design of a SIC framework will require consideration of its application. Sites that benefit from planning uplift will have greater capacity to contribute than sites that do not. As a consequence, if uniform rate application is intended, the selection of rate would need to be low and broad.

A low and broad rate would have disproportionate implications for development - sites with nil or limited planning change would be disproportionately impacted compared to sites which are recipients of large planning uplift.

If design of a SIC framework included application of differential rates to Base GSR and Increased FSR, resultant impact to feasibility would be 'more targeted', i.e. sites contribute according to their respective financial capacities. Sites that receive the greatest financial upside (commensurate with degree of planning uplift) would be required to contribute more than sites that have limited planning change.

3. Pyrmont Peninsula Sub-precinct Masterplans

3.1 Overview of Sub-precincts

The Peninsula comprises a broad mix of existing land uses and places. The structure plan identifies seven sub-precincts across the Peninsula, based on existing uses and desired future character and experience. These include:

- **Pyrmont Village:** a historic ridgeline village of fine grain shopfronts and terrace houses centred on Union Square, Elizabeth Healey Reserve and the Pyrmont heritage conservation zone.
- **Pirrama**: an industrial headland that has transformed into a mixed-use residential neighbourhood.
- **Darling Island:** a harbour home of large commercial, cultural and entertainment destinations.
- **Blackwattle Bay**: a media hub, tourist destination and future mixed-use quarter.
- **Tumbalong Park:** a celebration and event space for both local community and global visitors.
- **Wentworth Park**: a parkside community of historic warehouses and terraces that builds upon the scale and experience of the Ultimo heritage conservation zone and local heart of Quarry Green.
- **Ultimo:** a centre for creativity and learning at the edge of Central Station reinvigorating the Harris Street heritage conservation zone through a series of connected campuses.

3.2 Distribution of Land Uses

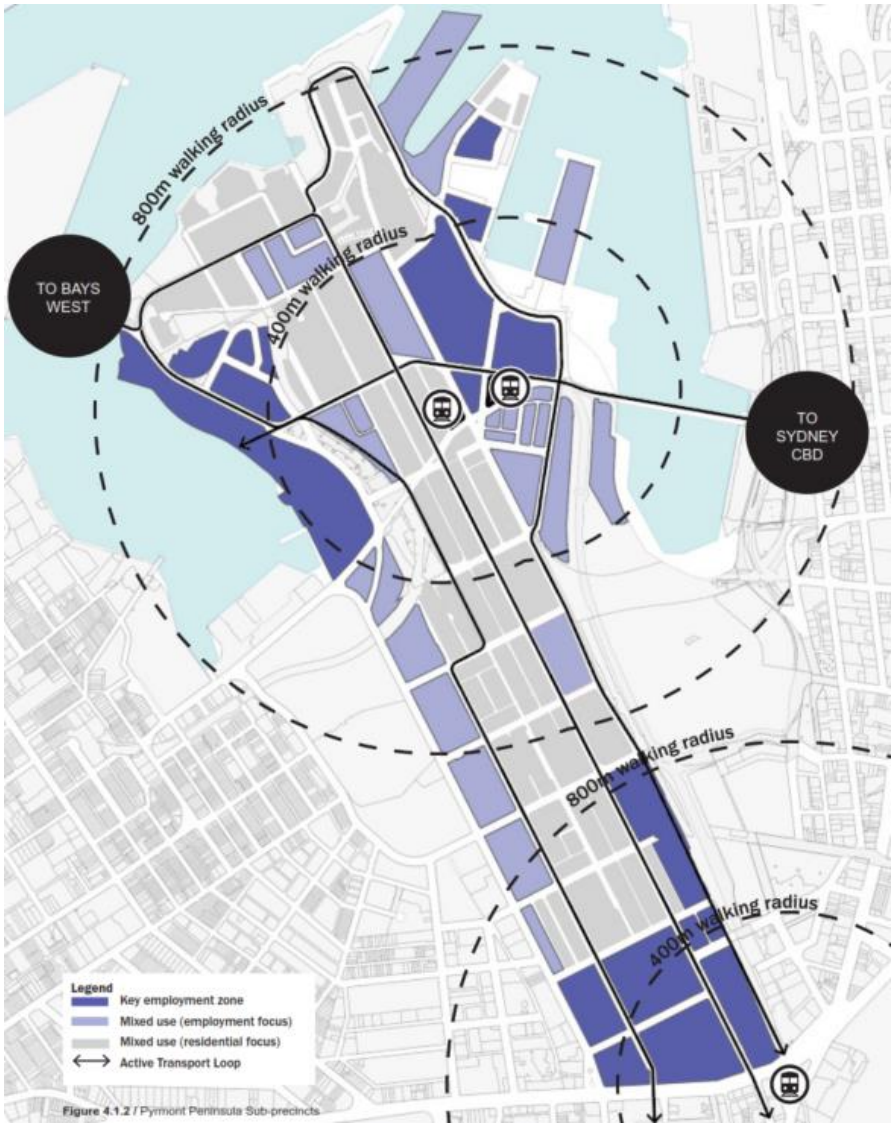
The Pyrmont Place Structure Plan considered the existing character and potential capacity of each sub-precinct to guide the land use and urban design framework for the Peninsula. A proposed distribution of land uses is based on several principles:

- Realise a continuous employment corridor running east-west from the Sydney CBD to the Peninsula and Bays Precinct.
- Ensure a mix of land uses to realise the Economic Development Strategy and Innovation Corridor between the Sydney CBD to Bays Precinct.
- Facilitate an intensification and diversification of land uses around the future Pyrmont Metro Station and support further diversification of land uses around Central Station.
- Support employment uses in mixed use zones along the edges of the Peninsula, including Blackwattle Bay.
- Support growth in residential uses where there is access to appropriate amenity (sun, outlook, air quality, noise, proximity to open space and community facilities) and where conflicts with employment land can be avoided.
- Align, expand or intensify local community facilities including cultural and recreational facilities.

Commercial land uses are intended to be focused in three key areas of the Peninsula – around the future Pyrmont Metro Station (Darling Island sub-precinct), along the foreshore of Blackwattle Bay (Blackwattle Bay sub-precinct) and in the existing commercial area immediately south of Central Station (Ultimo sub-precinct).

Figure 3.1 illustrates the proposed distribution of land uses across the Peninsula as per the Structure Plan.

Figure 3.1: Land Uses, Pyrmont Peninsula Structure Plan



Source: DPIE (2020)

The Sub-precinct Masterplans respond to forecast resident and worker populations for the Pyrmont Peninsula based on scenario modelling (Hassell), main series population projections (DPIE) and the Economic Development Strategy (PWC).

Table 3-1: Forecast Growth by Precinct (2021-20241)

Sub-precinct	Resident Growth	Jobs Growth
Pirrama	+190	+350
Pyrmont Village	+135	+1,380
Darling Island	+600	+2,730
Blackwattle Bay	+2,055	+5,770
Tumbalong Park	+2,055	+2,870
Wentworth Park	+1,115	+1,200
Ultimo	+2,350	+8,700
Total Growth	**+8,500**	**+23,000**

Source: as quoted in Cred (2020)

The distribution of floorspace in the Sub-precinct Masterplans are underpinned by growth expectations and the distribution of resident and worker growth in Pyrmont Peninsula respectively.

3.3 Potential Development Activity

3.3.1 Areas of Change

Owing to a range of environmental constraints, not all sub-precincts are considered candidates for large scale change. Four sub-precincts - Ultimo, Blackwattle Bay, Tumbalong Park and Darling Island are identified as best placed to accommodate sustainable development in keeping with their existing character and amenity offering.

Ultimo

The Ultimo sub-precinct is characterised by a mix of large-format education and office workplaces, some within old wool stores, low to mid-rise apartments and terrace housing.

The Ultimo sub-precinct is identified as having the potential to build upon this diverse mix of land uses with a focus on facilitating the expansion of existing education campuses/clusters. An increase in densities is proposed on the larger street blocks immediately south of Broadway, along with select sites north of Mary Ann Street. Whilst most of the areas within the sub-precinct identified for change are expected to play a mixed-use role, certain sites within the existing R1 General Residential zone could be developed for high-density residential uses.

Blackwattle Bay

Focused along the foreshore of Blackwattle Bay, the Blackwattle Bay sub-precinct comprises a broad mix of land uses including industrial and working harbour activities along the foreshore (including the existing Sydney Fish Market) and a mix of commercial and residential uses to the north of the Western Distributor. The Blackwattle Bay State Significant Precinct (SSP) represents roughly half of the sub-precinct.

The Blackwattle Bay sub-precinct transition to a mixed-use precinct over the coming decades could be facilitated through the Blackwattle Bay SSP redevelopment. Existing commercial uses immediately north of the Western Distributor are expected to be retained with greater densities to encourage further intensification. There is some opportunity for residential development within the existing R1 General Residential zone.

Tumbalong Park

Tumbalong Park is an established entertainment precinct and includes the Harbourside Shopping Centre, the International Convention Centre, connections to waterfront areas at Darling Harbour, Tumbalong Park itself and the Chinese Gardens of Friendship. Existing uses are a mix of retail, commercial and hospitality interspersed with student/residential accommodation.

Several large sites have been identified to change within the sub-precinct, including the Harbourside Shopping Centre.

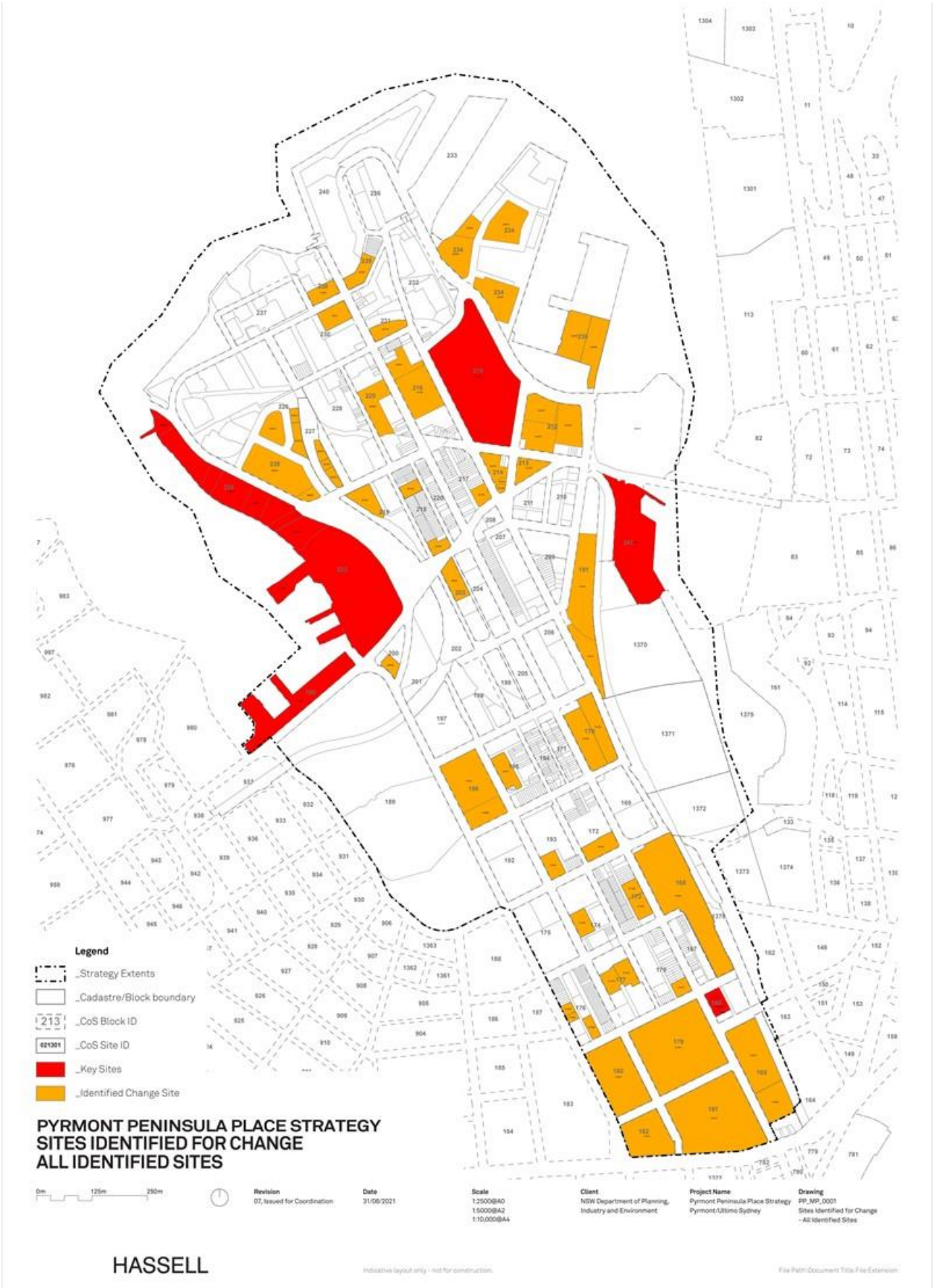
Darling Island

The Darling Island sub-precinct is an established commercial and tourist precinct, comprising a mix of low and medium-rise commercial and residential buildings. The sub-precinct is anchored by a variety of international technology and media businesses and encompasses The Star Casino Sydney entertainment complex. Notably, the Darling Island sub-precincts is set to benefit from a new metro station as part of the Sydney Metro West metro line.

Darling Island is envisaged to comprise an intensification of employment land uses around the future Pyrmont metro station.

Figure 3-2 shows the location of key sites and other sites identified as having the potential for change.

Figure 3-2: Site Identified for Change, Pyrmont Peninsula Place Strategy



Source: DPIE (2020)

3.3.2 Key Sites

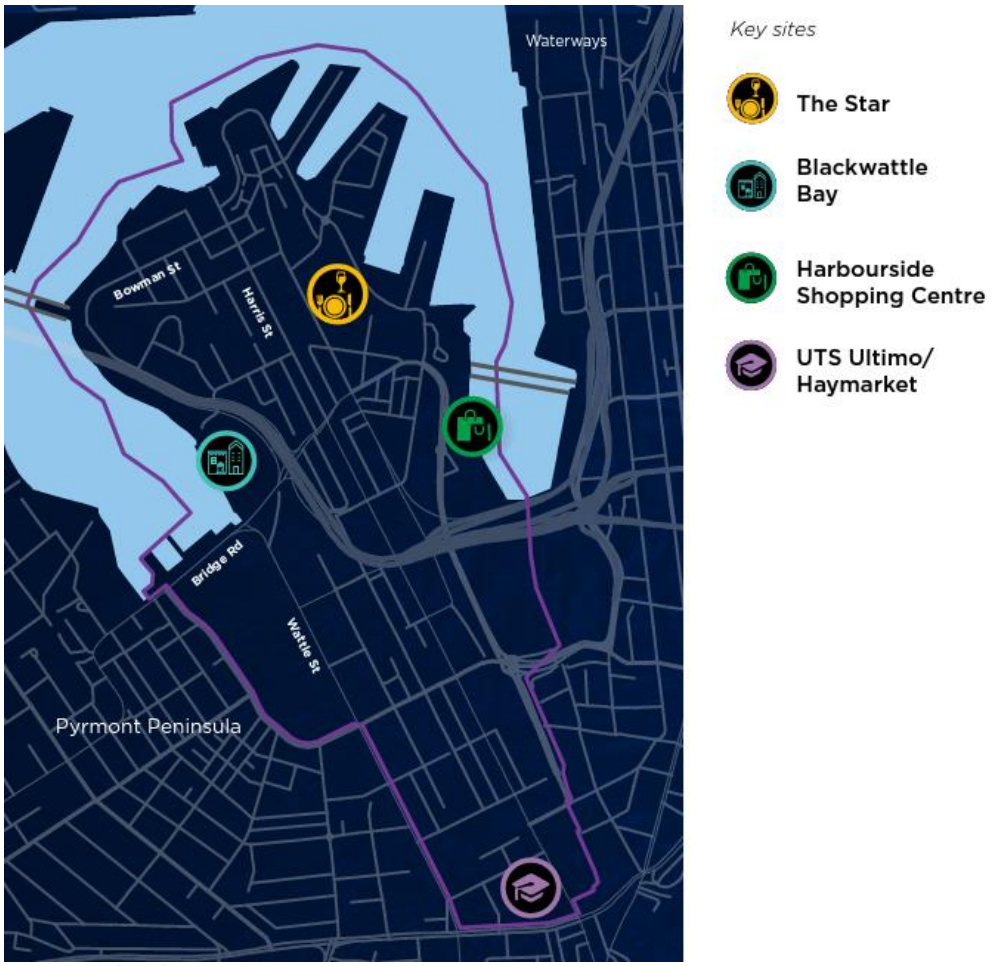
Structure planning as part of the Place Strategy identified the Ultimo, Blackwattle Bay, Tumbalong Park and Darling Island sub-precincts as having the greatest capacity for sustainable development activity over the coming decades.

Within these sub-precincts, the Structure Plan identified four key sites with the potential to contribute a significant quantum of employment floorspace and items of public benefit. These four key sites include:

- **The Blackwattle Bay State Significant Precinct**, including the current Sydney Fish Markets site and neighbouring sites at Blackwattle Bay, which is currently being assessed for a masterplanned development by Infrastructure NSW. Located within the Blackwattle Bay sub-precinct.
- **The Star Casino** landholdings, including two separate sites known as the northern site and southern site. The Star Casino landholdings are located within the Darling Island sub-precinct.
- **The Harbourside Shopping Centre State Significant Development**, which directly fronts the Darling Harbour foreshore. Located within the Tumbalong Park sub-precinct - received concept approval for mixed use development comprising retail/ commercial floorspace on ground and podium levels and residential in the tower. A maximum GFA of 87,000sqm is approved (comprised of 45,000sqm non-residential GFA and the remainder as residential GFA).
- **The University of Technology's** landholdings in Ultimo and Haymarket, located within the Ultimo sub-precinct.

Figure 3.3 illustrates the location of the four key sites across the Peninsula.

Figure 3.3: Key Sites, Pyrmont Peninsula Structure Plan



Source: DPIE (2020)

3.4 Contribution Requirements Supporting Growth

The Structure Plan envisages a distribution of land uses across the Peninsula that:

- Facilitates intensification of land uses around the future Pyrmont Metro station and Central station.
- Focuses commercial land uses around the future Metro station (Darling Island sub-precinct), along the foreshore of Blackwattle Bay (Blackwattle Bay sub-precinct) and in existing commercial areas (Ultimo sub-precinct).
- Supports employment growth in mixed use zones along the edges of the Peninsula.
- Supports residential growth subject to appropriate amenity and environmental capacity.

The Sub-precinct Masterplans accordingly distribute floorspace in response to resident and worker growth populations in the Peninsula. Additional development capacity to accommodate more residents and workers will require the requisite infrastructure to support sustainable growth.

Affordable Housing Contributions

The City has a long history of requiring development to contribute to AH. Most recently, implementation of the City of Sydney AH Program and its gazettal in the LEP phase-in AH contributions not previously applicable in parts of the Sydney LGA.

The City of Sydney AH Program provides for a two-tiered contribution to AH.

- **Clause 7.13 contributions (Tier 1)**

  Specified contribution rates (1% non-residential GFA, 3% residential GFA) is 'included' or mandatory for development.

  The clause 7.13 contribution rates are currently being phased-in for parts of the Sydney LGA, however will in time apply uniformly across the Sydney LGA (except in the Pyrmont-Ultimo area).

  The contribution rates are cost-based, calculated based on the cost to procure AH dwellings. The rates are indexed annually.

- **Planning Proposal land contributions (Tier 2)**

  Supplemental contributions in addition to clause 7.13 AH contributions are required where there is a change to planning controls. The Program proposes to provide a new framework to identify sites that will benefit from increased development capacity through a planning proposal process.

  Sites that benefit from an increase in residential FSR would be subject to a supplemental contribution of 9% on the additional residential GFA, which when added to the clause 7.13 contributions, would be 12% on residential GFA.

  Sites that benefit from an increase in commercial FSR are not subject to Tier 2 AH contributions.

The Study expects that AH contributions will be required in the Peninsula according to the City's Affordable Housing Program.

Transport Special Infrastructure Contributions

The Peninsula is the beneficiary of transport and planning investment and is identified to have the potential to accommodate increased development capacity, providing opportunity for employment and housing.

A Transport SIC is identified to be required through a "value share contribution mechanism" and will require:

- Some commercial property owners (other than small businesses) that benefit from increased land values associated with the new station to make an annual contribution to offset the cost of building the station.
- Certain new developments to pay a one-off charge in the Peninsula ahead of the station opening.

The next chapter examines the viability of requiring a Transport SIC in the Draft SCA.

4. Feasibility Analysis

4.1 Scope of Analysis

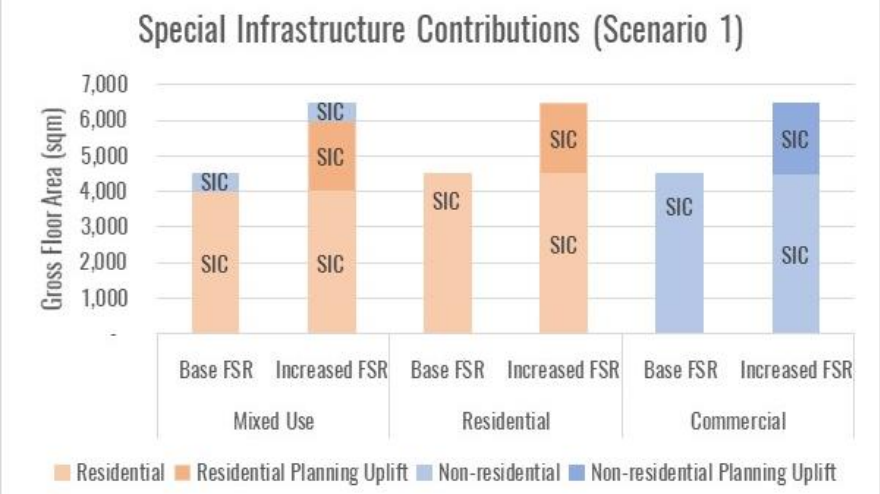
In established urban areas such as the Peninsula, it is not uncommon for land that is zoned for urban development and despite having latent (unutilised) development capacity, not be feasible to develop. This is because existing buildings and uses may provide a high level of functional utility and therefore be valuable. Unless properties can be consolidated for development at economic cost, redevelopment would not be feasible. Some properties will therefore remain 'as is' despite the latent capacity.

The scope of the analysis is to test the capacity of development to contribute to a SIC in two scenarios:

1. **Scenario 1** - SIC applied at flat rates to all new development in the Draft SCA (regardless of change to planning controls).
2. **Scenario 2** - SIC applied to all new development in the Draft SCA at variable rates based on changes to planning controls.

Figure 4-1 illustrates conceptually how a SIC would operate if it were applied to all development. In this scenario, a flat rate SIC would be charged on overall development, regardless of whether a site is the beneficiary of planning uplift.

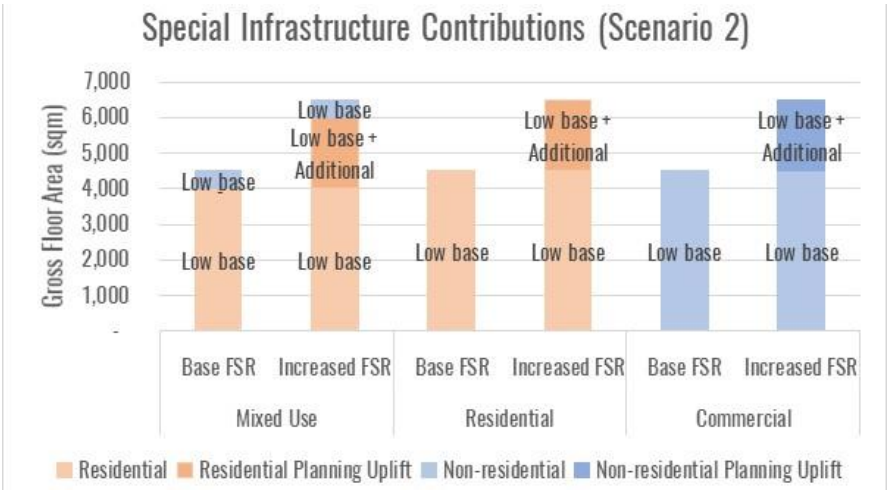
Figure 4-1: Conceptual Illustration of SIC Scenario 1



Source: Atlas

Figure 4-2 illustrates how a SIC would operate if different rates were applied to recognise the varying capacity to contribute. In this scenario, a low base contribution is applied to 'base' development capacity (i.e. GFA under an existing planning instrument) and an additional contribution to 'additional GFA' from a rezoning as a result of major transport infrastructure.

Figure 4-2: Conceptual Illustration of SIC Scenario 2



Source: Atlas

The analysis assumes that all statutory fees and charges will be payable (including local infrastructure ***and*** AH contributions).

Affordable Housing Contributions

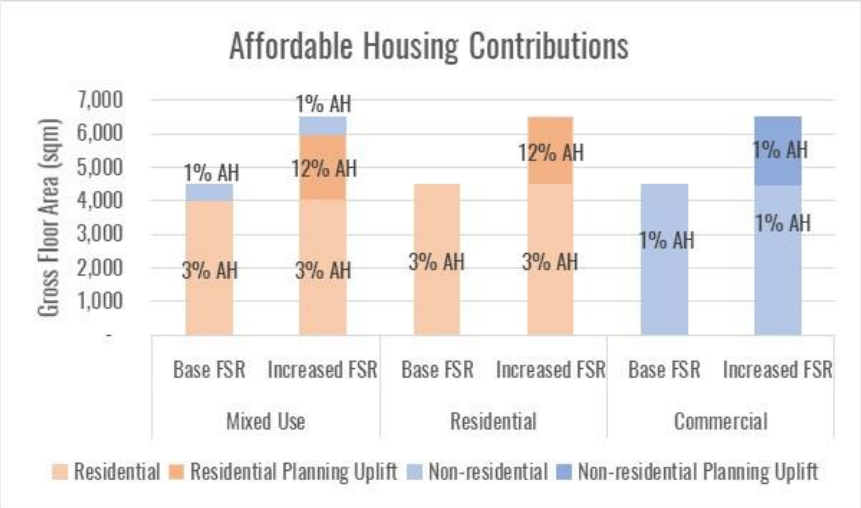
The Study assumes that AH contributions will be required in the Peninsula, in line with the City's Affordable Housing Program, which requires two tiers of AH contributions.

- Tier 1 - clause 7.13 rates on new development (net of existing floorspace) - 3% for residential, 1% for non-residential.
- Tier 2 - a contribution where a site-specific planning proposal results in an FSR increase on land.

  A contribution of 12% (***which includes Tier 1 of 3%***) applies to the additional residential GFA as a consequence of the increased FSR. Any additional non-residential GFA as consequence of the increased FSR is ***not subject*** to a Tier 2 contribution.

Figure 4-3 illustrates the requirements for AH contributions under the City's Program.

Figure 4-3: Conceptual Illustration of AH Contributions (2 tiers)



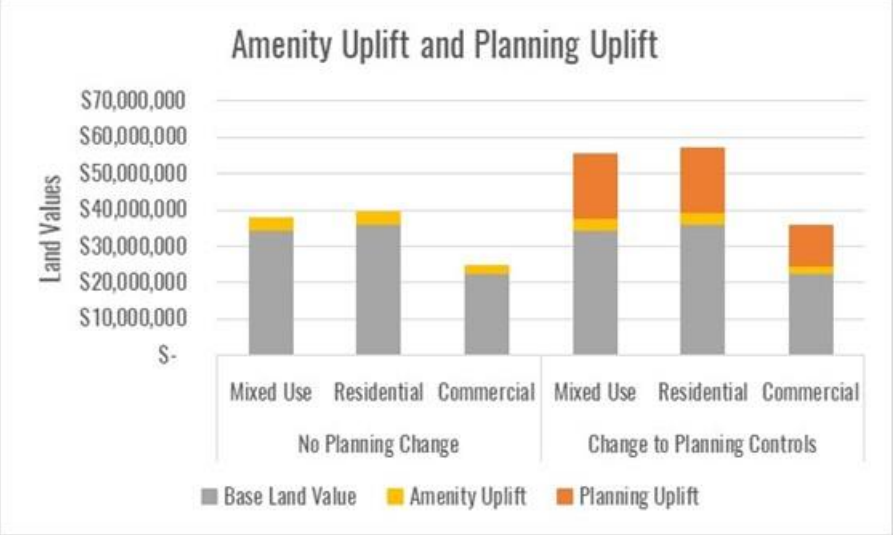
Source: City of Sydney (2020)

Tier 2 AH contributions are set by location. The Draft SCA is in the West Precinct, which is subject to 12% on additional residential GFA. The current equivalent monetary contribution rate is $10,588/sqm (indexed to 1 March 2022).

Amenity Uplift and Planning Uplift

Major transport projects bring ***amenity uplift*** (due to improved accessibility) to service catchments. Additionally, major transport projects can be catalysts for the rezoning of land and unlocking of development capacity (***planning uplift***). Cumulatively, amenity uplift and planning uplift result in greater market demand which is then reflected in market pricing.

Figure 4-4: Conceptual Illustration of Amenity Uplift and Planning Uplift on Land Values



Source: Atlas

It is a widely researched and accepted that government investment in transport infrastructure result in value creation, unlocking opportunities for urban renewal. Quantitative modelling indicates value creation can be significant which underpins the principle of sharing in the value created by government investment (LUTI Consulting, 2019).

Performance Indicators

The objective of the contribution impact testing is to assess tolerance of development to a SIC in the Draft SCA. The testing assumes all other fees and charges apply (including AH contributions) to iteratively 'solve' for suitable rates which ensures investment hurdle rates are within acceptable range.

Key performance indicators relied upon are hurdle rates (development margin [1] and project return [2]) as a proxy for development feasibility. Benchmark hurdle rates and their 'feasible' ranges are indicated in **Table 4.1**.

Table 4.1: Benchmark Hurdle Rates*

Performance Indicator	Feasible	Marginal to Feasible	Not Feasible
Development Margin	≥20%	18%-20%	<18%
Project Return (IRR)	≥18%	17%-18%	<17%

Source: Atlas

*The Study notes historic low interest rates (which are expected to endure at least for the medium term) have re-set market expectations and lowered benchmark project returns (IRR).

Section 4.2 examines the tolerance of development to a SIC.

4.2 Capacity for SIC

This section tests the capacity of land in the Draft SCA to pay a SIC that could be implemented in one of two scenarios:

- **Scenario 1** - SIC applied consistently to all new development within the Draft SCA (regardless of planning change).
- **Scenario 2** - SIC applied to all new development within the Draft SCA at different rates based on changes to planning controls. The application of different rates distinguishes sites that ***are*** and ***are not*** the beneficiary of planning uplift.

Section 4.2.1 investigates the capacity of land to contribute a SIC under Scenario 1. The testing is undertaken for land where there is no change and for land where there is a change to planning controls.

Section 4.2.2 then tests the capacity of land to contribute a SIC under Scenario 2. Similarly, the testing is undertaken for land where there is no change and for land where there is a change to planning controls.

For any additional contributions (including a SIC) to be viable, development without the contribution needs to be viable in the first instance.

If development is not feasible (regardless of contributions), the activity will not occur. Therefore, the analysis presumes that sites tested are feasible to develop even without the requirement for a SIC.

4.2.1 SIC Scenario 1 - SIC applied to All New Development

Methodology

The contribution impact testing is undertaken in three steps:

1. **Step 1 - Identification of areas and notional development yields for testing**

   Atlas worked with DPIE to identify sites within sub-precincts for impact testing by land use. This step develops notional development yields based on existing planning controls which are then tested in Step 2 and Step 3.

2. **Step 2 - Baseline feasibility (s7.11 contributions, AH contributions)**

   Generic feasibility testing is carried out on sites and notional development yields developed in Step 1. Step 2 assumes all applicable statutory fees are payable (including Affordable Housing under the City's AH Program).

[1] Development Margin is profit divided by total costs (including selling costs)
[2] Project IRR is the project return on investment, the discount rate where the cash inflows and cash outflows are equal

3. Step 3 - Impact testing of rates

Step 3 iteratively tests for SIC rates (residential and non-residential) that could be applied as flat rates by land use.

The results of the impact testing are measured against performance indicators, i.e. residual land value, development margin and project IRR to conclude the impact of the SIC on feasibility.

Tested Sites and Scenarios

Generic feasibility testing is based on notional development yields formulated for the purposes of contribution capacity testing. The development yields tested are notional only; they have not been urban design or engineering tested.

Sample sites in a cross-section of the sub-precincts are selected for the capacity testing. The selection of sites and locations is based generally on their land use composition (i.e. residential-only, commercial-only, mixed use) as well as based on scenarios with and without change to planning controls. The intention is to enable observation of the testing outcomes in a range of land use and planning scenarios within each sub-precinct.

The impact of a SIC in Scenario 1 is tested making the following contributions assumptions:

- Base Case - all applicable fees and charges, including AH contribution rates (under the City's AH Program).
- SIC rates - **$300/sqm residential GFA** (or $27,000 per dwelling) and **$200/sqm non-residential GFA**.

The above contributions scenarios are tested in two planning scenarios - no change and with increased FSR.

Table 4.2 summarises the sub-precincts within which sites are selected and development type and density formulated for capacity testing. The development typologies are notional and based on a review of development activity, existing planning controls and land use aspirations expressed by the Place Strategy. They are not attributable to any particular site.

Table 4.2: SIC Scenario 1 - Capacity Testing Scenarios and Contributions Assumptions

Site	Sub-precinct (Land Use)	Base Case Contributions Assumptions	SIC Contributions Assumptions
MXU 1	Wentworth Park (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Retained at FSR 4:1 • All Base Case fees and charges • SIC ($27,000 per dwelling, $200/sqm non-residential GFA)
RES	Wentworth Park (Residential-only)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 5:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • SIC ($27,000 per dwelling, $200/sqm non-residential GFA)
MXU 2	Darling Island (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 10:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • SIC ($27,000 per dwelling, $200/sqm non-residential GFA)
COM 1	Pyrmont Village (Commercial-only)*	Base FSR 2:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (1% non-residential)	Increased to FSR 4:1 • All Base Case fees and charges • SIC ($200/sqm non-residential GFA)
MXU 3	Pirrama (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 6:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • SIC ($27,000 per dwelling, $200/sqm non-residential GFA)
COM 2	Pirrama (Commercial-only)*	Base FSR 6.5:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (1% non-residential)	Increased to FSR 7.5:1 • All Base Case fees and charges • SIC ($200/sqm non-residential GFA)

Source: Atlas

*Tier 2 AH Contributions are ***not required*** on additional commercial GFA

The cost of land is a critical variable to the feasibility of development. If the value of a property exceeds its value as a development site as permitted, it is not viable as a development site. The consolidation of a development site can be a high-risk, high-resource activity for developers when site and ownership patterns and fragmented and/ or existing buildings are functional and valuable. The impact testing assumes the price paid for land reflects the permitted development potential.

4.2.2 SIC Scenario 2 - Differential Rates applied to All New Development based on Planning Change

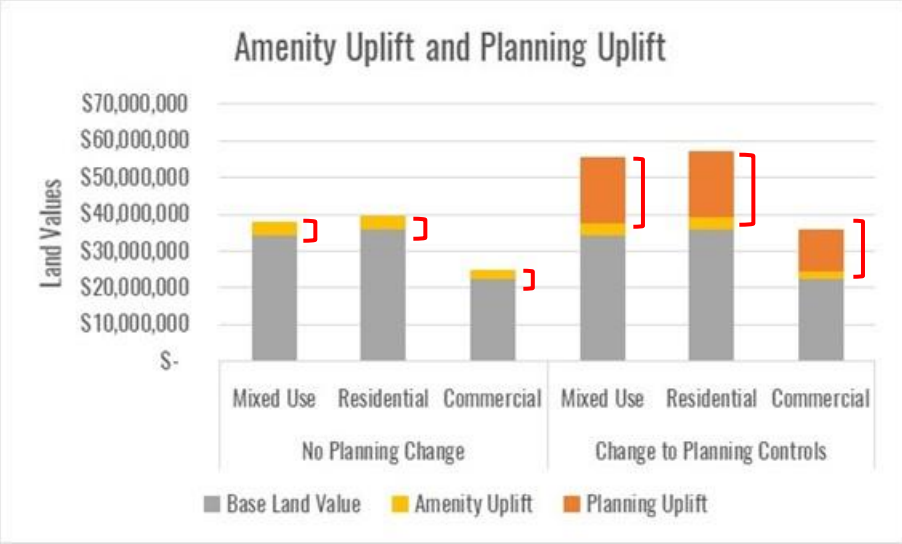
This section tests a scenario where differential rates are applied depending on whether there is a change to planning controls.

Figure 4-5 illustrates that:

- Sites where there is no planning change could benefit from an ***amenity uplift*** (due to improved accessibility) resulting in an increase to land values.
- Sites where there is planning change benefit from both an ***amenity uplift and planning uplift***, which combined result in a greater increase to land values.

The respective increase to land values is referred to as '**Surplus Value**'. Development sites in the Peninsula (and in the Draft SCA) are expected to experience varying degrees of Surplus Value. This directly affects capacity of development to pay a SIC.

Figure 4-5: Conceptual Illustration of Amenity Uplift and Planning Uplift on Land Values



Source: Atlas

The rationale is that land has the capacity to contribute from the receipt of amenity uplift and/ or planning uplift which then results in an increase in development profit and the value of the land (or 'Surplus Value[3]'). After contributing to a SIC, the Surplus Value declines however as a general principle it should be eroded by no more than 50%. This recognises developer and investor entrepreneurial effort and investment risk.

The analysis in Scenario 2 tests the following rates differentiated by whether there is a change to planning controls:

- **Low base contribution** applied to Base GFA (under existing planning instrument/s):
  - Residential Units - $10,000 per dwelling.
  - Commercial - $30/sqm GFA.
  - Retail - $40/sqm GFA.
- **Additional contribution** applied to Additional GFA (a result of planning change):
  - Residential - $2,000/sqm additional GFA (or $180,000 per dwelling).
  - Non-residential - $1,500/sqm additional GFA.

[3] Surplus Value is defined as the difference between the assumed cost of land and residual land value of development without Planning Proposal land Affordable Housing contributions

The above premise (differential rates) recognises that the capacity of development to contribute varies according to whether there is a change to planning controls.

The objective of the contribution impact testing in Scenario 2 is to assess tolerance of development to a SIC in the Draft SCA, if different rates were applied to Base GFA and to Additional GFA.

Similar to section 4.2.1, key performance indicators relied upon are residual land value and hurdle rates (development margin and project IRR).

Tested Sites and Scenarios

Table 4.3 details the land use and contributions assumptions adopted for iterative testing of differential rates. They are similar to those in **Table 4.2**.

Table 4.3: SIC Scenario 2 - Capacity Testing Scenarios and Contributions Assumptions

Site	Sub-precinct (Land Use)	Base Case Contributions Assumptions	SIC Contributions Assumptions
MXU 1	Wentworth Park (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Retained at FSR 4:1 • All Base Case fees and charges • Low base contribution
RES	Wentworth Park (Residential-only)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 5:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • Low base contribution + Additional contribution
MXU 2	Darling Island (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 10:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • Low base contribution + Additional contribution
COM 1	Pyrmont Village (Commercial-only)	Base FSR 2:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (1% non-residential)	Increased to FSR 4:1 • All Base Case fees and charges • Low base contribution + Additional contribution
MXU 3	Pirrama (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 6:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • Low base contribution + Additional contribution
COM 2	Pirrama (Commercial-only)	Base FSR 6.5:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (1% non-residential)	Increased to FSR 7.5:1 • All Base Case fees and charges • Low base contribution + Additional contribution

Source: Atlas

The contribution impact testing assumes that the price paid for land reflects the permitted development potential, and where an increase to FSR is achieved, a reasonable premium is paid to the landowner.

4.2.3 Testing Outcomes

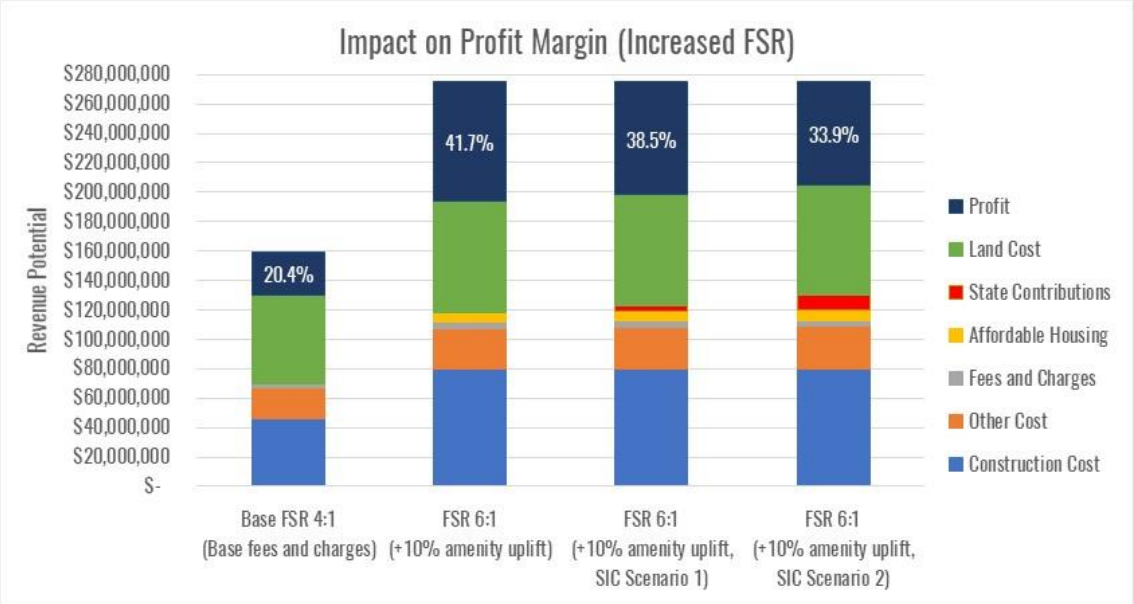
A series of graphs illustrates the impact of a potential SIC for a selection of land use typologies - mixed use development, residential and commercial (as described in **Table 4.2** and **Table 4.3**). The SIC was tested in two scenarios - sites assumed to be rezoned and sites with no change to planning controls.

- **Scenario 1** - SIC applied consistently to all new development within the Draft SCA (regardless of planning change):
  - $300/sqm on residential overall GFA ($27,000 per dwelling)
  - $200/sqm on non-residential overall GFA
- **Scenario 2** - SIC applied to all new development within the Draft SCA at different rates based on changes to planning controls.
  - Low base contribution applied to Base GFA (under existing planning instrument/s):
    - Residential Units - $10,000 per dwelling
    - Commercial - $30/sqm GFA
    - Retail - $40/sqm GFA
  - Additional contribution applied to Additional GFA (a result of planning change):
    - Residential - $2,000/sqm additional GFA (or $180,000 per dwelling).
    - Non-residential - $1,500/sqm additional GFA.

Change to Planning Controls

Figure 4-6 shows a scenario where a mixed use development site in Pirrama sub-precinct is increased from FSR 4:1 to FSR 6:1. The graph shows a comparison between the Base FSR of 4:1 and the increased FSR of 6:1 in both SIC scenarios.

Figure 4-6: Pirrama Mixed Use, Impact of SIC on Profit Margin



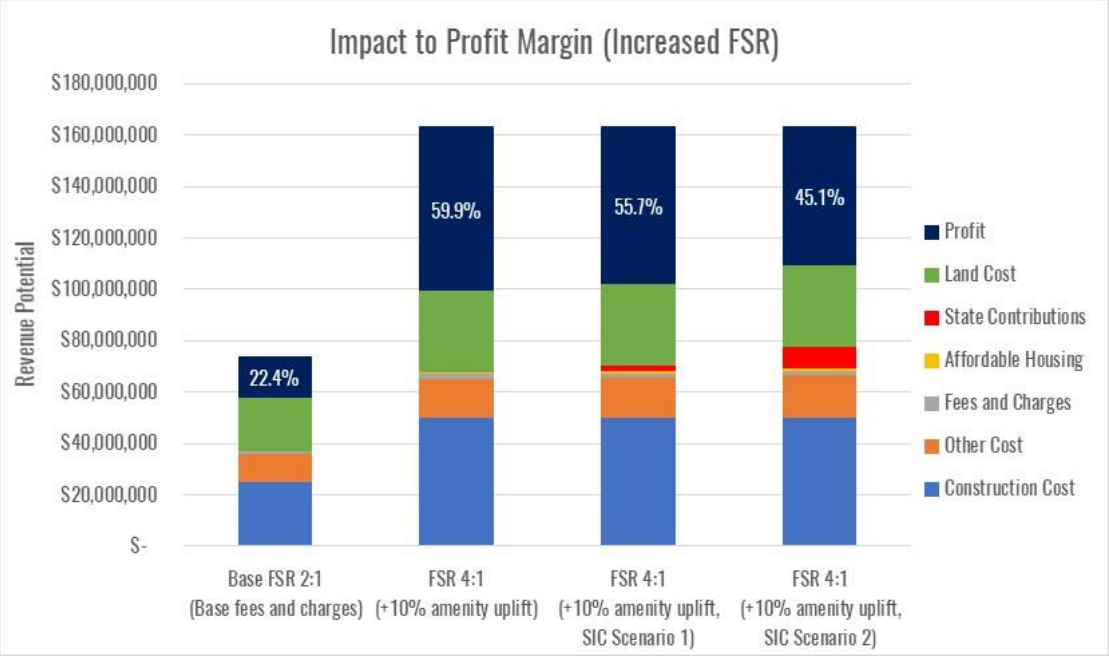
Source: Atlas

The following observations are relevant:

- Change to planning controls (FSR 4:1 to 6:1) combined with an amenity uplift result in a larger development with greater revenue potential.
- The cumulative effects of planning uplift and amenity uplift can result in financial upside. Developments' capacity to contribute to additional contributions (whether for SIC or other infrastructure) will be from this upside.
- The impact testing shows that after contribution to a SIC (Scenario 1 or 2), profit margin declines but remains feasible.

Figure 4-7 shows the impact of a SIC on profit margin of a commercial development in the Pyrmont Village sub-precinct assuming there was an increase in FSR from 2:1 to 4:1.

Figure 4-7: Pyrmont Village Commercial, Impact of SIC on Profit Margin



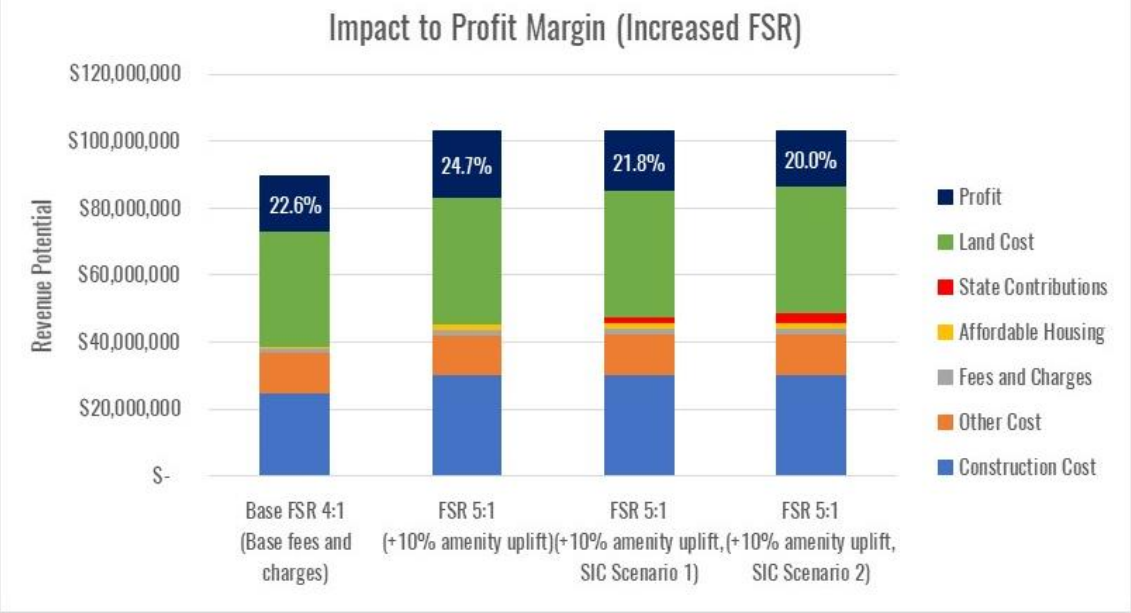
Source: Atlas

The following observations can be made:

- A change in planning controls from FSR 2:1 to 4:1 and an amenity uplift cumulatively result in a larger development with greater revenue potential.
- Tier 2 AH contributions are *not applicable* to this commercial-only site. Only Tier 1 AH contributions are applicable.
- The impact testing shows that after contributions to a SIC (Scenario 1 or 2), profit margin declines but remains feasible.

Figure 4-8 shows the impact of a SIC on profit margin of a residential development in the Wentworth Park sub-precinct assuming an increase from FSR 4:1 to 5:1.

Figure 4-8: Wentworth Park Residential, Impact of SIC on Profit Margin



Source: Atlas

The following observations can be made:

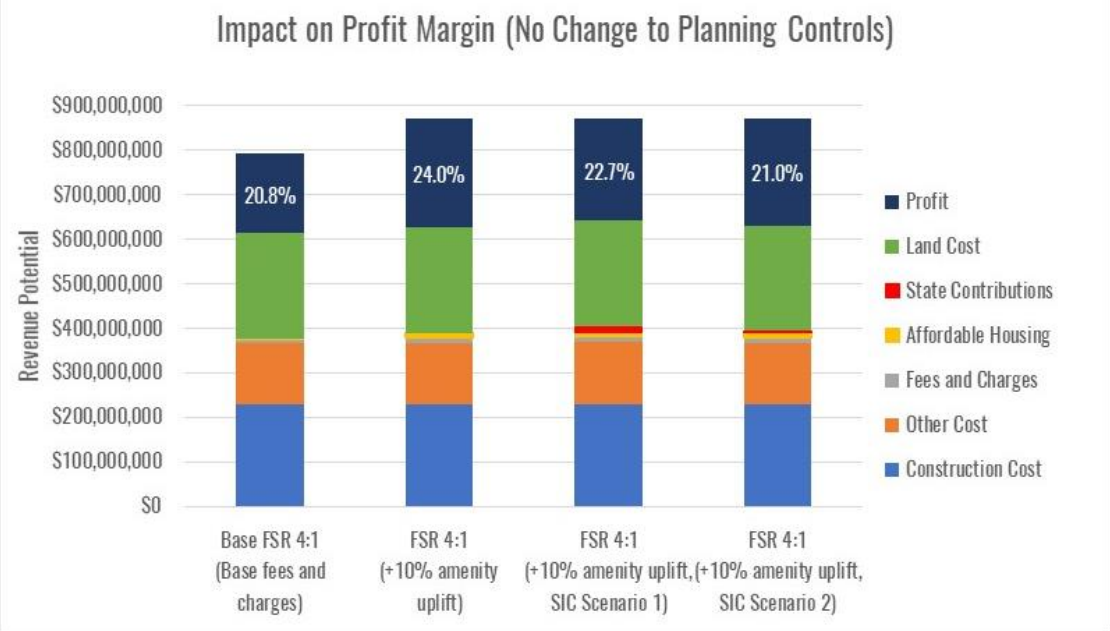
- A change in planning controls from FSR 4:1 to 5:1 and an amenity uplift cumulatively result in a larger development with greater revenue potential.
- Compared to the preceding two examples, a more modest change in planning controls from FSR 4:1 to FSR 5:1 results in a smaller financial upside. Notwithstanding the more modest financial upside from a more modest increase to FSR, there is capacity to contribute to a SIC (Scenario 1 or 2).

These observations demonstrate the ***direct relationship*** between planning uplift and developments' capacity to pay a SIC. The cumulative effect of planning uplift and amenity uplift assist to offset negative impact.

No Change to Planning Controls

Figure 4-9 shows a scenario where a mixed use development site in the Pirrama sub-precinct (FSR 4:1) is not rezoned. The graph shows the impact to profit margin in both SIC scenarios.

Figure 4-9: Wentworth Park Mixed Use, Impact of SIC on Profit Margin



Source: Atlas

The following observations are relevant:

- The scale of development is unchanged, and an amenity uplift provides for greater revenue potential.
- The effect of an amenity uplift can result in financial upside for development feasibility. Developments' capacity to contribute to additional contributions (whether for SIC or other infrastructure) will be from this upside.
- The impact testing shows after contribution to a SIC (Scenario 1 or 2), profit margin declines but remains feasible.
- SIC payments are higher in Scenario 1 (as the rates applied to total GFA in Scenario 1 are higher than the rates applied to Base GFA in Scenario 2).

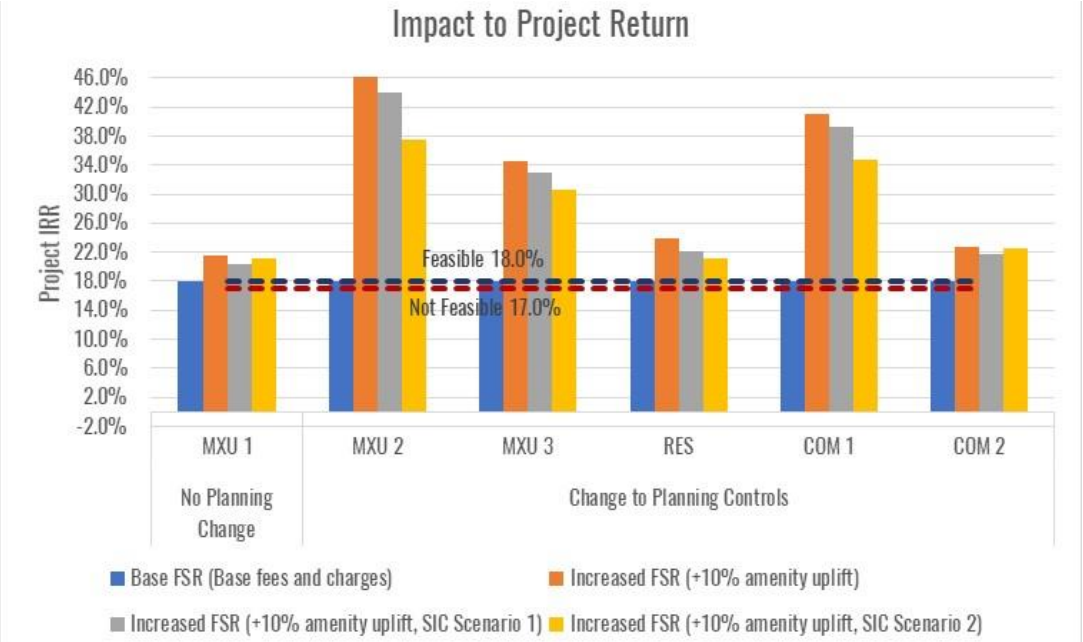
These observations indicate that sites that are not subject to planning change have more limited capacity to contribute to a SIC. Accordingly, it is appropriate that rates are relatively modest to ensure impact to feasibility is tolerable.

Figure 4-6, **Figure 4-7** and **Figure 4-8** considered the impact of a SIC on development margin in a cross-section of land use typologies (Mixed Use, Commercial, Residential) in the Draft SCA. The impact is offset (to varying degrees) depending on the magnitude of planning uplift.

Figure 4-9 considered the impact of a SIC on development margin where there is no change to planning controls. The impact is partly offset by an amenity uplift. Tolerance to the SIC is however much lower compared to the sites which are the beneficiary of planning uplift.

Figure 4-10 considers the impact of a SIC (in Scenario 1 and 2) on project return of sites in **Table 4.2** and **Table 4.3**.

Figure 4-10: Impact of SIC on Project IRR (Scenario 1 and 2)



Source: Atlas

The capacity of development to contribute to a SIC varies. The comparison of impact to project return shows that sites which benefit from significant planning uplift (increased FSR) have better tolerance. The effects of an amenity uplift - improved revenue potential due to improved accessibility (regardless of quantum of increased FSR) assist to offset the impact.

4.3 Observations of Impact

In existing urban areas, the feasibility of development is influenced by myriad factors including, critically, the cost of land. Where existing buildings are functional and valuable, their value may be too high to be economically feasible for development. Sites that are not feasible to develop in the first instance have no capacity to contribute, whether to a SIC or other charge.

'Impact' is measured with respect the proportion of Surplus Value that is appropriated to the contributions. The greater the proportion of Surplus Value remaining, the less the impact.

- **No Change to Planning Controls**
    - Tolerance to a SIC is comparatively more modest for a site that has no changes to planning controls.
    - Where a deepening of market demand is induced by the new Metro station from an amenity uplift, impact from a SIC could be offset depending on site location relative to the Metro station.
    - There is a case for a SIC to be lower for sites with no change than for sites that benefit from planning uplift.
- **Change to Planning Controls (increased FSR)**
    - Tolerance to a SIC is directly related to quantum of planning uplift. Sites which benefit from a greater increase to FSR benefit from a greater Surplus Value, with that Surplus Value acting to mitigate impact.
    - Tier 2 AH contributions are only payable on ***additional residential GFA***. Accordingly, sites which benefit from ***additional commercial GFA*** are only subject to Tier 1 AH contributions. This has direct implications for the capacity of these developments to pay a SIC.

The key to mitigating feasibility impacts is notice. Advance notice would allow sites already purchased to be progressed for development and for due diligence investigations to account for any increased contributions prior to site purchase. Supportive market conditions are also critical to the offset and mitigation of impact.

Table 4-4 compares the impact of a SIC to Surplus Value in both scenarios utilising the sample sites in **Table 4.2** and **Table 4.3**.

Table 4-4: Comparison of Impact to Surplus Value in Tested SIC Scenarios

Particulars	Reference	MXU 1	MXU 2	MXU 3	RES	COM 1	COM 2
GFA (sqm)	a	48,000	10,000	9,000	5,000	5,500	15,000
Residential GFA	b	30,000	9,000	8,000	5,000	-	-
Non-residential GFA	c	18,000	1,000	1,000	-	5,500	15,000
GFA After FSR Increase (sqm)	d	48,000	26,000	13,500	6,000	11,000	17,000
Planning Uplift (sqm)	e = (d - a)	-	16,000	4,500	1,000	5,500	2,000
Residential GFA	f	30,000	5,000	4,500	1,000	-	-
Non-residential GFA	g	18,000	11,000	-	-	5,500	2,000
Site Value Before FSR Increase	h	$330,000,000	$77,000,000	$69,000,000	$40,000,000	$27,500,000	$75,000,000
Site Value After FSR Increase (Metro, +10% amenity uplift)	I	$363,000,000	$189,200,000	$115,500,000	$52,800,000	$60,500,000	$93,500,000
Surplus Value	j = (i -h)	$33,000,000	$112,200,000	$46,500,000	$12,800,000	$33,000,000	$18,500,000
Affordable Housing (AH) Contributions							
Tier 1 AH Contributions*	k = ($10,588 x b x 3%) + ($10,588 x c x 1%)	$11,435,040	$2,964,640	$2,647,000	$1,588,200	$582,340	$1,588,200
Tier 2 AH Contributions	l = ($10,588 x f x 12%)	$-	$6,352,800	$5,717,520	$1,270,560	$-	$-
Total AH Contributions	m = (k + l)	$11,435,040	$6,352,800	$5,717,520	$1,270,560	$582,340	$1,588,200
% Surplus Value to Contributions	**n = (m ÷ j)**	**35%**	**8%**	**18%**	**22%**	**2%**	**9%**
Special Infrastructure Contributions (SIC)							
Scenario 1 - flat rate SIC on Total GFA	o = (p + q)	$12,600,000	$6,600,000	$3,950,000	$1,800,000	$2,200,000	$3,400,000
Residential GFA ($300/sqm)	p = $300 x (b + f)	$9,000,000	$4,200,000	$3,750,000	$1,800,000	$-	$-
Non-residential GFA ($200/sqm)	q = $200 x (c + g)	$3,600,000	$2,400,000	$200,000	$-	$2,200,000	$3,400,000
% Surplus Value to Contributions	**r = (o ÷ j)**	**38%**	**6%**	**8%**	**14%**	**7%**	**18%**
Scenario 2 - variable rate SIC on Base/ Additional GFA	s = (t + u + v + w)	$3,873,333	$27,530,000	$9,918,889	$2,555,556	$8,415,000	$3,450,000
Residential Base FSR ($10,000/ dwelling)	t = $10,000 x (b ÷ 90sqm)	$3,333,333	$1,000,000	$888,889	$555,556	$-	$-
Non-residential Base FSR ($30/sqm commercial GFA)	u = $30 x c	$540,000	$30,000	$30,000	$-	$165,000	$450,000
Residential Increased FSR ($2,000/sqm GFA)	v = $2,000 x f	$-	$10,000,000	$9,000,000	$2,000,000	$-	$
Non-residential Increased FSR ($1,500/sqm GFA)	w = $1,500 x g	$-	$16,500,000	$-	$-	$8,250,000	$3,000,000
% Surplus Value to Contributions	**x = (s ÷ h)**	**12%**	**25%**	**21%**	**20%**	**26%**	**19%**

*Tier 1 AH contributions are payable on GFA less existing floor area. This analysis does not specifically deduct for existing floor area. Accordingly, Tier 1 AH contributions are likely to be overstated in the analysis.

Source: Atlas

Table 4-5 extracts metrics from **Table 4-4** to summarise collective impact of a SIC to Surplus Value in the tested scenarios.

Table 4-5: Summary of Impact to Surplus Value in Tested SIC Scenarios

Particulars	Reference	MXU 1	MXU 2	MXU 3	RES	COM 1	COM 2
Assumed Planning Scenario	a	No Change		Rezoning/ Planning Uplift			
% Planning Uplift	b = (d ÷ a, Table 4-4)	n/a	+160%	+50%	+20%	+100%	+13%
% Surplus Value	c = (j ÷ h, Table 4-4)	+10%	+146%	+67%	+32%	+120%	+25%
% of Surplus Value to Contributions							
Affordable Housing Contributions	d = (n, Table 4-4)	35%	8%	18%	22%	2%	9%
SIC Scenario 1	e = (r, Table 4-4)	38%	6%	8%	14%	7%	18%
SIC Scenario 2	f = (x, Table 4-4)	12%	25%	21%	20%	26%	19%
% of Surplus Value to Total Contributions							
SIC Scenario 1	g = (d + e)	73%	14%	26%	36%	8%	27%
SIC Scenario 2	h = (d + f)	46%	33%	39%	42%	27%	27%
Remaining % Surplus Value							
SIC Scenario 1	i = (100% - g)	27%	86%	74%	64%	92%	73%
SIC Scenario 2	j = (100% - h)	54%	67%	61%	58%	73%	73%

Source: Atlas

The following observations are relevant:

- Sites which are developed under 'Base FSR' (i.e. no change to planning controls) experience the greatest impact to Surplus Value. Depending on the scenario, remaining Surplus Value could range from 27% to 54%. A smaller Surplus Value is retained in SIC Scenario 1 (27%).
- The proportion of planning uplift directly affects the capacity of development to contribute to a SIC. Of the tested sites, Sites MXU 2 and COM 1 have the highest planning uplift (+160% and +100% respectively) and accordingly retain greater proportion of their Surplus Value after contributions in all scenarios. Their remaining Surplus Values are greater than 60%.
- Scenario 1 is well tolerated by sites that are beneficiary from planning uplift (their remaining Surplus Value >70%). However, impact to sites with no planning change is greater, with remaining Surplus Value <30% for the tested site.
- Scenario 2 results in more proportional impact, with remaining Surplus Values in a 'tighter' spread, from 54% to 73%.

Figure 4-11 and **Figure 4-12** illustrate conceptually the impact to Surplus Value in SIC Scenario 1 and 2 respectively.

Figure 4-11: SIC Scenario 1 - Summary of Impact to Surplus Value

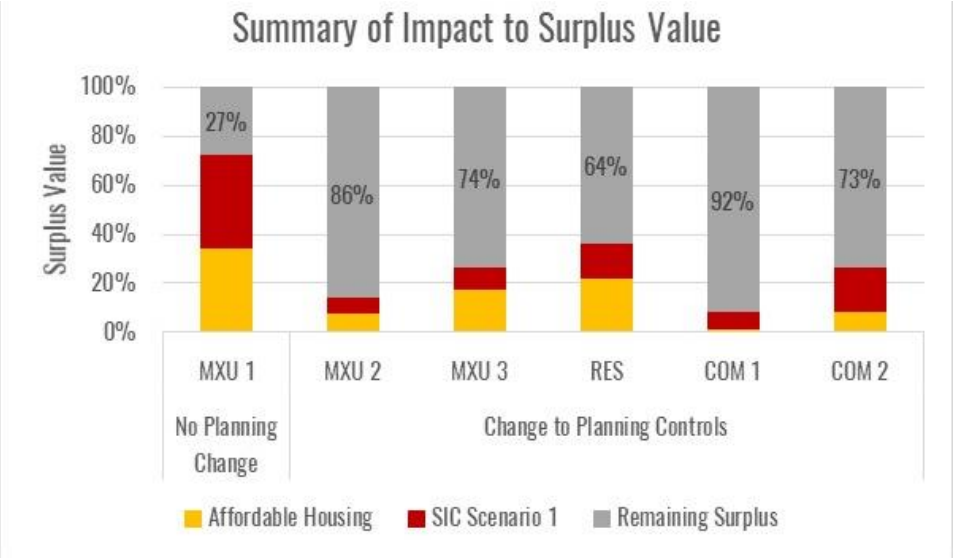
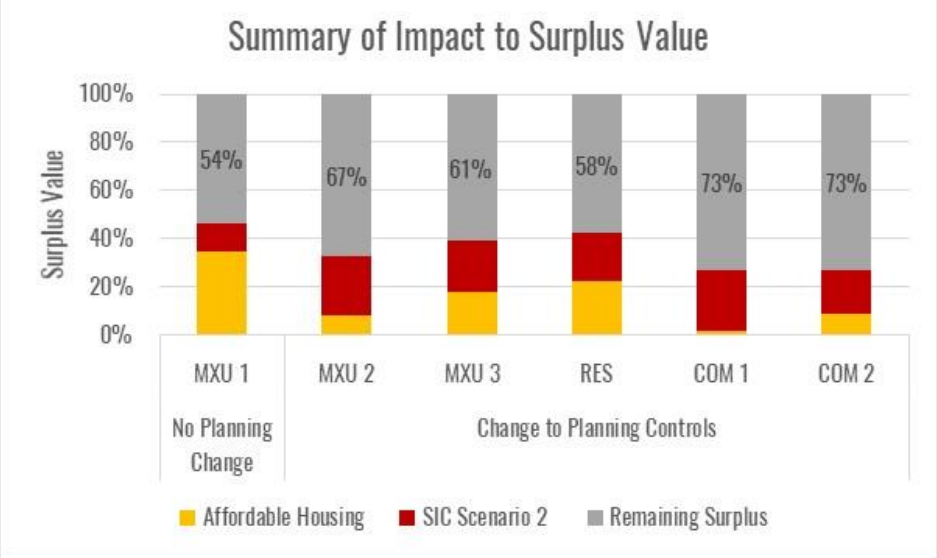


Figure 4-12: SIC Scenario 2 - Summary of Impact to Surplus Value



Source: Atlas

After contributions, the remaining Surplus Value in Scenario 1 is a broad spread - from 27% to 93%. Sites that benefit from planning uplift retain more of their Surplus Value compared to sites that have no planning change.

In Scenario 2, the retention of Surplus Value is more even across sites, with a 'tighter' spread of remaining Surplus Value - from 54% to 73%. The demonstrates that the application of differential rates in Scenario 2 apportions impact more proportionately - as Base FSR is subject to much lower rates than Increased FSR.

4.4 Key Findings and Implications

Where a site is the beneficiary of planning uplift (e.g. increase in FSR) there is generally a commensurate increase in land value. It is through this value increase (or Surplus Value) that a site will have the capacity to contribute to a SIC while remaining viable for development.

A number of key observations are worth highlighting:

- The application of flat (fixed) rates by land use to total development capacity ($300/sqm residential GFA and $200/sqm non-residential GFA) in Scenario 1 is simple to administer, however it results in disproportionate impact. Sites with no planning change retain much lower proportion of Surplus Value compared to sites that benefit from Increased FSR.
- The application of differential rates in Scenario 2 overcomes the issue of disproportionate impact in Scenario 1. Sites with no planning change contribute at nominal rates whereas sites that benefit from Increased FSR contribute as a proportion of planning uplift.

The impact testing and illustrated impacts to Surplus Value in **Table 4-4** and **Table 4-5** are premised on a general principle that any additional contributions requirement does not erode the Surplus Value beyond 50%. This recognises the developer/ investor for their entrepreneurial effort and investment risk.

Impact of COVID-19

Australia has arguably largely been in control of infection outbreaks, however with the recent extended shutdowns and restrictions having been in place since June 2021, business and investment sentiment has been shaken.

As Australia reaches its target vaccination rates and international borders re-open to students and visitors, business and investment confidence is expected to rebound.

Land use markets in the Pyrmont Peninsula are generally desirable locations for investment and are well placed to be resilient in the wake of COVID-19. On balance, the SIC will likely be tolerated when it is eventually made and gradually phased-in.

A phased-in implementation of the SIC would provide scope for market recovery.

5. Conclusion and Recommendations

5.1 Scope for SIC Framework

As a general proposition, development will be feasible where economic prices/ rents can be achieved. In established urban areas such as the Peninsula, not all areas or sites will be feasible to redevelop. This could be for a variety of reasons, e.g. existing buildings/ uses may be too valuable or there could be a lack of market demand. Site assembly in established urban areas is arguably the largest impediment to development feasibility.

Residential uses are generally a more valuable use (on a dollar rate per square metre). Planning incentives will therefore be required to encourage commercial uses where both are permissible in a land use zone. If development is not feasible in the first instance, the issue of additional contributions (even business-as-usual contributions) is moot. The impact testing assumes that development as a starting point (without SIC), is feasible.

Large sites in single/ majority ownership conceivably have the best prospects for redevelopment; their capacity to contribute to a SIC and other infrastructure is commensurate with the feasibility of development.

Contribution impact testing of a potential SIC framework finds that:

- Flat/ fixed rates in SIC Scenario 1 would be more straightforward from an implementation perspective, however they can result in disproportionate impact to sites that have no/ modest planning change over sites that are beneficiary of large quantum of planning uplift.
- The application of differential rates in SIC Scenario 2 results in more proportionate impact compared to flat/ fixed rates in Scenario 1. Sites that are rezoned and the recipients of greater planning uplift benefit from a greater Surplus Value. The application of differential rates recognises this.
- Contributions in Scenario 2 are distributed more proportionately - remaining Surplus Value displaying a 'tighter' spread (54% to 73%) compared to Scenario 1 where remaining Surplus Value is a broad spread (27% to 93%).

The use of differential SIC rates in Scenario 2 apportions impact more proportionately - as Base FSR is subject to lower rates than Increased FSR. Even though impact may be within tolerance, staggering and phasing-in of a SIC will be necessary.

While every site is different and site-specific nuances could result in different feasibility metrics, the contribution impact testing carried out in Chapter 4 is informed by property market observations and assumptions are underpinned by analysis of market evidence in the Peninsula and in comparable markets. Accordingly, the observations drawn are considered capable of aggregation to the Draft SCA.

5.2 Considerations for Framework Design

The design of a SIC framework is necessarily influenced by how the SIC rates are to be applied. This section makes recommendations for consideration in the implementation of each SIC scenario.

5.2.1 SIC Scenario 1 (flat rates applied to all new development)

On the premise that sites that benefit from planning uplift will have greater capacity to contribute than sites that do not, the selection of rate for uniform application in SIC Scenario 1 would need to balance the proportionality of impact.

The impact testing in section 4.2.1 examined the impact of contribution rates (listed in **Table 5-1**) on Surplus Value and found a broad distribution of impact on Surplus Value. Sites that benefit from planning uplift retain more of their Surplus Value (up to 93%) compared to sites that have no planning change (retaining as little as 27% of Surplus Value).

Table 5-1: Tested SIC Scenario 1 Rates

Land Use	SIC Rates	Application
Residential	$300/sqm GFA ($27,000/ dwelling)	Total Residential GFA
Non-residential	$200/sqm GFA	Total Non-residential GFA

Source: Atlas

Selection of SIC rates under this scenario would need to be sufficiently low to avoid unacceptable impact on feasibility of sites with no/ modest planning change, yet be sufficient to enable meaningful contribution from sites with planning change.

If Scenario 1 were implemented, the Study recommends consideration of offset for existing floorspace to assist with proportionality of impact.

Offset for Existing Floorspace

The current practice and operation of existing SIC frameworks recognise existing buildings/ floorspace for offset against SIC payments. For example, if a 5,000sqm GFA development is proposed on a site with an existing building of 2,000sqm GFA, a SIC would be payable on 3,000sqm GFA (5,000sqm less 2,000sqm).

According to floorspace data collected by the City, existing buildings in the Peninsula range from FSR 1:1 to 3:1. This section analyses the implication of offset for existing floorspace - if a SIC under Scenario 1 were offset against existing floorspace.

Table 5-2 applies the tested SIC rates in Scenario 1 ($300/sqm residential GFA and $200/sqm non-residential GFA) to hypothetical scenarios where a SIC payment is offset by existing floorspace (assuming FSR 0.5:1 and 1.5:1).

Table 5-2: Application to 'Total GFA' compared to 'Total GFA net of Existing GFA'

Examples	Land Use	Proposed GFA (sqm)	Existing GFA (sqm)	Net GFA (sqm)	Tested SIC (on Total GFA)	SIC Payable	Equivalent SIC (on Net GFA)
Site area 1,500sqm		a	b	c = (a – b)	d	e = (c x d)	f = (e ÷ a)
Proposed FSR 4:1 Existing FSR 0.5:1	Residential	4,000	500	3,500	$300/sqm	$1,200,000	**$263/sqm**
	Non-residential	2,000	200	1,800	$200/sqm	$400,000	**$180/sqm**
	Total	6,000	700	5,300		$1,600,000	**$236/sqm**
Proposed FSR 4:1 Existing FSR 1.5:1	Residential	4,000	1,500	2,500	$300/sqm	$1,200,000	**$188/sqm**
	Non-residential	2,000	750	1,250	$200/sqm	$400,000	**$125/sqm**
	Total	6,000	2,250	3,750		$1,600,000	**$167/sqm**

Source: Atlas

Depending on the quantum of existing GFA that is available for offset against the GFA that is calculated against the SIC rate, the 'discount' to SIC payment from existing floorspace can be notable. The discount is a direct function of the proportion of existing floorspace to proposed floorspace.

- In Example 1, existing GFA (700sqm) is approx. 12% of proposed GFA (6,000sqm). The SIC payable would therefore be discounted by 12%, and be equivalent to the following rates that are applied on Net GFA:
    - Residential SIC rate of $263/sqm (or $23,670 per dwelling)
    - Non-residential SIC rate of $180/sqm
- In Example 2, existing GFA (2,250sqm) is approx. 37.5% of proposed GFA (6,000sqm). The SIC payable would therefore be discounted by 37.5%, and be equivalent to the following rates that are applied on Net GFA:
    - Residential SIC rate of $188/sqm (or $16,920 per dwelling)
    - Non-residential SIC rate of $125/sqm

Notwithstanding disproportionate impact to sites with no planning change when a flat rate SIC is levied in Scenario 1, the availability of a credit offset would enable existing floorspace to assist with mitigation of the impact on Surplus Value for sites with no planning change.

Depending on the proportion of existing floorspace available for offset, the tested SIC rates ($300/sqm residential GFA and $200/sqm non-residential GFA) could mean higher SIC rates (that are applied to net GFA) could be tolerated.

5.2.2 SIC Scenario 2 (variable rates applied to all new development based on change to planning controls)

The application of differential rates to Base FSR (GFA permissible under existing planning instrument) and Increased FSR would result in 'more targeted' impact to feasibility, i.e. sites contribute according to their respective financial capacities. SIC Scenario 2 balances proportionality of impact with sites that receive the greatest financial upside (commensurate with degree of planning uplift) required to contribute more than sites with limited planning change.

The impact testing in section 4.2.2 examined the impact of contribution rates (listed in **Table 5-3**) on Surplus Value and found a 'tight' distribution of impact on Surplus Value. Sites that benefit from planning uplift retain more of their Surplus Value (up to 73%) compared to sites that have no planning change (retaining 54% of Surplus Value).

Implementation of Scenario 2 would enable contributions to be proportioned according to planning uplift and for impacts to be more proportionately distributed.

If Scenario 2 were implemented, the Study recommends the rates in **Table 5-3** as maximum bands for implementation.

Table 5-3: Tested SIC Scenario 2 Rates

Planning Scenario	Land Use	SIC Rates	Application
Base FSR	Residential	$10,000/ dwelling	Base Dwellings
	Non-residential	$30/sqm	Commercial GFA
		$40/sqm	Retail GFA
Increased FSR	Residential	$2,000/sqm	Additional Residential GFA
	Non-residential	$1,500/sqm	Additional Non-residential GFA

Source: Atlas

General Recommendations

In a business-as-usual scenario (no planning change), advance notice is key to offsetting impact with supportive market conditions assisting to offset impact. Where there is planning change, impact to feasibility is tested to be much less (if any).

The Study recommends that advance notice (at least 12 months) of a SIC is provided to the market with savings provisions applying to applications lodged during this time. This would allow:

- Sites already purchased and developments already in the pipeline to be progressed and delivered.
- Market participants to factor-in the rates in due diligence and purchase negotiations.

As with all contributions policy, landowner expectations and market behaviour adjust over time. Implementation that provides clear notice to the market will ensure any adverse impact to future investment can be mitigated as far as possible.

In a buoyant market, competition for development opportunities is keen. In a rising market, developers are generally more willing to pay premiums for sites in anticipation that rising end sale values will help offset the cost of land. As the impact testing shows, natural market cycles and/ or an amenity uplift help to offset the impact of the SIC.

In a flat/ softening market, willingness to pay increased contributions will be lower, which underscores the importance of advance notice, enabling appropriate pricing for site consolidation.

As with all contributions policy, regular review of development activity and take-up of development opportunities should be carried out to monitor impacts and implications of the required contributions.

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Schedules

SCHEDULE 1

Generic Feasibility Testing Assumptions

Project Timing

The tested sites are assumed to be appropriate zoned and progressed immediately upon settlement and span 6 months. Thereafter a development application is assumed to occur with pre-sales occurring shortly thereafter.

Demolition and construction are assumed from Month 12-18 spanning 12-18 months depending on scale of the development. Development is assumed to be completed in 2-3 years depending on scale after a 12-18 month lead-in period.

Development Yields and Scenarios

Table S1-1 and Table S1-2 summarise the areas selected and the respective notional development typologies (mixed use development and residential flat building) for contribution impact testing in SIC Scenario 1 and 2 respectively.

Table S1-1: SIC Scenario 1 - Capacity Testing Scenarios and Contributions Assumptions

Site	Sub-precinct (Land Use)	Base Case Contributions Assumptions	SIC Contributions Assumptions
MXU 1	Wentworth Park (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Retained at FSR 4:1 • All Base Case fees and charges • SIC ($27,000 per dwelling, $200/sqm non-residential GFA)
RES	Wentworth Park (Residential-only)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 5:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • SIC ($27,000 per dwelling, $200/sqm non-residential GFA)
MXU 2	Darling Island (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 10:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • SIC ($27,000 per dwelling, $200/sqm non-residential GFA)
COM 1	Pyrmont Village (Commercial-only)*	Base FSR 2:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (1% non-residential)	Increased to FSR 4:1 • All Base Case fees and charges • SIC ($200/sqm non-residential GFA)
MXU 3	Pirrama (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 6:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • SIC ($27,000 per dwelling, $200/sqm non-residential GFA)
COM 2	Pirrama (Commercial-only)*	Base FSR 6.5:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (1% non-residential)	Increased to FSR 7.5:1 • All Base Case fees and charges • SIC ($200/sqm non-residential GFA)

Source: Atlas

*Tier 2 AH Contributions are ***not required*** on additional commercial GFA

Table S1-2: SIC Scenario 2 - Capacity Testing Scenarios and Contributions Assumptions

Site	Sub-precinct (Land Use)	Base Case Contributions Assumptions	SIC Contributions Assumptions
MXU 1	Wentworth Park (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 contributions • Tier 1 AH contributions (3% residential, 1% non-residential)	Retained at FSR 4:1 • All Base Case fees and charges • Low base contribution

Site	Sub-precinct (Land Use)	Base Case Contributions Assumptions	SIC Contributions Assumptions
RES	Wentworth Park (Residential-only)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 5:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • Low base contribution + Additional contribution
MXU 2	Darling Island (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 10:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • Low base contribution + Additional contribution
COM 1	Pyrmont Village (Commercial-only)	Base FSR 2:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (1% non-residential)	Increased to FSR 4:1 • All Base Case fees and charges • Low base contribution + Additional contribution
MXU 3	Pirrama (Mixed Use)	Base FSR 4:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (3% residential, 1% non-residential)	Increased to FSR 6:1 • All Base Case fees and charges • Tier 2 AH contributions (12% residential) • Low base contribution + Additional contribution
COM 2	Pirrama (Commercial-only)	Base FSR 6.5:1 • All applicable fees and charges, including s7.11 • Tier 1 AH contributions (1% non-residential)	Increased to FSR 7.5:1 • All Base Case fees and charges • Low base contribution + Additional contribution

Source: Atlas

Table S1-3 outlines the unit mix and internal area assumptions (based on research and observations of development activity).

Table S1-3: Residential Unit Mix and Parking Assumptions

Residential Unit Type	Unit Mix	Internal Area (sqm)	Parking Ratios (per unit)
Studio	5%	50sqm	0.2 space
1 bedroom unit	25%	60sqm	0.4 space
2 bedroom unit	50%	80sqm	0.8 space
3 bedroom unit	20%	100sqm	1.1 space
			Visitor parking at 0.167 space

Source: Atlas

Non-residential parking rate assumed at 1 space per 125sqm GFA.

Revenue Assumptions

Average end sale values are adopted based on market research and analysis. Residential revenue assumptions are based on NSA (net saleable area/ lettable area) and detailed in Table S1-4.

Table S1-4: Residential Revenue Assumptions

Land Use	Revenue
Residential ($/sqm internal area)	$16,000 to $25,000
Non-residential ($/sqm lettable area)	$12,000 to $15,000

It is assumed that 75% of the apartments would be pre-sold prior to completion of construction and the balance would be sold post completion at an average rate of 6-12 units per month.

Other revenue assumptions:

- GST is excluding on non-residential sales and included on the residential sales.
- Sales commission at 2.5% (residential) and 1.5% (non-residential) gross sales.
- Marketing costs of 1.0% on gross sales.
- Legal cost on sales included at 0.25% on gross sales.

Cost Assumptions

- Assumed cost of land based on applicable planning controls, informed by desktop research.
- Legal costs, valuation and due diligence assumed at 0.5% of land price and stamp duty at NSW statutory rates.
- Construction costs are estimated with reference to past experience and cost publications:
    - Retail and commercial construction (warm shell) assumed at $3,000/sqm of building area
    - Residential construction assumed at $3,000/sqm to $4,000/sqm of building area, balconies at $1,000/sqm.
    - Basement car parking at $55,000 per car space.
- Provisional allowance for:
    - Site works at 2% of construction cost
    - Lead-in and services infrastructure at 2% of construction cost
- Professional fees at 10% of construction costs expensed 5.5% (pre-construction) and 4.5% (during construction).
- Development management fee of 2%.
- Construction contingency at 5%.
- Statutory fees:
    - DA fees of 1% and CC fees of 0.5% of construction costs.
    - Long service levy of 0.35% of construction costs.
    - s7.11 contributions under Sydney Development Contributions Plan 2015.
- Finance costs:
    - Land value assumed as equity contribution with balance funded at interested capitalised monthly at 6% per annum.
    - Establishment fee at 0.35% of peak debt.

Hurdle Rates and Performance Indicators

Target hurdle rates are subject to perceived risk of a project (planning, market, financial and construction risk). The higher the project risk, the higher the hurdle rate. The following performance indicators are relied upon:

- Development Margin profit divided by total development costs (including selling costs).
- Discount rate refers to the project internal rate of return (IRR) where net present values of an investment is zero.
- Residual Land Value is arrived at by assessing the maximum land value a developer is willing to pay based on both hurdles of development margin and discount rate being met.

The following benchmark hurdle rates are assumed.

Table S1-5: Performance Indicators and Target Hurdle Rates*

Performance Indicator	Feasible	Marginal	Not Feasible
Development Margin	>20%	18%-20%	<18%
Project IRR	>18%	17%-18%	<17%

Source: Atlas

*The Study notes historic low interest rates (which are expected to endure at least for the medium term) have re-set market expectations and lowered benchmark project returns (IRR).

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